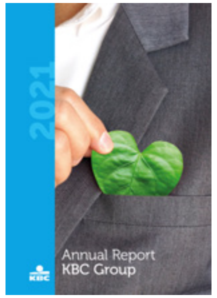
Sustainability Report
KBC Group

2021

ABOUT THIS REPORT

Provides information (including mandatory statements) on the business model, strategy, sustainability, governance, financial performance, risks and capital. Intended for investors, clients, employees and society in general. We apply the principles of integrated reporting wherever possible.



Focuses on our sustainability strategy. Contains detailed sustainability and sustainable finance data and is aimed at sustainability experts, investors, employees, business partners, clients and non-profit organisations. Prepared according to Global Reporting Initiative (GRI) Standards (Core option) and also includes the GRI content index. Since 2019, we are also mapping our material topics to Sustainability Accounting Standards Board (SASB) criteria, with relevant disclosure standards included in the GRI/SASB content index.

Each of the core countries of KBC also produces a Report to Society in which we look more closely at how our group plays its role in society. These reports are primarily intended for clients, employees and society at large. You can find the latest available report for each country via this link to our corporate website.

We expressly point out that if we use terminology such as 'green' and 'sustainable' throughout this report, these terms in no way suggest that what we describe is already (fully) aligned with the EU taxonomy.

We report on our group's sustainability performance on an annual basis through our sustainability report. The report describes how we address corporate sustainability, how we implement our sustainability strategy and our Sustainable Finance Programme, the policies and guidelines we observe, the targets we have set ourselves and our main achievements.

Content and materiality

To define the content of this report, we have taken into account the topics that may have a material impact on our business. To identify these topics, we conduct a materiality assessment every two years. The last one was conducted in 2020. Both the results of this assessment and the material topics identified in the process (see the 'Materiality assessment' part of this report) define the content. The results of the materiality assessment were reviewed and approved by the Internal Sustainability Board, the Executive Committee and the Board of Directors.

Reporting guidelines

We have prepared this sustainability report in accordance with the GRI Standards: Core option. In line with these standards, we have included the GRI indicators that are most material to our business. Since 2019, we are also mapping our material topics to SASB standards, and including relevant disclosure topics in the GRI/SASB Content Index. You can find the GRI/SASB index at the end of this report.

Scope and boundary

This report covers the entire KBC Group organisation and matches the scope of consolidation used for financial information in the consolidated annual report, unless otherwise stated. The aggregate balance sheets of entities excluded from the consolidation do not exceed 1% of the consolidated balance sheet total.

We have collected our sustainability data through a group-wide process which involves strict hierarchical validation. All KBC entities in our core countries report on the non-financial areas of human capital, direct footprint, clients and community involvement. Climate-related data on our loan, insurance and investment portfolio are gathered as part of the data and metrics project set up as part of the KBC Sustainable Finance Programme. The reporting period is 1 October 2020 - 30 September 2021, unless otherwise stated in the report.

Our group has published a sustainability report annually since 2005[1]. You will find our previous report, which was published in April 2021, on our corporate website. There are no substantive differences in scope or boundary compared to the previous report.

[1] Separate sustainability reports were not published for 2014 and 2015. All non-financial information (as specified in the GRI Content Index for 2014 and 2015) is available on our corporate website and in our annual report.

Governance

We have drawn up this sustainability report using input from business and sustainability experts in all our core countries. It has been reviewed by senior managers, and discussed and approved by the Internal Sustainability Board and the Executive Committee. Final approval was given by the Board of Directors on 17 March 2022.

External assurance

This sustainability report has not been audited by an external party, except for the environmental data and calculations of KBC Group's direct footprint, which have been verified by Vinçotte in accordance with ISO 14064-3 (reasonable assurance).

Feedback
We welcome comments and questions from all our stakeholders. Please send us your feedback at csr.feedback@kbc.be.

Company name: 'KBC', 'we', 'the group' or 'the KBC Group' refer to the consolidated entity, i.e. KBC Group NV plus all the group companies included in the scope of consolidation. 'KBC Group NV' refers solely to the parent company. Likewise 'KBC Bank' and 'KBC Insurance' refer to the consolidated entities and 'KBC Bank NV' and 'KBC Insurance NV' refer solely to the non-consolidated entities.

Statement regarding the use of Board of Directors and Executive Committee: 'Board of Directors' and 'Executive Committee' refer to the Board of Directors and Executive Committee of KBC Group.

Glossary: a list of most widely used terms and abbreviations, with accompanying definitions where necessary, can be found at the end of this report.

CONTENT

LEADERSHIP STATEMENT

Dear Reader,

Events over the past year have hit home the very harsh lesson that humankind is part of an integral ecosystem but is not above it. As Covid-19 continued to keep us all in a stranglehold, impacting society as a whole and challenging healthcare institutions and governments to come up with quick and pertinent solutions, some European countries have also been plagued by extreme weather conditions, as a reminder that climate change is very much a reality, not a distant and future event. Both series of events have had a profound human impact and persistently underscore humankind's impact on our planet but equally our great vulnerability as a species living on that planet.

In light of our important role and responsibility in society, we have shown steadfast determination in supporting our people and clients in navigating their way through these disruptive times, whilst aiming to minimise social and economic impacts on the local economies where we operate. We have lived up to our commitment to help our clients through the raging Covid-19 crisis and are determined to devote our bank-insurance services in assisting the economic recovery as and when society emerges from the havoc the pandemic is causing.

Ecosystem management and protection are part of an overall societal strategy for transition to a more sustainable world. It is clear that we are on the verge of a global transformation. A first and crucial step in this global transformation is to more firmly integrate sustainability in our socioeconomic fabric and the way we do business whilst reporting transparently on the ways we go about it. As early on as 2005, KBC released its first sustainability report based on the Global Reporting Initiative standards. Since 2018, our climate-related reports have been structured in observance of the transparency principles of the Task Force on Climate-related Financial Disclosures (TCFD). 2021 also saw us make important steps to improve climate-related transparency through our reports. Not because this is 'nice-to-have' but because it is an all-important necessity and a crucial step towards the much-needed global transformation. This explains why KBC is unwavering in its continued pursuit of its sustainability integration path so that the ideals of people, planet, purpose and profit are more firmly embedded in all our business operations. We are continuously improving our reporting practices and although we are mindful of the fact that our climate-related reporting is far from complete, we are delighted to see that our efforts have not gone unnoticed as this year we have been awarded the 'Best Disclosure' award by the International Awards for Climate-related Disclosures by Financial Institutions for our 2020 Sustainability Report.

Climate change has hit the world hard in 2021, bringing extreme weather events across the globe. Western Europe was battered by excessive rainfall which led to extreme floods in Germany and Belgium to name just two countries, often with fatal consequences. The Southeastern part of the continent, including Bulgaria, reported all-time temperature highs and extreme heat has fuelled massive wildfires in the South of Europe. In Hungary, several hailstorms caused a great deal of damage and human distress. Although no immediate proven link with climate change, a tornado swept through several villages in the Czech Republic, damaging buildings and leaving a trail of destruction in its wake. Our thoughts and support go out to all victims of these disasters and despite the fact that not all damage incurred can be compensated by any means, as a domestic bank-insurer we have a clear responsibility to support and unburden impacted clients. KBC's swift and solution-driven response in handling a large number of insurance claims after the devastating weather events in Belgium and the Czech Republic is testimony to how serious we are about assuming our responsibility.

"The past year has illustrated again that climate change is very much a reality and not a distant event. Responding to the urgent need for action, we shifted up a gear our fight against climate change by further tightening our energy policy towards the fossil fuel industry"
Johan Thijs, CEO KBC Group

The events over the past twelve months have painfully illustrated the urgent need to take climate action in order to avoid the more frequent occurrence of climate-related extremes. Therefore, in 2021 we shifted our fight against climate change up a gear by further tightening our energy policy towards the fossil fuel industry. Also, in terms of our direct environmental footprint, after already having successfully achieved substantial reductions in our emissions in recent years, we are very proud to announce

LEADERSHIP STATEMENT

that KBC is a net climate-neutral company as of this year. Our remaining emissions – which have already been substantially reduced in 2021 by 71% compared to base year 2015 – are offset through high-quality climate projects but at the same time we remain deeply committed to securing further emission reductions. Over the years ahead, KBC will continue to take concrete climate action, rooted in a genuine concern for the climate and our unflagging devotion to our ongoing commitments, rather than making announcements but not following through with measures that are effectively put in place. Our PEARL+ corporate culture and Team Blue approach too will guide us in these endeavours: performance-driven, clear accountabilities, respectful and with an invigorating team approach.
We firmly believe that digitalisation is central in the transformation towards a more sustainable world. KBC is continuing to roll out its 'Digital first' approach as part of its 'Differently: the Next Level' strategy and we are pleased to see a rising trend in digital client interactions. With the launch of our digital assistant 'Kate', we took a further step in delivering on our digital strategy and customer experience has improved even more.

The well-being of our people has been a matter of key concern since the outbreak of the Covid-19 crisis. While KBC found that many activities can be suitably conducted from home and we embrace the benefits of organising our work through digital channels, we are also mindful of the need to keep colleagues motivated and to protect their work-life balance. As a demonstration of our trendsetting role in human capital management and as part of our overall 'Differently: The Next Level' strategy, we announced our 'Working: The Next Level' HR strategy. As part of this work strategy, we will seize on the lessons learned from organising home working over the past year of lockdowns whilst simultaneously continuing our focus on maintaining that sense of connection with and between colleagues. Although the fully fledged roll-out of this strategy has been postponed until further notice due to the Corona situation, we look forward to implementing this working practice across our organisation in Belgium over the course of 2022.

KBC continued supporting projects with a positive social impact by promoting female entrepreneurship amongst others in the start-up community, by improving the general public knowledge on financial concepts and products and by bridging the digital skills gap.

Although we are fully aware that we have some way to go on our sustainability journey, we are proud to report that KBC was assessed as a sustainability leader in terms of our ESG (environment, social and governance) performance by independent rating providers such as Sustainalytics, S&P Global and CDP. These ratings reflect our comprehensive sustainability strategy and put KBC among the best prepared financial companies for ESG related challenges.

We hope you enjoy reading our 2021 Sustainability Report, which deals with all of the above in more detail and addresses many other matters, including some of our planned actions for 2022. We were only just starting to recover from the coronavirus pandemic, when sadly another crisis surfaced. We are deeply shocked by the humanitarian tragedy unfolding as a result of the current military conflict in Ukraine. We sincerely hope that reason and fairness prevail and that a respectful, peaceful and lasting diplomatic solution is achieved as quickly as possible.

Kind regards,

Johan Thijs
Chief Executive Officer
KBC Group

Koenraad Debackere
Chairman of the Board of Directors
KBC Group

Johan Thijs Koenraad Debackere

Our approach

OUR SUSTAINABILITY JOURNEY

1970

- Foundation of Stichting Leefmilieu (renamed to Argus) for scientific, environmental research, financing youth projects and educating and raising awareness among the general public regarding environmental policy and rehabilitation.

1992

- Launched our first SRI (socially responsible investment) fund in Belgium, the KBC Eco Fund World.
- Foundation of BRS vzw - in cooperation with Cera NV - with a clear mission to help sustainably improve the quality of life of rural entrepreneurs and farmers in the Global South through microfinance and microinsurance, and above all through advice and in consultation with the stakeholders.

2004

- Became a member of the Equator Principles (EP).

2006

- Published our first group-wide sustainability report for the 2005 reporting year in accordance with the 2002 Global Reporting Initiative (GRI) guidelines.
- Joined the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labour and anti-corruption since 2006.

2011

- Published our first Report to Society.

2012

- Launched our new corporate strategy with a clear focus on sustainability by integrating it in the fourth pillar of that strategy: our role in society. At the same time an autonomous Corporate Sustainability department was established, reporting directly to the Group CEO.

2014

- Launch of Start it @KBC to foster innovation and entrepreneurship by providing office space and coaching for innovative start-ups.

OUR SUSTAINABILITY JOURNEY

2015

- Identified four focus areas to live up to our role in society: environmental responsibility, entrepreneurship, digital literacy and longevity and health.
- Signed the 'Message from Belgian stakeholders in support of the COP21', emphasising our commitment to help lead the global transition to a low-carbon, climate-resilient economy.

2016

- Recognising the importance of environmental responsibility, we decided to integrate Argus (founded in 1970) into our core activities, which has given us much greater leverage and enables us to play an active role in supporting the necessary transition towards a more sustainable economy and society. Argus's existing projects and network were transferred to The Shift, Goodplanet and Natuurpunt.
- Revamped our sustainability strategy and published our sustainability framework including new and strengthened sustainability policies.
- Established clear sustainability targets to measure our progress in a number of areas: volume of socially responsible investments, volume of renewable energy financing, financing of direct coal-related activities and the reduction of our direct footprint.
- Signed the UN Principles for Responsible Investment (PRI).

2017

- Became an endorser of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- Establishment of an External Sustainability Board – made up of experts from the academic world – to advise us on our sustainability policy and strategy.

2018

- The first Belgian financial institution to issue a green bond.
- Became an early endorser of the UNEP FI Principles for Responsible Banking (PRB), the first on the Belgian market.
- Signed the UNEP FI Principles for Sustainable Insurance (PSI).
- Published our renewed sustainability framework with new and stricter sustainability policies in response to the expectations of our stakeholders and the wider community.
- Enshrined the principles of the United Nations Treaty on the Prohibition of Nuclear Weapons by tightening our policy on arms-related activities and classifying nuclear weapons as controversial, and thus excluding companies involved in the production or development of nuclear weapons from all business activities.

2019

- Signed the Collective Commitment to Climate Action (CCCA), thereby committing to align our activities with the Paris Agreement goal of limiting global warming to well below 2°C, striving for 1.5°C.
- Launched a separate Sustainable Finance Programme for the management and reporting of climate-related risks and opportunities.
- Signed the Tobacco-Free Finance Pledge to divest from the tobacco industry.
- Signed the Gender Diversity in Finance charter and became a member of Women in Finance.

2020

- Substantially raised our climate-related ambitions as part of our updated corporate strategy.
- Strengthened our sustainability governance re-emphasising the top level responsibility for sustainability and nominated country coordinators in all our core markets.
- Joined Climate Action 100+, an investor-led initiative to systemically engage important greenhouse gas (GHG) emitters and other companies across the global economy, which have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.
- Introduced a first Policy on Diversity and Inclusion, with particular attention going out to raising gender diversity in the higher echelons of our organisation.

2021

SUSTAINABILITY HIGHLIGHTS 2021

Strong performance in environment, social and governance (ESG) in 2021

2021

ESG
Environment

- All remaining direct coal exposure has been phased out in line with our commitment. Moreover, since November 2021, KBC Group no longer provides direct financing, insurance or advisory services to the exploration and extraction of all new oil and gas fields.
- 12 billion euros of financing contributing to environmental objectives.
- A first preliminary internal carbon price schedule was adopted, which we aim to use and apply gradually through pilots.
- We successfully issued our third 750-million euro KBC Green Bond in November 2021.
- We calculated the GHG emissions for the entire KBC Group's loan portfolio based on the PCAF methodology. The most material climate-sensitive sectors and product lines – in scope of the White Paper approach – represent two third of the total GHG emissions.
- We calculated the climate-related impact of our own investments and asset management portfolio through Trucost data and methodology.
- Net climate-neutral company as of this year through the voluntary offset of our remaining direct environmental footprint – which has already been substantially reduced in 2021 by 71% compared to base year 2015 – by means of high-quality climate projects. At the same time, we reached 100% renewable electricity consumption in 2021.

ESG
Social

- 7.2 billion euros of financing contributing to social objectives.
- 31.7 billion euros in socially responsible investment (SRI) funds, already achieving our ambition of 30 billion euros invested in SRI funds by the end of 2025.
- 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 through our partnership with BRS.
- Promoting female entrepreneurship among our start-up community.
- Supporting our clients through various relief schemes for Covid-19 measures and support to our clients affected by the tornado in the Czech Republic, the heavy flooding in Belgium and the hailstorm in Hungary.
- Investigating the introduction of a KBC Social Bond Framework.
- Made our clients' lives easier by carefully listening to them, innovating our apps and enhancing their digital literacy.
- Awarded all our employees an exceptional Covid-related bonus.
- Continued the quest to strike an appropriate balance between work and private life for our employees and invested in digital and collaboration tools.
- KBC won several awards in its core countries. In Belgium, both KBC and CBC have been officially recognised as Top Employers by the Top Employers Institute.

ESG
Governance

- Top level responsibility for sustainability and climate change – anchored in our sustainability governance – is also reflected in the inclusion of sustainability objectives in the criteria for senior and executive remuneration.
- We heavily invest in our people as one of the main drivers in our sustainability transition to make sure that all employees are behind the company's vision and strategy and allowing us to build a sustainability culture together. To this end, in 2021 we focused on awareness through internal communications on sustainability-related topics and training.
- We reinforced the internal knowledge and understanding of the interplay between climate-related factors and financial elements through a leadership development programme for our senior management – dedicated specifically to climate change and low-carbon transition.
- Completion of responsible behaviour awareness training – focusing on the importance of trust in the financial services industry and on how to deal with difficult decisions – by the vast majority of staff in all countries.
- Focus on diversity with a clear policy commitment on diversity and inclusion and a clear ambition to increase gender diversity in senior management.

How we responded to urgent social needs in 2021

Heavy flooding in Belgium

In mid-July 2021, Belgium witnessed flooding due to heavy rains. The floods mostly impacted areas in Wallonia, the Southern part of Belgium, and caused significant devastation in 9 out of 10 municipalities. Residents and insurance agents had their hands full. According to the insurance sector, the total insured damage from the floods in July for all insurance companies involved is estimated at more than 1.5 billion euros. Supported by the dense network of insurance agents, KBC Insurance NV was able to provide a first payment to more than half of the victims in the first month after the floods and by year-end more than half of the cases was settled. The floods created a huge wave of solidarity among citizens who provided the victims with supplies and equipment en masse. KBC/CBC Insurance's Housing policies in Belgium cover temporary accommodation after a disaster. Nonetheless, it was not easy to find places to live for people who had temporarily or permanently lost their homes. Our insurance agents actively looked for solutions to offer the victims longer-term accommodation while they rebuild their homes or acquire new housing.

Tornado in the Czech Republic

In June 2021, the Czech Republic and primarily areas in the South Moravian region were hit by a heavy storm and a tornado. The deadly tornado swept through villages and caused widespread damage, leaving a trail of devastation. Experts from ČSOB Insurance provided on-site advice and ČSOB bank allowed clients affected by the tornado to defer interest and principal repayments for up to 6 months. Some of our colleagues were impacted by the natural disaster. ČSOB was in close contact and enabled them to take 5 extra days off to deal with the works in their homes. ČSOB joined the wave of solidarity and raised almost 2.5 million Czech koruna from the general public and its employees. Dedicated teams provided financial, psychological and social assistance.

Hailstorms in Hungary

Hungary was also hit by a severe weather storm. Several hailstorms raged through the Somogy region on June 25, causing a great deal of human suffering as well as property damage. K&H immediately offered to help and joined forces. Our colleagues from K&H Insurance drew on the full extent of their know-how and expertise to set up quick and correct claims processing and settlement procedures – which amounted to 1 billion forints in total - for the affected clients and offered support for the people where it was needed. The colleagues from the K&H Bank branch worked very closely with their insurance colleagues to help the families affected and to jointly find tailor-made solutions.

Covid-19

Throughout 2021, the Covid-19 crisis remained high on the agenda. From the very outset of the pandemic, KBC assumed its responsibility in safeguarding the health of our people and clients, while ensuring continued service delivery. We also worked closely with government agencies in all our core countries to support all clients impacted by the coronavirus, implementing various measures such as loan payment holidays.

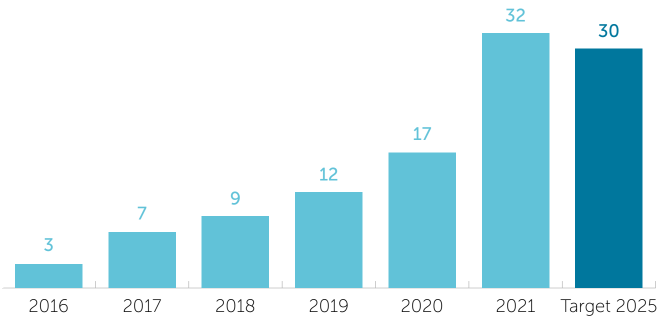
More details on the measures we have put in place to help our clients in crisis are available in the 'Our sustainable business solutions' section of this report. Details on the measures implemented to safeguard the health of our people are available in the 'Our people' section of this report.

SUSTAINABILITY HIGHLIGHTS 2021

Our sustainability targets

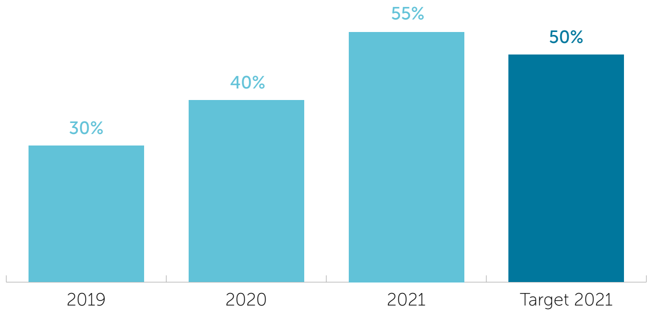
Achieved

Volume of SRI (in billions of EUR)



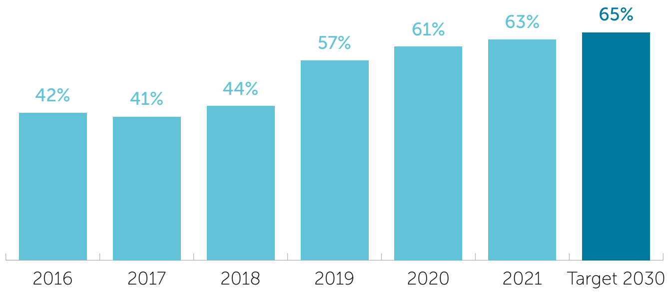
Achieved

Share of SRI funds in % of total annual fund production



Above track

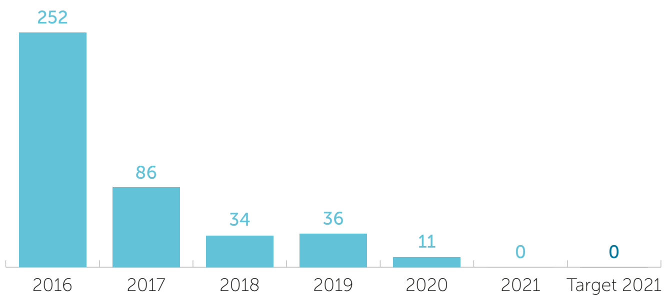
Renewable energy loans (as % of total energy sector loan portfolio)



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.

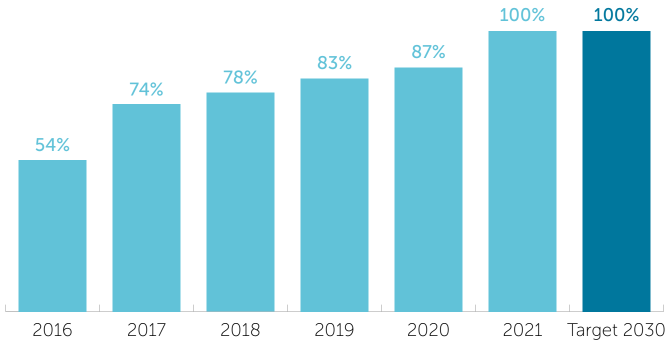
Achieved

Direct thermal coal-related finance (in millions of EUR)



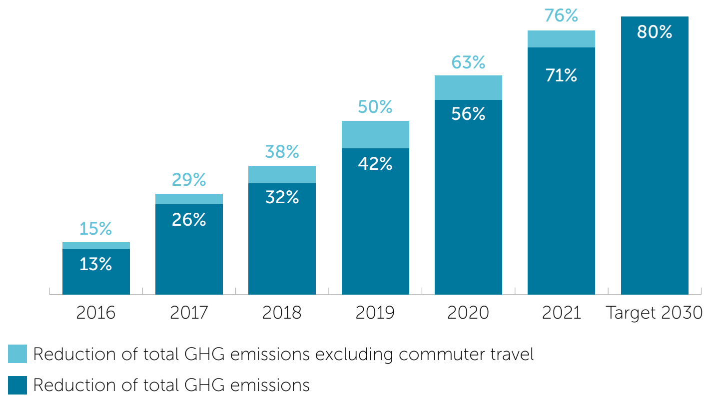
Achieved

Renewable electricity (as % of own electricity consumption)



Above track

Reduction of own GHG emissions (as % compared to 2015)



Our ESG ratings, indices and awards

Also in 2021, KBC received broad external recognition for its efforts on ESG (environment, social and governance) themes in the shape of several sustainability-related awards and above all by being assessed as a sustainability leader in terms of our ESG performance by several independent rating providers.

The following page has an overview of our main ESG ratings and indices.

Sustainability-related awards

- KBC Group's 2019 Sustainability Report wins 'Best pioneering SDG 2030 Agenda' award (Award for Best Belgian Sustainability Reports).
- KBC Group's 2020 Sustainability Report wins 'International Climate Reporting Award 2021' (International Awards for Climate-related Disclosures by Financial Institutions).
- 2nd place in the Annual Report category with ČSOB Group Social Responsibility Report (Lemur Awards)
- KBC Mobile named best banking app worldwide (Sia Partners) – Innovation helps us to bring third party services, including sustainability solutions in a smooth way to the client.
- ČSOB in the Czech Republic recognised as outstanding leader in sustainability transparency in CEE, Financial Leader in Sustaining Communities in CEE and Outstanding Leader in Resource Management in CEE (Global Finance - Sustainable Finance Awards 2021).
- ČSOB in the Czech Republic recognised as TOP Responsible Large Company, TOP Responsible Women-friendly company and TOP Responsible Company in reporting (Business for Society).
- ČSOB in the Czech Republic awarded Best bank in the Czech Republic for 2021 for bank's activities during the pandemic and intensive assistance to clients (Global Finance – The Best Bank).
- KBC and CBC recognised as Top Employers in Belgium (Top Employers Institute).
- KBC Group included in the Bloomberg Gender Equality Index and outperforms as an equal and inclusive workplace (Bloomberg).
- KBC Shared Service Center Varna awarded in Career Show Employer Awards 2021 (Career Show).
- ČSOB in the Czech Republic awarded for exceptional integration of the disabled (Kolibřík Award).
- 3rd place in Social responsibility category thanks to ČSOB helps regions program (Gold Crown Awards).
- 1st place in the Charitable communication project category for ČSOB FILIP and 2nd place in the Annual Report - Corporate category for the Annual Report on Corporate Social Responsibility of the ČSOB Group (Donor's Forum Awards 2021)

SUSTAINABILITY HIGHLIGHTS 2021

Our ESG ratings, indices and awards

Rating agency	2021 rating/ score (previous year)[1]	Position versus industry average
CDP (Disclosure Insight Action)	Scale: D- … A A- (A-)	Financial services average B
Sustainalytics	Scale: Servere Risk, High Risk, Medium Risk, Low Risk, Negligible Risk 13.1[2] (16.2)	2nd percentile of 415 diversified banks assessed 5th of 415 diversified banks
S&P Dow Jones Indices (A Division of S&P Global)	Scale: 0 … 100 74 (73)	Top 12% (88th percentile) of 242 banks assessed
MSCI	Scale: C, B, BB, BBB, A, AA, AAA AAA (AAA)	3rd percentile of 191 banks assessed
ISS ESG (Corporate ESG Performance, Prime)	Scale: D-, D, D+, C-, C, C+, … C prime (C prime)	1st decile rank of 300 Commercial Banks & Capital Markets assessed[3]
FTSE4Good	Scale: 0, 1, 2, 3, 4, 5 4.3 (4.7)	Top 4% (96th percentile) of banks assessed

[1] End-of-year data, unless otherwise stated
[2] ESG Risk Score on February 1st, 2022
[3] The scale is based on the distribution of ratings in the industry 'Commercial Banks & Capital Markets'.

"KBC Group's ongoing efforts on ESG themes are being increasingly recognised by independent rating agencies. We are proud to be recognised once again with a very good 'Low risk' rating from Sustainalytics and were included for the third year in a row in the Sustainability Yearbook 2022 of S&P Global"

Koenraad Debackere, Chairman of the Board of Directors KBC Group

"In 2021, KBC Group was awarded for the fifth year in a row a leadership 'A-' scoring for its climate change disclosure by environmental not-for-profit organisation CDP. This result confirms our continuous commitment towards climate action leadership and reflects our efforts and progress made to measure and manage the risk and opportunities on climate change. Moreover, CDP's climate questionnaire is fully aligned with the TCFD recommendations, to which we fully adhere."

Johan Thijs, CEO KBC Group

KBC AT A GLANCE

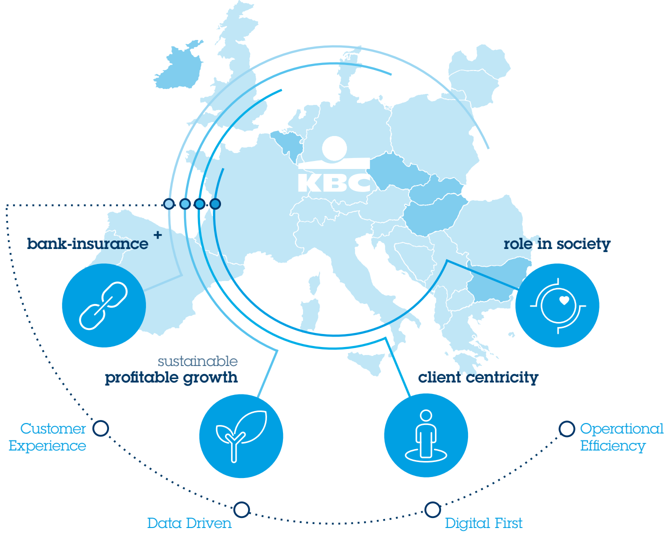
Who we are

KBC is an integrated bank-insurance group, catering mainly for retail, private banking, small and medium-sized enterprises (SMEs) and mid-cap clients. Through our activities, we want to help our clients to both realise and protect their dreams and projects. We operate in our core markets of Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia. We are also present to a limited extent in several other countries to support corporate clients from our core markets.

Our corporate strategy is founded on the following principles:

- We put our clients' interests at the heart of everything we do.
- We look to offer our clients a unique bank-insurance experience. The '+' refers to our aim to offer non-financial solutions alongside traditional banking and insurance solutions.
- We focus on our group's long-term development and in doing so aim to achieve sustainable and profitable growth.
- We take our responsibility towards society and local economies very seriously, as reflected in our everyday activities.
- We build upon the PEARL+-values and focus on the joint development of solutions, initiatives and ideas within the group.
- We implement our strategy within a strict risk, capital and liquidity management framework.

Learn more about our corporate strategy in our 2021 Annual Report.



Belgium	Czech Republic	Hungary	Slovakia	Bulgaria	Ireland
15.800 employees	11 200 employees	3 700 employees	3 500 employees	4 700 employees	1 100 employees
3.8 million clients	4.2 million clients	1.6 million clients	0.8 million clients	1.5 million clients	0.3 million clients

end-of-year data

40 000 employees | **12 million clients** | **2.6 billion euros net result**

'Team Blue' symbolises the way we cooperate across borders and our group's different business units, encouraging the smart-copying of each other's ideas and pooling experiences. In the present, deeply changing digital world, it is an exceptional advantage to be able to work in this group-wide manner.

Differently: the next level

We always put our clients first, and by implementing our renewed strategy, we are taking our bank-insurance services and customer experience to an even higher level. We are keen to transform ourselves at an accelerated pace into a data-driven and solution-driven, digital-first bank-insurance company.

Our digital personal assistant Kate is a core element of this strategy. For clients who so desire, Kate plays an important part in delivering proactive, timely, personalised and relevant solutions in digital sales and advice.

We sum up our business culture in the acronym 'PEARL+': Performance: we strive for excellent results and do what we promise to do. Empowerment: we allow the creativity and talent of the individual employee to blossom. Accountability: we meet our personal responsibility. Responsiveness: we anticipate and respond readily to questions and suggestions. Local Embeddedness: we view the diversity of our teams and clients in our core markets as a strength. The extra '+' dimension reflects our increased focus on the joint development and smart-copying of solutions, initiatives and ideas within the group, enabling them to be easily implemented across the board. We encourage all our employees to conduct themselves in a way that is responsive, respectful and result-driven. This is crucial in underpinning our goal to remain the reference in all our core markets.

We achieve cohesion between the various entities of our group not only through our PEARL+ values, but also through our 'Team Blue'. To this end, we can count on a group of 40 000 talented employees from different countries who work hard every day to gain, retain and increase our clients' trust.

Value creation

Resources

Financial capital

Total equity of 23 billion euros

226 billion euros in deposits and debt securities

Employees and brand

Approximately 40 000 employees

56% women

Strong brands in all core countries, trusted partner

Capacity to innovate

Infrastructure

Various electronic distribution platforms, apps and underlying ICT systems

1 159 bank branches, various distribution channels for insurance

Clients and other stakeholders

12 million clients in our core countries

Suppliers, government, regulators and other stakeholders

Environment and society

Direct use of electricity, gas, water, paper, etc.

More significant indirect impact through lending, investment portfolio, funds, insurance, etc.

Business

Our activities

We are an integrated bank-insurance group, catering mainly for retail, private banking, SMEs and mid-cap clients.

lending – deposits – insurance – investments – asset management payments – other financial services

- Client centricity
- Bank-insurance+
- Sustainable profitable growth
- Role in society
- PEARL+

Our purpose

We offer proactive and data-driven solutions to help our clients to both realise and protect their dreams and projects.

Our ambition

We want to be the reference for bank-insurance in all our core markets.

Output, outcome and key performance indicators (KPI) (selection 2021)

We create financial value for our stakeholders by generating and distributing economic value. By making a sustainable profit, we are able to preserve our solid capital base and reinvest in our business activities.

Net profit of 2.6 billion euros

5% organic growth in loans and advances

12% growth in assets under management

15.5% common equity ratio

5% growth of total income

6% growth in operational expenses excluding bank taxes

58% cost/ income ratio and combined ratio of 89%

We want to stimulate our employees through training and career development opportunities in a positive, creative and innovative working environment, thereby creating value for our employees but also for society as a whole. We offer our staff fair reward, which also contributes to the welfare of the countries in which we operate.

2.5 billion euros in remuneration paid to our staff

Pay-out of a Covid-related bonus to all employees in 2021

Firmly embedded PEARL+ business culture

About 135 000 registered training days complemented with on-the-job training and knowledge-sharing

Internal mobility 24%

Diversity: 41% women in junior and middle management, 24% in senior management with clear goals to support gender diversity at the top

Employee engagement scores vary between 55% and 71% in our core countries

Innovative digital artificial intelligence and data-driven approach

Further development of digital assistant Kate

Various recognitions, such as Best Mobile App Worldwide (Sia Partners)

Focus on simplification and straight-through processes

1.4 billion euros in investments in 'digital first' in 2022-2024

Digital interaction with clients:

39% and 19% digital sales (banking and insurance)

33% straight-through processing score

We are committed to fulfilling our role in society and responding to societal needs and the expectations of our stakeholders.

Stakeholder interaction process in each core country

13 million euros spent on community involvement

1.3 billion euros paid in income taxes and bank taxes

Focus on financial literacy initiatives and promoting entrepreneurship with a specific focus on female entrepreneurship in the start-up community

Client NPS ranking: top 3 score

78% bank-insurance clients and 23% stable bank-insurance clients

Through BRS Microfinance Coop, KBC together with Cera and 1 748 private individuals invests in 9 microfinance institutions, which together reach 1.7 million entrepreneurs.

KBC provides financial services that contribute to economic growth and well-being and create jobs for society at large. At the same time, we acknowledge that some of our activities may unintentionally have a negative impact on society and the environment. We are keen to limit this impact and strive to increase our positive impact by providing more sustainable financing.

Focus on environmental awareness initiatives and the issue of longevity/healthcare

Loan portfolio of 6 billion euros in the healthcare and senior citizen sectors

31.7 billion euros in socially responsible investment (SRI) fund

Direct greenhouse gas (GHG) emissions: 71% reduction compared to 2015 as the baseline year and net climate neutral in terms of our direct environmental footprint

100% green power consumption

Committed to steering our portfolios towards Paris Agreement climate goals

Renewable energy: 63% of lending to energy sector

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

Most relevant or high impact (Sustainable Development Goals (SDGs)

3 GOOD HEALTH AND WELL-BEING

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

More information on the SDGs can be found in the 'Sustainability strategy' part of this section.

HOW WE LISTEN

Our stakeholder engagement

Maintaining an open and constructive dialogue with our stakeholders is essential for our business. This starts out by listening to what our communities need for their future and how they think we can improve the way we run our business.

This is why we connect with a wide group of stakeholders, which includes clients, employees, investors and core shareholders, suppliers, public authorities, non-governmental organisations (NGOs) and the broader community. We also believe in the power of collaborative schemes and choose to partner with government, industry and communities to learn from each other and to tackle important social and business topics.

Lastly, we engage with experts from the academic world who are part of our external advisory boards. They advise KBC on various aspects of our sustainability strategy and challenge us on a wide range of topics.

Stakeholder groups	Expectations	Engagement activities
Clients	A trustworthy partner Respect for privacy and protection against cyber risk Transparency Broad accessibility Top expertise Innovation	Annual client satisfaction: Client net promotor score (NPS) ranking Complaints management Regular customer panels and customer consultations Local engagement by branch network and relationship managers Collaboration with clients in their transition to becoming a low-carbon business Webinars on ESG-related topics (More information on engagement activities can be found in the 'Customer engagement' section of this report)
Employees	Work-life balance Personal and professional development Health and safety Ethical conduct	Employee surveys (e.g. Shape Your Future survey) Regular consultations with the occupational health and safety committees, health, safety and security advisers and employee representatives Annual meeting of the European Works Council Regular evaluation of all staff StiPPLE, a digital learning and talent platform for our employees (More information on engagement activities can be found in the 'Our people' section of this report)
Investors and core shareholders	Value creation Long-term business model with clear financial and non-financial targets ESG as part of our strategy Transparency	Investor days Regular roadshows for investors and analysts and dedicated virtual ESG meetings Annual general meeting Review by credit rating agencies Sustainability assessments such as S&P Global Corporate Sustainability Assessment, CDP, Sustainalytics, FTSE4Good, BankWijzer Belgium and Ethibel
Suppliers	Transparency Connect and collaborate to identify opportunities Strengthen long-term relationships Shared vision, strategy and values Shared risk and reward Joint value creation	CSR questionnaire as an integral part of our supplier assessments Supporting suppliers willing to make the adjustments needed to comply with the Code of Conduct for Suppliers Webinars on ESG-related topics Vendor meetings on all levels of the hierarchy Proofs of Concept during which we mutually learn about the potential value creation Transparent, simultaneous communications and approaches in competitive sourcing cases (More information on engagement activities can be found in the 'Our sustainable business solutions' section of this report)
Public authorities	Compliance with applicable legislation	Membership of banking and insurance federations Membership of other national and international representative bodies to establish and maintain relationships with political actors and achieve closer follow-up of regulatory initiatives impacting the financial sector (e.g., public consultations) Active participation at networking events
NGOs and the broader community	Local employment Transparency and good communications	Regular (one-on-one) meetings with NGOs Membership of sustainability network organisations Membership of local works councils Research papers and media analysis

Our stakeholder engagement

Engagement activities in 2021

In 2021 we maintained ongoing interactions with our stakeholders, albeit taking into account the challenges in this respect due to the Covid-19 restrictions which limited our physical interactions. The impact of Covid-19 on the communities and clients we serve was a major topic for many of our stakeholders in 2021. Besides Covid-19, climate and biodiversity remained important topics too.

A selection of the key interactions with our stakeholders:

- Belgian consumer organisations raised their concerns regarding the distribution plan of Batopin (a joint project of KBC Belgium and other Belgian financial institutions) for future cash dispensers. The National Bank in Belgium is closely monitoring the development of the automated teller machine (ATM) networks. After the implementation of Batopin, 98.79% of the Belgian population should have an ATM within five kilometres of their homes. Batopin entered into a constructive dialogue to clarify outstanding questions with regard to elements such as density and availability of cash and to seek out possible solutions. During the difficult Covid-19 period, KBC Belgium took concrete actions on digital literacy such as a team of digicoaches contacting clients aged 55 and over by telephone to encourage them to use our digital services.
- In 2021, the 'Don't Buy Into Occupation' coalition published a report on the financial relationship between businesses involved in the Israeli settlement programme in the Occupied Palestinian Territories and the European Financial Institutions. In response to the publication of the report, KBC invited Belgian non-governmental organisation 11.11.11 to discuss the issues raised.
- As our employees are one of our key stakeholders, we closely monitor their opinions and consult them at regular intervals. In 2021, we launched two employee engagement surveys focusing on topics that are top of mind. You can find more details on our consultations in the 'Our people' section of this report.
- Corporate Banking in Belgium organised webinars with their partner Encon to discuss how Encon has been implementing sustainability in their business, developing new practices for their clients. You can find a recording of the webinar on the KBC website (Dutch only).
- Together with the KBC Investor Relations Department, Group Corporate Sustainability held several ESG investor events throughout the year. On the occasion of the publication of KBC Group's Sustainability Report 2020, investors were invited to discuss KBC's latest ESG accomplishments.
- KBC Asset Management pursues an active policy of proxy voting and engagement.
- ČSOB – in collaboration with the National Bank of Slovakia – established a new Slovak ESG committee under the Slovak Banking Association. The signatory banks have publicly declared their commitment to the principles set out.
- ČSOB engaged with clients and members of the Association of Chemical and Pharmaceutical Industries of the Slovak Republic and informed them about the upcoming ESG reporting obligations.
- ČSOB in the Czech Republic conducted a public opinion survey linked with our reputation, in which we ask not only about product satisfaction and public expectations regarding philanthropic activities, but also about perception of our approach to sustainability.
- KBC requires its relationship managers in all core countries to engage with their corporate clients on climate risks and opportunities in an informed way and has introduced a training programme tailored to their needs. You can find more details on the training programme in the 'Customer engagement' part of this report.
- K&H has given several presentations on sustainability at leading universities in Hungary (e.g. Budapest University of Economics) on topics such as climate change and the current situation in Hungary, and the effect of greenhouse gas emissions on the climate.
- Together with Cera, we organised a Horizon 2050 lecture on water and water scarcity to create awareness of these issues and of potential adaptive solutions to mitigate them. At this session, the economic impacts of water scarcity and associate risks too were discussed by the KBC Chief Economist, forming a basis for our further risk assessment on water-related topics. The lectures are available to be viewed on the Cera website (Dutch only).
- We cooperate as a member of the United Nations Environmental Programme Finance Initiative (UNEP FI). In 2022, we will be actively involved in UNEP FI-convened working track meetings that aim to provide additional guidance on climate target setting.

Materiality assessment

In cooperation with a reputable and specialised third party, every two years we conduct a materiality assessment. This assessment helps us to understand which topics are important to our business and our stakeholders, and therefore to decide which topics we should focus on. Defining the needs and interests of our stakeholders also enables us to evolve our strategy to better meet their expectations and to focus our reporting efforts on the issues they care about most. The latest materiality assessment was conducted in 2020 and included a further dimension compared to previous ones: the concept of maturity (how embedded the topic is within the organisation). This maturity exercise is an internal self-assessment. The conclusions and recommendations of the materiality assessment were discussed and validated at our Internal Sustainability Board and Executive Committee and subsequently presented to the Board of Directors. In 2021, we aligned the priorities of our sustainability strategy with the above conclusions and recommendations. We will continue to do so in the coming years.

Phase 1: we performed a stakeholder mapping exercise and assessed our stakeholder groups (clients, core shareholders, employees, NGOs, academics, suppliers, sector organisations, public authorities and investors) in terms of their relative interest in and influence on KBC.

Phase 2: we created a long list of relevant topics based on several resources such as internal documents, internationally recognised standards (e.g., GRI (Global Reporting Initiative), SASB (Sustainability Accounting Standards Board)), the global indicator frameworks of the United Nations (UN) Sustainable Development Goals (SDGs), peer reviews, press releases and performance in sustainability rating benchmarks. Based on the results of the desktop research, we identified and defined 13 material topics which now make up the short list.

Phase 3: using an online survey and in-depth interviews, we asked both external stakeholders across our six core countries and senior management (including members of the Executive Committee and Board of Directors) to assign an order of priority (from 1 to 5) to the topics on the short list.

The stakeholder consultations ran between mid-April and mid-August 2020

Phase 4: the results form the basis of a materiality matrix, providing an aggregated view of the importance of topics both for our external stakeholders (Y axis) and our management (X axis). We plotted and grouped the results into high-impact (light blue), medium to high-impact (dark blue) and medium-impact topics (grey).

Our high-impact topics in 2020 are:

- Long-term resilience of our business model
- Sustainable and responsible lending, insurance and advisory service offering
- Ethical business conduct and responsible behaviour

We also analysed the difference in relation to our materiality results for 2018. Although the results for 2020 are not entirely comparable (different methodologies used and different names and descriptions of the material topics), we see some significant shifts: (i) the long-term resilience of our business model shifted upwards in comparison to 2018; (ii) the sustainable and responsible lending, insurance and advisory service offering and sustainable and responsible asset management and investing increased significantly in importance; (iii) the direct environmental footprint of our business activities as well as corporate citizenship became less material; and (iv) employee-related topics slightly diminished in importance.

We submitted the matrix for discussion to the members of the Internal Sustainability Board, had it validated by the Executive Committee and presented it to the Board of Directors. Lastly, the members of the External Sustainability Board were invited to discuss matters. They provided valuable feedback – each from their field of expertise.

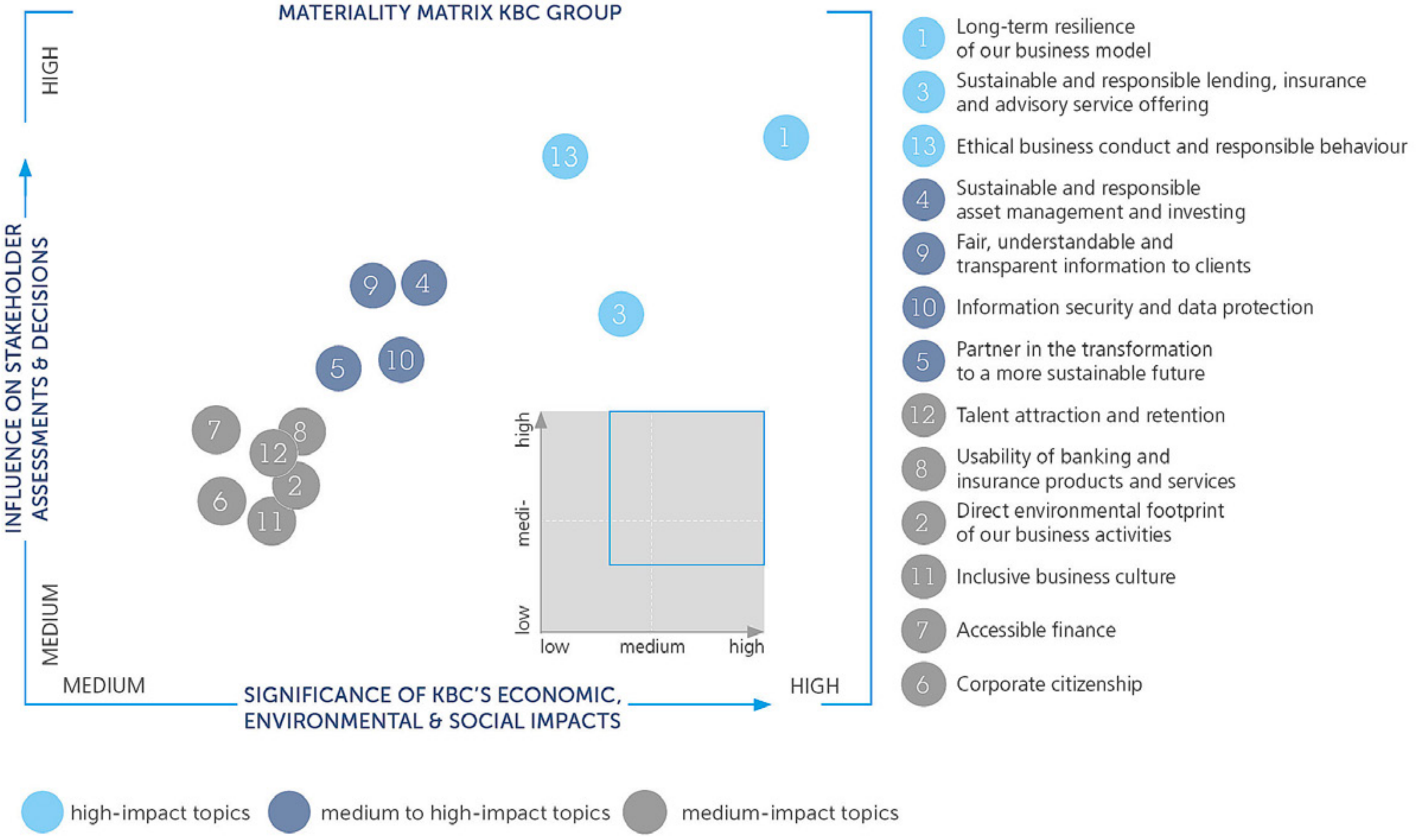
HOW WE LISTEN

Materiality assessment

Phase 5: in addition to materiality, we added the concept of maturity as an important identifier of how quickly the topics need to be addressed in our strategy. To assess the maturity level of the 13 topics, we invited representatives of all our core countries to participate in a workshop and we performed an internal self-assessment. We then mapped the 13 topics against their current maturity level within KBC. Based on this exercise, four topics were deemed urgent: (i) Ethical business conduct and responsible behaviour; (ii) Sustainable and responsible lending, insurance and advisory services offering; (iii) Sustainable and responsible asset management and investing; (iv) Partner in the transformation to a more sustainable future.

Whilst the abovementioned maturity and materiality assessment provides further guidance for the development of our strategy and its alignment with the SDGs, we are fully aware that all listed topics are important to our stakeholders. Consequently, in line with our basic sustainability strategy as described in the 'Sustainability strategy' part of this section, we will continue to focus on all of them in order to reduce our negative impact and increase our positive impact on society.

Figure 2.1: Materiality matrix KBC Group



Materiality assessment

Table 2.1: Short list of material topics identified and description

Material topics	Description
Long-term resilience of our business model	Ensuring resilience of our business model and financial responsibilities, by considering large societal challenges (e.g., climate change, demographic changes, ageing and health) and through thorough risk and scenario analysis and management.
Direct environmental footprint of our business activities	Limiting any direct adverse impact and increasing the positive impact on the environment of our operational activities and the resources we use and encouraging environmentally responsible behaviour on the part of our employees.
Sustainable and responsible lending, insurance and advisory service offering	Further expanding our sustainable lending, insurance and advisory services offering (e.g., sustainable loans/revolving credits, sustainable project finance, insurance solutions covering climate risks, bicycle leasing) and restricting lending, insurance and advisory services regarding controversial and socially sensitive sectors and activities (e.g., arms-related activities, narcotic crops, gambling) to stimulate a sustainable society.
Sustainable and responsible asset management and investing	Continuously enhancing and increasing the share of our offering regarding sustainable and responsible asset management to limit our adverse impact and increase our positive impact on society; bringing our own investments in line as much as possible with sustainable and responsible investment principles.
Partner in the transformation to a more sustainable future	Taking part in the public debate and being a partner in the transformation to a more sustainable future, by raising awareness of and advocating societal challenges and by building partnerships to draw external support.
Corporate citizenship	Supporting local communities through corporate engagement (e.g., corporate volunteering, donations) and by contributing to social development projects.
Accessible finance	Stimulating the local economy by financing small companies and start-ups with innovative ideas and projects as well as looking for solutions for less advantaged clients.
Usability of banking and insurance products and services	Making sure banking and insurance is and remains physically and digitally accessible to everyone (e.g., the elderly and blind) and ensuring efficiency of our services (e.g., digitalisation).
Fair, understandable and transparent information to clients	Helping clients to make the right financial choices through fair and transparent information, communication and advice, as well as by improving general public knowledge of financial concepts and products (financial literacy).
Information security and data protection	Ensuring stable and secure IT systems resilient to outside attacks and strict privacy rules regarding client and employee data and proactively helping clients in detecting and solving fraud issues (e.g., credit and debit card fraud detection, warning and awareness campaigns); including ethical considerations when using technologies based on big data, artificial intelligence and machine learning.
Inclusive business culture	Safeguarding an inclusive business culture with strong shared values, beliefs and behaviour, in which diversity is celebrated.
Talent attraction and retention	Creating a safe, healthy and motivating working environment in which the well-being and personal and professional development of our employees is key.
Ethical business conduct and responsible behaviour	Focusing on the moral aspects of doing business, being transparent towards all our stakeholders and behaving responsibly under all circumstances.

Please note that the topics are not ranked in this table

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

HOW WE LISTEN

Material topics

The table gives an overview of the material topics. We provide a schematic overview of how this topic relates to our existing strategy and to which stakeholder group the topic matters most (boundary). For more information on our contribution to the SDGs and the five high impact areas we have chosen to focus on, please refer to the 'Sustainability strategy' part of this section.

Corporate strategy	Material topics	Relevance for our stakeholders: Clients	Employees	Investors and core shareholders	Suppliers, public authorities and NGOs and broader community	SDG relevance (high impact areas)	References
Bank-insurance+, Sustainable profitable growth, Role in society	1. Long-term resilience of our business model	●	●	●	●	SDG 8, SDG 13	KBC Group Annual Report 2021: p. 16-20, p. 30-69, p. 94-144, p. 145-151; KBC Group Sustainability Report 2021: p. 53-105
Bank-insurance+, Role in society	2. Direct environmental footprint of our business activities	●	●	●	●	SDG 7, SDG 8, SDG 13	KBC Group Annual Report 2021: p. 16-20, p. 43-65, p. 138-144; KBC Group Sustainability Report 2021: p. 74-77
Bank-insurance+, Sustainable profitable growth, Role in society	3. Sustainable and responsible lending, insurance and advisory service offering	●	○	●	●	SDG 3, SDG 7, SDG 8, SDG 12, SDG 13	KBC Group Annual Report 2021: p. 8-11, p. 16-20, p. 43-65, p. 78-93, p. 138-144; KBC Group Sustainability Report 2021: p. 53-105
Bank-insurance+, Sustainable profitable growth, Role in society	4. Sustainable and responsible asset management and investing	●	○	●	●	SDG 3, SDG 7, SDG 8, SDG 12, SDG 13	KBC Group Annual Report 2021: p. 8-11, p. 16-20, p. 43-65, p. 78-93; KBC Group Sustainability Report 2021: p. 53-62
Bank-insurance+, Sustainable profitable growth, Role in society	5. Partner in the transformation to a more sustainable future	●	●	●	●	SDG 12	KBC Group Annual Report 2021: p. 40-42, p. 43-65, p. 78-93; KBC Group Sustainability Report 2021: p. 82-87
Bank-insurance+, Role in society	6. Corporate Citizenship	●	●	●	●	SDG 3, SDG 7, SDG 8, SDG 12, SDG 13	KBC Group Annual Report 2021: p. 43-65, p. 78-93; KBC Group Sustainability Report 2021: p. 106-118
Bank-insurance+, Client centricity, Role in society	7. Accessible Finance	●	●	●	●	SDG 8	KBC Group Annual Report 2021: p. 12-15, p. 30-36, p. 78-93; KBC Group Sustainability Report 2021: p. 108-110, p. 115-118
Bank-insurance+, Client centricity, Role in society	8. Usability of banking and insurance products and services	●	●	●	●	SDG 8	KBC Group Annual Report 2021: p. 16-20, p. 43-65, p. 66-93;p. 138-144; KBC Group Sustainability Report 2021: p. 113-114, p. 115-118
Bank-insurance+, Client centricity, Role in society	9. Fair, understandable and transparent information to clients	●	○	○	○	SDG 8	KBC Group Annual Report 2021: p. 30-36, p. 164-170; KBC Group Sustainability Report 2021: p. 41-45, p. 113-114
Bank-insurance+, Client centricity, Role in society	10. Information security and data protection	●	●	●	●		KBC Group Annual Report 2021: p.16-20, p. 43-65, p. 122-128, p. 164-170; KBC Group Sustainability Report 2021: p. 46-48
Bank-insurance+, Role in society	11. Inclusive business culture	○	●	●	●	SDG 8	KBC Group Annual Report 2021: p. 12-15, p. 21-29, p. 157; KBC Group Sustainability Report 2021: p. 37-40
Bank-insurance+, Role in society	12. Talent attraction and retention	○	●	○	○	SDG 3, SDG 8	KBC Group Annual Report 2021: p. 21-29; KBC Group Sustainability Report 2021: p. 30-33
Bank-insurance+, Role in society	13. Ethical business conduct and responsible behaviour	●	●	●	●	SDG 8	KBC Group Annual Report 2021: p. 12-15, p. 64-65, p. 164-170; KBC Group Sustainability Report 2021: p. 41-45

- Bank-insurance+
- Sustainable profitable growth
- Client centricity
- Role in society
- Clients
- Employees
- Investors and core shareholders
- Suppliers, public authorities and NGOs and broader community
- SDG 3: Good health and well-being
- SDG 7: Affordable and clean energy
- SDG 8: Decent work and economic growth
- SDG 12: Responsible consumption and production
- SDG 13: Climate action

Supplier engagement and sustainable procurement

KBC takes great care in selecting suppliers who share our commitment to contribute to a sustainable society. We value our suppliers and have embedded product-related environmental requirements in our internal process for screening suppliers, including the duty to notify KBC about new environmentally friendly products and the use of environmentally friendly packaging. We welcome suggestions from our suppliers on sustainable products and services and encourage circularity. Examples of circular procurement solutions are available in the 'Our sustainable business solutions' section of this report.

KBC Ireland has undertaken steps to educate its top suppliers on KBC Ireland's environmental commitments and to identify ways in which they may support their green agenda, in turn thereby contributing to diminishing our carbon footprint. Our colleagues in Ireland will drive actionable change through the new Environmental Procurement Principles and the KBC Supplier Code of Conduct.

Supplier policy and guidelines

KBC is aware that when making purchasing decisions, we must also take environmental and social issues into account, in addition to financial factors. The KBC Supplier Code of Conduct sets out the minimum standards our suppliers must adhere to. The code includes the key social, ethical and environmental principles which we believe a responsible business should abide by. Our zero-tolerance policies 'KBC Blacklist', 'KBC Controversial Regimes' and 'KBC Human Rights' also apply to our suppliers. More information on our supplier assessment is available in the 'Focus on Human Rights' section of our 2021 Annual Report.

Read more on our supplier assessment on our corporate website.

As a Supplier Engagement Leader, we're working with our suppliers to cascade environmental action down our supply chain

The cornerstones of our sustainability strategy

As a financial institution, we are an important driving force for the real economy and as such, we have an important direct and indirect impact on society. KBC aims to support the transition to a more sustainable and climate-resilient society now and into the future, working shoulder to shoulder with its clients and other stakeholders. This is why sustainability is an integral part of our overall corporate strategy and is embedded in our day-to-day business activities, and the products and services we provide.

In everything we do, we aim to avoid or limit the negative impact of our products and services and maximise our positive impact on society. We specifically strive to provide financial solutions and business opportunities in a number of pre-determined focus areas: environmental responsibility, financial literacy, entrepreneurship and health and longevity. We focus especially on responsible behaviour as the foundation for sustainability at KBC. Doing business sustainably means that we must have the necessary financial resilience and pursue strict risk management. We are conscious of the impact our operations have on society and we respond to societal needs and expectations in a balanced, relevant and transparent way. In doing so, we acknowledge the local community and economy in each of the core markets in which we operate.

Our people represent our 'human capital' and are one of the main drivers for creating sustainable value as a bank-insurer. We encourage all our employees to conduct themselves in a way that is responsive, respectful and result-driven.

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

We will succeed in making a sustainable shift only if we have all our employees – at every level of the organisation – on board and if all employees share the same vision and strategy. We are investing heavily in internal communication on sustainability-related topics and training, in order to build sustainability skills and a sustainability culture. By the beginning of 2022, we will have launched an awareness training course on sustainability in general and climate change issues in particular in each of our core countries. In 2022 we will be launching training courses aimed at specific target groups. Another example on how we engage our employees is the non-recurrent result-based bonus KBC pays its employees in Belgium, which in part has also been linked to sustainability targets since 2012. Throughout this report you will find more examples of how we engage our employees.

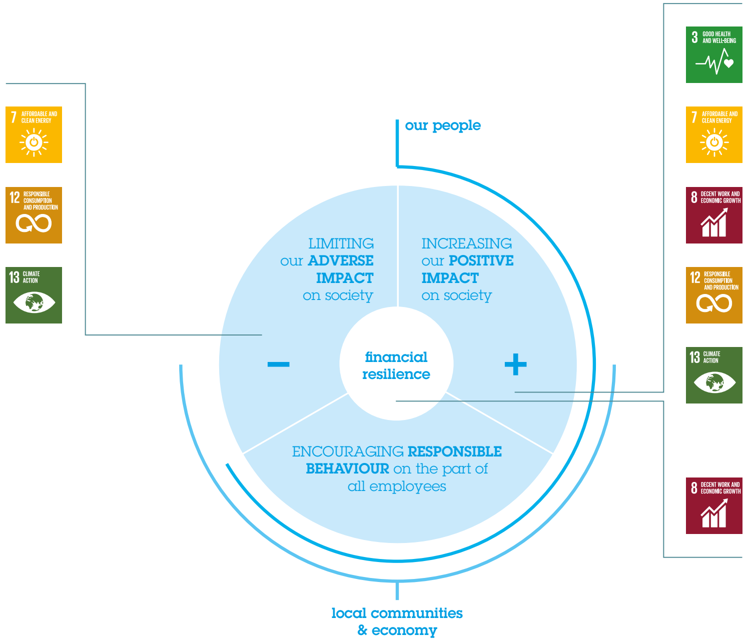


Figure 2.2: The cornerstones of our sustainability strategy

Relevant SDG goals (high-impact areas):

After due analysis of all the UN Sustainable Development Goals (SDGs) and their combined power, we have identified five of these SDGs as high impact areas for our organisation. Throughout this report you will find the relevant SDGs in each section.

Our commitment to the UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) set the global agenda for governments, businesses and civil society on the best ways to address the major sustainable development challenges, such as how to end poverty, protect the planet and ensure prosperity for all. As a financial institution, we have a critical role to play in accomplishing these goals. While the 17 SDGs are all interconnected and relevant and even though we work to achieve all of them through our sustainability policy, we have chosen to focus on five goals in greater depth where we believe KBC can have the biggest impact and make the largest contribution. These goals are most clearly connected to our business and sustainability strategy. The outcome of our materiality assessment confirms that these high-impact SDGs identified by KBC are also those which are most relevant to KBC. For more information on our materiality assessment, please refer to the 'How we listen' part of this section. As we are clearly entering the decade of action as determined by the UN Secretary General, our group remains committed to its role in the unstoppable movement pushing for the required transformation.

Five high-impact areas

Good health and well-being

We develop banking and insurance products that focus on health, healthcare and improving quality of life. Our social projects too focus on themes such as health and road safety, where we also aim to achieve a greater impact. We promote a good work-life balance among our employees.

Affordable and clean energy

We actively contribute to raising the share of renewables in the energy mix. We invest in initiatives in the field of renewable energy and energy efficiency through our banking and insurance activities and have put in place a gradual exit programme for the financing of non-sustainable energy solutions such as thermal coal, oil and gas.

Decent work and economic growth

Our banking and insurance business supports entrepreneurship and job creation and contributes to sustainable economic growth. We support new businesses and invest in innovation and technology through alliances with start-ups and financial technology companies (fintechs) and we stimulate female entrepreneurship through our accelerator for start-ups in Belgium. We play an important role in protecting basic labour rights, fair pay, equal opportunities and training and development opportunities for all our employees. Through our microfinance and microinsurance activities – in partnership with BRS – we provide rural entrepreneurs and farmers in the South access to financial services, facilitating sustainable local development and contributing to financial inclusion.

Responsible consumption and production

We support the transition to a low-carbon and circular economy. We develop sustainable banking and insurance products and services that meet a range of social and environmental challenges. We actively promote socially responsible investment funds (SRI) among our clients and propose such funds as our first offer and preferred investment solutions. We endeavour to mitigate our own negative impact on the environment by dealing sustainably with energy, paper, water, mobility and waste and by reducing our greenhouse gas emissions.

Climate action

Our loan, investment and insurance portfolios are governed by strict environmental policies. Through the KBC Sustainable Finance Programme, we are increasingly focusing on the climate impact of our credit, insurance and advisory businesses. As a signatory of the Collective Commitment to Climate Action (CCCA), we are gradually adjusting our portfolios to bring them in line with the Paris Agreement. SRI funds are a key focus area of our sustainability strategy and climate action. We look at the climate performance of investees and actively engage with them on these matters. We develop business solutions that help clients reduce their greenhouse gas (GHG) emissions with a view to making the transition to a low-carbon economy. We limit our own environmental impact and communicate on this topic. We seek to address climate-related risks and focus on related opportunities in that area.

Our commitment to the UN Sustainable Development Goals

Strategic objectives and relevant key performance indicators (KPI)

On this page we give an overview of the strategic objectives and relevant KPIs linked to the five high-impact areas we have identified. How we perform on these objectives and the realisation of the relevant KPIs can be found throughout this report.

	KBC Group's key financial targets	More information
	Focus on business solutions in the four chosen focus areas: environmental responsibility, financial literacy, entrepreneurship, and longevity and health	More information
	Implement and follow a structural approach to the management and reporting of climate-related risks and opportunities through the KBC Sustainable Finance Programme.	More information
	65% renewable energy loans by 2030	More information
	Fully exit direct coal-related financing by 2021.	More information
	No financing with regard to the exploration of any new oil and gas fields and additional restrictions for vertically integrated oil and gas companies that operate oil and gas fields	More information
	30 billion euros' worth of SRI funds by 2025 and more than 50% of total annual fund production by 2021	More information
	Reduce direct footprint by 80% by 2030 compared to 2015 and achieve climate-neutrality with respect to our direct footprint by 2021	More information
	100% own green electricity consumption	More information
	Stimulating female entrepreneurship in Belgium through our accelerator for start-ups in Belgium.	More information
	Supporting financial inclusion and impact investing through our partnership with BRS.	More information

Sustainability governance

KBC's top level responsibility for sustainability and climate strategy ensures the integration of that strategy into every layer of our organisation and in all our core activities. A hybrid organisational structure and governance, with strong central steering and clear local accountabilities in each of our core countries is to ensure the group-wide implementation of and progress on the centrally decided sustainability and climate policy. Our climate-related governance – set up as part of the KBC Sustainable Finance Programme and focusing on the integration of KBC's climate approach across the group – is anchored in our overall sustainability governance.

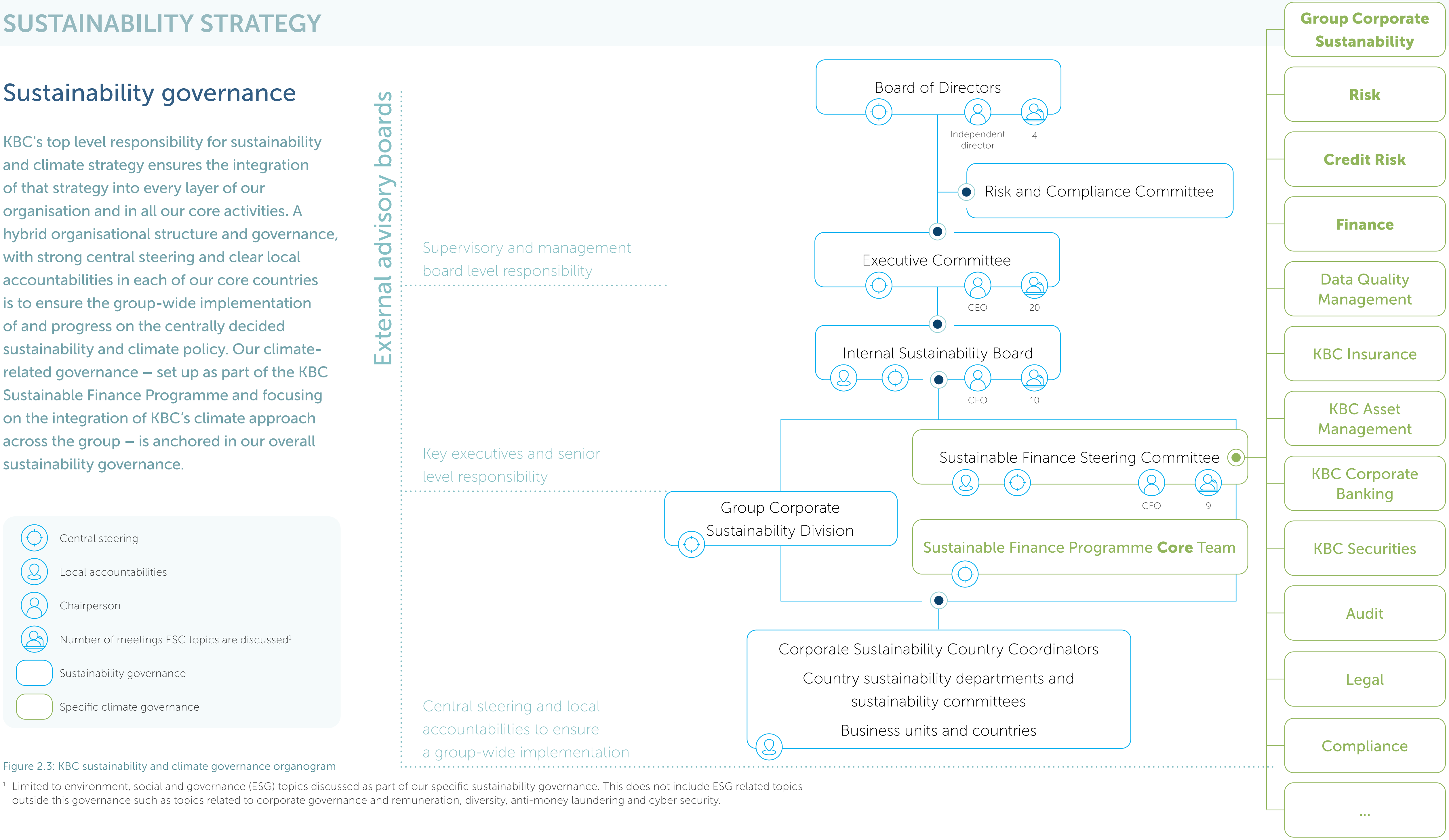


Figure 2.3: KBC sustainability and climate governance organogram

[1] 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.

Sustainability governance

The Executive Committee reports to the Board of Directors on the sustainability strategy, including the policy on climate change but also other relevant ESG (environment, social and governance)-related themes such as gender diversity and human rights. As the Board of Directors has determined climate action failure as a top risk for the KBC Group (for more information please see our risk report), the Risk and Compliance Committee very closely monitors the sustainability-related risks. Twice a year the Board of Directors conducts a comprehensive review of all sustainability-related domains and targets by way of the KBC Sustainability Dashboard. At least once a year, the Board of Directors has an in-depth discussion on ESG-related topics at which the status of the Sustainable Finance Programme is presented. Important changes to sustainability policies as well as sustainability-related reporting are also discussed at board level.

The Executive Committee has the highest level of direct responsibility for sustainability, including the group's policy on climate change. It has granted decision-making powers on sustainability and climate-related issues to the Internal Sustainability Board and the Sustainable Finance Steering Committee. However, the ultimate decision-making authority rests with the Executive Committee, which is required to ratify any such decisions.

The Internal Sustainability Board (ISB) is chaired by the Group CEO and comprises of the Group CFO (as chairman of the Sustainable Finance Steering Committee), the Group Corporate Sustainability General Manager and senior managers from all business units and core countries. As such all Executive Committee members are represented. Given the presence of top executives and senior representatives of all our business units and core countries in the ISB, it is the primary forum for discussing all ESG-related issues, such as determining and updating ESG policies, addressing ESG-related risks, sharing ESG knowledge and best practices across the organisation and the strategic and commercial aspects of the KBC Sustainable Finance Programme. The ISB is the main platform for driving sustainability at group level. It debates and takes decisions on all sustainability-related matters, both at a strategic level and in more operational terms. The ISB acts in close partnership with the Group Corporate Sustainability Division. The members of the ISB are responsible for communicating on sustainability matters within their respective countries and business lines, for creating a support and sponsorship base and for making the group's sustainability strategy work.

The Sustainable Finance Programme is overseen by the Sustainable Finance Steering Committee chaired by the Group CFO. The latter is also a member of the ISB. Under the guidance of the Group CFO, various departments at group level work closely together and monitor the overall progress and technical implementation of the Sustainable Finance Programme. Specifically to manage climate-related data collection and reporting, a separate Data and Metrics Steering Committee was set up to include representatives from all core countries. Progress is reported to the Executive Committee and the Board of Directors in a status report that is presented at least once a year.

Data and Metrics Project

Seeing the importance of collecting high-quality climate-related data from our clients and the challenging reporting requirements in this area, a specific Data and Metrics Project was launched in 2021 as part of the Sustainable Finance Programme. This project – which is overseen by the Data and Metrics Steering Committee – aims at timely delivery of all legal, regulatory and voluntary reports and at coordinating all actions to this end. This project is driven by Group Finance and works closely together with KBC's Data Quality team, Group Corporate Sustainability, Group Credit Risk, Group Risk and all local business units in the various core countries.

Headed up by a programme manager from Group Corporate Sustainability, the Sustainable Finance Programme Core Team comprises specialists from the Finance, Credit Risk and Risk functions, along with sustainability experts. The core team integrates the policy on climate change within the group and oversees and supports our business departments in developing climate resilience in line with the TCFD recommendations and the EU Action Plan. The core team meets on a weekly basis to ensure swift action on the programme's objectives and works in close cooperation with specifically designated climate contacts in the core markets of our group and all relevant departments, including albeit not limited to Data Quality Management, KBC Insurance, KBC Asset Management, KBC Corporate Banking, Treasury, Pensioenfonds KBC, Legal, Audit, Compliance and KBC Securities.

Sustainability governance

Involvement of all relevant departments
As part of the Sustainable Finance Programme all relevant departments are consulted where necessary. For example, concrete actions are ongoing with departments such as KBC Asset Management, Group Treasury and KBC Pension Fund, KBC's Insurance companies and KBC Securities. In 2021, all of these actions have gained momentum. One way in which we can see this is that the number of employees in the various parts of the group, both in central departments and in local entities, who are directly or indirectly involved in the Sustainable Finance Programme, has grown considerably. Given the increased focus and requirements, all entities within the group have been tasked to specifically allocate adequate budgets for sustainability related items in their long term planning cycle.

The Group Corporate Sustainability Division is headed up by the Group Corporate Sustainability General Manager and reports directly to the Group CEO. The General Manager also has regular discussions with the Chairman of the Board of Directors to prepare discussions around sustainability at board level. The team is responsible for developing our sustainability strategy and implementing said strategy across the group and informs the ISB on the implementation. The Executive Committee and the Board of Directors are informed of the progress made twice a year through the KBC Sustainability Dashboard.

In each core country, the Corporate Sustainability Country Coordinator is responsible for integrating the decisions of the ISB and the objectives of the Sustainable Finance Programme. The Country Coordinators work closely and frequently with the Group Corporate Sustainability division, designated sustainability and climate contacts in their country as well as with their country representative in the ISB. As such, all core countries of KBC are duly involved in both the strategic discussions and the operational implementation of our group-wide sustainability policies and programmes.

In each of our core countries, our country sustainability departments and committees are organised in such a way so as to support their senior managers who sit on the ISB and the Corporate Sustainability Country Coordinator in integrating our sustainability strategy and organising and communicating local initiatives in this area. Amongst other things, the relevant staff and committees supply and validate non-financial information.

Sustainability is anchored in our core activities – banking, insurance and asset management – in all business units and core countries.

In addition to our internal organisation, we have set up two external advisory boards to advise KBC on various sustainability aspects. They consist of experts from the academic world:
The External Sustainability Board advises the Group Corporate Sustainability Division on KBC sustainability policies and strategy and is consulted on a regular basis by the Sustainable Finance Programme on climate-related topics. The SRI Advisory Board acts as an independent body for our SRI funds and oversees screening of the socially responsible character of the SRI funds offered by KBC Asset Management.

KBC Sustainability Dashboard

The Executive Committee and the Board of Directors use the KBC Sustainability Dashboard to evaluate and discuss the implementation of our sustainability strategy twice a year. This assessment also impacts the variable remuneration the members of the Executive Committee are paid.

We have put in place measurable and verifiable parameters to ensure an objective assessment. We track our progress in the area of sustainability using three general parameters and 12 additional parameters that are linked to the cornerstones of our group's corporate strategy. The KBC Sustainability Dashboard is reviewed on a regular basis to keep pace with the changing environment, requirements and regulations and to ensure that we are appropriately focusing on the relevant themes. Key performance indicators may be tightened or new parameters added. Given the swift progress on climate-related risks and opportunities, an overhaul of the dashboard is on the agenda for 2022.

The elements of the existing Sustainability Dashboard are shown in the figure on this page. The main underlying KPIs are discussed throughout this report as well as in our [Annual Report.]

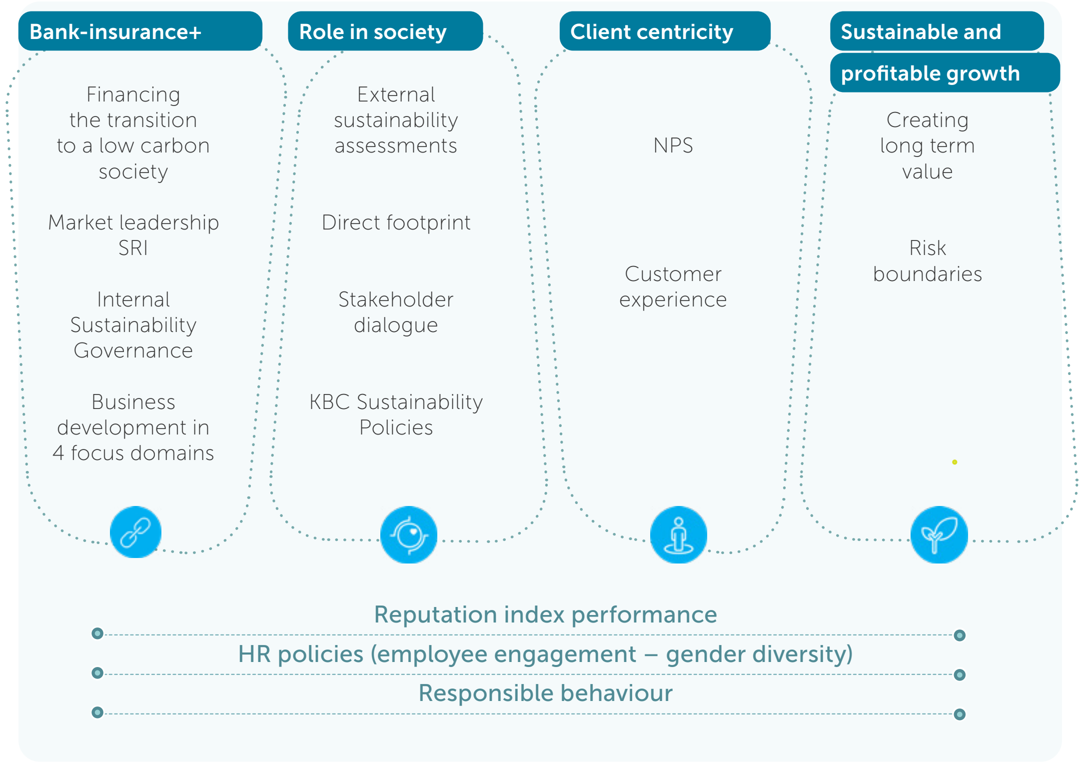


Figure 2.4: KBC Sustainability Dashboard

The Executive Committee and the Board of Directors use the KBC Sustainability Dashboard to evaluate and discuss the implementation of our sustainability strategy twice a year. This assessment also impacts the variable remuneration the members of the Executive Committee are paid.

Sustainability integrated into our remuneration policy

The top level responsibility for sustainability and climate change is also reflected in the inclusion of sustainability objectives in the criteria for executive remuneration.

The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target specifically relates to progress in the area of sustainability, which is evaluated every six months using the KBC Sustainability Dashboard. Through its Remuneration Committee, the Board of Directors assesses the criteria for evaluating the members of the Executive Committee in this respect.

Sustainability is also integrated into senior management members' variable remuneration. At least 10% of the variable remuneration paid to senior management members depends on the achievement of individual targets agreed in advance as part of the group's sustainability strategy, including our climate policy.

For more details on the remuneration policy, please refer to the ['Corporate governance statement'] of the KBC Group Annual Report 2021 and the KBC Group Remuneration Policy published on our [corporate website].

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

At KBC we strive to create a culture that empowers our employees to develop their talents and creativity. Our corporate culture is based on the acronym PEARL+. In 2020, KBC further expanded this strong corporate culture that was introduced across the group nine years ago. KBC added an extra dimension, a '+'. This means that KBC will increasingly focus on the joint development of solutions, initiatives and ideas within the group (in such areas as HR, strategy, finance and retail products and services) so that they are easy to use throughout the group. KBC is taking group-wide cooperation between the various countries and domains to an even higher level.

Relevant SDG goals (high-impact areas):

We contribute to SDG 3 (good health and well-being) and SDG 8 (decent work and economic growth) by supporting labour rights, providing a safe, secure and healthy working environment, promoting a good work-life balance among our employees and an inclusive business culture with strong shared values, whilst fostering creativity and innovation. Detailed people indicators are available in the 'Sustainability facts and figures' section of this report.

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

11 Inclusive business culture

12 Talent attraction and retention

I AM TEAM BLUE

KBC Group is committed to meeting its responsibility to respect human rights, including labour rights, throughout the group and complies with the principles concerning fundamental rights in the eight International Labour Organisation (ILO) core conventions. Our Code of Conduct for Employees – supplemented by HR-related policies address human rights in the workplace. This practical guide sets out the guidelines on how we do things at KBC and guides our employees through the key behaviours we expect from them. We actively promote diversity and an inclusive culture as well as a healthy and safe working environment with the aim of eliminating discriminatory treatment and protecting our employees' rights to freedom of association and collective bargaining in accordance with local laws and practices, the right to privacy and the right to voice concerns about malicious activities without fear and prejudice.

KBC Group Code of Conduct for Employees

KBC Group Whistleblowing Policy

KBC Group Diversity and Inclusion Policy

Working the Next Level

The Covid-19 pandemic made our clients expect more innovations and new ways of working. This pushed KBC to accelerate the rethinking and reshaping of our entire business strategy, starting with human resources. The pandemic has changed the organisation of work, faster than any trend ever did. Our Corporate Human Resources department introduced the Working the Next Level project in Belgium, a framework that gives our people more flexibility to perform certain activities from home and at the same time pays attention to enabling staff to stay in touch with each other and with our clients. KBC has been a pioneer in teleworking and with Working the Next Level we are taking things one step further, seeking to strike a new balance between work and employees' private life. We support our managers and colleagues in leadership positions in this new context of a changed work organisation so that they can fulfil their role to optimum effect. In 'Leading the Next Level', we are offering them a practical guide on how to get started, on behavioural anchors, along with a self-scan and a team scan in order to grow and work more effectively with their teams. Together with our Group CEO Johan Thijs and an external expert, managers reflected on their role and challenges during the Covid-19 pandemic. Based on this open dialogue, a programme is being developed in which we invite managers and employees at every level to share their challenges and to find solutions together, supported by external experts.

The 'Working the Next Level' project will be rolled out as soon as the legal restrictions and precautionary measures relating to the Covid-19 pandemic are lifted.

Employee growth and development

Last year, we launched our own learning and talent platform as we want to give our employees the opportunity to shape their career within KBC. This platform, called StiPPLE – which stands for Skills to improve Performance Progression Learning and Employability – provides them with the right HR information to take their careers to a higher level.

Hot skills

As part of our strategy update in 2020 – 'Differently the next level' – we defined the KBC hot skills. This is a set of skills that every employee needs so as to help KBC remain the reference and to make our clients' dreams come true. The digital StiPPLE learning and talent platform delivers training for these hot skills and moreover provides our people with insights into job fits and career paths that match their capabilities. On top of that, the platform aims to be a digital coach where employees acquire insight in skill gaps and growth opportunities to boost the efficiency and effectivity of learning within the organisation. The learning paths are there to help all employees reach their full potential. The matching module gives them the opportunity to match their profile with jobs based on their skills and interests. The digital learning and talent platform is also used for performance and progression management and has been rolled out in Belgium, the foreign branches of the Business Unit Belgium and some of the entities in our other core countries.

Hot skills in figures in Belgium

- 82% of employees started with their skills profile
- 59% of employees raised the bar setting a skill growth aspiration
- 89% of employees took action in the new performance and progression tool

As sustainability is becoming increasingly important for KBC and its clients, we introduced in the summer of 2021 the first training on the hot skill 'Sustainability'. The training shows how sustainability is part of the KBC strategy and why we consider the transition towards a greener economy to be essential. We also zoom in on climate change and aim to create the strong awareness that sustainability is part of everyone's job at KBC. The Group CEO and the CEO of the Business Unit Belgium shared their views on the importance of sustainability in everyone's job through video messages embedded in the training module. The training has already reached 13 000 employees group-wide and participation levels are expected to continue to increase. The training was well received by the participants.

Continuous progression

KBC rethought and redesigned its talent process and shifted from the annual performance review process to continuous performance management. KBC's Performance and Progression Management supports our employees – along with their manager and team members – in their performance and development. Dynamic goals, regular progression dialogues, continuous feedback and coaching ensure that our employees, teams and KBC make progress with the right focus and respond better to the changes around us.

When rolling out this new workflow, we opted for an approach that can be translated and adapted to suit the different businesses in our core countries rather than a 'one size fits all' format. In Belgium for example, our continuous performance management programme has been extended to include a progression overview which is a wrap-up of the most important progress in terms of goals, achievements and feedback.

Leadership programmes

We realise that good managers are essential to empower and motivate employees and to successfully implement our strategy. We expect them to be open-minded, so that they can quickly respond to changes inside and outside the company. Our managers should act as role models and set the right example. To ensure they develop the right skills, senior managers from across our group take part in the KBC University, an ambitious development programme, which in 2021 was made to include a module on climate, climate change and its impact on KBC as a financial institution, including a Climate Business Game. KBC is also focused on building a pipeline of managers – our top talent management – with particular attention going out to gender diversity. This pipeline is integrated into our policy for top talent management. For each vacancy at senior management level, we consider equally qualified profiles of both genders.

OUR PEOPLE

Climate Business Game

KBC developed a climate business game in order to internally reinforce the understanding of some of the challenges the financial sector could face in a society that becomes more and more susceptible to the effects of climate change or the transition towards a greener and more sustainable world. The game largely revolves around the interplay between climate-related risks, opportunities and financial impact. Also, it confronts players with the need to include forward-looking climate considerations in their financial assessment, as a reminder that both the effects of climate change are felt beyond typical financing tenors and that transition requires timely and orderly action.

At the start of the game, participants are assigned to different groups, with each group representing the management committee of a bank-insurer. The groups are tasked with managing finance portfolios in both banking and insurance, in both retail and small and medium-sized enterprises (SMEs) or corporate segments over a 10-year time span. The game objective is to reach certain climate-relevant targets while being the most profitable institution overall. Through gamification, participants are forced to give very practical thought to how climate-related transition and physical elements may impact their financial portfolios. The groups are asked to decide on specific financial cases and are urged to carefully consider the longer-term effects on their financial portfolios in a climate-related management context. The decisions of the groups drive the financial resilience of their institution during transition and influence the robustness of their portfolios when climate-related extremes emerge. We believe that the practical virtual but mimicking real-life approach of this game offers participants a unique view on climate and climate risks, which gives them direct insights that cannot be achieved with theoretical lectures or policy presentations.

Coaching programmes

KBC gives its employees the opportunity to contribute to society while simultaneously developing their coaching skills. KBC Belgium is a partner of Youth at Risk (YAR) Flanders, an organisation that supports young people between 15 and 21 years of age who are at risk from a complex range of issues. As a partner, KBC Belgium provides information sessions during working hours to employees who are interested in getting involved and the YAR Coaching programme has been incorporated in our training offering. After four years of cooperation, 528 colleagues have shown an interest in YAR. 432 employees, executives and managers took part in one of the 34 YAR info sessions organised in-house, at various KBC locations across Flanders and Brussels.

"I learned to look at young people in a different way, to see them as vessels full of possibilities rather than limitations" – testimonial from an employee-volunteer

"YAR has been a major turning point in my life. It taught me so many wise lessons that I was able to find a job." – testimonial from a young participant, several years after his involvement in the YAR Coaching programme

KBC4BRS is also a good example of an employee involvement and coaching programme. KBC employees with a warm heart for BRS are given the opportunity to make their professional expertise available to projects in the South, partly during working hours The partnership with BRS is not just a matter of money but also – and above all – one of coaching and advice. For more information on BRS, please refer to the 'Impact investing and financial inclusion' part of this report.

Listening to our employees

Employee engagement surveys

We closely monitor our employees' opinions and consult them on a regular basis. In 2021, we conducted two employee engagement surveys over the course of the year, focusing on topics that are top of mind:

- How do you experience the ongoing digital transformation?
- How do you see sustainability as part of the KBC strategy?
- How do you experience the current way of working in light of the Covid-19 pandemic?
- How do you experience the impact of the digital transformation on your own job?
- How do you experience the learning culture? Are you able to put learning into practice?
- How engaged do you feel at KBC?

In Belgium, the response rate was 69% in March and 64% in September. Some 68% of employees feel engaged. This is a good figure, despite the 4% drop compared to the previous survey, considering the context of the Covid-19 crisis. Engagement is based on pride, the motivation to do one's job well and the commitment to KBC. Employees are also very proud of KBC's innovative digital strategy. For the Czech Republic, the survey carried out in the first part of the year showed that around 75% of our employees are proud of ČSOB, 70% are motivated in their job and 74% see themselves still working for ČSOB in three years' time. For the other countries, the engagement percentage varies between 55% and 71%.

The survey was embedded in a broader study depending on local needs. For Belgium, this took the form of a 'Shape Your Future' survey. In addition to engagement, we measured the impact of the strategy update. 68% of employees reported that they clearly see how their job helps to put KBC's strategy into practice, a percentage that remains roughly stable. Just over half of the employees stated that they are given sufficient autonomy at work to perform well.

The surveys also led to a number of actions, such as initiatives to support managers in their coaching role. The managers themselves have access to their results and take specific action where required.

The results are available in the 'Sustainability facts and figures' section of this report.

Employee exit survey

Each year, colleagues leave the company as they take retirement, resign of their own accord or are made redundant by the employer. KBC believes it is important to know the reasons for employee resignations and interviewed voluntary leavers at KBC in Belgium by way of an anonymous exit survey. The response rate was 47%. The results of the interviews provided valuable feedback for our managers. The five most common reasons for employees leaving the company voluntarily in 2021 were:

- I had no prospects of personal development opportunities.
- My job did not meet my personal expectations.
- I did not get enough recognition from my manager.
- I lost my faith in KBC's vision and strategy.
- My remuneration package was insufficient.

The analysis shows that offering the prospect of growth and the job content are important factors in retaining employees.

Safe and healthy working environment

Covid-19

Covid-19 is having a major impact on our people in our KBC's core countries. Since the outbreak of the pandemic, our focus has been on keeping our colleagues safe, healthy and informed about the local (government) advice and prevention measures. We set up a special Group Crisis Committee that closely monitors the situation. The committee frequently reports to the Executive Committee (weekly during peak times). In observance of the strictest health and safety standards, measures were introduced, such as steps to create safe working environments (minimum safety distance, hand sanitisers, etc.) at our head offices and branches and more than 50% of staff switched in 2021 to working (partially) from home when the pandemic reached one peak after another.

The Covid-19 pandemic impacted colleagues in different ways. Since the start of the pandemic, we put in place a set of principles that help our employees to manage their work-life balance to suit their personal situation. We enabled our people to smoothly transit to (full-time) teleworking and continued to invest in digital and collaboration tools. We also helped employees cope with some of the personal challenges they faced during the pandemic, including flexible working hours and advice made available to support physical and mental health. The Working Apart Together campaign, which brought KBC colleagues a little closer together in the virtual realm during the second lockdown, included a bus taken around the country to encourage KBC staff to be creative in staying in touch with one another in times of remote working.

KBC rolled out an extensive well-being programme focused on employees' mental, physical and financial well-being. In the area of mental health, KBC provided a range of support tools including a 'Reset Resilience' programme – a series of webinars for employees and family members covering subjects such as parenting during lockdown, dealing with uncertainty and unknowns, and sleep management.

We actively supported the vaccination campaigns held in some of our core countries. Where possible, such as at the Shared Service Centre and UBB in Bulgaria, employees were invited to get vaccinated at the office. Our colleagues in Belgium were invited for a webinar hosted by vaccinologist Prof. Dr. Pierre Van Damme on the vaccination strategy in Belgium. Furthermore, regular updates on local (government) decisions were posted on our Intranets. A wealth of tips and tricks were offered and well-being initiatives were launched, covering anything from healthy diets to digital sports activities to keep mind and body healthy.

Healthy work-life balance

As an employer, we are fully aware of our role in securing a healthy work-life balance and are committed to raising awareness on this topic. Employees are enabled to spread working hours (flexible working hours, possibility of part-time working, etc.). Our managers watch out for signs of stress and anxiety symptoms for which they are able to rely on an action plan to detect and reduce stress and promote well-being. We follow up stress problems very closely through regular anonymous questionnaires from the medical department and raise awareness about health and safety issues including stress. In Belgium, the 'Well-Being' brochure provides an overview of the various health and personal safety facilities available to them at KBC and of the safety and emergency instructions people need to be familiar with.

Well-being survey in Belgium

As part of our sustainable HR policy and our commitment to employee well-being, KBC Belgium launched an anonymous well-being survey in 2021 in collaboration with our social partners. The response rate was 55%. The survey gave insight into the positive aspects of our employees' work as well as the bottlenecks in their professional working environment. It looked at satisfaction, engagement, participation and development opportunities. In addition, the survey also covered aspects such as stress and burn-out, violence and bullying. The anonymised overall results were collected and discussed with the Management Committee, Corporate HR and the Occupational Health & Safety Committee. Each participant received instant feedback.

Occupational health and safety management system

KBC has an independent medical prevention department and has set up Occupational Health and Safety Committees (OHSC) in our core countries. The OHSC is responsible for drawing up and monitoring the general health and safety and protection plans relating to aspects such as the general working conditions for employees and the impact on their physical well-being and the general amenities and facilities provided inside the buildings and working areas in terms of lighting, air liquidity, heating and ergonomics.

Since 2019, KBC in Belgium has been ISO45001-certified by Vinçotte, which means KBC Belgium has a formal health and safety management system in place. In the Czech Republic, regular health and safety training is provided and the Occupational Health and Safety programme is reviewed each year.

Social dialogue

KBC supports the freedom of association of its employees and the effective recognition of the right to collective bargaining. We are committed to maintaining a constructive social dialogue which is primarily organised on an individual country and company basis in accordance with local laws and practices in the countries in which we operate. In 2021, 82% of employees were covered by collective labour agreements. KBC fosters positive relations with employee representatives and ensures that direct and frequent communications are established within the workplace, whilst continuously seeking areas of dialogue, discussion and mutual understanding at every level of our organisation.

KBC has local works councils in several of the countries where we operate. KBC also has a cross-border European Works Council which brings together employee representatives from the various countries and senior management to deal with topics of cross-border relevance. 2021 was a challenging year and our works councils worked very closely with our management team to find solutions for issues impacting our employees such the Covid-19 pandemic and measures that were taken (working from home, etc.).

Following the 2020 social elections at KBC in Belgium, the elections for the Managerial Staff Consultation Committee took place in 2021. This committee is an extra employee representative body alongside the works council. The committee's elected representatives get to exchange ideas with management on strategic policy and operational issues. 44.5% of KBC's managerial staff in Belgium cast their vote.

Fair remuneration for our employees

- Our employees can rely on competitive and fair salary plus supplementary benefits. In recognition of our employee's unrelenting efforts in ensuring that our group remains the reference in bank-insurance in all our core countries, KBC offered all employees an exceptional Covid-related bonus in 2021.
- The non-recurrent results-tied benefit is a bonus that KBC pays to employees in Belgium, which is tied to the achievement of a series of targets. Some of the targets have been linked to sustainability since 2012. In 2021, the targets were linked in part to our direct footprint – reducing paper consumption – but also to employee development (training days, digitality and progress management) and to cybersecurity (phishing tests). The targets are decided upfront for a period of 2 years, thereby providing a form of long-term sustainability-linked incentive to the employees.

Diversity and inclusion

Recognitions in 2021

- Both KBC and CBC in Belgium have been officially recognised as Top Employers by the Top Employers Institute. KBC has already earned the title two years in a row.
- KBC is included in the Bloomberg Gender Equality Index and outperforms as an equal and inclusive workplace.
- KBC Shared Service Center Varna awarded in Career Show Employer Awards 2021.
- Global Finance 2021 Sustainable Finance Awards: Outstanding Leader in Resource Management in CEE for 2021 for ČSOB in the Czech Republic
- ČSOB in the Czech Republic is recognised by Business for Society in 3 categories: TOP Responsible Large Company, TOP Responsible Women-Friendly Company and TOP Responsible Company in reporting. John Hollows – CEO of the Czech Republic Business Unit – received the individual TOP Responsible Leader in Diversity prize.
- ČSOB was awarded by the Senate of the Czech Republic for its inclusion of disabled people.

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 stance on diversity and inclusion

At KBC, our corporate culture PEARL+ is at the heart of everything we do. One of the values associated with PEARL+ is respect, which is also the foundation of our approach to diversity and inclusion. The KBC Group Code of Conduct for Employees sets out the guidelines on how we do things at KBC and guides our staff through the key behaviours we expect from all group employees. They include fostering a safe working environment in which everyone feels they can be themselves and where discrimination, harassment – sexual or otherwise – and any other direct and indirect forms of intimidation are not tolerated.

In early 2021, the Executive Committee approved a policy and framework on diversity within KBC. Although our general principles defined in the framework apply to all types of diversity and to inclusion of every employee in general, we have defined gender as a domain which requires specific attention. To support gender diversity in the higher echelons of our organisation – where women at KBC currently remain underrepresented – we have set the goal to have one female candidate and one male candidate for each new senior management nomination.

Another element of the framework is the assignment for every country and head office department to develop an annual diversity action plan setting out improvement actions and short and long-term objectives in consideration of the local situation. Each country is requested to monitor the gender diversity of the top talent pool and to observe 50/50 gender parity in the hiring pipeline. The Executive Committee follows up on the progress of the objectives set by our core countries.

Bloomberg Gender-Equality Index

KBC participated in 2021 for the first time in the Bloomberg Gender-Equality Index and has immediately been included in the index in recognition of its continued commitment to fostering equality and inclusion, both within its own organisation and across communities it works with globally. The Index features companies that make a difference in the way they support Gender Equality, by placing transparency and equality at the forefront of their workplace policies and commitments. By publicly releasing our gender-related data, we have strengthened our commitment to gender equality internally and in the communities around us. Transparency in reporting is a founding principle and this index is a testament to the progress we have made so far but also to the work that remains to be done on our journey toward achieving gender parity.

Gender diversity in 2021 at group level

- 56% women in workforce
- 60% of newly hired employees are women
- 71% of total promotions are women

Women in leadership positions in Belgium

- 34% women in leadership positions
- 28% women in IT leadership positions

A study on equal pay

In the wake of the studies we conducted in 2018 and 2019, KBC Belgium performed a third study to examine the role of gender, in comparison to other factors, in compensation-related decisions. Various aspects including exceptional variable remuneration, discretionary pay increases and promotions were analysed. The study found that there was:

- no gender bias in awarding promotions;
- a minor gender bias in favour of women when it comes to the allocation of discretionary pay increases (no significant difference with the previous years);
- a significant difference in favour of women in the allocation of exceptional variable remuneration when other factors (function, work rate, environment, etc.) are the same;
- a small gender bias in favour of men when it comes to the amount of discretionary pay increases;
- a gender bias in favour of men when it comes to the amount of exceptional variable remuneration (albeit less so than in 2018 and 2019).

Unconscious bias

Unconscious bias hampers good collaboration and innovation. Being aware of this bias helps people take a different approach to arriving at decisions in this respect. KBC provides an e-learning package entitled 'Unconscious bias: How to become #Allinclusive' as part of its comprehensive diversity and inclusion approach. Through video scenarios, we stimulate discussion on the topic. Employees reflect on their behaviour and learn how to counteract bias. Senior managers and colleagues in leadership positions are expected to take this mandatory e-learning training module on unconscious bias by early 2022 but many already did so in 2021.

Network organisations on diversity

We believe that having a diversity network creates internal awareness and engagement for the topic in a bottom-up way. KBC stimulates its core countries to have network organisations on diversity and inclusion. These network organisations are sponsored by a local Board member and work out annual plans. Once a year, they connect in a virtual event on diversity and inclusion.

In the Czech Republic, a diversity leader coordinates all types of diversity and sets up strategies. An informal group of 10 top female managers are the sounding board for gender diversity topics. The group gets support from top male managers – who are called Diversity Friends. They acknowledge the value of diversity and actively contribute to its promotion. The LGBTQ+ Internal employee and business resource group at ČSOB – called 'PROUD' – not only supports women and is a good example of inclusive communities are not limited to gender.

The network organisation in Slovakia that fosters an inclusive workplace is called 'Let's get Inspired'. In this community, female employees and managers are able to closely interact, share experiences, support networking activities, etc.

In Belgium, the 'Diversity Rocks' community promotes diversity and inclusion at every level of the company. It aims to help women achieve their ambitions.

KBC celebrated International Women's Day

Our colleagues In Ireland kicked off their International Women's Day activities with a panel discussion on 'Accelerating Innovation: What Does It take?' with some of Ireland's leading women in innovation. In Belgium, KBC was represented at the Euronext's Women In Finance Event, where topics such as the importance of a mentor and the work-life balance were discussed.

5 GENDER EQUALITY

Gender Diversity in Finance Charter

In 2019, KBC and other major financial players In Belgium signed up to the Gender Diversity in Finance Charter – as part of Women In Finance, a Febelfin project chaired by our Chief Risk Officer Christine Van Rijsseghem. By endorsing this charter, KBC committed to pursuing a series of diversity goals and to publicly communicate on the progress made. The main achievements of Women in Finance are detailed in their Annual Report. Following up on the individual reports we receive, KBC investigates and puts in place the relevant actions to achieve gender balance in all layers of the organisation and to nurture an inclusive culture to sustain this balance. Our colleagues in Ireland are members of Women in Finance. They work with Financial Services Ireland and the Banking & Payments Federation of Ireland on the development of a local Women in Finance Charter.

Parental leave and family care

KBC maintains a culture of inclusion which also involves supporting our employees returning from long absences and maternity or paternity leave. In some of our core countries the provision of formal childcare is poor and the level of maternal employment is low. Especially in these countries we provide our employees with day care nursery facilities. ČSOB Lease in Slovakia provides a special place for mothers, fathers and children on each floor of its main office building. The day care nursery at our headquarters in the Czech Republic has been successfully up and running since 2017. In 2019, a new day care centre was opened in Hradec Králové. In the Czech Republic – where employees can apply for parental leave with a duration of up to 3 years, that is to say when the child reaches age 3 – we provide a dedicated programme for parents that allows for plenty of flexibility for those on part-time jobs and we directly advertise part-time job opportunities.

- Approximately 80% of our employees have access to on-site lactation rooms
- 80% of employees are entitled to options for workplace flexibility
- 99% of employees are able to control and/or vary the start or end times of the workday or workweek
- 99% of employees are able to control and/or vary the location where they work

In 2019, a voluntary childcare allowance was introduced at ČSOB in the Czech Republic, which covers up to 50% of the childcare costs up to when the child reaches age 4. The allowance is to be gradually expanded to take in our subsidiaries across the Czech Republic. In Hungary, the parental leave policy goes beyond legal requirements and paid leave is topped up by an extra 3 days.

18% of our female Czech colleagues decided to continue to work instead of taking their full three-year parental leave. In 2021, we managed to get three times more parents to return to work at ČSOB compared to the market average figure in the Czech Republic. K&H introduced the K&H Welcome Back programme to recruit women returning back to work after maternity leave. In 2021, 86% women returned from maternity leave of which 31% were in a part-time job.

Age diversity

At KBC, we are focused on supporting our people at all stages of their working life. By building a flexible work culture, our employees are able to perform at their best and combine their professional and personal lives. We understand that our employees have priorities which evolve over time, along with the need for a change in the nature of the duties they perform over the course of their career where some prefer a less demanding job towards the end of their career. To facilitate this group of employees, in 2013 we launched a new perspective on employment with the Minerva end-of-career programme in Belgium. Permanent employees who are at least 55 years of age and who have been working for the company for at least ten years are given the opportunity to work outside KBC while retaining their existing terms of employment. This programme enables them to put their years of experience at KBC to good use in a fresh environment, whilst gaining new experiences and developing a new network. Since the launch of the project, 108 colleagues took their career in a new direction, of which 37 employees have since retired and 67 are still working at 50 different social and non-profit organisations.

In 2017, ČSOB rolled out the 55+ employee programme for its Czech employees. The key activities of the programme revolve around learning and development and strengthening the knowledge and skills of our employees aged 55 or above in modern technologies. Since 2021, all employees aged 55 or above have the opportunity to spend 4 days of paid leave per year as a reward for volunteering activities in which they apply their knowledge in social settings. ČSOB aims to prepare its employees for retirement while maintaining a purposeful life after work.

KBC also enables young colleagues and new graduates to develop their talents. With the number of vacancies expected to rise, KBC Belgium aims to strengthen its position in the competition for talent by connecting with the talent at high schools and universities. We organise training sessions to further their skills, provide guest speakers to offer input from the shop floor, organise company visits, etc. We also seek out innovative recruitment methods and channels. For instance, KBC Belgium was the first company with a recruitment campaign on the TikTok platform.

Our responsibility

RESPONSIBLE BUSINESS

Responsible behaviour

KBC aims to play a significant and positive role in society. We understand that winning and retaining the trust of all our stakeholders is fundamental to our 'social licence to operate'. Acting and behaving in a responsible way, each and every day, on every level of the organisation is extremely important to gain and retain the trust of society. Trust is based on competence, open communication and individual integrity. The latter, combined with sound risk awareness, is the foundation stone of responsible behaviour.

Relevant SDG goals (high-impact areas):

Our focus on responsible behaviour as the foundation for sustainability at KBC is linked to SDG 8 (decent work and economic growth) in particular and, more generally, to the minimum expectation held out of all companies committed to achieving the SDGs: recognition of their responsibility to comply with all relevant legislation, to uphold internationally recognised minimum standards and to respect universal rights

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

13 Ethical business conduct and responsible behaviour

9 Fair, understandable and transparent information to clients

10 Information security and data protection

KBC views responsible behaviour as crucial to an effective and credible sustainability strategy. The mindset of everyone at KBC – in every job, at each level and in all countries – should go beyond regulation and compliance: compliance in everything we do with all relevant rules and regulations and with corporate policies and guidelines to ensure that all our employees view doing business ethically as the absolute minimum requirement.

Our KBC values challenge us day in, day out to behave critically and responsibly:

- respectful to our clients, colleagues, society and KBC itself
- responsive
- result-driven

Accountability

Senior management is accountable for creating the right environment and nurturing the right behaviour in the organisation, thereby actively shaping collective attitudes within KBC. Each employee is accountable for showing a keen awareness of KBC's expectations for responsible behaviour, and for acting accordingly. For this purpose, we have set up a solid set of risk frameworks, standards, policies, processes, structures and ensure proper oversight.

My Responsible Behaviour Compass

Responsible behaviour is hard to define in concrete terms and so we have specifically decided not to draw up precise guidelines for this, but to set out the underlying principles instead. These are presented to our employees in 'My Responsible Behaviour Compass'. The guide is not an all-embracing document listing every situation with which employees might be faced in their day-to-day work, as there needs to be room for common sense and a professional, multidimensional awareness. It does, however, set out the principles to be respected, which need to be translated into every decision and action we take. 'My Responsible Behaviour Compass' has been made available to all KBC staff, in local languages.

Dilemma training

Our dilemmas (or 'difficult decisions') take on many forms. We also recognise that the requirements of society are constantly changing and that behaviour that seemed perfectly fine a few years ago might now be perceived as totally unacceptable. It is the core responsibility of senior management to define the framework that allows employees to make the right choices. We have therefore included dilemma training in our senior management development programme, KBC University. Based on this training, managers are expected to share and discuss difficult decisions with their staff. When jointly examining such decisions, they notice that often there is no 'right' or 'wrong' answer and that the challenge is to test one's own decisions against the views of one's colleagues. As a complement to 'My Responsible Behaviour Compass', a small guide providing an operational framework for discussing responsible behaviour at various team meetings has been made available to all managers. And building further on an initiative by KBC Ireland, KBC Belgium developed the 'KBC

Responsible behaviour

Decision Wheel' (see Figure 5.1), aimed at helping staff when faced with difficult decisions.

Awareness training

In November 2020, an online training module was launched at group level to increase awareness of the importance of responsible behaviour among staff. It consists of a video with the KBC Group CEO and senior managers highlighting the importance of behaving responsibly under all circumstances, followed by a tutorial which itself is illustrated by three concrete dilemma cases. By June 2021, the vast majority of all KBC employees had completed this training, except in Ireland, where similar initiatives had already been taking place, and in Bulgaria, which joined the programme only in November 2021. In mid-December 2021, about two thirds of employees in Bulgaria had already completed the training module. This online training has also become part of the onboarding programme of new employees.

Initiatives to raise awareness of responsible behaviour were also put in place at country level, such as an e-learning module focusing specifically on dilemmas which the retail sales force in Belgium may face, an intranet page where best practices on responsible behaviour may be shared in the Czech Republic, mystery shopping in Hungary and responsible behaviour embedded in the employees' performance review process in Ireland.

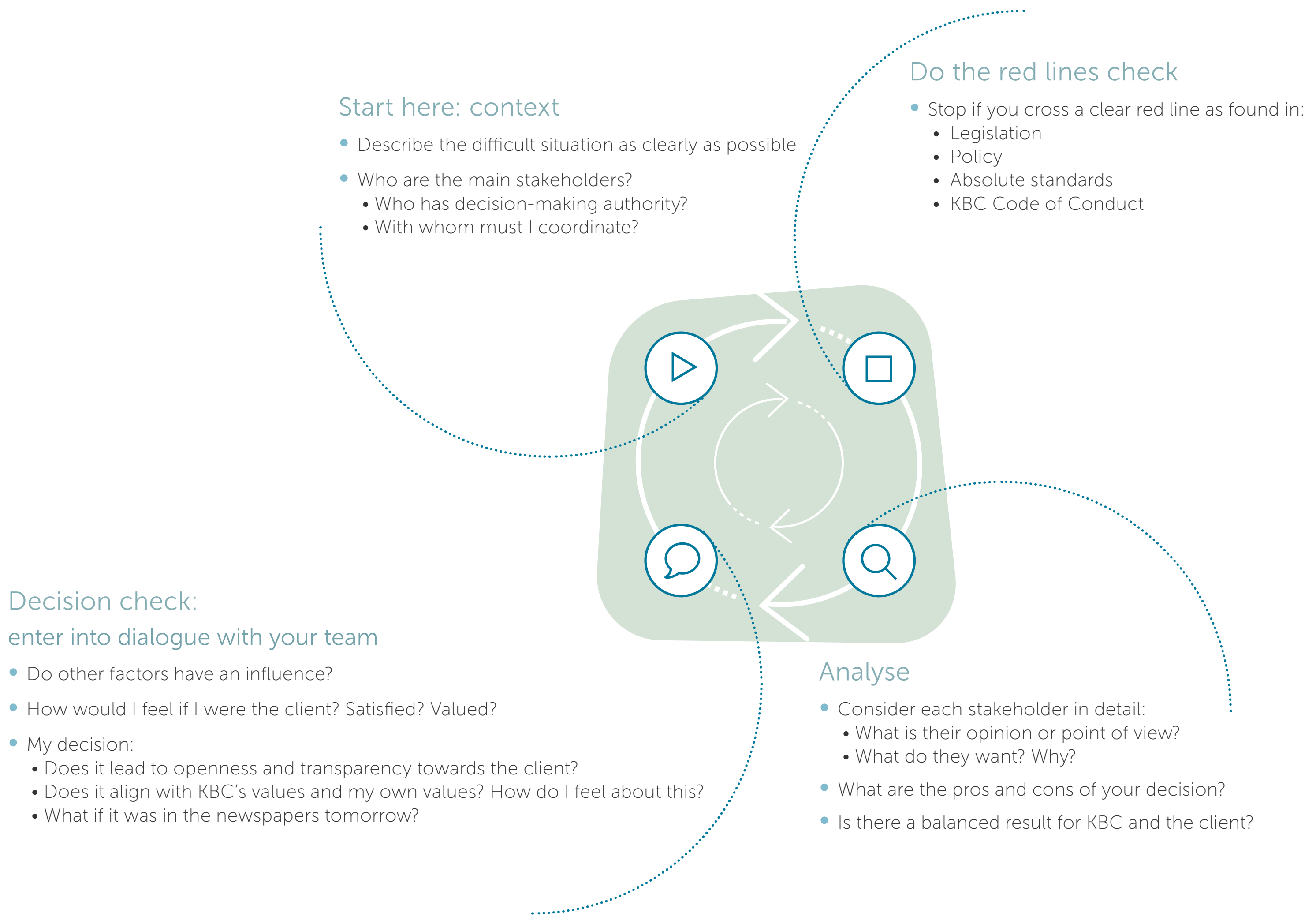


Figure 5.1: KBC Decision Wheel

Business ethics

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

We offer our banking and insurance services based on sound company values. In everything we do we comply with all relevant rules and regulations and with corporate policies and guidelines to ensure ethical business. Not only do we observe the relevant laws and regulations, we also impose stringent rules on ourselves in terms of ethical behavior, openness and transparency, discretion and privacy. KBC's Corporate Compliance Division ensures that guidelines are observed, information remains confidential and privacy is respected. All policies are reviewed on a regular basis and updated as and when necessary to ensure we meet the changing environment, requirements and regulations at all times. We communicate transparently on our policy guidelines and codes of conduct, which are published on our corporate website.

In 2021, the KBC Group Anti-Corruption and Bribery Policy as well as the Policy for the Protection of Whistleblowers in KBC Group were updated. More information on our Integrity Policy and its application is provided in the 'Corporate governance statement' section of the Annual Report 2021.

We invest continuously to raise our employees' awareness of issues relating to integrity and compliance. We achieve this through a combination of classroom and individual web-based training programmes, the publication of specific newsletters and journals, and web-based and e-learning courses designed to reach specific target groups in a flexible way. For more details, please refer to the 'Corporate governance statement' section in our 2021 Annual Report and the 'Sustainability facts and figures' section of this report.

Whistleblowing and speaking up

KBC fosters a speak-up culture and invests in group-wide awareness campaigns to further strengthen this culture. For the time being, we make a distinction between genuine whistleblowing cases and speak-up cases.

Whistleblower reports are always taken seriously and are investigated in each entity by an independent investigation team. These reports are always discussed with the local compliance department and reported to the local management. Important cases are also reported to group management. In 2021, there were 9 such cases.

With the last review of the KBC Code of Conduct in 2020, we also called upon employees to 'speak-up' and report products or processes that appear to be unethical or that contradict our corporate values. And we treat and report these cases in a similar manner to whistleblower cases.

In 2022, we will introduce a new tool that will facilitate and optimise the group-wide reporting of cases involving potential irresponsible behaviour.

Responsible artificial intelligence (AI)

Following a successful pilot project in early 2020, KBC has been using a 'Trusted artificial intelligence' framework for all new AI models created in Belgium since July 2021. This framework is a toolbox that reduces the risks that our AI models infringe on the rights of our clients or other stakeholders. It is, therefore, also a response to society's call for protection, safety, transparency, fairness and ethics with respect to the use of AI.

The framework triggers a risk assessment for the AI models that we develop, with the aim of avoiding unfair treatment, discrimination, bias, security issues and/or poor quality that could harm our clients. Furthermore, with its additional focus on transparency, data protection and privacy, it helps us to provide high quality standards for the AI models we develop.

Anti-money laundering practices

KBC does not want to be involved in any activity that could be considered as money laundering or the funding of terrorism.

The purpose of our Anti-Money Laundering policy is to establish a general framework for the fight against money laundering and terrorism financing throughout the group. To keep our employees aware of our Anti-Money Laundering duties, we have developed various training courses for all employees and raised awareness among employees to report anything suspicious to the Compliance function. An integrated group-wide AI platform based on models and machine learning was developed and rolled out in Belgium and the Central European countries where we operate. More details on how we take Anti-Money Laundering to the next level can be found in our 2021 Annual Report.

Responsible taxpayer

The need to act and behave responsibly in all circumstances is also the cornerstone of our tax policy. KBC is a responsible taxpayer that professionally executes compliance with tax laws, conducts legitimate tax planning based on valid business purposes and rigidly manages tax risks. A consequence of this is that our employees are on no account allowed to provide advice to clients that might prompt them to violate tax laws or regulations, nor are they permitted to assist in any tax avoidance mechanisms. In 2021, we reviewed and updated our KBC Tax strategy and extended our public tax reporting by including a new country-by-country report in the 'Financial Statements' section in our 2021 Annual Report.

Human rights

Our work in the area of human rights is shaped by the UN Guiding Principles on Business and Human Rights and the OECD guidelines for Multinational Enterprises. It is formalised in the KBC Group Human Rights Policy. The policy was reviewed and updated in 2021. We expanded the scope of the policy to KBC Group's Mergers and Acquisitions and to Advisory Services in line with our other policies and added privacy and data protection as a salient human rights topic.

As a financial institution we recognise that we have human rights obligations and responsibilities and the duty to refrain from (direct and indirect) human rights abuses. We have an important role in promoting and respecting human rights by preventing the social and environmental harm that may be caused by our direct activities (lending, insurance, advisory services and asset management) and have set up specific policies and human rights due diligence processes. Read more on KBC's approach to human rights in the 'Focus on human rights' sector of our 2021 Annual Report, and in various sections of this report (see the 'Sustainability policies' part of this section and the 'Our people' and 'Sustainable finance' sections of this report).

UN Global Compact
Since 2006, KBC Group has been committed to the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labour, the environment and anti-corruption

WE SUPPORT UN GLOBAL COMPACT

Group UN Global Compact Communication on Progress

Information security and cyber risk

At KBC we recognise that robust ICT (information and communication technology) systems are extremely important in a digital world and we proactively respond to an evolving landscape of cyber threats. Like many other financial institutions, we have introduced new technologies and increasingly connect with our clients using digital means. This creates greater exposure to cyber attacks at a time when the attackers are also better organised and experienced than they used to be. KBC is determined to stay ahead in this race, combining the strength of a multitude of proactive security controls with a detection and response capability that is robust enough to stop all attacks long before they have the potential to cause any harm. Please refer to the Information Security Strategy of KBC Group.

Protecting our clients' data and our ICT systems remains extremely important to the financial sector and to the group. Breaches in this protection may lead to legal, reputational and financial harm and ultimately to the loss of trust among our clients. This is something we absolutely wish to avoid as retaining the trust of all our stakeholders is fundamental to our social licence to operate.

In 2021, we once again defined information security, including cybercrime-related fraud, as a top risk within the group. And there are no indications cyber threats will decrease in the years to come.

Throughout 2021, KBC suffered no major cyber incidents. This is mainly due to mature internal controls, strong detection capabilities and a swift incident response. KBC Group has a comprehensive insurance programme in place to mitigate the possible financial impact of a cyber event in the event it were to occur.

Information risk management (IRM)

Our group's risk committees support the executive committees of KBC Group NV, KBC Bank NV and KBC Insurance NV in monitoring and strengthening the quality and effectiveness of our internal control system (Group Internal Control Committee, GICC). The Global IT (information technology) Committee and local risk committees oversee information risk management. The Group IRM Department reports directly to the Executive Committee, the Board of Directors and the Risk and Compliance Committee twice a year on information security and cyber risks.

Every country has its own operational security teams which protect our companies on a daily basis. Our central Competence Centre for IRM supports our local entities in their efforts against threats to data and information. The centre also includes an internationally recognised Cyber Expertise & Response Team (CERT). In addition, we have a risk committee structure at local level, consisting of one or more committees with clear roles and responsibilities.

We have a formal information risk management process in place and document the principles that govern sound risk management in the KBC Risk Management Framework. For more information, see the 'How do we manage our risks' section of our 2021 Annual Report. Our information security standards are based on industry standards (e.g., ISO27001) and address applicable regulations and directives such as European Banking Authority guidelines.

Control monitoring and review

Within KBC Group, the effectiveness of our Information Security controls is challenged through continuous monitoring and by means of hard testing (ethical hacking, deep dives, vulnerability scans, etc.). Control deficiencies that are detected as part of these challenges are translated into concrete actions to mitigate the risks they entail. In addition, internal and external auditors regularly review control implementation and provide independent assessments.

Culture and awareness

We have taken various initiatives to ensure due awareness of cybersecurity at all levels of the organisation in all core countries, from top management to employees and our clients.

Information security and cyber risk

Employees

We constantly aim to increase awareness among all our employees of cyber and IT security and the risks involved in these areas.

We perform group-wide phishing simulation tests twice a year to keep employees up to date with the most commonly seen attacks. In addition, additional phishing tests are carried out at local level. If an employee clicks a link in such a test, they are required to take additional awareness training, while those who recognise the phishing attempt may receive a reward. In Belgium, the result of phishing tests are a target in the reward system for employees. Management teams receive a summary of the phishing test results for their members of staff on a regular basis, enabling them to discuss the results both with the team and with the relevant employees where necessary. This type of checks raises ever greater awareness of the topic.

Each year, our companies jointly organise the international 'Cybersecurity Month' campaign to strengthen cyber awareness amongst employees. Participation in these extensive and interactive campaigns is high.

We organise training and workshops for specific target groups, such as the '10 ways you or your company can be hacked' course for top management, secure coding for our software developers and multiple generic security training courses for all IT personnel.

Clients

To increase public and client awareness of the 'financial digital environment', we provide information about the latest phishing scenarios by way of information sessions, through social media and a dedicated section of the main website. Examples of topics include phishing, smishing (SMS phishing) and vishing (voice phishing), protecting your computer, online threats and general tips on how to behave in this new digital world in a safe and cybersecure way.

Almost all the countries support national awareness campaigns through their own communication channels, such as websites, ATMs (automated teller machines), screens in the lobbies of bank branches and social media posts.

Privacy and data protection

Privacy and data protection are an integral part of our profession as a bank-insurer. Compliance with the General Data Protection Regulation (GDPR) and, more generally, respecting the privacy of our clients, our employees (both current and future) and other stakeholders is essential for KBC Group. It underpins our reputation, the trust our stakeholders have in us and ultimately our social licence to operate. Our aim, therefore, is to process personal data in a manner that is lawful, appropriate and transparent. Read more on our Data Governance in the 'Corporate governance statement' section of our 2021 Annual Report.

Managing and protecting data

Digitalisation in general and the increasing number of clients embracing the use of digital technologies in particular give us the opportunity to collect more and more data. It means we know our clients better, it enables us to advise them more effectively and to take our bank-insurance services and the experience we create for our clients to an even higher level. With the support of Artificial Intelligence (AI) and data analysis, we can be solution-driven and proactively make life easier for our clients. However, the availability and use of personal data also entails a far-reaching duty on KBC's part to use the data to which we have access in a smart yet responsible way. We therefore pay continuous attention to ensuring that we process data fully in line with GDPR and all privacy rules and that we set up processes to guarantee that we maintain this focus with every new service we launch. We want to adhere to the important data protection principles of purpose limitation (not using data for any purpose other than that for which they were collected), data minimisation (not collecting more data than is necessary for the purpose at hand) and transparency (being transparent about the data collected and used). The latter principle goes hand in hand with the carefully thought-out privacy policies we have established and that have been published by every entity in our group through the appropriate channels (e.g., websites and mobile applications) to ensure that all people whose personal data are being processed are well informed. The privacy policies for clients are published on the commercial websites of the different entities in our core countries. The privacy policies for our Belgian retail customers, for example, are available on www.kbc.be. We strive to use all feasible means to secure and protect data against unwanted or unauthorised access, loss or damage (integrity and confidentiality principle), we aim to not retain personal data once they are no longer needed for the purpose for which they were collected (storage limitation) and to keep personal data accurate and up-to-date (accuracy principle). We have put all data subject rights in place and guard against any infringement of fundamental human rights through our access to data.

Privacy and data protection are not only objective concepts, defined by law, they are highly subjective too. For this reason, we want to allow our clients themselves to choose what we can do with their data. In the process, we aim to communicate in a transparent way and offer our clients a clear privacy overview, in which they can adjust their choices at any time. We view smart data analysis allied with effective data protection as the ideal opportunity to enhance our clients' trust.

We are fully aware of our responsibility in this respect, and of the permanent vigilance needed to maintain the desired level of data protection.

SUSTAINABILITY POLICIES

Updated and new sustainability policies

Our sustainability framework with its clear guiding principles forms the sustainable backbone of our business activities.

We apply strict sustainability policies to our business activities with respect to human rights, environment, climate and biodiversity, business ethics and sensitive/controversial societal issues. We review and update these sustainability policies at least once every two years to make sure they continue to address the concerns and meet the expectations of society. KBC is assisted in this by a panel of outside independent experts who make up the External Sustainability Board, which advises Group Corporate Sustainability. The expertise of External Sustainability Board members is diverse and covers the various sustainability domains.

After the regular two-yearly update of our sustainability framework in 2020, our policies regarding fossil fuels – both thermal coal as well as oil and gas – were further strengthened in 2021. We also introduced a new condition regarding nuclear power plants.

KBC now requires all credit, insurance or advisory services counterparties with any kind of coal-fired energy generation capacity, regardless of whether or not they are energy companies, to submit a realistic and detailed plan, explaining how coal will be entirely phased out by 2030, and to commit not to engage in any new coal projects, either by increasing existing capacity or by acquiring new capacity. The remaining direct coal credit exposure has been reduced to zero by mid-2021. Furthermore, KBC now abstains from the financing of transactions related to the supply of components which are deemed essential to coal-based electricity and heating plants as well as to coal mines.

In addition to already existing restrictions regarding oil and gas, KBC now also abstains from financing, insuring or providing advisory services with regard to the exploration of any new oil and gas fields. As for vertically integrated oil and gas companies, all new general financing should mature in 2030 at the latest, unless the company has publicly committed to cease the exploitation of new oil or gas fields. We also require that, regarding new funding, all vertically integrated oil and gas companies sign a contractual clause confirming that the funding will not be used for the development of new oil and gas fields. These latest decisions on oil and gas come in response to the latest findings of the International Energy Agency, which show that a sufficient number of oil and gas resources has now been tapped.

And finally, KBC is now only prepared to participate in the delivery of financing, insurance or advisory services to new nuclear power plants if the project is part of an energy transition strategy and supported by the local government. This comes on top of stringent existing conditions, amongst other things in respect of the safety of the plant.

Figure 4.1 on the following page gives a detailed overview of the subsequent restrictions we have already implemented in our KBC Group Energy Policy since 2016. This shows how KBC puts into practice its commitment based upon progressive insights on much needed climate actions.

In parallel, KBC has also strengthened its Group Investment Policy. Companies who are in any way involved in the extraction of thermal coal and/or are power generation companies which have a coal-based electricity generation capacity of more than 25% are now excluded from all investment funds (both socially responsible investment (SRI) and conventional funds, albeit with the exception of index-linked and structured funds) as well as from KBC's proprietary investments. And most of the additional exclusions already applicable to KBC's SRI funds have been extended to the group's proprietary investments.

SUSTAINABILITY POLICIES

Figure 4.1: KBC Group energy policy updates since 2016

	2016	2018	2020	April 2021	Jul 2021	Nov 2021
Thermal coal	No more new direct financing of coal and coal related activities Phase out-period until 2050 in the Czech Republic seen the specific local situation	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	No more financing and insurance of new customers if they obtain any energy production capacity from coal Stricter rules in Czech Republic, no more financing and insurance of coal-fired heat distribution networks Stricter rules in Czech Republic, all exposure to be scaled back to zero by 2030	All remaining coal-related financing to be fully phased out by the end of 2021 – achieved by mid 2021 Requirement for mandatory transition plan for existing customers with thermal coal activities	Direct exposure of thermal coal reaches zero	
Oil and gas	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	No more financing for companies specialized in extraction				No financing of exploration of new oil and gas fields General financing of vertically integrated oil and gas limited to 2030
Nuclear				Only if part of national energy transition strategy		

SUSTAINABILITY POLICIES

Application of KBC's sustainability framework

Main excluded/restricted activities[1]

This table summarises the fundamental exclusions applicable to all our activities – both our core activities and our supporting activities – and where relevant for the particular business lines the additional exclusions and restrictions in place based on ESG (Environmental Social Governance) screening of our counterparties' activities. On top of this, additional exclusions and restrictions on controversial activities have been put in place, which specifically apply to certain business lines only. These include restrictive criteria for SRI funds and in the case of lending, insurance and advisory services for activities related to animal welfare and fur or prostitution for instance. With regard to project finance (lending activities), KBC observes the requirements set out in the Equator Principles. A full overview of our policies can be found on our corporate website. For an overview of KBC Asset Management's exclusion policies for SRI funds, please refer to KBC Belgium's commercial website.

			Core business activities					Supporting activities	
			Lending	Insurance	Advisory Services	SRI funds (first offer)	Conventionall funds	Investments (proprietary assets)	Suppliers
Fundamental exclusions	Applicable to all business activities	Human rights	In scope	In scope	In scope	In scope	In scope	In scope	In scope
		Controversial weapons (including nuclear and white phosphorus weapons)	In scope	In scope	In scope	In scope	In scope	In scope	In scope
		Controversial regimes	In scope	In scope	In scope	In scope	In scope	In scope	In scope
Additional exclusions and restricitions	Based on ESG screening of counterparties' activities	Biodiversity[1]	In scope	In scope	In scope	Partly in scope [2]	Not yet in scope	Partly in scope [2]	Not applicable [5]
		Soft commodity speculation (structured products)	In scope	Not applicable	Not applicable	In scope	In scope	In scope	Not applicable
		Arms-related activities with exception of controversial weapons	In scope	In scope	In scope	In scope	Not yet in scope	In scope	Not applicable
		Energy[3]	In scope	In scope	In scope	In scope	Partly in scope [4]	In scope	Not applicable [6]
		Gambling	In scope	In scope	In scope	In scope	Not yet in scope	In scope	Not applicable
		Tobacco	In scope	In scope	In scope	In scope	In scope	In scope	Not applicable

We actively promote SRI funds among our clients and propose such funds as our first offer preferred investment solutions. This has been translated into our ambition for SRI funds to account for at least 50% of new annual production from 2021 onwards. Please refer to the 'Socially responsible investments' part of this report.

- In scope
- Partly in scope
- Not applicable for this type of activity
- Not yet in scope

1 Restrictions on activities such as those involving forests, mining, protected areas, endangered or invasive species, palm oil, soy, sugar cane, cocoa and coffee
2 Restrictions on palm oil only
3 Restrictions on, for example, thermal coal, oil, gas and nuclear energy
4 Restrictions on thermal coal only
5 KBC's suppliers are required to comply with the principles outlined in our Sustainability Code of Conduct for Suppliers. All KBC's procurement and outsourcing activities are assessed against the environmental and social criteria incorporated in the code of conduct. We have embedded product-related environmental requirements in our internal process for screening suppliers, including the duty to notify KBC about new environmentally friendly products and the use of environmentally friendly packaging. We also engage with our suppliers and encourage them to set up circular procurement models.
6 Our dependence on natural resources is relatively limited compared to industrial companies, but we nevertheless manage our direct footprint with the aim of steadily reducing it in line with fixed targets. In 2021, 100% of our own green electricity consumption was sourced from renewable sources. Please refer to the 'Sustainable finance' section of this report.

[1] For an overview of the KBC policies and guidelines to ensure ethical business, please refer to the 'Responsible business' part of this section.

Due diligence, remedial action and mitigation

We have developed a specific due diligence process for lending, insurance activities and advisory services. This includes procedures to deal with any infringements observed. Our investment activities (asset management and own investments) are also subject to internal screening. SRI funds, moreover, have to meet additional checks. The criteria are monitored by the SRI Advisory Board, which is fully independent of KBC (please refer to the 'Socially responsible investment on behalf of our clients' part of this report).

We monitor compliance with our sustainability policies in a number of ways:

- Active internal screening of our lending, insurance and investment operations for the correct application of our sustainability policies;
- A general ESG assessment of the sustainability performance of the relevant companies by external parties, with the emphasis on sustainability strategy and companies' public sustainability policies and any recent controversies in which they have been involved.

In the event of doubt and for particular activities, the opinion is sought of Group Corporate Sustainability. A total of 251 requests for an opinion on ESG issues were submitted in 2021. Of these, 177 received a positive opinion, 36 received a positive opinion with strict conditions and 38 were given a negative opinion. For a detailed breakdown of the opinions provided, please refer to the 'Sustainability facts and figures' section of this report.

Examples of measures in the event infringements are found to exist:

- Further operational improvements in order to enforce zero tolerance across all our business activities for companies on the KBC Blacklist;
- Exclusion of companies that do not comply with the UN Global Compact Principles, as assessed by an external ESG evaluator, for loans, insurance, advisory services and proprietary assets;
- Enforcement, in consultation with the relevant parties, of an exit strategy or specific conditions on existing credit or insurance relationships and advisory services, and the rejection of new applications (entire relationship or specific business).

Sustainable finance

OUR APPROACH TO SUSTAINABLE FINANCE

Financial institutions play a crucial role in achieving the UN Sustainable Development Goals (SDGs), contributing to the economic, social and environmental objectives, thanks to their unique position in directing capital through their core activities. The fight against climate change is especially high on the agenda for many financial institutions. KBC is committed to contributing to a more sustainable society, both directly through our own operations and indirectly by helping our clients to be more sustainable. As a bank-insurer, we can achieve the highest impact through our financing, insurance and investment activities and advisory services. This section of the sustainability report details our approach to sustainable finance and also provides examples of our products and business solutions in support of the transition towards a more sustainable society. In this respect, we would emphatically point out that if we use terminology such as 'green' and 'sustainable' throughout this report, these terms in no way suggest that what we describe is already (fully) aligned with the EU taxonomy.

In essence, KBC's sustainable finance approach aims to meet the expectations of society's stakeholders in respect of the main environmental, social and governance (ESG) topics by adapting our portfolios and our policies accordingly. We do so in particular by using 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. Furthermore, through our sustainability policies, 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. The KBC sustainability policies (please refer to 'Sustainability policies') and our ESG-related risk approach (see 'Risk Management' part) define how we take sustainability risks into account in our business activities.

Sustainable finance products channel funds to finance customer transactions, supporting the transition of our clients in many sectors and domains. These products may focus on environmentally sustainable solutions such as renewable energy, energy efficiency, building renovation, green mobility solutions, waste management and water treatment, or on socially sustainable solutions, such as solutions that broaden access to social goods and services such as education, health and employment. Table 5.1 on the following page shows a breakdown of the various sustainable finance solutions we offered at year-end 2021. Mapping the different ways in which KBC's products and services contribute to sustainability is an ongoing process. It is therefore important to note that the table does not provide a full overview. We will fine-tune and complete this in the years ahead.

Relevant SDG goals (high-impact areas):

We contribute to climate action (SDG 13) and affordable and clean energy (SDG 7) by reducing our indirect environmental impact, by applying strict environmental policies to our loan, investment and insurance portfolios, by discouraging the financing of unsustainable energy solutions and by promoting renewable energy and energy efficiency initiatives. Through the KBC Sustainable Finance Programme, we are increasingly focusing on the climate impact of our credit, insurance and advisory businesses. As a signatory of the Collective Commitment to Climate Action (CCCA), we are gradually adjusting our portfolios to bring them in line with the Paris Agreement. Our focus on reducing our own environmental footprint also contributes to SDG 12 (responsible consumption and production) and SDG 13. We contribute to good health and wellbeing (SDG 3) through our specific focus on social-profit institutions and local governments. KBC's focus on socially responsible investments is linked to SDG 3, SDG 7 and SDG 12. Through our microfinance and microinsurance activities – in partnership with BRS – we provide rural entrepreneurs and farmers in the South access to financial services, facilitating sustainable local development and contributing to financial inclusion (SDG 8: decent work and economic growth).

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

1 Long-term resilience of our business model

3 Sustainable and responsible lending, insurance and advisory service offering

4 Sustainable and responsible asset management and investing

5 Partner in the transformation to a more sustainable future

2 Direct environmental footprint of our business activities

OUR APPROACH TO SUSTAINABLE FINANCE

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[1]	8 817[1]	–
Financing for low carbon vehicles (outstanding amount)	120[2]	–	–
Total	11 752	10 657	1 768
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)
Total	7 162	7 128	6 772
Socially responsible investment (SRI) on behalf of our clients			
SRI funds under distribution[3]	31 700	16 780	12 016

1 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).
2 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_2/km and in alignment with substantial contribution criteria of the EU taxonomy, including bicycles, motorbikes, passenger cars and light commercial vehicles).
3 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.

Several initiatives have been put in place to further develop sustainable finance products and business solutions for our clients in KBC's core countries. Some of these solutions have already been successfully marketed. Work is also continuing to gradually align these solutions with European legislation in this area, such as the EU Taxonomy, or with various frameworks that constitute market standards. In this respect, we once again would like to stress that if we use terminology such as 'green' and 'sustainable' throughout this report, these terms in no way suggest that what we describe is already (fully) aligned with the EU taxonomy.

Our sustainable business solutions in the four focus areas

As part of its sustainable finance approach, KBC strives to provide financial solutions and business opportunities that have a positive impact on society. In 2016, we defined four focus areas for our group: financial literacy, environmental responsibility, entrepreneurship, and longevity and health. We chose these four areas because we believe that, as a bank-insurer, we are able to create added value and meet the real needs of society. See the 'Sustainability strategy' part of this report for more information.

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

Stakeholder engagement

KBC believes that active collaboration with all its stakeholders is key to making a significant impact in addressing sustainability-related challenges. More information on our stakeholder engagement strategy can be found in the 'How we listen' part of this report. KBC Group has also signed up to various other sustainability-related commitments, such as the Principles for Responsible Banking (PRB), the Principles on Responsible Investments (PRI) and the Principles for Sustainable Insurance (PSI). More information on these initiatives can be found in the 'Sustainability facts and figures' section and in the 'Appendices' to this report. In all of our home countries we also cooperate within national banking and insurance associations on various ESG-related topics.

Regulatory agenda

The landscape in which we operate, and more specifically all aspects relating to sustainability themes, are increasingly determined by regulation. At European level, there are important legislative initiatives that are already influencing our own approach and that of our clients, and are likely to increasingly influence our and our clients' activities over the years ahead. The expansion of sustainability reporting through the Corporate Sustainability Reporting Directive (CSRD) will be decisive for both our larger corporate and financial institution clients. The disclosure requirements and accompanying measures arising from the Sustainable Finance Reporting Directive (SFRD) and MiFID (Markets in Financial Instruments Directive) will also gradually give

OUR APPROACH TO SUSTAINABLE FINANCE

more guidance on the transparency requirements for investment products.

Most of these legislative initiatives are underpinned by the EU Taxonomy, which defines the clear technical screening criteria that a selection of economic activities are required to meet in order to be labelled as 'sustainable' or 'green' in relation to six environmental objectives. To ensure that sustainability-related information at EU-level will be freely and publicly accessible, Europe is working on a European Single Access Point (ESAP). The various supervisors of financial institutions are also responding to this and are increasingly clarifying what they expect in this respect. The initial focus is on the climate, but other environmental, social and governance topics will also be on the agenda soon.

KBC welcomes these initiatives because they aim to provide all stakeholders with a standardised overview of the status of all relevant sustainability issues in the financial world. We therefore very closely follow up on developments around these initiatives – both the regulatory requirements and expectations arising from our voluntary commitments – whilst also preparing for said developments.

SOCIALLY RESPONSIBLE INVESTMENTS ON BEHALF OF OUR CLIENTS

An important part of our sustainable finance strategy is our focus on sustainable and socially responsible investments (SRI). KBC has been a pioneer in the field of socially responsible investment for nearly 30 years. We therefore believe we are very well positioned to successfully address the growing interest of our clients in this type of investments. We consider SRI to be another powerful tool to help us and our clients achieve a more sustainable society. We want to enable our clients to invest in sustainable and socially responsible companies and countries that recognise their social and environmental responsibility. This allows us to jointly contribute towards a more sustainable society and to help limit the adverse impact that businesses can have on society.

By the end of 2021, we had increased the volume that is invested in these SRI funds to 31.7 billion euros, already reaching our ambition of 30 billion euros invested in SRI funds by the end of 2025. This is amongst others thanks to the conversion of the two remaining conventional pension savings funds in Belgium into SRI funds.

We see SRI funds as our first offer and preferred investment solutions. We therefore actively promote them among our clients, especially in our digital sales channels, even though the final choice remains with the client. This has been translated into our ambition for SRI funds to account for at least 50% of annual fund production at group level from 2021 onwards. At year-end 2021, SRI funds reached 55% of annual fund production (gross sales).

Table 5.2: SRI funds[1, 2]

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%	✓

1 End-of-year data
2 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.

Regulatory framework

At the beginning of March 2021, the phase-in implementation of the EU Sustainable Finance Disclosure Regulation (SFDR) got under way, which will guide asset managers in ESG (environment, social and governance) disclosures going forward. The aim of this regulation is to duly inform investors of various sustainability aspects of their investments. Although the initial application date of 1 January 2022 has been delayed, KBC will continue to thoroughly analyse the impact of this regulation on its SRI funds and continue to integrate the relevant ESG data into its front office systems.

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 (Markets in Financial Instruments Directive) and currently works under the assumption that all SRI funds are either Article 8 or Article 9 funds under the SFDR.

1992 First SRI fund
2000 Thematic funds
2002 Best-in-Class
2014 Impact investing
2017 Total solution
2018 SRI pension fund
2019 Towards Sustainability label; All SRI funds fossil free
2021 All Belgian pension funds SRI

SOCIALLY RESPONSIBLE INVESTMENTS ON BEHALF OF OUR CLIENTS

We were already offering SRI funds in Belgium, Ireland, Hungary and Slovakia. In 2021, we successfully launched SRI funds in the Czech Republic too. In Bulgaria, we launched the first SRI fund in the first quarter of 2022.

Table 5.3: Breakdown of SRI offering in our core countries

	% of assets under distribution	% of new production (gross sales)
Belgium	42%	64%
Czech Republic	4%	8%
Hungary	7%	17%
Ireland	42%	96%
Slovakia	10%	24%

From November 2021, KBC has converted its two remaining pension savings funds in Belgium into SRI funds. With this decision, all Belgian KBC pension savings funds now invest in socially responsible assets. These pension savings funds, including the largest pension savings fund in Belgium, have more than 6 billion euros under management. With this decision, KBC is keen to further strengthen its positive impact on society and the environment.

Awareness

Our employees offer sustainable and socially responsible investment products alongside conventional products, thereby raising awareness among our clients and enabling them to make duly considered choices. Our branch staff receive regular training and information to raise their awareness and understanding of SRI funds.

To raise awareness, a media campaign dubbed 'Time for impact' was launched in Belgium, which focused on the EU Green Deal and its impact on clients and investors. The campaign, which ran during the first half of 2021, consisted of two podcasts and six articles that were published in Belgian newspaper *De Tijd*. Please visit our corporate website to read all the campaign articles (Dutch only). In addition, a campaign dubbed 'Make a difference' was conducted in the second half of the year around the central theme of 'social responsibility'. All campaign articles are available to be consulted on KBC Belgium's commercial website (Dutch only).

Exclusion criteria

Conventional funds

For conventional funds, KBC Asset Management applies the exclusion policies relating to the KBC Group Policy on Blacklisted Companies and the policies outlined in the KBC Group Investment Policy.

Since the beginning of 2021, KBC Asset Management has excluded utility companies that use thermal coal to generate electricity and all companies that extract thermal coal from all its actively managed funds. This policy change reflects our intent to take action to limit global warming also with respect to our conventional funds. The focus on thermal coal is backed by the fact that fossil fuels, and burning thermal coal in particular, has the worst CO_2 emission intensity ranges whereas alternative power technologies are available.

More information on our policies can be found in the 'Sustainability policies' part of this report and on KBC Belgium's commercial website.

SRI funds

For SRI funds, we go one step further by applying additional exclusion policies, such as for gambling, conventional weapons, fur and specialty leather, adult entertainment, palm oil and fossil fuels. In addition, we apply a norm-based policy that excludes companies involved in severe or high controversies relating to environmental, social or governance issues. More information on these policies can be found on KBC Belgium's commercial website.

Positive criteria

In addition to the exclusion criteria set out above, we mean to have a positive impact through our SRI funds by investing in companies and countries that score well on sustainability. This is why each of KBC's SRI methodologies consistently combines a negative screening (exclusions and norm-based screening) with a positive screening.

There are three types of SRI funds, each with their own approach.

- Best-in-Class funds invest in companies or countries that excel at sustainability compared to their peers and offer the best performance in terms of corporate governance, the environment and social issues.
- Thematic funds invest in companies that contribute to solving a specific societal problem such as climate change, the threat of water shortage and the quest for alternative energy sources.
- Impact Investing funds invest in companies whose products and/or services have a direct positive impact on society or the environment.

Independence

KBC Asset Management works closely with an external panel of independent experts called the SRI Advisory Board, which advises us on the sustainability policy and screening results. We meet with the SRI Advisory Board at least once every quarter, challenging one another and taking on board the various expert opinions expressed. In doing so, KBC Asset Management ensures we comply with the highest possible standards for SRI funds.

In order to keep meeting the rising expectations of our clients, it is important that KBC Asset Management proactively ensures that its SRI methodologies remain state-of-the-art and up to standard. In close cooperation with the SRI Advisory Board we have therefore updated the threshold used in the Best-in-Class methodology for countries. To be included in the best-scoring developed markets, a country is now required to rank among the 70% best-scoring countries, whereas we use a new 35% threshold for emerging markets. The criteria for assessing countries on their social responsibility in the Best-in-Class methodology remain unchanged.

Since its inception, KBC Group has been a signatory of the 'Towards Sustainability' quality label, which was developed at the initiative of Febelfin, the sector association for the Belgian financial services industry. As part of this commitment, KBC Group is determined to have its sustainable and socially responsible funds independently screened by the Central Labelling Agency. All of KBC's SRI funds comply with the criteria imposed by the quality label.

Proxy voting and engagement

KBC Asset Management relies on publicly available data and ESG assessments provided by external parties on the ESG and climate performance of investees as well as on active engagement with these parties. We actively engage with companies ourselves in the interest of driving long-term value, with the aim of raising awareness of sustainability and to stimulate actions in the event of ESG issues. KBC Asset Management uses proxy voting to represent clients who invest in companies through our equity funds at shareholder meetings. This active voting policy is applied to several themes, in recognition of the fact that business, corporate governance and sustainability issues all determine the value of a company in the medium to long term.

Proxy voting

Through the management of funds and portfolios, KBC Asset Management invests the capital entrusted to them by clients in financial instruments. This entails the responsibility to act in the best long-term interest of clients, both retail and institutional. Not defending investors' interests would not be compliant with KBC Group's sustainability principles. With shareholder activism on the rise, KBC Asset Management needs to perform its obligations as an asset management company in the interest of the investor on a continuous basis. Based on the KBC Asset Management Proxy Voting and Engagement Policy, in its role as the management company of the funds involved, KBC Asset Management has voted on more than 4 165 resolutions at 351 shareholder meetings.

Climate Action 100+

As part of its sustainability commitment and engagement strategy, KBC Asset Management joined the collective engagement initiative Climate Action 100+ in 2020. This is an investor-led initiative to engage systemically important greenhouse gas (GHG) emitters and other companies across the global economy that have significant opportunities to drive the transition towards clean energy and help achieve the goals of the Paris Agreement.

Since then, the initiative has continued to grow to the point that it now represents more than 600 investors who jointly manage over 60 trillion US dollars in assets and collectively engages with 167 companies, which are responsible for more than 80% of global GHG emissions. In March 2021, Climate Action 100+ published a Net-Zero Company Benchmark that assesses the performance of focus companies against the initiative's three high-level goals: emissions reduction, governance and disclosure. The benchmark helps investor signatories evaluate companies' ambitions and actions in tackling climate change. In March 2022, an update will be published. KBC Asset Management will closely watch developments in this assessment and may take action through its Proxy Voting and Engagement Committee if progress is deemed insufficient for some companies. Further details on KBC Asset Management's proxy voting policy and how its engagement policy has been implemented can be found in the 'KBC Asset Management Proxy Voting Guideline' and 'Retrospect Proxy voting – overview' available on our commercial website.

Climate-related impact of our asset management portfolio

In 2020, we piloted the Trucost data and methodology on the investments of KBC Asset Management. In 2021, we conducted a second analysis of the climate-related impact of the asset management portfolio using Trucost data and methodology. The detailed results of this analysis can be found in the 'Data and metrics' part of this section and the Trucost appendix to this report.

SUSTAINABILITY IN OWN INVESTMENTS

Sustainable investment principles of Group Treasury

At the end of 2020, the KBC Group Investment Policy was updated to reflect the increased level of KBC's ambitions in terms of sustainability and more particularly environment and climate-related topics. New investments made by KBC entities for their own account are now required to comply with most of the exclusion criteria defined by KBC Asset Management for their socially responsible investment (SRI) 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.

As a consequence, additional exclusions apply to the group's own investments, such as exclusions for activities relating to fossil fuels (and thermal coal-related activities in particular), power generating facilities, controversial and conventional weapons, companies with activities in countries with controversial regimes, gambling, tobacco, adult entertainment, fur and specialty leather.

Through this alignment with KBC Asset Management, KBC's own investments also benefit from the solid expertise and governance structure already applicable to our SRI funds, including but not limited to the permanent external challenge of our policies and asset selection by the SRI Advisory Board – see the 'Socially responsible investment on behalf of our clients' part of this section for more information.

This policy has applied from the beginning of 2021 to all future investments (e.g. bonds as well as equities) made by KBC for its own account, for our group insurance companies or any other group entities. In the case of existing investments, a grandfathering period was granted (until the end of 2022 for equities and the maturity date for bonds). However, bonds that fail to meet these new criteria generally have a short maturity profile (typically less than five years). Furthermore, as part of their regular investment decisions, the relevant committees have already decided to prematurely sell certain positions because of climate-related concerns and appropriate risk management measures.

Sustainable investment principles of Pensioenfonds KBC

The need for a long-term ESG (environment, social and governance) investment strategy has also been acknowledged by Pensioenfonds KBC, which manages the supplementary pensions of our Belgium-based staff. This form of pension provision exists only in Belgium, not in our other core countries. An explicit ESG policy has been embedded in the Statement of Investment Principles since 2017.

The most important elements of the ESG investment policy include zero tolerance of certain non-sustainable companies (e.g., blacklisted companies, human rights offenders and companies with a significant involvement in the tobacco industry, coal-related business and gambling), and since 2020, an even greater focus on socially responsible 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. Pensioenfonds KBC also mapped the SFDR classification of the various funds in the investment portfolio. For the defined benefit plan, about 44% of the portfolio has an Article 8 or 9 qualification. For the defined contribution portfolios this was about 88%. Especially for the defined benefit plan, we aim to step up this figure in the years ahead. We further acted on the long-term goal of a climate-neutral investment portfolio by introducing a tailor-made LDI (liability-driven investments) portfolio that only invests in bonds issued by Best-in-Class screened issuers (LDI is about 30% of the defined benefit portfolio). We put a Best-in-Class overlay on the government bond portfolio as well. New commitments in third-party funds were screened on specific ESG criteria (such as certifications, labels, ESG KPI reporting and impact investing).

Climate-related impact of our own investments

In 2021, for the first time we conducted an analysis of the climate-related impact (via the carbon intensity metric) for the majority of KBC Insurance's own investments managed by Group Treasury and the investments of Pensioenfonds KBC. This assessment is based on the Trucost data and methodology and is fully aligned with the approach for the investments of KBC Asset Management. The detailed results of this first pilot can be found in the 'Data and metrics' part of this section and the Trucost appendix to this report.

OUR COMMITMENT CONCERNING OUR SOCIAL IMPACT

As part of our sustainability strategy, we offer our clients business solutions that respond to societal needs within a number of pre-determined focus areas. More information can be found in the 'Our sustainable business solutions' section. Far more importantly, we aim to increase our social impact through our core activities as an integrated bank-insurer, by 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. Lastly, we aim to increase our social impact by supporting financial inclusion through microfinance and microinsurance, the latter through our unique partnership with BRS.

Social impact financing

Financing and insuring the healthcare and senior living sector

Same as 2020, 2021 was marked by the severe and worldwide Covid-19 crisis. It goes without saying that we continued to play our important role as a financier and insurer for the healthcare sector, supporting local societies and economies in the countries where we operate. Healthcare and well-being are obviously at the heart of our activities as an insurer. Through the insurance products we provide, we not only protect our clients' dreams and projects but also our clients themselves from the financial consequences of healthcare risks. In addition to our important role as an insurer, we are also an important financier of the senior living and healthcare sector. The financing we provided to this sector amounted to 6 billion euros at the end of 2021.

Social profit institutions such as hospitals, schools, residential care centres and local authorities ask specific questions and need tailor-made advice. To meet these needs, we have specific departments that guide social profit institutions and local authorities in areas such as payments, asset management and financing solutions. Our relationship managers offer a proactive and solution-oriented approach and are experts in the various fields.

The demographic ageing of the population in the coming decades is expected to have significant implications on the future needs and use of long- and short-term care. KBC is committed to make a positive contribution to the issues surrounding an ageing population through the offer of specific business solutions in our focus area longevity and health, but also throughout our core activities. In Belgium, for example, KBC committed itself to finance the expansion works for De Lindeboom on the campus of AZ Zeno in Blankenberge. The capacity of the elderly care units will increase to 166. Another example is the construction of a new and modern care home in Heist, also for De Lindeboom. The building – formerly used as a school – will be refurbished and used for a different purpose. The new residential care centre will accommodate 38 large rooms and a green inner garden which increases the capacity of the elderly care units to 75.

Contribute and provide access to social goods and services

In addition to our important role as a financier and insurer for the healthcare sector, we also aim to increase our social impact by financing and insuring projects that contribute to education, basic infrastructure and affordable housing, for example.

In Belgium, for example, KBC financed the land on which the Egied Van Broeckhoven School will be built according to the DBFM (Design Build Finance Maintain) formula. The school is a new Dutch-speaking secondary Jesuit education school in Molenbeek (the Brussels region). The new school building – which will open its doors in 2023 – will meet the need for Dutch-language education in Brussels. It will offer general (ASO), vocational (BSO) and technical (TSO) courses within two study domains: the science domain STEM (Science, Technology and Mathematics) and the care domain 'Society and Welfare'. 860 pupils will be able to follow a career path focussing on the needs of the labour market. At year-end 2021, the financing to the education sector for KBC Group as a whole amounted to 1.1 billion euros.

An example of our role as financier and insurer of basic infrastructure projects is the participation of KBC Insurance in Belgium 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.

OUR COMMITMENT CONCERNING OUR SOCIAL IMPACT

In March 2021, KBC acted as a Joint Bookrunner for the 1.25 billion euro Sustainability Bond issued by the Flemish Community. In line with the Sustainability Bond Framework of Flanders, the proceeds of the bond will be used to finance expenditures with both environmental and social benefits relating to energy efficiency in buildings, affordable housing, access to education and pollution prevention and control. In amongst other things, the proceeds will be used to finance energy loans at adjusted interest rates to vulnerable low-income households, social housing agencies, and for the construction of public school buildings and circular projects.

Growing social bond market

The market for social bonds – financing projects with social benefits such as hospitals, schools, affordable housing and infrastructure – also contribute to a positive social outcome.

In 2020, KBC– as the only Benelux-based bank – acted as a joint lead manager in the successful issue of a debut social bond for the Walloon Region of Belgium, supporting actions to tackle the Covid-19 pandemic as well as existing social expenditures.

In the years ahead, KBC will continue to support the growing social bond market. We are also investigating the introduction of a KBC Social Bond Framework.

Equator Principles

For project financing, we have been adhering to the Equator Principles (EP) since January 2004. The EP are a voluntary set of guidelines for assessing and managing the social and environmental impacts of large projects. In 2020, the updated version of the EP came into effect. It widened the scope of application and included new commitments in relation to climate change, biodiversity, human rights and indigenous people.

In line with the requirements of the EP, we provide financing or advisory services only when the borrower is willing to comply with the environmental and social processes and policies of these principles. To this end, we have appointed an EP coordinator within each entity to act in concert with the central credit department, where ultimate responsibility for reviewing the environmental and social aspects of projects is located.

In 2021, we concluded 17 transactions under the EP, of which 0 category A projects (projects with potential significant adverse environmental and social risks and/or severe impact), 5 category B projects (projects with potential limited adverse environmental and social risks and/or impact that are less severe) and 12 category C projects (risks considered minimal and projects in legal compliance in the country of execution). More detailed reporting can be found in the 'Sustainability facts and figures' section.

Financial inclusion and impact investing

Across the globe, many people still lack access to basic financial services such as banking and insurance. To address this issue, we have set up a unique partnership with BRS, an organisation which aims to sustainably improve the quality of life of rural entrepreneurs and farmers in the South. It does so by providing funding through microfinance and microinsurance. Moreover, BRS focuses on providing advice, coaching and training and wants to maintain a dialogue with partners that are involved, based on its unique practical experience and knowledge of cooperative banking and insurance. Through our partnership with BRS, we are actively involved in microfinance and microinsurance, and as such provide individuals and companies with access to financial services that they otherwise would not have had. As such, through this partnership we facilitate sustainable local development and contribute to financial inclusion.

To maximise its social impact, BRS focuses on collaboration with cooperative microfinance institutions (MFI) with a distinct social vision. In other words, these MFIs not only offer financial services such as microcredits and microinsurance, they also organise access to education and healthcare for their clients, for example. In 2021, this was concretely translated into a number of KPIs (key performance indicators), which will be monitored for each MFI partner through an internal dashboard, based on independent social audits. We expect our MFI partners to score above the benchmark of the sector on a number of social indicators, which are mainly related to client experience. These parameters include

OUR COMMITMENT CONCERNING OUR SOCIAL IMPACT

client needs and preferences, benefits to clients, prevention of over-indebtedness, transparency and responsible pricing.

BRS Microfinance Coop

BRS Microfinance Coop – a joint initiative of KBC, Cera and BRS vzw – 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. By investing in microfinance institutions, investors can earn a return while making a social impact. BRS Microfinance Coop strives for a financial but above all social return for every partner. This is possible because they thoroughly screen the organisations in which they invest for their financial and social qualities and cooperative spirit. Through BRS Microfinance Coop, KBC – along with Cera and 1 748 private individuals – invests in 9 microfinance institutions, which together reach 1.7 million entrepreneurs. At the end of the year, the outstanding share capital of BRS Microfinance coop amounts to 22.3 million euros, 34% of which contributed by KBC. The outstanding balance stood at 10.2 million euros.

A striking example of how we can make a difference with microfinance and microinsurance and contribute to financial inclusion is Béatrice's story.

It is all about having the courage ...

Béatrice Muhawenima runs a sewing workshop in Kigali, the capital of Rwanda. She started her business with a microcredit of 600 euros to buy clothes in Uganda. Today, she employs twelve people and provides a decent income for her family of five children. Find out how Béatrice and her family are doing 6 years later on the BRS website.

Remote advice and on-site knowledge sharing

One of BRS' major strengths is its specialist consultancy, for which it relies on expert volunteers. The BRS Institute's experts are experienced bankers and insurers who, after an active career at KBC, assist BRS' partners. Active KBC staff also volunteer for BRS through KBC4BRS, KBC's employee involvement programme. Please refer to the 'Our people' section of this report for more information on this initiative. Finally, during the pandemic, remote advice was provided since on-site visits for colleague-to-colleague knowledge sharing could not take place. This will continue to be a part of our service model going forward. Also in 2021, the majority of knowledge sharing remained remote.

In 2021, a number of active and retired KBC colleagues shared their expertise with MFIs around topics such as risk management and cooperative governance but also in the areas of human resources, digitalisation, client- centricity and internal control.

OUR COMMITMENT CONCERNING OUR SOCIAL IMPACT

Read below the story of Hubert Benoot, a new member of the BRS institute. In December 2021, he returned full of enthusiasm from his first international trip for BRS. Two years ago, after his career in Trade Finance at KBC Bank, he made the commitment to share his experience and knowledge with the South.

Professional, driven and ambitious

My first real introduction to a microfinancing institution was a real revelation to me! I was deeply moved by the passion of its employees – from the CEO down to the employees in the branches. They all do their work based on the deeply-held conviction that they can make a difference.

Finally

As a new member of the BRS Institute, I – and my colleague Danny Pieraerts and BRS employee Bart Speelman – were assigned a start-up: the cooperation U-IMCEC (L'Union des Institutions Mutualistes Communautaires d'Epargne et de Crédit). This Senegalese MFI provides financial services in rural and suburban areas. Contacts with them were at an early stage and unfortunately we had no choice but to work online given the Covid-19 pandemic situation. This was quite difficult. Which explains why I was so happy to be able to finally travel to Senegal in early December.

Enthusiastic and professional

The introductions kicked off with a big party on the occasion of the 20th anniversary of U-IMCEC. With two days of workshops, panel discussions and plenary sessions. And a lot of song and dance, it goes without saying. It struck me how enthusiastic everyone was.

In the following days, we met with U-IMCEC staff and the branch employees. I couldn't help but be impressed. While this MFI is a young, small institution, it is also extremely professional. And it meets all the conditions for a cooperation with BRS: a cooperative that focuses on agriculture and aims for social impact.

Social impact

I found out just how impactful they are when we met their clients. A vegetable farmer who bought seed years ago with a first credit of 200 euros now has an agricultural business with which he supports his extended family. You can only achieve this with hard work and the support of a bank that believes in you. And that is exactly what U-IMCEC does.

Ambitious

This MFI has set itself some ambitious goals. They endorse the government's plan to make Senegal self-reliant in terms of food supply. Currently, the country imports a lot of its food. U-IMCEC wants to change things, which is why they now focus on agricultural credits. By 2024, 45% of their credits must go to agricultural activities.

Quite the challenge. They'll need to reach more farmers, which could be tricky in a region where people are not familiar with 'banks' or 'credits'. In addition, Senegalese agriculture tends to be small-scale and very fragmented. And then there is the terrible drought, of course. Forcing farmers to irrigate, often using polluting diesel pumps. The financing institution focuses on sustainable agriculture, meaning there is a need for new loans, both for the purchase of solar panels and the construction of rainwater retention basins.

Cooperation with BRS

To achieve this, U-IMCEC established the Centre Financier Agricole (CFA), a new division that will provide support to its branches for rolling out agricredits. The future cooperation between BRS and MFI focuses on the centre's growth and operations. Based on the ideas, structures and expertise of U-IMCEC and with coaching by BRS where necessary.

U-IMCEC has big ambitions, but thanks to their professionalism and drive, they have every chance of success!

OUR COMMITMENT CONCERNING OUR SOCIAL IMPACT

Microinsurance

Microinsurance can really make a difference in the Global South. An insurance policy, for instance, can prevent people descending into a spiral of poverty when a breadwinner falls ill or a family member dies. Telling the story of microinsurance remains a big challenge. Unlike microloans, which offer entrepreneurs clear opportunities to grow, the impact of insurance is less obvious, as it does not always come naturally to invest in covering a risk that might never materialise to people on (very) low incomes. We therefore concentrate on advice and training. In October 2021, for example, a four-day training course was organised in Zambia on microinsurance for MFIs with local and international experts at which participants gained additional insights in microinsurance.

Microfact

'Let your figures talk' is the slogan of Microfact, a joint initiative of BRS and ADA, a Luxembourg-based NGO. Microfinance institutions can turn to Microfact for expertise on how to evaluate their financial and social figures and how to transparently communicate thereon with everyone involved. Through its website, Microfact offers free software for financial performance evaluation and business planning. For its training modules, Microfact relies on a worldwide network of certified trainers. In 2021, the Microfact e-learning platform became fully operational by offering digital courses on performance evaluation and business planning in 3 languages. Watch the video in which Microfact looks back on 2021.

Sharing information and experiences

Finally, we also aim to step up our social impact by providing a window on the South by informing and telling the story of people in the South with whom we collaborate. This includes stories from our volunteers and stories of the people who are building their future with the help of a microcredit. With the 'Cera-Zuidreis', for example, we invite people on a 'world tour' in Antwerp. Participants of this tour discover the story of rural entrepreneurs like the cocoa farmer and the coffee farmer when visiting the city. Click here to discover the story of cocoa farmer Edmundo from Ecuador.

Another example is the organisation of the Microfinance Lunch Break: News from the world of microfinance and microinsurance' sessions in association with Febelfin. BRS seizes on these sessions to bring current themes from the world of microfinance and microinsurance to Belgium. Well-known guest speakers share their insights with anyone who is interested in international topics with a particular focus on participants from the financial world, NGO employees, students and government employees. In 2021, a session was organised on 'How can MFIs survive the pandemic storm? What will the recovery look like?' The recording of this session, can be viewed via the BRS website.

Cera

With 400 000 enthusiastic members, we are the most remarkable and friendliest cooperative in Belgium. Together, we get to share experiences, achieve more and invest better: in initiatives that are effective and connect people, in projects that benefit us all.

Together, we take good care of each other.

Inspired by the cooperative values of F.W. Raiffeisen, cooperation, solidarity and respect for all have formed the basis of Cera's business for over 125 years. The first cooperative was founded in 1892 in Rillaar, Flemish Brabant, which in due course went on to become CERA Bank . In June 1998, CERA Bank merged with Kredietbank and ABB Insurance to become KBC. The Cera cooperative has not been a bank for a long time now. Instead, it pools the shares of former CERA Bank members and those of new members who have joined, thereby rebuilding the 'old' cooperative values. Read more about Cera's mission and roots on the Cera website (available in Dutch, French and German).

OUR COMMITMENT CONCERNING OUR SOCIAL IMPACT

BRS Microfinance Coop

At the end of 2021, BRS Microfinance Coop had 10.2 million euros in outstanding loans (loans to microfinance institutions and investment in microfinance funds). These microfinance institutions together reach 1.7 million customers.

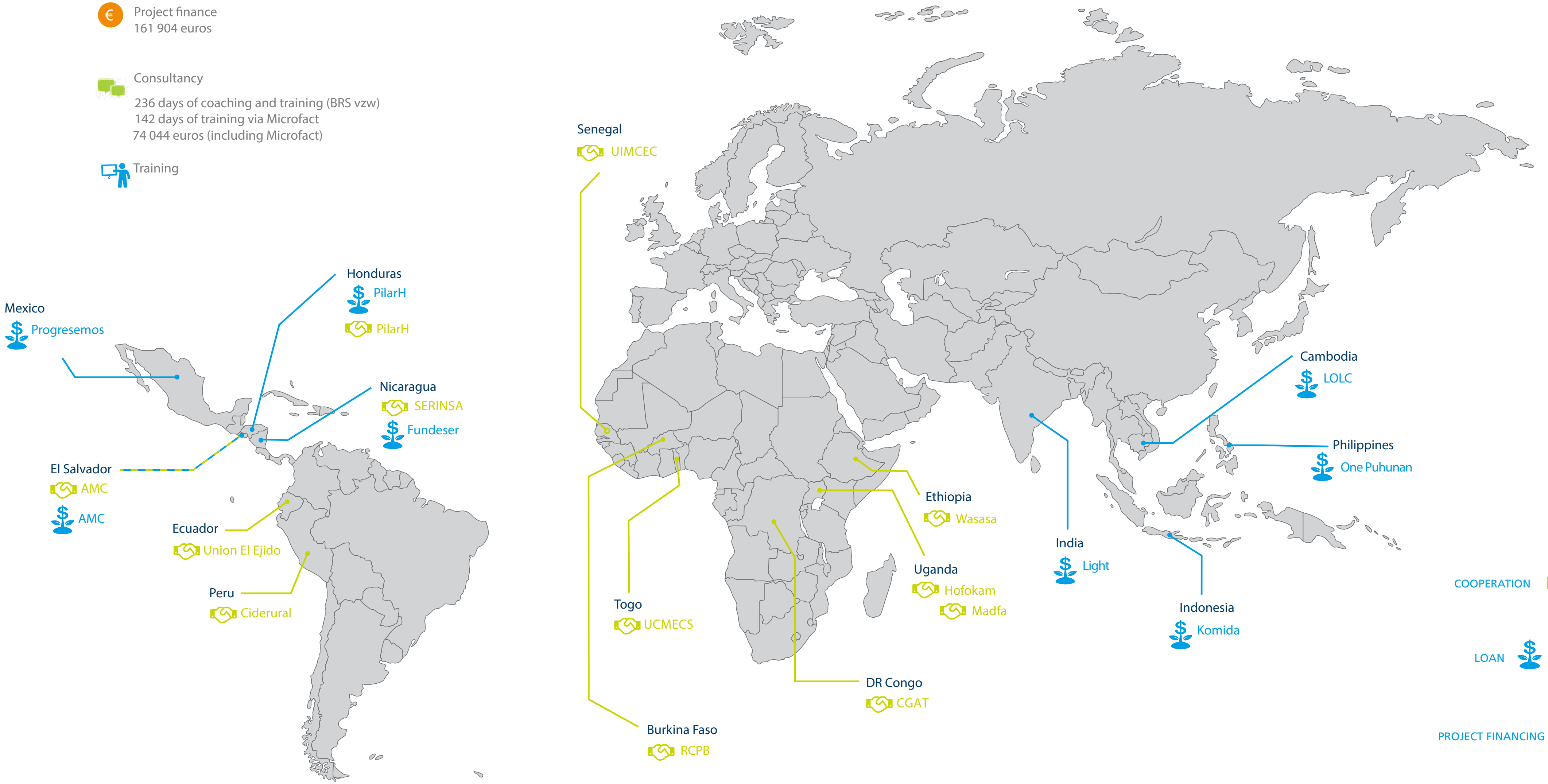
BRS vzw

Project finance
161 904 euros

Consultancy

236 days of coaching and training (BRS vzw)
142 days of training via Microfact
74 044 euros (including Microfact)

Training



OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

KBC very closely monitors all societal needs and gradually adapts to those expectations. In addition to social and governance-related issues, we are also actively working on our environmental impact. Although climate change mitigation and adaptation currently receive the most attention from many of our stakeholders, we also notice and acknowledge an increasing focus on other environmental objectives, such as the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. The EU Taxonomy, for example, also expressly includes all these objectives in its approach. Technical criteria have already been published for climate change mitigation and adaptation whereas such criteria are now under development for the other objectives.

KBC has been working on all these objectives for quite some time already. Readers are referred to our sustainability policies (see the 'Sustainability policies' part of this report), which clearly exclude a number of environmentally harmful activities. Going forward, we expect that these objectives will be increasingly approached on a programme basis in order to embed them in our business areas in a more structured manner, as has also been the case for climate change mitigation and adaptation as part of the KBC Sustainable Finance Programme. This programme was set up in 2019 to specifically focus on integrating KBC's climate approach across the group. Although most attention in 2021 was still focused on our climate approach, we have taken steps to also include other environmental risks into our risk approach. For more information please refer to the part on 'Risk management' in this section.

We would expressly point out that where we use terminology such as 'green' and 'sustainable' throughout this report, these terms in no way suggest that what we describe is already (fully) aligned with the EU Taxonomy.

KBC is a signatory of the Collective Commitment to Climate Action

KBC fully supports the Paris Agreement and the goal to limit global warming to well below 2°C – striving for 1.5°C –, as we are convinced that taking climate action and striving towards climate neutrality are pivotal societal objectives for the years to come.

In September 2019 already, KBC strengthened its climate commitment by signing the UN-initiative Collective Commitment to Climate Action (the 'CCCA'). This has led to the initiation of our Sustainable Finance Programme, bringing together all relevant climate expertise within our group to address this challenge.

KBC is also examining, in close consultation with United Nations Environmental Programme Finance Initiative (UNEP FI), the initiatives and the approach of the Net Zero Banking Alliance. KBC is generally in favour of the overall objectives of this new initiative but prefers to first diligently execute the commitments already shouldered within the CCCA as we intend to translate this in 2022 into tangible, action-oriented approaches and targets for the relevant priority sectors. This requires a streamlined approach and governance to ensure implementation in all our businesses and in all of our core countries. In other words, KBC chooses to diligently work on the 'how' for the time being rather than taking on additional commitments on the 'what'. We also apply this approach to other net zero initiatives such as the Net Zero Asset Managers Initiative, Net Zero Asset Owners Alliance and the Net Zero Insurance Alliance.

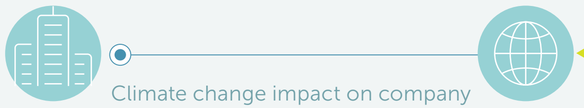
OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

The ‘double materiality’ approach guides our Sustainable Finance Programme

We approach climate change from the perspective of the so-called 'double materiality' impact. On the one hand, we are proposing measures to limit the impact of our activities on climate change, by aligning our loan, investment and insurance portfolios with the pathways enabling an orderly realisation of the objectives of the Paris Agreement. On the other hand, we are managing the impact of climate change on our business: by closely monitoring the climate-related risks and rolling out the necessary mitigating actions, and by taking advantage of the opportunities offered by this sustainable transition. This includes not only our indirect impact via our loan, investment and insurance portfolio, but also our significant efforts to further reduce emissions from our directly owned assets and our own operations.

FINANCIAL MATERIALITY[1]

Committed to manage the impact of climate change on our company

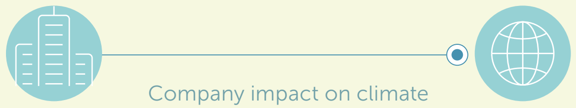


- Impact on our business as a financial institution, in the shape of both transition and physical risks and opportunities arising from climate change

Company impact on climate can be financially material

ENVIRONMENTAL AND SOCIAL MATERIALITY

Committed to manage the direct and indirect impact of our company on climate



- Direct environmental impact through our own operations
- Indirect impact on the climate through financing, investing and insuring other parties who could have a direct impact on the climate

[1] Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statements.

OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

Working together with all stakeholders and aligning with the European and local action plans

We are convinced that, as a financial institution, we not only have a role to play in restricting clearly harmful activities. KBC is committed to encouraging all possible forms of projects, activities and assets that make a positive contribution to the climate approach in particular, or to a more sustainable society in general.

As clearly stated in the CCCA, active collaboration with all stakeholders is necessary to make a significant impact in addressing the climate challenge.

We believe that one of the most important ways in which we can do this, is by assisting and cooperating with our clients in their sustainability transitions. We do so by developing specific products and solutions, reserving sufficient financing budgets for this purpose, offering potentially better terms for these products, setting up partnerships to support our clients in their plans, etc. We further elaborate on this approach in the part on customer engagement.

In addition, KBC has taken the initiative to actively put sustainability in general and climate change in particular on the agenda of the banking associations in our home countries, with the aim of jointly agreeing on action on how the sector can support the transition and how the approach can be streamlined for local businesses and citizens.

KBC is also consulting with various authorities (national, regional and also municipal) in order to streamline its climate approach. It is our belief that tangible progress in the further greening of companies, buildings, mobility, etc. in a country, region or municipality often depends on concrete policy measures by these authorities, in terms of incentives or restrictions. As a financial institution, we are taking the lead in supporting the sustainable transition with concrete actions through our role as a financier, investor and insurer, but this can only succeed if it happens in cooperation with the authorities and all other stakeholders. In this respect, we are also strongly guided by the overall Green Deal and Fit for 55 objectives of the European Commission, as well as by the concrete translations of these objectives into the national action plans.

Policy decisions gradually put KBC's commitment into practice

KBC also believes that a firm commitment needs to be combined with step-by-step policy decisions and related actions, which need to be taken gradually in order to make an effective impact and ensure appropriate implementation. For example, we work on reducing our direct climate impact and we have taken decisions in line with scientific insights on necessary steps to reduce our indirect environmental impact. Two striking examples relate to our restrictive policies on coal and the exploration of new oil and gas fields. Concerning the former, we committed to reducing our direct coal exposure to zero by the end of 2021 at the latest and to completely phase out coal by 2030. This first objective was already reached in June 2021. Concerning the latter, we announced new restrictions on the exploration of new oil and gas fields, in line with the findings of the climate report published by the Internal Energy Agency last year in October 2021.

OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

Measuring and reporting on our environmental footprint

Measuring our impact on the climate is a crucial element as part of our sustainability approach. We do so by measuring our direct environmental impact, on the one hand, and our indirect environmental footprint – our so-called Scope 3 greenhouse gas (GHG) emissions for our portfolios – on the other. We see this as a crucial first step in being able to define policies to reduce this impact. The scope of both our direct and indirect footprint calculations is shown in Figure 5.1. We have been measuring our direct environmental footprint since 2015. Our calculation methodologies and results, as well as strategies to further reduce our direct environmental footprint are further discussed in the part on our direct environmental footprint and the 'Sustainability facts and figures' section in this report.

Next to our direct environmental footprint, we obviously also have a strong focus on our indirect environmental impact as our largest environmental impact as a financial institution is indirect. An important element of our indirect environmental footprint approach is to measure the Scope 3 emissions from our loan and lease portfolio, the financed emissions. The scope of these calculations is also shown in Figure 5.1. In the part on data and metrics, we provide further details on the methodologies used, outcomes of the calculations and our strategies for improving data collection in the future. Our reports on this theme are TCFD (Task Force on Climate-Related Financial Disclosures)-aligned, meaning that we follow the four pillars of the TCFD framework for the structure of our reports (Governance, Strategy, Risk management, Metrics and targets). Further information on this approach can be found in the part on our indirect environmental impact.

Indirect footprint scope: 57.1 Mt CO_2e in absolute terms corresponding to 312 tonnes CO_2e per million euro outstanding

Figure 5.1: Scope and source of KBC Group's total GHG emissions totalling 57.1 Mt CO_2e

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.

OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

Work in progress

It should be noted that many aspects of our climate approach are still under development. For example, climate-related data from many of our clients (especially private individuals and small and medium-sized enterprises (SMEs)) are still insufficiently available, methodologies to map and steer the impact of our credit, insurance and investment portfolios are only in the early stages of development and regulations both for financial institutions in particular and for all economic sectors in general are still evolving. KBC chooses to disclose the results of its studies and related metrics because they already provide sufficient insight into our portfolios, but also points out that these should be interpreted with due caution.

In separate appendices to this Sustainability Report, the limitations and assumptions of the methodologies used to map the climate-related impact of our portfolios, are explained in a transparent manner. Please refer to the appendices of this report. Moreover, throughout this part, we specify some of the steps we are taking to make improvements to our sustainability approach in the future.

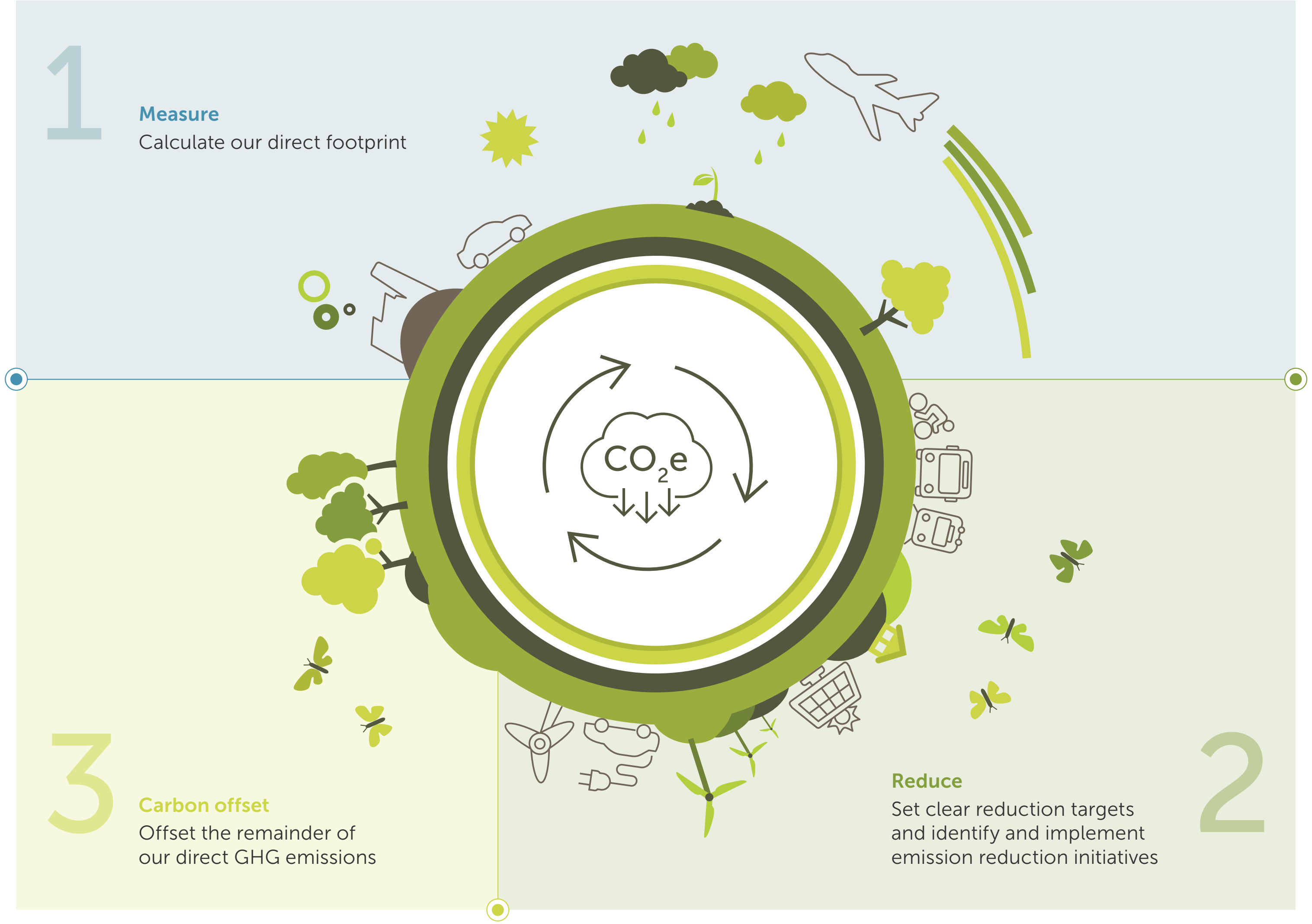
Our direct environmental footprint

Although our main environmental impact as a financial institution is indirect, we are committed to managing our direct environmental footprint through our own operations. Since we started measuring our group-wide direct emissions in 2015, we have already achieved substantial reductions in our GHG emissions. The table on this page shows our progress against our targets. In 2020, we substantially raised our ambitions related to the GHG emissions from our own operations and our own green electricity consumption by 2030. In addition, we have committed to achieving net climate neutrality related to the GHG emissions from our own operations by offsetting our remaining emissions from 2021 onwards. We have taken three consecutive steps to achieve the goal of net climate neutrality as from 2021.

Table 5.4: Direct environmental footprint

Indicator	Target	2021	2020	2019
Total CO_2e emissions from own operations (direct footprint scope) in tonnes CO_2e	-80% for the period 2015-2030	-71%	-56%	-42%
Renewable electricity consumption in %	100% by 2030	100%	87%	83%
Carbon credits purchased (in % of remaining GHG emissions from own operations)	Net climate-neutrality (2021)	100%	-	-

Figure 5.2: Net climate neutrality in our own operations



OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

Measure

As a first step, we have been calculating our GHG emissions from our own operations at group level since 2015. In doing so, we have gained insight into our direct impact on the climate and we have been able to pinpoint the main sources that cause this impact. We have implemented an ISO 14001 environmental management system (EMS) in each of our core countries, which helps us to manage and drive down the environmental impact of our own operations.

Our direct footprint emissions are calculated in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. Our calculations include:

- Scope 1: direct emissions from fuel combustion and refrigerant gases in our office buildings and from business and commuter travel by our own company car fleet
- Scope 2: indirect emissions from purchased energy (electricity, heat, cooling and steam consumption)
- Scope 3: indirect emissions from business and commuter travel and emissions from sources over which we have direct operational control (paper and water consumption and waste generation)

Since 2016, the underlying data and calculations of the GHG emissions of our own operations have been verified to a level of reasonable assurance by an independent external party in accordance with ISO 14064-3. The verification statements are available on our corporate website.

Reduce

Based on the action plans of each core country, we have set a first reduction target in 2016 to be achieved in 2020. In 2018, we raised this target and set an additional long-term target for 2030. In 2020, the target for the GHG emissions from our own operations was tightened yet again to reduce our direct emissions by 80% by 2030, compared to 2015 as the baseline year. At the same time, our target scope was widened to also include commuter travel, as this represents a substantial portion of our direct footprint. By including commuter travel in our new target scope, we are clearly committed to greening our employee mobility policy. Lastly, we have committed to increasing our own green electricity consumption to 100% by 2030.

The implementation of the aforementioned action plans in each of our core countries and the emission reduction initiatives implemented in recent years have already yielded strong results in terms of GHG emission reductions. We managed to reduce our GHG emissions from our own operations in 2021 by 71% compared to 2015. Of course, the last two reporting years – 2020 and 2021 – were overshadowed by the Covid-19 pandemic and the impact of Covid-19 related measures on GHG emissions, such as lockdowns, a business travel ban and the switch to teleworking. As such, we expect to see a partial return to pre-Covid 19 levels once all measures cease to apply. Nevertheless, we were able to present a strong track record in the period before Covid-19, with a 42% reduction compared to 2015 levels. Moreover, Covid-19 resulted in the introduction of teleworking in core countries and entities where it was not yet structurally embedded. We are determined to further reduce our GHG emissions to reach an 80% reduction in 2030 compared to 2015.

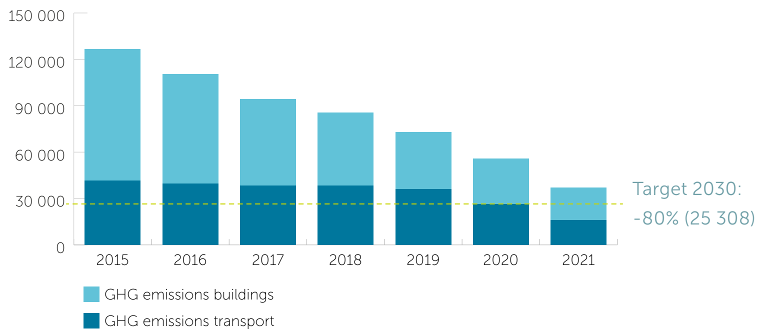
Emission reduction activities in 2021

- 100% green electricity consumption in 2021
- We continued to install photovoltaic panels on buildings we own and operate ourselves in order to generate our own green power. In Bulgaria for example, a second solar power plant was set up at the DZI Business Centre in Varna, which will cover around 5% of the building's electricity consumption.
- Various energy efficiency investments were carried out over the course of 2021.
- A new green mobility policy was introduced for our employees in Belgium, including more incentives to get staff to switch to cycling, electric cars and using public transport. From March 2021 onwards, we have added electric cars to our lease car offering. Since then, around 1 in 2 cars ordered have been fully electric. Our ambition is to switch to a fully electric fleet by 2025.

OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

In 2021, we cut total GHG emissions by 34% compared to the previous year. The significant reduction of our direct environmental footprint is caused by the switch to 100% electricity from renewable sources in 2021 and various other ongoing reduction activities. On top of these reduction activities, the GHG emissions reduction also results from Covid-19 pandemic measures such as switch to teleworking and travel bans in our core countries with a substantial impact on GHG emissions from both commuter and business travel. Moreover, reporting year 2021 included a full-year impact of Covid-19 measures versus previous reporting year only two quarters were impacted.

Graph 5.1: Total GHG emissions from own operations 2015-2021 (in tonnes of CO_2e)



Engaging our employees: driving environmental responsibility

ČSOB in the Czech Republic organised a green challenge for its employees to significantly reduce their carbon footprint. As part of the challenge, employees were encouraged to commute to and from work in a 'green' way: by bicycle, on foot, by electric car, home office, etc. This challenge resulted in 2 150 engaged colleagues and more then 800 000 green kilometres.

Following the launch of the KBC Green Compass in 2020, KBC Ireland continues to inspire, inform and encourage employees to be part of KBC Ireland's ambition to reduce its environmental impact. A dedicated internal communications campaign focuses on the changes that can be made at individual level, providing information on the latest climate updates along with tips and insights to ensure we are making a positive impact on the environment. The KBC Ireland Green Compass campaign shares KBC Ireland's environmental ambition with employees and encourages a positive change in behaviour as part of our contribution to one of the biggest challenges facing society – climate change.

Carbon offsetting

Whilst we will diligently continue our efforts to reduce our direct footprint in line with our stated ambitions, we will also start offsetting our remaining direct GHG emissions as from 2021 onwards to reach net-climate neutrality with respect to our direct footprint. In 2021, we have chosen to invest in three climate projects. The selected projects all comply with the highest standards, meaning they are all certified under the Gold Standard or under the Verified Carbon Standard combined with Climate, Community and Biodiversity Standards. By doing so, we aim to invest in projects of the highest quality that address climate change, whilst simultaneously ensuring additional benefits for local communities and biodiversity conservation. Also, the three projects all have a clear link with the Sustainable Development Goals (SDGs) that are our core focus and have a clear link with other goals from our sustainability strategy.

Over and above our offsetting scheme, we are also undertaking other voluntary initiatives. In Slovakia, for example, we have started a five-year partnership with experts from Slovak State Forests of the Tatra National Park. Over the past two years, we have already planted more than seventy thousand seedlings of various tree species.

OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

Improved Kitchen Regimes: Restoring Boreholes

This programme of activities is implemented in several countries in Sub-Saharan Africa. It is envisioned that it will increase access to efficient cooking technologies and safe water through the rehabilitation of community boreholes and the distribution of household-level water treatment technologies. The project delivers a range of interconnected environmental, social and economic benefits. For example, the project reduces GHG emissions from the burning of charcoal and firewood on open fires through the distribution of more efficient cooking technologies and the reduced need to boil water. The project also delivers health benefits, as the reduced use of open fires drives down exposure to indoor pollution causing respiratory diseases and access to safe water reduces the occurrence of water-borne diseases. Finally, by lowering demand for firewood and charcoal, the project contributes to slowing down deforestation and biodiversity loss.

Avoided deforestation: Protecting 150 000 ha of Amazon rainforest in Portel Pará, Brazil

This project in Brazil seeks to protect 150 000 ha of forest against illegal deforestation and land use change. Doing so has two major benefits. Firstly, deforestation and land use changes are the main sources of Brazil's total CO_2 emissions. By preventing deforestation, future carbon emissions are significantly reduced. Secondly, the prevention of deforestation will protect the habitats of many endangered species in the region. The project also delivers social benefits. For example, by training and employing local villagers to monitor the project and patrol the areas, alternative sources of income are created in the area. Also, those caught illegally logging or ranching in the area are offered the opportunity to join in the project. As such, the project creates an alternative source of income, rather than just shifting the problems to another area.

Guanare plantation: Sustainable Forestry In Uruguay

The Guanare plantation is an afforestation project in Uruguay. The main goal of the project is to reforest 21 298 ha of degraded land that was previously used for livestock grazing. The project aims to achieve multiple goals: to establish a forest with a view to obtaining high-value timber products, to restore degraded land and to sequester carbon dioxide from the atmosphere. Furthermore, the planting and harvesting of the trees happens in compliance with the FSC standard for sustainable forest management. The project also delivers added benefits socially, for example by generating stable 1 000+ high quality jobs, and in terms of biodiversity conservation, by increasing the available habitat for species in the region.

Our indirect environmental impact

Our largest environmental impact is indirect, through the financing and insuring of and the investing in other parties. These activities may have a clear environmental impact, both positive or negative. Climate change and other environmental threats also clearly impact our business as a financial institution, in the form of both transition and physical risks. We do however also recognise that the transition to a greener, more sustainable economy brings many opportunities. Our Sustainable Finance Programme deals with all of these aspects for all relevant domains in our business.

In this part, we report on what we have achieved so far and how we see our future work in a world that is constantly changing. For the sake of transparency – and as a TCFD endorser – this section is structured according to the four pillars of the TCFD recommendations (Governance, Strategy, Risk management, Metrics and targets). We do so because we believe that a sound sustainability approach is supported by a transparent disclosure strategy, which provides all stakeholders with a clear insight into all relevant aspects of the broad sustainability approach.

Furthermore, we aim to comply with all applicable legislation and seek to meet the expectations of our supervisors and regulators. It is therefore KBC's full intention to gradually comply with all the environmental guidelines and expectations of our regulators and supervisors as well as society at large. Amongst others, we submitted our detailed self-assessment to the ECB in February 2021, as well as our full action plan in May 2021 including the concrete planning and all planned steps for the coming years. This action plan is a dynamic tool, that is gradually supplemented and adapted, and forms the backbone of the scope of the Sustainable Finance Programme.

Governance

Our climate-related governance – set up as part of the KBC Sustainable Finance Programme – is fully embedded in our overall sustainability governance and spans all levels and functions of our company. We therefore refer to the 'Sustainability governance' part of this report for a detailed overview of our overall sustainability approach, including climate-related governance.

It is our firm belief that sustainability in general, and the climate approach in particular, can only be successfully implemented if it is embedded in the strategy and operational management of all parts of our company. We therefore closely involve all business units and the relevant central departments in all the planned actions of the Sustainable Finance Programme. Moreover, a number of (mostly business-oriented) projects and actions are implemented by the local business entities themselves (with the support of the Sustainable Finance Programme), as we are convinced that this is the best guarantee for a successful outcome.

OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

Strategy

The goals of the Sustainable Finance program, based on the double materiality approach, can only be achieved if we succeed in fully embedding them in the strategy of each of the business areas involved. To this end, we have launched several initiatives. Firstly, our strategy mostly centres around eight sectors that are the most carbon-intensive industrial sectors in our business and three product lines. We refer to these sectors as our White Paper sectors. Secondly, we believe that we can only achieve significant change in collaboration with and by supporting our clients. Customer engagement therefore also forms a central part of our sustainability strategy. Thirdly, as a bank-insurer, we obviously aim to work at sustainability through our core products, such as bonds, loans and insurance contracts. Finally, we have developed an approach for Internal Carbon Pricing (ICP). ICP refers to a methodology through which the estimated costs of emissions can be included in the internal accounting of companies and organisations.

Updated strategies on the most carbon-intensive industrial sectors and product lines (White Papers)

Integrating climate-related risks, opportunities and targets into our business lines remains a key challenge. In 2020, we already started making strategic assessments of the most carbon-intensive industrial sectors in our businesses and product lines (the so-called White Papers analyses). In 2021, we finalised these first assessments. We use the term 'White Paper' for this exercise to reflect the open mind with which we embarked on the process.

Based on a materiality analysis, as stipulated in the TCFD recommendations, we decided to focus on the industry sectors with granted loan volumes representing more than 5% of industrial loans and which are designated as climate-sensitive, i.e. sectors that are important from the perspective of GHG emissions and have a significant impact on climate change. Table 5.5 shows an overview of the loan portfolio of the most climate-sensitive industrial sectors.

Table 5.5: Most climate-sensitive industrial sectors, outstanding loan amount at year-end (in billions of EUR), KBC Group[1, 2]

	2021	2020	2019
Real estate	11.5	11.3	11.2
Building and construction	7.8	7.0	6.8
Agriculture, farming, fishing	5.2	5.0	4.7
Automotive	4.6	4.5	4.6
Food production and beverages	4.1	3.9	3.7
Energy	4.1	3.8	3.9
Metals	2.6	2.5	2.5
Chemicals	2.5	2.5	2.2
Total	42.3	40.4	39.6

1 Reporting limited to sectors representing over 5% of industrial loans designated as climate-sensitive at year-end 2021. Although climate change could have an impact on all industries and sectors, the climate-sensitive sectors were selected on the basis of a number of factors, including the TCFD recommendations (2017), pending more standardised frameworks and analyses. The amounts in the table include the entire outstanding amount of the sector and therefore also include files that, for example, have an extremely limited footprint such as wind and solar energy in the energy sector.
2 The total deviates from the sum of all categories as the figures have been rounded up

Based on this materiality analysis, we are working on White Papers for eight industry sectors (energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals), and three specific product lines (mortgages, car loans and car leasing). The graph on the next page shows a schematic overview of the relative importance of these sectors and product lines in KBC Group's overall loan portfolio. The high-level calculations of our total loan portfolio, performed using the PCAF (Partnership for Carbon Accounting Financials) methodology, indicate that the sectors and product lines assessed represent around two third of the Scope 3 GHG emissions associated with our total loan portfolio (see Graph 5.2). These sectors and products also represent approximately two third of KBC Group's total outstanding loan portfolio.

The amounts in the table include the entire outstanding amount of the sector and therefore also include files that, for example, have an extremely limited footprint such as wind and solar energy in the energy sector.

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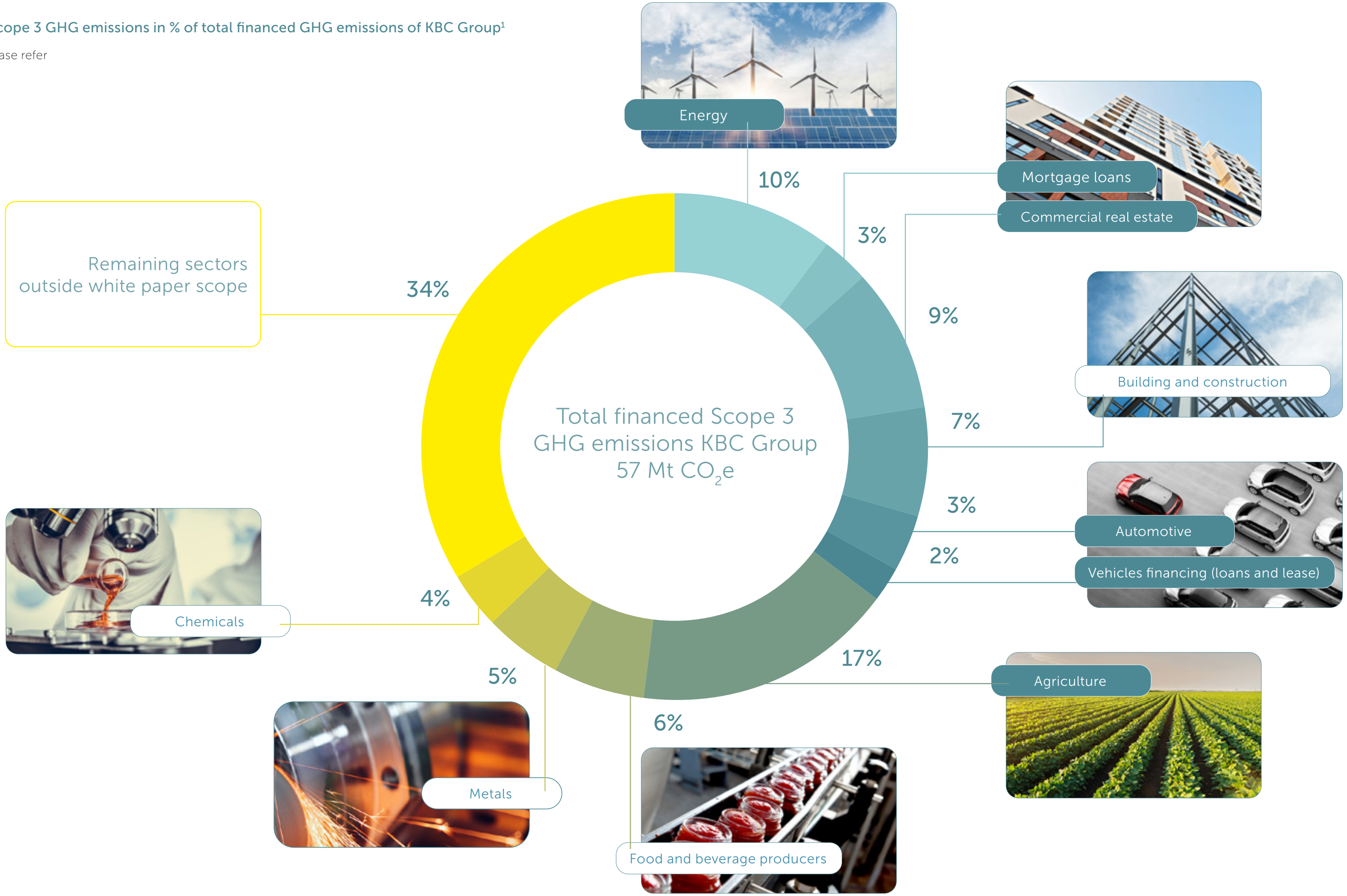
Graph 5.2: Most material climate-sensitive sectors and product lines and associated Scope 3 GHG emissions in % of total financed GHG emissions of KBC Group[1]

[1] 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.

This is the first time that KBC has reported on the financed emissions associated with its total loan portfolio based on the PCAF standard and the emission factors made available in the PCAF database. 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. Rather, this first publication of our financed emissions constitutes a further step in creating transparency on our indirect climate impact but may implicate an over- or understated condition compared to the real-world situation as most of the calculations are performed on a macro level rather than subsector-, company-financed or asset-specific emission factors or information. PCAF-based financed emission calculations shall improve over time and our endeavour is to continuously and transparently report on quality improvements and subsequent resulting restatements.

More information on how we applied the methodology can be found in 'PCAF' appendix of this report.



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The White Papers make a clear analysis of, in amongst other things, the challenges and technological developments of each of these sectors and business lines, the relevant European and local regulations and action plans, what this means for KBC's portfolios in terms of climate-related risks and opportunities and which reporting metrics can be used to steer this portfolio. They also provide an initial outline of possible risk-mitigating measures, commercial policy adjustments and how we can steer each of the portfolios to be in line with the Paris Agreement. Moreover, we have integrated the results of methodologies such as PACTA (Paris Alignment Capital Transition Assessment), PCAF and UNEP FI in the assessments of the sectors in the White Papers.

All White Paper analyses were conducted with a focus on our credit business, advisory services and insurance activities. For the insurance business, however, the focus for the further development of our climate-related strategies and hence of the White Papers is on property insurance, car insurance and the sectors of agriculture and renewable energy, given the very limited materiality in other sectors of our insurance portfolios. In addition, we also zoomed in on the specific context in all of our core countries. For some of the sectors, not all core countries were included. This decision was made in case the sectors were not material or relevant for the local portfolio. For example, KBC Ireland is not included in the White Papers for the industrial sectors, since it has no business activities for corporate clients.

Colleagues from the relevant departments in all of our core countries took the lead to draft the White Papers and worked together to this end with the relevant central departments. All White Papers were discussed in detail and approved by the Internal Sustainability Board (ISB), to ensure group-wide adoption and implementation. The ISB also approved the first policy decisions for some of these sectors and business lines, as well as the next actions for all of them.

The ISB also decided to repeat the White Paper exercise on a regular basis to keep a finger on the pulse of all the movements that could affect these sectors and business lines and to be able to take timely action. The sectors and business lines that we have identified as requiring further action and policy updates in the short term will now be updated annually (next time already by mid-2022). In concrete terms, these are the sectors and business lines we have defined as priority sectors: energy, commercial real estate and mortgages and transport (including car loans and car leasing), agriculture and food production. For energy, commercial real estate and mortgages and transport, we are preparing a further possible refinement and extension of our concrete climate-related, sector-based targets. This exercise will be based on the first data collection efforts that have been performed in the past year. We will keep on monitoring the other sectors as well, although a more detailed update is scheduled from 2023. This choice was made since we currently assume that the climate mitigation measures in these sectors still require substantial technological advancement before we can strive for significant reductions of greenhouse gases. However, please note that the energy component of the production process in all sectors is an integral part of the Energy priority approach (for further information please refer to the appendix on the White Papers of this report).

Please note that KBC applies the principle that our bank, advisory services and insurance business always follow the same sustainability policies towards restrictions for the most harmful activities, i.e.: assets or activities which are not eligible for financing cannot be insured and vice versa. For more information on these policies, see the part on our sustainability policies. We also recognise that preventive actions, related to our insurance underwriting, can have a positive impact both for the client and for KBC group, as a bank and insurer. These priorities will be included in the upcoming updates of the White Papers.

Readers are referred to the White Papers appendix of this report for an overview of the main findings for each of these sectors and business lines. The overview includes findings from the strategic exercise with the various core countries and takes into account the results of the various risk assessments (in amongst other things the UNEP FI transition risk assessment of our corporate credit portfolio, the Climada (Climate adaptation) risk assessment on the vulnerability of KBC's home countries' economies to the potential flooding damage resulting from adverse climate change and the PACTA analysis of the transition risks in our corporate industrial credit portfolio). Some sectors are discussed jointly, as they have strong overlapping characteristics such as the transport and mobility sectors that are discussed together with our car loans and car leasing portfolio. See graph 5.2 for an overview of the sectors assessed.

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Customer engagement

We believe that one of the most important roles we can play in a transition to a more sustainable society is by supporting our clients in their sustainability transition. Engaging with our clients on the topic of sustainability therefore plays an important role in our Sustainable Finance Programme and is one of the most important cornerstones in our approach to fulfil our CCCA commitment.

In 2020, KBC Corporate Banking Belgium started piloting our customer engagement approach by engaging with business clients and exploring how we can serve as a partner for them in their transition towards a greener economy. In 2021, Bulgaria, the Czech Republic, Hungary and Slovakia also launched local customer engagement trajectories.

The approach taken in the other countries followed the initial approach adopted by KBC Corporate Banking Belgium. As a first step, relationship managers received training on sustainability to highlight the importance of ESG issues and to better understand climate-related risks and opportunities. This included the successful climate business game, which was further rolled out in 2021 to KBC's senior management. Furthermore, more specialised training sessions were organised on specific topics that were relevant in the context of the White Paper sectors. These training sessions were presented to a more select group of relationship managers and were meant to help our employees better understand the needs and opportunities in each sector from a sustainability point of view.

As a subsequent step, dialogues were planned with a select group of clients. Which clients were in scope of these first dialogues was decided based on a group-wide approach, in which we first contact our largest clients, and over time gradually increase the scope to include smaller clients.

In a first instance, the conversations were exploratory and focused on the positioning of KBC as a partner in our clients' sustainability transition on the one hand, and paid attention to specific themes, such as the impact of the expansion of sustainability reporting through the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy and sustainable lending on the other.

Based on insights from the first round of customer dialogues, our approach was further developed and structured. This included two elements. Firstly, based on insights from the first round of customer dialogues, most core countries further enhanced their sustainable propositions and solutions. To do so, in some countries we work with an advisory service, such as Encon – an independent agency that provides advice on energy-efficiency solutions to businesses in their transition to become more sustainable – in Belgium. The goal of these partnerships is to develop tailored solutions and provide expert advice to our clients to better support them in their transition towards more sustainable operations. Secondly, over time, the customer engagement conversations became more structured, with the use of surveys or ESG (environment, social and governance) assessments for example.

Some examples of the positive outcome of customer dialogues

ČSOB in the Czech Republic co-financed two projects by sock manufacturer **Northman Outdoor,** worth CZK 20 million for the installation of low-carbon technologies.
The projects were guided by the ČSOB EU Centre team. Northman Outdoor's CEO Jan Jenderej: "*By implementing these projects, i.e. the installation of a heating pump in energy and the complete replacement of energy-intensive manufacturing technology, we will substantially further reduce our CO_2 emissions*".

ČSOB in the Czech Republic provided a 6.8 million euro loan to tea producer **Sonnentor** to finance investments into the extension of their production facility, including significant investments in energy-saving technologies and the installation of photovoltaic panels. "*We hope that our new development will serve as an inspiration for others in how to build with respect for nature, using local materials and in observance of circular economy principles, in a sustainable manner*", explains Sonnentor's CEO Josef Dvoracek.

In Belgium, our green mobility policy has sparked a lot of interest among our KBC Autolease and corporate clients. Next to 'regular' customer engagement conversations, we therefore also regularly explain our own green mobility approach for KBC employees to interested clients. As such, our own approach serves as a "best practice" for other KBC clients.

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Moreover, in our conversations we also started to focus on gathering environmentally relevant data (for the rationale and approach, see the 'Data and metrics' part of this section). Again, the data gathering approach was first set up in Belgium. A Carbon Footprint Calculator for Belgian SME and midcap clients' emissions was piloted. We also successfully piloted the use of a more extensive survey, specifically developed for each of the White Paper sectors, and based on the issues and priorities that were highlighted in the first round of the White Papers. In 2022, we aim to further develop and structurally implement these tools.

At the end of 2021, more than 1 500 conversations spread across the various core countries had already been conducted since the start. In Belgium alone, in 2020 and 2021 combined over 900 customer engagement talks had taken place. These conversations led to 208 introductions and 88 contracts with our Belgian partner Encon. Clients generally responded favourably to the conversations, though there were differences across contexts and between clients. To what extent our clients are working on these issues tends to depend from one client to the next.

Also, the Carbon Footprint Calculator and the propositions that emerged therefrom were generally very favourably received by our clients. The gathering of more detailed (environmental) data generally turned out to be slightly more challenging, with some clients more willing to provide company-specific data than others.

In 2022, we plan to continue to execute and improve our customer engagement approach. An evaluation of our approach so far has shown that proper training and tools for employees are crucial for a successful strategy. In 2022, we will therefore continue to focus on and provide such training and tools to support our employees in engaging in these dialogues. Also, in most countries, the training sessions will be expanded to include relationship managers for SMEs.

We will also continue to work on a more structured approach to our customer conversations. This will include an evaluation of how the Carbon Footprint Calculator can be better integrated in all client conversations and implemented in the other core countries as well. Also, the scope of our conversations will be further aligned with our data and metrics approach to ensure that all required and relevant data are structurally collected in order to enable us to comply with our regulatory obligations, but most of all to enable us to offer more tailored propositions to our clients and hence to assist them in their transition to a more sustainable economy.

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Products, solutions and transactions that contribute to a greener environment

We develop business solutions as part of our strategic 'environmental responsibility' focus area in all of our core countries since 2016. Examples of such solutions can be found in the 'Our sustainable business solutions' section of this report. In 2021, we continued to offer products, solutions and transactions that contribute to environmental and social objectives. In this section we present some examples that are specifically situated in the context of climate change.

Some of these products, solutions and transactions are offered by adhering to green existing frameworks in the market. A milestone was the final publication of the EU Taxonomy Climate Delegated Act in December 2021, which has been in force since 1 January 2022. This represents a technically robust classification system at EU level to establish clarity which activities qualify as 'green' or 'sustainable', starting with the climate change mitigation and adaptation objectives. Once again, we would point out that if we use terminology such as 'green' and 'sustainable' in our Sustainability Report and in this section, these terms in no way suggest that what we describe is already (fully) aligned with the EU taxonomy.

Going forward, it is our intention to align the criteria of our green products as widely as possible with the substantial contribution criteria of the EU taxonomy, in the first instance for climate mitigation. It is not clear yet how products are to be fully aligned with the EU Taxonomy criteria, including the Do No Significant Harm criteria, as this involves a high degree of complexity and technicality in terms of applicable data and data gathering.

Continued focus on opportunities

In order to enable us to continue our key role in the area of sustainability, all KBC Group's local entities are working on sustainability-linked solutions to tackle the often complex hurdles on the road towards becoming more sustainable. In 2022, a lot of new releases are expected in all of our core entities, in multiple domains.

Based on various decisions of the Internal Sustainability Board, the specific business-related actions from the full Sustainable Finance Programme Action Plan (as submitted to the ECB) and the follow-up steps as described in the White Papers, a clear action plan has been decided with the most important actions for all local entities in KBC Group's core countries. These actions are strictly followed up by the local sustainability decision-making bodies, including their local management boards and local Boards of Directors. At least twice a year their progress is reported and discussed at the Internal Sustainability Board. In doing so, the qualitative and timely accomplishment of the various actions is ensured.

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KBC Green Bond

To date, KBC has issued three green bonds in accordance with the International Capital Markets Association (ICMA) Green Bond Principles to refinance assets in the area of renewable energy and green buildings. In 2018, KBC was the first Belgian financial institution to issue a green bond, worth 500 million euros, for institutional and professional investors. In June 2020, we returned to the market and issued our second 500 million euro green bond. In November 2021, we successfully issued our third 750-million euro green bond.

On 31 March 2021, the annual emissions avoided through the two first KBC green bonds, as disclosed in our KBC Green bond Impact report, amounted to 192 619 tonnes of CO_2. Our 2021 KBC Green Bond will avoid approximately 128 000 tonnes of additional CO_2. We will update our Green bond impact report per 31 March 2022.

KBC is closely following up on the EU Green bond regulatory proposals and market developments. We will consider incorporating the EU Taxonomy in our green bond framework in the future.

Green Loans, Green Bonds and solutions for corporate clients

KBC supports its corporate clients in their transition journey by promoting and structuring suitable sustainable debt financing solutions. We arrange green or sustainable bonds and sustainability-linked bonds in accordance with the ICMA Green Bond and Sustainability-Linked Bond Principles as well as green loans and sustainability-linked loans in accordance with the Loan Market Association (LMA) Green Loan and Sustainability-Linked Loan Principles.

To promote these sustainable finance solutions, the Loan and Debt Markets team of KBC Securities in Belgium, supported by the ESG Team of KBC Securities, held more than 25 in-depth discussions with mid-cap and large-cap corporates on their sustainability strategy and the possibilities of sustainable financing.

KBC also arranged several sustainable financing solutions for its corporates. As just one example, in March 2021 KBC Bank NV acted as the joint Green Bond Structuring Agent and Joint Global Coordinator for the inaugural EUR 600 million Green Bond for VGP NV, a European provider of high-quality logistics and semi-industrial real estate. VGP's CEO Jan Van Geet commented: *"The launch of our inaugural green bond is a further building block in our long-term sustainability strategy. We intend to use the proceeds to fund our majority pre-let development pipeline and to support the needs of our clients through the development of renewable energy assets and the design and development of new green logistics and semi-industrial parks which deliver to high standards of energy efficiency."*

KBC Bank NV also acted as the Green Structuring Agent and dealer for a Green Treasury Notes Programme set-up for Xior in accordance with the Xior Green Finance Framework. Xior is a real estate investment trust in the student housing sector operating in Belgium, the Netherlands, Spain and Portugal.

In the loan market, in April 2021, KBC was assigned as the Sustainability Coordinator and Bookrunning Mandated Lead Arranger to arrange a new EUR 80 million sustainability-linked revolving credit facility for Euronav NV, an independent tanker company engaged in the ocean transportation and storage of crude oil. The interest margin of the facility is linked to the achievement of carbon emission reduction targets in line with the International Maritime Organisation (IMO) carbon emissions reduction targets, thereby providing an incentive to Euronav to pursue its decarbonisation journey.

In 2021, ČSOB in the Czech Republic successfully completed its first euro-denominated corporate bond mandate (worth 1 billion euros) for CTP, in accordance with the ICMA Green Bond Standards. CTP is a leading logistic property owner and developer in Central Europe. As an industry frontrunner in sustainable finance, CTP allocates all proceeds from its bond transactions to buildings with very good or excellent external sustainability certificates.

In Corporate Banking, KBC Bank launched a carbon footprint pilot in which KBC calculated 50 carbon footprints using an in-house carbon footprint tool. Pilot clients warmly welcomed the effort and output: 79% of the clients were (very) satisfied.

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Meanwhile, a pilot with SME clients is ongoing and we plan to roll out the carbon footprint calculator to be used in all of our core countries.

KBC Bank also supports sustainable investments in the corporate segment by offering green credits with a favourable interest rate. The type of investments that qualify for this green label include renewable energy, zero emission vehicles, heat networks, new buildings, building renovations, waste management and water treatment, subject to meeting the requirements. The list of eligible investments is a dynamic list and will be updated in 2022 to take account of the EU Taxonomy requirements, to the maximum extent possible.

In the Czech Republic, ČSOB has provided first 5 loans aligned with the EU taxonomy criteria. One of the loans was in support of Sonnentor s.r.o., a company which has environmental care deeply ingrained in its DNA, for the construction of an exceptional office and production building in Čejkovice. The entire site will be carefully embedded in the surrounding landscape in order to minimise the negative impact on the environment in the areas of heating, cooling and building materials used.

Renewable Energy finance

Our group is actively involved in renewable energy project finance across all core countries. At the end of 2021, the outstanding amount in our portfolio of renewable energy project finance stood at 1.39 billion EUR. This portfolio resulted in avoided emissions of 447 460 tonnes of CO_2 (data as at 31 December 2021).

In Belgium, the Project Finance Team at KBC Securities effected an increase of 122 MWp in renewable project finance in 2021, accounting for 198 million EUR. The total granted portfolio exceeds 1.1 billion EUR. The development of wind power plants was also supported in other ways (for instance by granting guarantee lines). Further to a close collaborative project with Storm, one of Belgium's leading developers of onshore wind energy, KBC provided the financing for four new onshore wind farms located in the port of Ghent and in the towns of Zoersel and Berlare. With a capacity of almost 46 MWp, the four wind farms will provide green energy to 32 700 households. The wind farm located in the port of Ghent at the ArcelorMittal site includes a corporate power purchase agreement concluded with ArcelorMittal Belgium. This means that for those turbines, the project no longer depends on the Green Certificate subsidy mechanism but will receive revenues under the agreement it reached with ArcelorMittal which will purchase the generated power directly from the project company. This is the very first of its kind in Belgium and KBC is very proud to have been instrumental in accomplishing this project with Storm and ArcelorMittal.

KBC was mandated, in support of its client Parkwind, as the lead arranger, to act as the hedging bank and facility and security agent of Parkwind's first offshore wind project outside Belgium, Parkwind Ost in the German Baltic Sea. The Parkwind Ost wind farm will generate green electricity for the next 25 years. KBC's share in the financing relates to a capacity of 23 MWp and the pertaining annual generation of electricity equals the consumption of around 26 000 households.

Also in 2021, KBC acted as the sole originator, arranger and hedging bank in support of its client Engie for Wind 4 Flanders Projects Alpha, the largest onshore wind project launched on the Belgian market in 2021. The project entails 6 wind farms and 9 wind turbines, located at 6 different locations dotted across Flanders. The total capacity of the project amounts to 35.6 MWp, with the annual generation of green electricity corresponding to the consumption of 39 000 households.

In Bulgaria, in 2021 UBB financed new renewable energy projects set to generate more than 40 MW, thereby avoiding more than 30 tonnes in new carbon emissions.

K&H and ČSOB Czech Republic successfully closed financing for the construction of 39 new photovoltaic power plants in Hungary with an overall output of 19.5 MWp. The entire project is developed by Slovak investors and represents a fine example of cross-border cooperation between KBC entities in the financing of renewable resources. Further in 2021, K&H and ČSOB Slovakia successfully closed the financing of a 64.9MWp solar project comprising 130 PV plants at 5 locations in Hungary. This is another fine example of cross-border cooperation of KBC entities in the field of green financing.

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Mobility

At KBC Autolease in Belgium, the average emission of a new vehicle in our portfolio went down from 132gCO_2/km in 2020 to 91gCO_2/km in 2021, with almost 24% of new vehicles complying with the substantial contribution criteria of the EU Taxonomy with an emission of less than 50gCO_2/km. To a large extent this can be attributed to the rising share of full electric vehicles and the focus on low emission vehicles. In the overall portfolio, the Autolease fleet includes 12% electric and hybrid cars. KBC Autolease's bicycle lease fleet exceeded 20 000 lease bicycles. KBC Autolease has a multimodal mobility offering for its clients presented via its digital Movesmart platform, in which cars, bicycles and the multimodal offering of Olympus Mobility are included. At KBC Bank, private clients were encouraged to invest in mobility solutions that help reduce the impact on climate change, by offering consumer loans with a favourable interest rate. Examples of these solutions are: switching to a full electric/plug-in hybrid car (+50% compared to 2020) and buying an (electrical) bicycle (+20% compared to pre-corona 2019).

In Bulgaria, UBB Interlease is also an active participant in the furthering of sustainable finance. The lease company launched its COSME programme in 2020. As part of the programme, UBB has incorporated a specific lease product that delivers financing for electric and hybrid vehicles as well as any equipment related to renewable energy.

Also in Slovakia, ČSOB Leasing actively promotes zero and low-emission vehicles, also in association with other partners (Car importers and Dealers, Leasing association, Union of car producers, Slovak e-vehicles association, etc.) to offer clients environmentally friendly alternatives for fossil fuel cars.

Housing

KBC encouraged private clients, looking to improve the energy efficiency of their home, by doing house renovations that result in lower energy use or more renewable energy use. The rush on solar panels in 2020 in Belgium came to an abrupt halt in the beginning of 2021 due to uncertainties related to the existing subsidy schemes, but in the last quarter of 2021 we saw renewed interest of clients in home batteries and solar panels due to rising energy prices combined with government grants. Since January 2021, KBC Bank NV has been offering clients the Flemish '0% loan'. If clients buy an energy-inefficient house or apartment in Flanders (EPC label E or F), they can take out a special 0% renovation loan for up to 60 000 euros to make the building energy-efficient (EPC label A, B or C) within 5 years. The annual interest paid by the client on that loan is reimbursed by VEKA (*Vlaams Energie en Klimaat Agentschap*) resulting in a 0% interest rate loan. In the first year, over 300 clients already signed up for this 0% loan with KBC Bank NV.

Furthermore, the Flemish government has already announced its plans to extend the scope and the financial benefits of this 0% loan to support clients who will be required, from 2023 onwards, to renovate their recently bought home to at least an EPC D label.

In 2021, ČSOB in the Czech Republic too supported the transition to energy-efficient housing by offering green mortgage loans. In Hungary, K&H was among the first to launch the state-funded green mortgage in October 2021 with a very favourable interest rate, provided the property is upgraded a BB or better EPC category and has a power consumption of no more than 90 KWh/m^2/year.

Insurance

KBC's insurance business evolves with the needs of its clients and is looking at ways to meet the changing needs of clients who are greening.

Some examples in Belgium:

- In 2021, we adapted our car insurance policy to the electrification trend. We now offer fully comprehensive cover and appropriate assistance for electric vehicles (EVs) and hybrid cars too. Clients are able to take out their EV policy online. And if they wish to install their own charging station, this is included in the Home insurance as standard, whilst it can also be insured under the Patrimony insurance policy (covering building and contents outside the standard Home insurance policy).
- In our Home insurance, we cover a number of green investments such as charging stations, solar panels and home batteries.
- New for 2021 as part of the Patrimony insurance is that these policies can be made to cover small wind turbines.
- In 2021, we developed our own Multi-peril climate insurance for farmers. Farmers increasingly face extreme weather conditions. Farmers with open cultivation, such as fruit growers or arable farmers, can take out insurance against damage to crops caused by extreme and unfavourable weather conditions such as storm, hail, frost, ice, precipitation and drought.

Internal carbon price

Internal carbon pricing (ICP) is a mechanism by which companies and organisations can determine and apply an internally estimated cost of carbon emissions. In a short space of time, ICP has emerged as a critical forward-looking tool that can help organisations assess and manage climate-related transition risks and opportunities. This central role for ICP was confirmed by the TCFD, whose recommendations expressly refer to internal carbon pricing as a key mechanism to consider and assess climate-related factors. In our effort to continuously improve our climate-related management practices and as a part of our endeavour to align our business strategy with the transition towards a low-carbon economy, 2021 saw KBC introduce a preliminary internal carbon pricing schedule.

As guidance to establish its own ICP framework, KBC adopted the four-dimension framework (height, width, depth and time) developed by CDP and Navigant[1]. This framework offers structure and supports the implementation of internal carbon pricing in different departments within the organisation, while providing sufficient flexibility and allowing for customisation that fits KBC. In line with the four-dimension framework, we are aiming for a gradual step-by-step approach, using pilots, rather than trying to perfect the use and application of ICP from the outset. As a first step, we therefore confined ourselves to the first dimension of the framework: the height (amount) of the internal carbon price.

[1] How to guide to corporate internal carbon pricing: CDP & Navigant and Internal carbon pricing for low-carbon finance: CDP & Navigant

The cornerstones on which we base the height (amount) of our internal carbon price are as follows:

- We take guidance from reliable and established climate scenario providers to extract a range of carbon price levels that are aligned with the transition to a low-carbon economy. To determine our initial price, in amongst other sources, we used the International Energy Association's (IEA) Sustainable Development Scenario[2] and the Phase 1 NGFS (Network for Greening the Financial System) scenarios[3].
- We only use scenario data that are geographically focused on the European Union (NGFS) or Advanced Economies (IEA), to mirror the economies where KBC mainly operates.
- We use the scenarios selected as guiding principles to set out forward-looking base and stress carbon price trajectories whilst also accounting for various factors such as market-based price levels (EU Emissions Trading System (ETS)) and policy developments.
- We aim to conduct an annual review of both carbon price trajectories that will be based on updated scenario data and other developments such as market price changes and policy.

[2] CO_2 price levels for advanced economies under the IEA's Sustainable Development Scenario with linear interpolation for the years not included in the World Energy Model Documentation 2020 Version.

[3] Phase 1 NGFS scenario data can be consulted on the IIASA hosted NGFS Scenario Explorer Portal - download 'NGFS Scenario Data V1.1'. For setting out carbon price ranges, the 'Disorderly 1.5°C'(REMIND-MagPIE) and the 'Disorderly 2.0°C' (MESSAGEix-GLOBIOM) scenarios were not included as carbon price levels outlier those from the remaining other NGFS scenarios.

- Until further notice, the internal carbon price acts as a shadow price, i.e. a theoretical cost that informs long-term business planning and financing strategies, currently explored in pilot mode.

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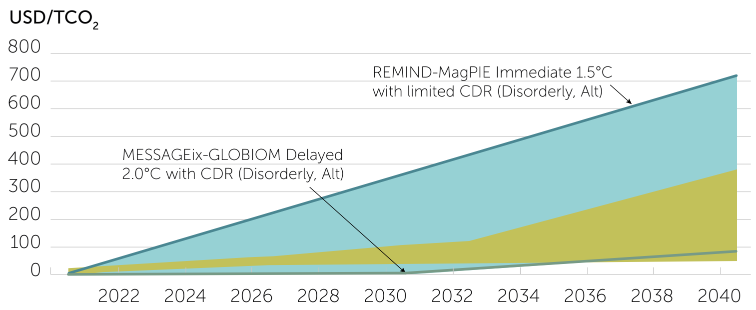
Establishing ICP guidance from internationally recognised climate scenarios

Several international organisations (such as the Network for Greening the Financial System (NGFS) or the International Energy Association (IEA)) have modelled various climate scenarios to support climate-mitigating policies and risk management. Included in these models are trajectories for rising carbon emission prices going forward, though these trajectories crucially depend on a number of assumptions such as policy developments, the timing of these policy developments and the use of carbon dioxide removal (CDR) technology.

To help guide our internal price setting process, we look at a range of such scenarios derived from variations of three different models (MESSAGEix-GLOBIOM, REMIND-MagPIE and the IEA World Energy Model). While these models are periodically updated, for the first iteration of our ICP setting we used the scenarios prevailing as of February 2021. In total, we looked at 11 different scenarios, providing a wide range of carbon prices (Graph 5.3).

Graph 5.3: Wide range of carbon pricing scenarios

Blue colored area represents range of 11 price estimates (REMIND, MESSAGE, IEA)
Green colored area excludes 2 'max and min' scenarios
Two disorderly scenarios are highlighted



Source:
KBC Sustainability and KBC Economics based on NGFS, IEA 2020 models, IEA models only extend until 2040
Max/min scenarios = REMIND-MagPIE Immediate 1.5°C with limited CDR (Disorderly, Alt) and MESSAGEix-GLOBIOM Delayed 2.0°C with CDR (Disorderly, Alt)

As suggested by Graph 5.3, the range for carbon prices in these scenarios varies significantly, with a range that further widens out in time (reflecting higher uncertainty). However, if we exclude the scenario with the highest carbon price trajectory (REMIND-MagPIE Immediate 1.5°C with limited CDR) and the lowest carbon price trajectory (MESSAGEix-GLOBIOM Delayed 2.0°C with CDR), both of which are considered 'disorderly' scenarios, the range, at least until 2032, is fairly narrow. Using these scenarios for guidance, together with other inputs such as new or expected policy developments and EU ETS futures prices, enables us to better inform the ICP for KBC.

As stated earlier, this is only the start of a broader ICP integration path. As a subsequent step we are further exploring in which activities it would be relevant to apply ICP (the 'width' dimension of aforesaid framework). The first concrete initiative in this respect came from a pilot set up in our lending activity. As part of this pilot, the ICP projections were used in the context of carbon price impact assessments for credit applications decided at head office. At this stage, these forward-looking carbon price impact assessments exclusively related to counterparties operating in sectors that were in scope of the EU ETS. To facilitate the calculation of the potential financial impact of projected carbon price changes, an Excel tool was developed which provides an overview of various elements, including a counterparty's projected earnings, adjusted for the price levels determined under both the base as the stress ICP trajectories, whilst also taking into account the projected development of GHG emissions of the borrower where available. On the occasion of these carbon price assessments, the actual emissions of the counterparty borrower are also benchmarked against sector average emissions, as calculated using the PCAF methodology. This peer benchmarking reflects the counterparty's position compared to the rest of the sector and further enriches the carbon-related financial assessment. An evaluation of the pilot is scheduled to take place in the first quarter of 2022 after which its application may be extended to other sectors and possibly to smaller credit applications. Going forward, we will continue to further explore the application of ICP in other relevant activities of the group.

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Risk management

Managing risks arising from Environmental, Social or Governance (ESG) factors is crucial to us as a financial institution. The term ESG risks refers to the risks of (current or prospective) ESG factors that may impact KBC, directly or via its counterparties and exposures. More specifically, environmental risk refers to the risks arising from climate change (climate risk) or from other environmental degradation (such as biodiversity loss, water stress, pollution and waste). Social risks arise from changing expectations about relationships with employees, suppliers, clients and society as a whole. Finally, governance risks are risks that stem from changing expectations about corporate governance (corporate policies, codes of conduct, etc.).

Sustainability and climate change are increasingly getting more attention as the effects of climate change are becoming increasingly visible (evidenced by the 2021's summer floods in Wallonia and the Czech tornados) and are changing the expectations, mindsets, consumption and investment patterns of our stakeholders. At the UN Climate Change Conference in Glasgow (COP26), countries revisited and strengthened their climate pledges made under the 2015 Paris Agreement and stressed the urgency of action "in this critical decade", when carbon dioxide emissions must be drastically reduced to reach net zero around the middle of the century.

Given the increased urgency, climate risk has been confirmed to be a top risk for KBC. If not addressed, climate change is expected to have devastating effects (extreme storms, floods, pandemics, mass migration, economic crisis, etc.) with extremely high costs for society, including for financial institutions and their clients. The path towards a greener economy on the other hand remains highly dependent on technological breakthroughs, upcoming (EU) policies, regulations and actions by governments (e.g., stricter energy efficiency rules, incentives from the EU Green Deal). These can impact the stability and value of our loan and investment portfolios.

For climate risk, we distinguish between transition risks and physical risks as defined by the Task Force on Climate-related Financial Disclosures (TCFD).

- Transition risks: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy, which include policy changes (e.g., imposition of carbon-pricing mechanisms, energy efficiency requirements), legal changes (e.g., climate-related litigation), technological changes/progress (e.g., old technology replaced by cleaner technology) or behavioural changes (e.g., where consumers or investors shift towards more sustainable products and services or difficulties to attract and retain clients, employees, investors or business partners for companies with a reputation of harming the climate).
- Physical risks: risks related to potential financial implications from physical phenomena associated with both climate trends (chronic) such as changing weather patterns, rising sea levels, increasing temperatures, chronic heat waves, etc. and extreme weather events such as (acute) including storms, floods, fires, heatwaves or droughts that may disrupt operations or value chains, or damage property.

KBC approaches climate risk from a double materiality perspective: we concentrate on

- financial materiality (outside-in view), looking at the impact of climate change on our business. E.g. transition risks can lead to the sudden re-pricing of assets, market volatility and credit losses resulting from financing obsolete (brown) technologies or infrastructures, impacting the stability of lending and investment portfolios, whereas physical risk may increase the level of claims under the insurance policies we provide, as well as the value of our assets or collateral.
- environmental and social materiality (inside-out view), looking at our business' impact on the climate.

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Risk governance

The management of ESG risks is fully embedded in our existing Risk Management Governance. The three lines of defence concept constitutes the cornerstone of KBC's risk governance and specifies the roles and responsibilities with regard to risk management for all risks to which KBC is exposed, including ESG risks. The Board of Directors, the Risk and Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes.

The risk function is actively represented on KBC's sustainability committees. See also the 'Sustainability governance' part of this report.

- The Group CRO is a member of the Executive Committee, which is the committee that has the highest level of direct responsibility for sustainability and climate change and reports on these topics to the Board of Directors.
- The senior general manager of Group Credit Risk is a member of the Internal Sustainability Board.
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee and the Data and Metrics SteerCo.
- The risk function is represented in the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group and reports to the Sustainable Finance Programme Steering Committee.

Within our Audit Framework, transversal risks – including ESG risks – are covered in multiple audits (e.g. sustainable lending policy in Credits audits, sustainable investment policy in Asset Management audits). Additionally, thematic audits which specifically focus on ESG risks are also part of the multiyear audit plan.

Sustainability, including climate and the associated targets, has been integrated into the remuneration systems of our employees and especially our senior management. Please refer to the 'KBC Sustainability Dashboard' part of this report and 'Corporate governance statement' of the Annual Report.

Integration into risk management frameworks and processes

The KBC Enterprise Risk Management Framework defines KBC's overall approach to risk management and sets group-wide standards for risk management. It covers all risks to which KBC is exposed, including ESG risks, which are gradually being embedded in KBC's risk management processes.

ESG risks, including climate risk, are identified in our risk taxonomy but not defined as a separate risk type. They are considered as key risk drivers of the external environment which manifest themselves through (all) other traditional risk areas, such as credit risk, market risk and technical insurance risk.

Within the industry, risk assessment methodologies are most advanced for climate risk (compared to the other ESG risk areas). Also at KBC, our primary focus goes out to the integration of climate risk within all risk management frameworks and processes (such risk identification, measurement and stress testing and risk appetite).

When developing our climate risk management approach, we are taking steps to deal with the specific challenges that are inherent to the assessment of climate risk:

- we are stepping up efforts to fill data gaps through the establishment of a dedicated Data and Metrics project, established within the Sustainable Finance Programme;
- we continuously investigate external developments and potential new methodological tools and services, in order to further build relevant knowledge and expertise and gradually gain more insights;
- we are adjusting our current risk processes to make sure that, alongside the more traditional short-term impacts, also medium and long-term considerations are integrated into risk identification, risk appetite, stress testing and risk reporting,
- in our climate risk assessments, we consider different climate scenarios (making specific assumptions on technological and policy changes and translating these into impacts on e.g. energy production, CO_2 emissions, oil consumption, etc.).

In the next sections, KBC's approach towards the gradual integration of climate (and other ESG) risks into our risk management frameworks and processes is further elaborated. We are taking a step-by-step approach where follow-up actions are defined based on the insights gained from our previous actions/analyses and whereby these actions are contingent on the availability of data and methodologies, for instance.

Risk identification

We use a variety of approaches and processes to identify new, emerging and changing risks, including climate and other ESG risks. We continuously scan the internal and external environment for new and emerging risks we are exposed to in the short term (1-to-3 year horizon), in the medium term (4-to-10 year horizon) and in the long term (beyond 10-year horizon). By doing so, we also incorporate a forward-looking perspective. This group-wide process involves all relevant stakeholders, including entities from the business side, corporate sustainability and asset management.

To ensure pro-active risk identification, we have taken the following initiatives:

- The strategic sectoral projects (so-called White Papers) which have been developed for 8 carbon-intensive industrial sectors and 3 product lines also assess the risk impacts of the challenges and technological evolutions within these sectors. More details on these White Papers can be found in Updated strategies on the most carbon-intensive industrial sectors and product lines (White Papers) in this section and the White Papers appendix of this report.
- Sustainability and climate-related policies are taken into account when deciding on new products or services. Particular attention goes to the adequate 'green' labelling of newly developed products, aligned with regulatory frameworks such as the EU Taxonomy and the International Capital Markets Association (ICMA) Green Bond framework.
- A sector-based environmental and social (E&S) sectoral heat map has been developed and implemented into the loan origination and review processes as a screening tool to identify hot spots in terms of E&S risks in the Corporate and SME loan book. Based on this heat map, a sectoral E&S risk portfolio monitoring report has been set up, providing insight to management on the overall E&S riskiness of KBC's industrial loan portfolio. Additionally, as a supporting tool for the business, credit advisors and decision-makers to assess environmental and social risks during loan origination, KBC has implemented the ESG Assessment Guide in the loan origination/review process. An ESG Assessment is mandatory for high-risk sectors above certain materiality thresholds, as also specified in KBC's Credit Risk Standards on Loan Origination for Corporate, SMEs and Micro SMEs. Both the Heat Map as well as the Assessment Guide take a broader E&S scope by not only focusing on climate (transition and physical) risk but also on the other environmental risks (water, pollution, waste and ecosystems/biodiversity) and social risks.
- Customer dialogues are an essential part of the KBC's approach to better understand how business clients already deal or plan to deal with sustainability challenges and to support them in this transition. Please refer to the 'Customer engagement' part of this section.
- In 2021, we have taken the first steps in the development of an internal carbon price (ICP) scheme. A first ICP use case pilot for lending (piloting with carbon cost impact analysis in ESG assessment) has recently been launched. More information is included in the part on Internal carbon price of this section.
- We assess more extreme weather conditions (such as changes in storm and precipitation patterns and changes in the frequency of floods) through a number of internal and external measures and stress tests to analyse the potential impact of extreme natural events on our non-life property insurance portfolio. External broker and vendor models are used at KBC Insurance entities to model extreme events of this kind. KBC insists on an active dialogue on the inclusion of climate change in the scenario analysis performed by these providers. Physical risks in other regions around the world are also closely monitored, as they can affect the global reinsurance market

on which KBC relies. Moreover, KBC maintains good relations with its reinsurance undertakings, whose insights on KBC's portfolios are shared with KBC.

- As further elaborated in the data and metrics part of this section, to date KBC has worked with external parties on a series of tools and methodologies to heighten our ability to identify and measure climate related risks.
- In 2021, KBC initiated the development of a Climate Risk Impact Map. This new risk identification tool aims to identify, for different time horizons and different climate scenarios, the most material climate risk drivers impacting KBC's businesses and portfolios. It reflects, for the traditional risk types, the impact of transition and physical risk drivers. For more details, readers are referred to our Risk Report. As of 2022, the Climate risk Impact Map's conclusions will feed into our risk management processes. Moving forward, as more climate-related data and insights will become available, our exposure to climate risk will be evaluated in a progressively data-driven way.
- In 2021, we took different initiatives to further increase climate risk awareness, e.g. by following up on new and changing regulations through a Sustainable Finance Legal Working Group, by regularly reporting on ESG risk signals to senior management (e.g. via the Integrated Risk Report) and by organising internal communication and training for (risk) staff and management (see also the section on 'Our people' in this report.

Climate risk is also heavily interlinked with other environmental risk types, such as biodiversity loss, water stress, pollution (air, soil and water) and waste management. Global warming is expected to have a negative impact on biodiversity and ecosystems on land and at sea. On the other hand, oceans, forests and soils are important sources of carbon absorption. The deterioration of these natural resources is therefore expected to further contribute to a changing climate. Alongside this re-enforcing effect on climate change, these other environmental risks can also significantly affect financial institutions' balance sheet through their clients and investments in several other ways. For example, the deterioration of biodiversity loss or reduced water availability could affect multiple businesses relying on these natural resources. For this reason, KBC has taken the first steps to integrate the other environmental risks into our risk management processes, e.g. by strictly adhering to KBC's Biodiversity Policy (see the 'sustainability policies' part of this report), by considering environmental risks as part of our loan/review origination process and by reporting on environmental risks to the Board of Directors as part of our regular risk reports.

Risk measurement, scenario analysis and stress testing

Tools and methodologies

We are working with external parties on a series of tools and methodologies to strengthen our ability to identify, measure and analyse transition risks for our lending and investment activities.

These tools provide further insights into the impact of climate change on our business model, as well as that of our activities on the environment (double materiality). Integrating these tools and methodologies will enable us to gradually improve credit underwriting and investment policies and support us in engaging with our clients. For more information, please refer to the part on 'Data and metrics' in this section.

Historical emissions will inevitably lead to a society that is more confronted with the adverse physical effects of a changing climate and as such it is worthwhile to assess the vulnerability of KBC's home countries' economies to the potential physical damage resulting from adverse climate change. This vulnerability analysis was performed using Climada, an open-source natural catastrophe model developed and maintained by ETH Zurich. Based on this specific analysis, the most vulnerable home countries in relative terms to the size of their economies are Hungary, Ireland and Slovakia, whilst the Czech Republic is the least exposed country. More details can be found in the 'Climada' appendix of this report.

The insights gained from these methodological tracks are valuable to identify hot spots in KBC's loan portfolio, to be used as input for target setting and climate risk stress testing and to initiate policy adjustments where necessary. They are also part of KBC's exploration to further integrate climate risk into our credit assessment processes and modelling (including expected credit losses).

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Stress testing

Stress tests and sensitivity analyses are essential tools in the risk management toolkit, for instance to identify weaknesses or blind spots, assess capital and liquidity adequacy, etc. KBC's overall stress-testing approach is based on establishing a sound 'stress-testing mix' covering all material areas and risks with a variety of stress-testing methodologies, ranging from simple sensitivity to more sophisticated and elaborated multiple-scenario analysis and reverse stress tests. Climate risk is playing an increasingly more prominent role in the scenarios of KBC's stress tests and sensitivity analyses. Other ESG drivers are also considered, such as failure of data protection or operational risk losses from possible cyber hacks.

In 2020-2021, climate drivers (covering both transition and physical risk) have already been integrated into several internal stress test exercises. From the performed stress tests, it may be concluded that – even though climate risk is a relevant and increasingly prominent risk driver for KBC and the economy as a whole – there is no immediate threat to KBC's capital and liquidity buffers. Although profitability can be impacted under the more severe climate-related stresses, these would not bring KBC's profitability targets below required levels. More information on the stress tests performed can be found in our Risk Report.

Our stress tests and their scenarios will be gradually enhanced following new insights from e.g. our internal climate risk map (see the part on 'Risk identification'), or the methodological tracks (as described above) that will help us to better translate the impact of climate pathways to financial parameters such as expected credit losses or insurance claims.

A significant next step in the direction of holistically including the impacts of climate risk in a quantitative way in stress testing will be KBC's participation in the 2022 ECB Climate Risk Stress Test. In 2021, KBC has already spent important effort in the preparation of this regulatory stress test (e.g. collecting required data and developing calculation methodologies). The gathered experience and data will also provide significant added value for further development of our internal integrated climate risk stress testing.

Setting and cascading risk appetite

KBC has a well-developed Risk Appetite Statement and process, which supports KBC in the successful implementation of its strategy. It is therefore not fixed but evolves in sync with changes in the internal and external context and the strategic ambitions. KBC's risk appetite covers all material risks that KBC is exposed to with particular attention for risks which dominate the external environment not only today but also in the future. Given the increased importance KBC assigns to climate risk, a specific risk appetite objective has been added to KBC's Risk Appetite Statement, covering both angles of the 'double materiality'.

KBC Group is committed to embed climate and environmental impacts into its decision making, products and processes with the aim of contributing positively to society and safeguarding KBC's long-term sustainability.

Other objectives also address other ESG themes. These include

- promoting a strong corporate culture which encourages responsible behaviour and is supported by a promotion and remuneration policy with a sustainable and long-term view,
- ensuring stable earnings and sound financial figures (capital and liquidity),
- promoting strong Corporate Governance and Risk and Compliance Management and taking into account the internal and external context as key drivers to enhance the organisation's resilience and to create value.

These high-level risk appetite objectives are further translated for different risk types (credit, market, insurance, operational and reputational risks). More details can be found in our Risk Report.

KBC's risk appetite is supported by our policies for sustainable and responsible lending, insurance, advisory services and investments and sustainability targets, which clearly define the risk playing field for credit, insurance, advisory services and investments (asset management and own investments). More information on our policies and sustainability targets can be found in the part on 'Sustainability policies' and the part on 'Our sustainability targets' in this report.

Going forward, based on new data and insights, we aim to further translate our ESG risk appetite objectives into additional key risk indicators and targets.

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Risk analysis, monitoring, reporting and follow-up

Indicators for climate-related risks and opportunities are integrated into the KBC Sustainability Dashboard (presented twice a year to the Board of Directors), which allow us to monitor progress in the implementation of our sustainability strategy and to make adjustments when necessary.

The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes (e.g., Internal Capital and Liquidity Adequacy Assessment Process (ICAAP/ ILAAP), the Own Risk and Solvency Assessment (ORSA), Integrated Risk Reporting, Risk Appetite, etc.). Given that climate risk is being integrated in all risk processes and, moreover, has been identified as a top risk, increased attention is given to the topic in all of these existing risk management processes and their reports.

Since data are important to further monitor and steer our portfolios, to set targets and to be able to meet the various regulatory requirements (e.g. from EU Taxonomy disclosure regulation, EBA Pillar 3 requirements, Corporate Sustainability Reporting Directive (CSRD)), the Data and Metrics Project within the Sustainable Finance Programme has started coordinating the data collection in all of our core countries and will be creating the desired aggregated reports.

Also regarding the Sustainable Finance Disclosure Regulation (SFDR), KBC (and in particular KBC Asset Management) is also implementing the various disclosure requirements (on entity, service and product level)

Data and metrics (including the Scope 3 GHG emissions calculations for our portfolios)

Gathering climate-relevant data on our portfolios is crucial to monitor and steer our portfolios in the area of climate, to set targets and to be able to meet the various reporting requirements from the regulators and supervisors. We track the climate-related impact on and of our portfolios using a variety of tools. For our loan portfolios, we use 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), while we use the Trucost data and methodology for our investment activities. All of these tools serve different purposes and inform us about and support us in correctly reporting on the climate-related impact of our portfolios in different ways. Through their combined use, they may inform us in setting targets on and steering our portfolios towards increased sustainability.

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The use of these tools has shown that one of the biggest challenges for the Sustainable Finance Programme is the need to collect the necessary and sufficiently granular climate-related data on our portfolios. This is especially true since most of our clients are private individuals, SMEs and mid-caps. The majority of these clients often do not yet have basic climate-related data or calculations of their GHG emissions, certainly not in publicly accessible formats. This is in contrast to larger companies, which are often already required to disclose non-financial data and are therefore more easily able to share climate-related data. Which is why there is still a fair way to go in improving data gathering on climate-related issues, especially for our loan and insurance portfolios.

We have started a dedicated Data and Metrics Project within the Sustainable Finance Programme to deal with the abovementioned issues regarding the availability of the correct data. The goal of this project is to identify the data that need to be collected, either from the clients or where possible querying available external databases. In a subsequent step, we aim to integrate the gathering of these data in all relevant processes in our core countries. Over time, this project will enable us to report on climate issues based on aggregated data.

Multi-level climate action landscape driving KBC's climate approach

Climate change is a global challenge and the climate action landscape is formed by opinions from various societal counterparts and influences. In structuring this landscape across these different influential layers, we have witnessed a top-down effect unfold, starting with the international treaty on climate change adopted in Paris on 12 December 2015 ('Paris Agreement'), which subsequently trickled down into regional and national climate action plans and sectoral initiatives. KBC's strategic climate action landscape broadly mirrors this layered community system.

Figure 5.3 outlines the various levels within the climate action landscape that influence, inspire and steer KBC's overall climate strategy. Our devotion to the objectives of the Paris Agreement is central to our climate action strategy and steers the overall direction to support a society that limits global warming to well below 2, preferably 1.5 degrees Celsius compared to pre-industrial levels. The EU Green Deal ambition and implementation, along with the Nationally Determined Contribution plans of the KBC home countries, provide the operational context for the economies where we mainly operate.

The layers below reflect:

- the sectoral initiatives and climate-related reporting standards that provide structure to and guidance in our effort to improve climate-related transparency;
- the sectors and products that are most carbon-intensive and wherein KBC's financial leverage is largest to support the transition to a low-carbon economy;
- the current methodologies which inform KBC on the climate-related impact of the most carbon-intensive components of our loan portfolios, as well as the set of climate scenarios which more concretely set out sectoral decarbonisation efforts, and the climate-relevant metrics we have gathered to date on our journey. More detailed information on the methodologies used for our loan portfolio can be found in the following parts.
- the methodology and data used to measure the climate-related impact of our investment portfolio. More information on the methodology used for our investment portfolio can be found in the following parts.

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Figure 5.3: International and sectoral commitments and methods driving KBC's climate approach

INTERNATIONAL LEVEL	Paris Agreement	EU Green Deal	EU Taxonomy	Nationally Determined Contributions KBC Home countries
SECTORAL LEVEL	Task Force on Climate-related Financial Disclosure (TCFD)	Principles for Responsible Banking (PRB) Principles for Sustainable Insurance (PSI) Principles for Responsible Investments (PRI)	Collective Commitment to Climate Action (CCCA)	UNEP FI Guidelines for Climate Target Setting for Banks
KBC Climate Action Landscape	Key Focus sectors and products	Methodology Appied	Scenarios	Metrics

	KEY FOCUS SECTORS AND PRODUCTS	METHODOLOGY APPLIED	SCENARIOS[1]	METRICS
WHITE PAPER SECTORS (loan portfolio)	Energy	PACTA (power, fossil fuels)	IEA NZ IEA SDS IEA CPS IEA STEPS	• Relative financial exposure to fossil fuels and electricity generation technologies • Loan-weighted change in production volumes per electricity generation technology and per fossil fuel type
		UNEP FI inspired transition risk assessment	REMIND-MAgPIE 1.7-3.0 (6 scenarios)	Change in probability of default under a predefined scenario
		PCAF (oil and gas)	Not applicable	Financed GHG emissions (in CO_2e) (Scope 3)
	Metals	PACTA (steel)	ISF NZ IEA B2DS	Emission intensity (tonne CO_2 / tonne steel produced)
	Chemicals	UNEP FI inspired transition risk assessment	REMIND-MAgPIE 1.7-3.0 (6 scenarios)	Change in probability of default under a predefined scenario
	Automotive	PACTA (car manufacturers)	IEA NZ IEA B2DS IEA 2DS IEA RTS	• Relative financial exposure to drivetrain technologies • Loan-weighted change in car production volumes per drivetrain technology
		PCAF (transport)	Not applicable	Financed GHG emissions (in CO_2e) (Scope 3)
		UNEP FI inspired transition risk assessment	REMIND-MAgPIE 1.7-3.0 (6 scenarios)	Change in probability of default under a predefined scenario
	Building & construction	PACTA (Cement)	IEA B2DS ISF NZ	Emission intensity (tonne CO_2 / tonne cement produced)
		UNEP FI inspired transition risk assessment	REMIND-MAgPIE 1.7-3.0 (6 scenarios)	Change in probability of default under a predefined scenario
	Commercial real estate	UNEP FI inspired transition risk assessment	REMIND-MAgPIE 1.7-3.0 (6 scenarios)	Change in probability of default under a predefined scenario
	Agriculture	UNEP FI inspired transition risk assessment	REMIND-MAgPIE 1.7-3.0 (6 scenarios)	Change in probability of default under a predefined scenario
	Food producers	UNEP FI inspired transition risk assessment	REMIND-MAgPIE 1.7-3.0 (6 scenarios)	Change in probability of default under a predefined scenario
WHITE PAPER PRODUCT LINES (loan portfolio)	Mortgages	PCAF	Not applicable	Financed GHG emissions (in CO_2e) (Scope 3)
		UNEP FI inspired physical risk assessment (Flemish mortgage loans)	Regional scenario[2]	Risk-adjusted loan-to-value
	Car loans	PCAF	Not applicable	Financed GHG emissions (in CO_2e) (Scope 3)
	Car leasing	PCAF	Not applicable	Financed GHG emissions (in CO_2e) (Scope 3)
INVESTMENT PORTFOLIO	Investments on behalf of our clients	TRUCOST DATA AND METHODOLOGY	Not applicable	Weighted average GHG intensity
	Own investments		Not applicable	Weighted average GHG intensity

1 IEA NZ = IEA NZ 2050
IEA SDS= IEA Sustainable Development Scenario, World Energy Outlook 2020
IEA CPS = IEA Current Policies Scenario, World Energy Outlook 2019
IEA STEPS = IEA Stated Policies Scenario, World Energy Outlook 2020
ISF NZ= Institute for Sustainable Futures Sectoral Pathways to Net Zero Emissions

2 For fluvial flood hazards, this is the 'high-winter' climate scenario, for pluvial flood hazards the 'high-summer' climate scenario and for coastal flood hazards the 'M+ scenario' from the CLIMAR study. For more details on these climate scenarios, please refer to the Flood Risk and Hazard Map Methodology document published by the Coordination Committee on Integrated Water Policy.

Loan portfolio assessment methodologies

PCAF (Platform Carbon Accounting Financials)

On 17 September 2019, KBC signed the PCAF (Platform Carbon Accounting Financials) Call to Action Commitment Letter and became a member of PCAF's European team. PCAF offers a methodology for calculating Scope 3-financed GHG emissions for financial institutions. In 2019, KBC piloted the methodology. In 2020, KBC applied it to the car lease, car loans and mortgages portfolios. In 2021, we included road freight transport (RFT) in the scope of our vehicles lease and loans portfolios. Moreover, we are observing the timeline as set out by PCAF in including new asset classes. In 2021, we therefore also applied the methodology to the mining and oil and gas sectors. Finally, to ensure coherency between the different approaches adopted to calculate our financed emissions, we also applied a PCAF approach to the remainder of our portfolio, based on a high-level classification of the sectors and on outstanding loan amount.

The PCAF methodology also provides a basis for our ongoing Data and Metrics Project, since it provides multiple options to calculate Scope 3 GHG emissions, based on different levels of data availability. Based on what data are used as input, PCAF assigns a data quality score to the output of the calculations. This data quality level may vary between 1 and 5, with 1 being the highest score achievable and 5 the lowest. Generally, the highest data quality score (i.e. data quality score 1) is achieved by obtaining company or loan-specific (activity) data, i.e. very granular data on transactions and companies. The lowest score (i.e. data quality score 5) can be obtained even with a minimal amount of financial data availability in combination with a proxy database (e.g. the PCAF proxy database).

In our data collection processes, we seek to obtain the highest data quality level. However, this is currently not always feasible, due to a lack of data availability on specific loans or clients for example. Especially for business loans, where no use-of-proceeds are known (also known as "general purpose loans"), obtaining a high degree of data quality is complicated. Moreover, clients themselves – SMEs and private individuals in particular – may not necessarily have the data needed to obtain a high data quality level.

In 2021, we applied the PCAF methodology to all of KBC Group's loan portfolios. Table 5.6 provides an overview of the outcome of the calculations for the portfolios in scope of the PCAF pilot and other sectors outside the PCAF pilot scope. We also report the weighted data quality score that was obtained for each of the portfolios.

More information on how we applied the methodology can be found in 'PCAF' appendix of this report. Moreover, in the section on Sustainability facts and figures we provide an overview of the outcomes of the calculations as well as the scope of each of the calculated portfolios.

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

Sector	Total financed emissions (tonnes CO_2e)	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
TOTAL	57 045 386	5

This is the first time that KBC has reported on the financed emissions associated with its total loan portfolio based on the PCAF standard and the emission factors made available in the PCAF database. 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. Rather, this first publication of our financed emissions constitutes a further step in creating transparency on our indirect climate impact but may implicate an over- or understated condition compared to the real-world situation as most of the calculations are performed on a macro level rather than subsector-, company-financed or asset-specific emission factors or information. PCAF-based financed emission calculations shall improve over time and our endeavour is to continuously and transparently report on quality improvements and subsequent resulting restatements.

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PACTA (Paris Alignment Capital Transition Assessment)

In September 2019, KBC committed to addressing its indirect impact on the climate. As a pioneering step to map out climate-impactful activities in its credit portfolio, that same year KBC partnered with the 2 Degrees Investing Initiative (2DII) non-governmental organisation to take part in road testing their PACTA methodology by performing a preliminary screening of its corporate industrial loan portfolio's exposure to some of the most carbon-intensive sectors. The road test exercise was performed on KBC Group's 2018 corporate industrial loan portfolio, which excludes loans to SMEs, private persons, finance and insurance and government agencies. The preliminary results were presented in the 2019 KBC Sustainability Report.
Based on the road test results and reviews from academic institutions, 2DII launched the 'PACTA for Banks' toolkit4 in September 2020 as a free-of-charge public service. At that point in time, KBC performed the PACTA analysis by using the newly released toolkit and subsequently published the results in the 2020 KBC Sustainability Report.

In 2021, the same screening was conducted. This part presents the PACTA results based on the 'PACTA for banks' toolkit and on end of June 2021 portfolio data of KBC Group. It should be noted that, while PACTA has laid down the groundwork for banks to meaningfully assess the alignment of corporate lending practices with climate transition scenarios, KBC – like other financial institutions – is still very much on a journey in terms of using and applying the PACTA method. This part should therefore be read as the next, though definitely not final, step in KBC's ambition to improve climate-related transparency for its stakeholders.

This methodology measures the alignment of the loan portfolio with decarbonisation pathways set out in climate transition scenarios, by attributing physical assets in the real economy to the loans that finance them. Based on reference climate transition scenarios and taking into account the current and planned capacity (sourced from granular asset-level data) of the underlying financed companies, PACTA helps determine whether these companies are following a transition path in line with targets set by the climate transition scenarios.

By providing insight into the climate alignment of the corporate clients' capital stock and expenditure plans, the analysis helps to assess whether the corporate loan portfolios in these sectors are aligned with the Paris Agreement goals to keep the global temperature rise at (well) below 2°C. This methodology not only provides information on the current climate pathway the loan book and clients are on but also allows for the portfolio and clients to be assessed against business-as-usual and Paris-aligned scenarios, and consequently facilitates informed decisions around steering capital towards a Paris-aligned world and communication on climate transition scenario alignment.

> "The results of the exercise confirm that KBC Group's industrial loan portfolio is exposed to a limited degree to companies that contribute the most to global CO2 emissions in line with the existing activity scope of PACTA. This finding is commensurate with the general risk appetite of KBC Group, as the loan books do not include large, single-name exposures to activities which contribute the most to global CO_2 emissions."
> KBC Group's Senior General Manager
> Group Credit Risk Directorate Wim Verbraeken,

However, as the activities that come within the scope of PACTA belong to some of the sectors for which White Papers have been prepared[5], PACTA was – and will remain – an important source of information, both in terms of understanding the current overview of technology distribution within subject credit portfolios and in terms of gaining insights into the transition over the years ahead. Furthermore, the granular level of analysis allows KBC to put in place concrete actions based on the alignment or misalignment of the companies at individual level too, by actively engaging with the companies concerned.

[4] The toolkit and full methodological documentation are available on the PACTA for Banks webpage. The latest version of the 'PACTA for Banks Methodology Document' is available online. The latest version of the 'PACTA for Banks Scenarios' is available here.

[5] Power and fossil fuels come under the strategic 'Energy' project, car manufacturing comes under 'Automotive', steel production under 'Metals' and cement production under 'Building and Construction'.

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With this year's analysis, KBC Group's granted exposure found in the scope of PACTA amounted to 3.8% (4 595 m EUR) of the total industrial loan book compared to 4.0% reported last year[6], and 54.9% (2 522 m EUR) of this exposure could be matched to physical asset-level data (approximately the same percentage as last year). The analysis was carried out based on the granted loan exposures at end of June 2021 which have been mapped to the current and projected relevant physical production levels using data provided by Asset Resolution[7], for each of the considered technologies and activities. The scope was unchanged compared to last year's exercise, i.e. the corporate industrial loan portfolio, which excludes loans to SMEs, private persons, finance and insurance and authorities.

The PACTA results for corporate industrial loans for the Fossil fuels, Power, Automotive, Steel, Cement and Aviation sectors are outlined in an appendix to this report (please see the PACTA appendix). At the time of writing, the PACTA methodology for shipping was still under development. Shipping is therefore not yet included in our analyses.

[6] The decrease is primarily the result of the refinements applied this year for defining the sector scopes (i.e. exclusion of the so-called borderline segments). These adjustments were introduced with the aim of further improving the accuracy of the calculation results by minimising the risk of including counterparties in the calculation that have activities that do not come under the official PACTA scope.

[7] More information on Asset Resolution's webpage. Data made available through the dedicated Transition Monitor webpage.

UNEP FI climate-based risk assessment methodologies

During the 1st phase of the UNEP FI (United Nations Environment Programme Finance Initiative) Banking pilot in 2018, a consortium of participating banks – led by UNEP FI – piloted a set of methodologies to translate transition (and physical) risks of climate change into impacts on traditional credit risk indicators. This collaboration resulted in two important publications in the field of forward looking climate-related credit risk assessments. The "Extending our Horizons" report, firstly, outlined a climate-related transition risk methodology in which the effects of climate scenarios were translated via a three-step approach to produce a view of portfolio risk. The second report, "Navigating a New Climate", outlined an approach to assess the impact on some sectors' key metrics of both incremental shifts in climate conditions (e.g. changes in precipitation patterns) and changes in extreme events.

KBC subsequently joined the UNEP FI network and took part in the 2nd as well as 3rd phase of the "TCFD programme for banks". These phases were built on UNEP FI's initial methodological work and designed to help financial institutions to expand their methodological toolkit for forward looking climate risk assessments and disclosure.

As a first step, we familiarised ourselves with the initial methodologies by applying them to two climate relevant loan portfolios: the Metals sector within our corporate loan portfolio for a climate-related transition risk assessment and the Flemish home loan portfolio for a climate-related physical (flood) risk assessment. Where relevant for the implementation of the sectoral White Papers, the application of the UNEP FI methodology was a valuable source of information for working group discussions. The contribution we made to the transition risk methodology has been published in the UNEP FI "Pathways to Paris" report.

Below, we provide some insight into the transition risk and physical risk measurements. Additional details of both assessments are elaborated in the UNEP FI appendix of this report.

UNEP FI climate-related transition risk methodology for our corporate loan portfolio (using a Vasiček model)

To start our climate-related transition risk assessment learning journey, we applied the initial UNEP FI methodology to the Metals sector corporate loan portfolio (see the 2020 KBC Sustainability Report). Next, our modelling department investigated how the initial method could be adapted to improve applicability within our organisation and developed a Vasiček model based alternative. We subsequently rolled out the methodology to all other highly climate-relevant sectors. The scope of this analysis was aimed at mimicking the scope of the White Paper exercises to the extent possible, thus including KBC's corporate loan book portfolios of metals, energy, automotive and transportation, chemicals, commercial real estate, building and construction, agriculture and food and beverage producers.

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In line with the original UNEP FI methodology, we identified a number of segments in each sector which displayed similar characteristics in terms of carbon-emission intensity and were consequently impacted in a similar manner in the transition to a low-carbon economy. All analyses were carried out at segment level.

We selected 6 different scenarios for the impact assessment, in order to estimate how the portfolio's Expected Loss (EL) could potentially change if these transition scenarios were to materialise. The scenarios differ from one another in terms of target temperature, the timing of collective action and the extent to which CO_2 removal technologies are assumed to be used. More details on the methodology applied are available in the UNEP FI appendix.

The chemicals sector as a whole, as well as the animal farming segment of the agricultural sector and the production of animal-based food segment of the food producers and beverages sector were found to be exposed to high, as yet unaddressed transition risks. Compared to the energy sector, the high projected EL (expected loss) changes in the chemicals, agricultural and food producers and beverages sectors do not necessarily mean that the inherent risks are higher here but rather that the transition risks are not yet internalised in these sectors/segments to the same extent as they are in the energy sector.

The analyses' results highlight the need for customer interaction on the (sub-)sectors deemed most vulnerable to the low-carbon transition, in order to understand how these (sub-)sectors are mitigating the transition risks they are exposed to.

Furthermore, the current transition risk assessments do not stand in isolation but going forward their findings may serve as important inputs for the identification of climate-related stress and hot spots in KBC Group's corporate loan book portfolio, the consideration of proposals for policy recommendations, taking into account other information sources (e.g. White Papers), the running of future stress tests which require this granular segment view, and contributing to setting relevant targets for certain sectors and monitoring thereof.

Physical risk assessment

In our 2020 Sustainability Report, we reported on the detailed results of our pilot regarding the flood risk assessment for our Flemish mortgage portfolio (for more information see the UNEP FI appendix of KBC's 2020 Sustainability Report). The assessment showed that the financial impact of flood risk embedded within the Flemish home loan portfolio is still rather limited.

Currently, we are preparing to extend this approach to other regions and other home countries. For this, we are looking for the necessary data sets and local forward-looking and sufficient granular flooding maps. Where no maps or data are available, we will develop an approach using more high level flooding maps on a European scale. The results of this geographic extension will be published in a subsequent report.

In the meantime, we have made an additional assessment of the impact of future river floods on the Gross Domestic Product (GDP) of the KBC home countries. We used the Climada open-source natural catastrophe model to perform this analysis. Please refer to appendix on 'Climada' for more information on this assessment.

EU Taxonomy

The EU Taxonomy Regulation, which came into effect in July 2020, sets out an EU-wide framework for investors and businesses to use to assess whether certain economic activities are environmentally sustainable. Based on the Taxonomy Regulation and after multiple years of work, the first EU 'climate' Delegated Act has been published in the Official Journal of the EU (OJ) at the end of 2021, enshrining into EU law the technical screening of activities which substantially contribute to the first 2 EU environmental objectives, climate change mitigation and adaptation. This is an important milestone for the EU's sustainable finance agenda as it seeks to deliver a technically robust classification system at EU level, clarifying as to which activities qualify as green or sustainable. At the same time, the EU 'disclosure' Delegated Act was also finally approved and published in December 2021, setting out the content, methodology and presentation of the information which certain companies (financial and non-financial 'undertakings') covered by the Non-Financial Reporting Directive (NFRD) are required to disclose under the Taxonomy Regulation.

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In the Disclosure Delegated Act a phased approach is introduced for these reporting requirements. From 1 January 2022 until 31 December 2023, financial undertakings are to disclose only on 'taxonomy-eligibility' for climate change mitigation and for climate change adaptation, meaning to which extent their activities are described in the Taxonomy Climate Delegated Act. From 1 January 2024, key performance indicators are to be reported on the taxonomy alignment for all environmental objectives.

KBC Group is a large undertaking that is required to publish non-financial information under the NFRD and as such is also subject to the disclosure obligations set out in the Taxonomy Disclosure Delegated Act. Being a financial group, KBC carries on activities as a credit institution, as a (re)insurer, asset manager and investment firm (in conformity with the definition of such undertakings in the Disclosure Delegated Act). As a credit institution, the green asset ratio or 'GAR' will constitute a major key performance indicator. For the first time, we report on the taxonomy-eligibility for these 4 respective financial activities in our 2021 KBC Group Annual Report. We also point out the challenges and complexities faced in this respect as many ambiguities will need further elaboration. At the same time, we are preparing ourselves for detailed reporting on the taxonomy-alignment of our activities from 2024 on when the first mandatory alignment disclosures under Article 8 of the Taxonomy Regulation will apply for financial undertakings.

Overview of metrics and targets for the indirect impact of our loan portfolio

As stated previously, we have put in place a dedicated Data and Metrics Project to deal with the specific issues related to gathering climate-related data. This project is currently centred around the most climate-intensive sectors of our portfolios, i.e. the White Paper sectors (for more information: see the part on Updated strategies on the most carbon-intensive industrial sectors and product lines (White Papers) in this section). For all of these sectors and product lines, a specific data and metrics track was set up, in which we identified the relevant metrics that are needed to comply with future climate-related challenges. At this moment in time, the main focus of the Data and Metrics Project is to determine which data need to be gathered.

The main metric, central to all separate data tracks, is that of financed GHG emissions resulting from our loan and investments portfolio. In this, we use the PCAF methodology as a compass to define what data points should be collected to gradually improve our data collection processes to calculate our financed emissions and consequently increase our data quality over time. As such, the methodology informs us on how best to improve our data gathering processes in the future (for further information on the PCAF methodology readers are referred to the part on PCAF in this section). We adopted the loan-specific approach as explained in the PCAF standard where available (e.g. for car loans). For non-purpose business loans, we went by the methodology as outlined in the PCAF standard.

This approach also informs us as to which data need to be collected from our clients. Which data are gathered may differ according to the type of client, product and at times may differ from one country to the next. With our larger clients for example, we aim to proactively ask for the data required. For other clients or products, we may collect the data required when a client takes out a loan or an insurance policy. In cases where we do not yet have sufficient data on individual clients, loans, or insurance contracts for now, we further supplement with proxies and averages to obtain an appropriate estimate for the entire portfolio.

Finally, for some of the White Paper sectors and product lines – which we are currently focusing on in the Data and Metrics Project – additional metrics were defined. Below is a brief overview of some of these additional metrics for the relevant sectors and product lines. More detailed information can be found in the White Paper appendix where we describe the different White Papers.

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Energy

For the energy sector, the share of renewable energy financing in our total energy portfolio is the main metric next to the financed Scope 3 GHG emissions.

Regarding the generation of energy from renewable sources, a 2030 target was set to step up the share of renewable energy in KBC Group's total energy portfolio to 65%. The share of renewable energy and biofuels at year-end 2021 came to 63% of our total granted loan portfolio for the energy sector (excluding transmission and distribution).

Table 5.6: Share of renewables in the total energy loan portfolio

Indicator	Target	2021	2020	2019	
Share of renewables in the total energy loan portfolio (excluding transmission and distribution	minimum 65% by 2030	63%	61%	57%	

We are also proud to report that last year, in project finance Belgium, we realised 198 million EUR in financing renewable energy in 2021, resulting in 122 megawatt of new installed capacity.

Please note that in these metrics, we take account only of renewable energy companies or special purpose vehicles for renewable energy loans. We have not yet included financing for purposes such as solar panels for non-energy producing companies or private individuals.

For the other energy target, the phase-out of thermal coal, we can report that our direct exposure fell to zero by mid 2021.

Table 5.7: Evolution of direct thermal coal-related financing

Indicator	Target	2021	2020	2019	
Financing of thermal coal-related activities	Full exit from direct thermal coal-related financing by 2021	0 million euros remaining	11 million euros remaining	36 million euros remaining	✓

Real estate: mortgages and commercial real state

Alongside the financed emissions of our mortgages and commercial real estate (CRE) portfolios, we also aim to obtain recent and appropriate available data on the 'EPC (Energy Performance Certificate) labels' and the underlying 'energy values' (primary energy demand expressed as $kWh/m^2.year$) of the properties we finance. It should be noted that the availability of EPC labels is generally limited as they are mostly required only for new buildings or where existing homes are sold or let. Hence, they are not yet mandatory for the entire building stock.

A complexity and extra challenge in this respect concerns the fact that EPC regulations, definitions and data availabilities are organised at country level or sometimes even at regional level as is the case in Belgium, with different approaches and speeds of initiatives between the different EU Member States and/or regions. This stands in the way of harmonised maturity across markets and comparability between EPC labels over the countries and regions.

For our mortgages portfolio, we are working on gaining insights in the distribution of EPC labels in our portfolios and across our countries in 2021. As the most important step, we started to collect EPC information from our clients in the credit process for new home loans. However, as this covers only an initial part of our portfolio, this information is to be supplemented with several other approaches to establish EPC estimates. For example, information on the EPC labels in our portfolio can be retrieved using proxies and a variety of other data techniques and sources, also developed in view of the ECB stress test.

For Commercial Real Estate, the CRE departments in our various core countries have started collecting information on the EPC labels or information on energy consumption of the financed assets. The collected data will be reported starting from 2022. Moreover, each of our core countries is following up on the regulatory measures that are being taken or put forward for non-residential buildings in their respective markets. It is expected that the scope of EPC obligation will be gradually expanded, which will facilitate data collection and improve data availability.

OUR COMMITMENT TO THE ENVIRONMENT AND CLIMATE ACTION

Operational car leasing

For our operational lease portfolio, we also track the share of electric and hybrid vehicles in our portfolio. In addition, this was the first sector for which we set targets on such a metric. This target was defined in our 2020 Sustainability Report. The targets are detailed in Table 5.9, along with the progress made with respect to these targets.

Since then, we have decided to make targets even more stringent by aligning our definition of a 'sustainable vehicle' with the substantial contribution criteria of the EU taxonomy. In other words, we now focus on full electric vehicles and vehicles emitting less than 50g CO_2/km. However, we do not label these vehicles as being 'green' at this point in time, as we are currently unable to check the Do No Significant Harm criteria of the EU Taxonomy. In 2022 we will review the target for the share of these types of vehicles in our portfolio.

Table 5.8: Overview of KBC group's operational car lease portfolio and progress with respect to set targets

Indicator	Scope	Target	2021[1]	2020[1]
Average CO2 emissions (g CO_2/km)	New cars in portfolio	81 g CO_2/km by 2025 58 g CO_2/km by 2030	98	132
% Share of electric vehicles, plugin-hybrid and full hybrid vehicles	Existing cars in portfolio	27% by 2025 34% by 2030	12%	9%
	New cars in portfolio	45% by 2025 90% by 2030	31%	20%
% Share of zero tailpipe vehicle	Existing cars in portfolio	Targets to be determined in 2022	2%	-
	New cars in portfolio	Targets to be determined in 2022	5%	-
% Share of vehicles <50 g CO₂/km	Existing cars in portfolio	Targets to be determined in 2022	7%	-
	New cars in portfolio	Targets to be determined in 2022	24%	-

[1] Belgium Business Unit only

Investment portfolio assessments based on Trucost data and methodology

Investment products offered by KBC Asset Management

In our 2020 Sustainability Report, we already reported on a first pilot describing GHG emissions of aggregated investment products offered by KBC Asset Management. In 2021, we leveraged the Trucost methodology and dataset by integrating data into our trading systems and by extending the coverage to include corporate and sovereign bonds (alongside the equity investments that were already in scope of the first pilot). In this assessment, we map the aggregated GHG emissions of the investment products offered to our clients and translate these into a weighted average GHG intensity score, weighted according to our investment exposures.

The analysis of our equity and corporate bonds investments covers Scope 1 and 2 GHG emissions of the companies in which our products invest. Scope 3 emissions of those companies are not taken into account for now, due to data quality concerns. Even though we are careful to draw conclusions regarding this output as it is difficult to assess the impact of the pandemic measures, the numbers indicate a decrease in GHG emission intensity for equity and bond investments since 2019, both in our investment solutions and in broad benchmarks. The output also shows that the GHG emission intensity of our funds and mandates is substantially less than broad benchmarks. Lastly, our analysis suggests that the GHG emission intensity of the socially responsible investment (SRI) funds is not necessarily less than the whole set of investment solutions offered by KBC Asset Management. However, if we compare the weighted average GHG intensity of a diversified equity and corporate bond SRI fund with a similar conventional fund, the intensity of the SRI fund is approximately 10% less. This may be explained by the fact that our SRI funds do not have any exposure to companies in the fossil fuel industry.

Our government bond portfolio was assessed based on measured territorial emissions (i.e. all economic activities within a country, including land use, land use change and forestry) and emissions related to imports. We normalised these emissions by the GDP expressed in million USD to obtain a carbon intensity and calculated a weighted average. In the same way as for our equity and corporate bond investments, these results also need to be interpreted with caution. The results however suggest that the carbon intensities of sovereigns appear to be more stable over time, both for our portfolios and the EMU benchmark. Furthermore, the carbon intensities of our aggregated portfolios are higher than the EMU benchmark. This is due to our exposure in emerging and developed market sovereigns with relatively higher GHG intensity scores such as Belgium, the Netherlands, Germany and the USA.

For a more in-depth description of the results of this assessment and of the methodology used, readers are referred to the Trucost appendix of this report.

Own investments of KBC Insurance

For the first time, we also assessed the weighted average GHG emission intensity of the equity, government and corporate bonds investments by KBC Insurance. This selection of portfolios represented a market value of 17.2 billion euros and covered the largest part of KBC Insurance's investment portfolio. We compared the outcomes of the exercise with other common benchmarks in the market.

Our analysis shows that the GHG intensity of our equity portfolio at the end of 2019 was comparable with the MSCI world AC benchmark, but decreased much faster than the benchmark (a 38% decrease is observed versus 21% in the benchmark). This relative higher decrease compared to the benchmark is explained by the introduction of the exclusion policies on fossil fuels.

The GHG intensity of the corporate bond portfolio stands at 50% of the Iboxx EUR Corporates benchmark and declined by 20% since 2019, while the benchmark declined by just 8%. The GHG intensity of this portfolio is expected to decrease even further in the years to come, given the exclusion policies on fossil fuel for new bond investments.

The GHG emission intensity of our government bond portfolio is higher than the benchmark (143% of the JPM EMU Government bond benchmark). This may be attributed to the fact that 40% of our total government bonds portfolio consists of Belgian government bonds, and Belgium tends to score relatively highly on GHG emission intensity.

For a more in-depth description of the results of this assessment and of the methodology used, readers are referred to the Trucost appendix of this report.

Investments Pensioenfonds KBC

For the investments of Pensioenfonds KBC too, a first pilot assessment has been made of the GHG intensity, based on the Trucost data and methodology. These investments consist of a defined benefit portfolio and a defined contribution portfolio, which are structured in a very different way.

The weighted average GHG intensity across these portfolios and across equities, corporate and government bonds provides a first bird's eye perspective of all investments of Pensioenfonds KBC combined. This intensity figure stands at approximately 85% of the benchmark, while showing a 9.6% annual decrease since end of 2019.

For a more in-depth description of the results of this assessment (broken down into the defined benefit and the defined contribution portfolios and – for the defined benefit portfolio – drilled down even further into equity, corporate and government bond investments) and of the methodology used, readers are referred to the Trucost appendix of this report.

Our sustainable business solutions

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

OUR SUSTAINABLE BUSINESS SOLUTIONS

As part of its sustainable finance approach, KBC strives to provide financial solutions and business opportunities that have a positive impact on society. In 2016 we defined four focus areas for our group: financial literacy, environmental responsibility, entrepreneurship, and longevity and health. We chose these four areas because we believe that as bank-insurer we are able to create added value and meet the real needs of society.

Community involvement

At KBC, we support projects and activities that contribute to the needs of the local communities in which we operate. KBC community involvement is not centralised in one department, but rather is situated in the different countries. This enables us to respond more consciously to the local needs. We take part in sponsorship activities, initiatives and campaigns that are often directly linked to our strategy. We also encourage our employees to get involved in initiatives and projects that are close to their hearts. Supporting the charity sector is an integral part of our role in society, a role that extends well beyond providing financial solutions. The skills and energy of our employees make the difference.

ENTREPRENEURSHIP

We support entrepreneurship, stimulate job creation and contribute to sustainable growth through our banking and insurance activities. At the same time, we aim to invest in innovation and technology, by setting up partnerships with start-ups and financial technology companies (fintechs).

Start it

In 2014, we launched an acceleration programme for start-ups: Start it @KBC. KBC is keen to share its expertise as a bank-insurer, its roots in the business world and its network with other commercial and academic partners. Since it was founded, Start it @KBC has grown into the largest business accelerator in Belgium, supporting over a thousand start-ups in Belgium, Hungary (Start it @K&H), the Czech Republic (Start it @ČSOB), London and New York and elsewhere. Recently Start it @KBC also opened its first branch in Wallonia: Start it @CBC.

Start it @KBC is also actively committed to supporting female entrepreneurship. As a result, the share of female company incorporators in the selected start-ups has gone up by 34% since 2017. During the most recent wave of start-up selection in October 2021, 27 selected start-ups (out of a total of 65) had a female tech entrepreneur as co-founder.

5 GENDER EQUALITY

Table 5.1: Supporting female entrepreneurship at Start it @KBC in Belgium

Indicator	Target	2021	2020	2019
Female entrepreneurs selected[1] (in % of total entrepreneurs at the pitch of October)	50%	46%	53%	30%

[1] Number of start-ups with minimum one female co-founder.

In the Czech Republic, women who go on maternity leave find it hard to return to their former jobs and face a serious setback in their career. Start it @ČSOB supports start-ups who make it easier for women to return to work after maternity leave. The start-up *M.arter* is an education and networking platform for women and men on parental leave and helps them to return to the labour market.

As part of this commitment to foster female entrepreneurship, Start it @KBC launched the Women in Tech coaching programme together with *Netwerk Ondernemen* and VLAIO *(Vlaams Agentschap Innoveren & Ondernemen).* The initiative consists of inspirational webinars that feature female entrepreneurs. Female business founders share the lessons learned and the valuable expertise they gained along their entrepreneurial journey. Since 2021, an intensive coaching programme – The Thrive project – has been offered to female business founders. In this project, ten female entrepreneurs are closely coached for four months to develop their network and leadership skills.

Start it @KBC also explicitly focuses on themes such as sustainability, health, smart living and digitalisation. Recently, the focus was expanded to also include circular business models. In 2021, a survey was conducted among members of the start-up community. The results show that 45% of the start-ups within our community are working closely with the social economy or have concrete plans to do so. Also, 69% of the respondents reported that it was tougher to build a profitable business model in the circular economy.

Relevant SDG goals (high-impact areas):

Our focus on 'entrepreneurship' as one of the focus areas is specifically linked to SDG 8 (decent work and economic growth) and SDG 12 (responsible consumption and production).

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

6 Corporate citizenship

7 Accessible finance

ENTREPRENEURSHIP

In 2021, myNEO – a Belgian start-up and part of Start it @KBC – and OncoDNA agreed to pool their advanced technologies to provide an individualised vaccine design for patients with no treatment options. OncoDNA is a theragnostic and genomic company specialising in precision medicine while myNEO is an artificial intelligence-driven company that is revolutionising target identification within immuno-oncology. Together, they are working to deliver a world where patients with a hard-to-treat disease will have the opportunity to design their personalised elixirs. The project holds great potential to make individualised immunotherapies more accessible to patients. Start it @KBC acknowledges that health and technology are intertwined and is continuing to support start-ups who in turn support the traditional care sector or provide tools enabling people to lead more healthy lives. In supporting these start-ups, KBC is seen to align two of its focus areas: entrepreneurship and health and longevity.

Start it X

In 2019, Start it X was launched as a result of the experiences gained from Start it @KBC. Start it X is a corporate innovation programme that has been tailored to large enterprises and organisations that are committed to delivering sustainable innovations and that are keen to offer their employees opportunities to develop their own ideas. The programme was first implemented in KBC Belgium, with the aim of empowering KBC's employees to develop innovative ideas, expand their network and take their first steps as an entrepreneur. As a result, many innovations KBC Belgium has supported and brought to the market were fuelled by the creativity of our own people. In the meantime, the programme has further attracted a dozen or so large corporations.

Crowdlending

Some companies grow so rapidly that we can no longer keep up with them with standard banking solutions. When that happens, we advise them to look at alternative forms of finance. Crowdlending is one example of this type of alternative financing offered by KBC across its Bolero crowdfunding platform. On the Bolero Crowdfunding platform, small and medium-sized enterprises (SMEs) and growth companies can opt to raise money from the public by way of a bond issue. Interested companies can be admitted after an initial screening. In 2021, Bolero Crowdfunding raised 16.7 million euros for a total of 18 projects and companies.

Private company **BOSAQ** develops patented innovative technology for water purification and solutions for drinking water supplies in remote places all over the world. BOSAQ's installations can turn any water not suitable for human consumption such as seawater, river water and rainwater into drinking water using sustainable energy technologies such as solar power.

"Companies with strong growth ambitions – such as BOSAQ – are facing the need for acceptable and feasible financing solutions. And of course, Bolero Crowdfunding is pleased to be able to contribute. Especially to the supply of drinking water in developing countries." – Kristien De Smedt, Business Development Manager Bolero Crowdfunding.

KBC is happy to support companies such as BOSAQ as water is definitely becoming a very important environmental domain to focus on.

ENTREPRENEURSHIP

K&H Family Business Knowledge Centre

About 70% of all Hungarian businesses are family-controlled. These businesses account for more than half of the country's employment. To support family-owned businesses, K&H launched 'The Family Business Knowledge Centre' website to assist Hungarian family business owners and the next generations with running a business. The website focuses on relevant topics such as taxation, succession planning and online invoicing, sustainability and innovation.

Business Expectation Index

ČSOB in Slovakia plays an important role as an adviser and financial expert for Slovak entrepreneurs when setting up and managing new businesses. In association with the Datank research agency, ČSOB in Slovakia conducts the so-called Business Expectations Index (BEI) twice a year. The BEI probes Slovak entrepreneurs about a range of topics such as the potential for expanding their businesses, expectations of their clients' needs, what they perceive as the main risks and how satisfied they are with the current economic situation. The survey methodology is the same as the one used for the Czech market, which enables them to compare the results of both markets. The BEI climbed slowly in 2021 but remains negative, with the index thereby confirming the huge concerns of SMEs as well as large companies about the further development of the current economic reality.

Community involvement

Grants and consulting

People with various degrees of disability can find themselves in difficulty when looking for a job, for example. ČSOB in the Czech Republic believes that everyone should have the opportunity to succeed on the labour market. This is why we support social enterprises with financial incentives and consultancy services as part of our ČSOB Start!t Social grant programme. Since its launch in 2013, the NGO 'P3 – People, Planet, Profit, o.p.s.', has been the programme's partner and expert guarantor. In 2021, ČSOB distributed a total of 500 000 Czech koruna to another 10 social projects. This brings the total to 53 projects supported and 2.3 million Czech koruna divided among them since 2013.

K&H Family Business Excellence Award

In 2021, for the sixth consecutive time K&H singled out for praise family businesses that are at the forefront of their field in delivering exemplary solutions in terms of corporate social responsibility and environmental sustainability, generational change, innovation and successful long-term strategies. Wagner Solar Hungária Kft received the award in the category Corporate Social Responsibility and Environmental Sustainability.

ENVIRONMENTAL RESPONSIBILITY

Climate change is one of the biggest global challenges for the 21st century. One of our main objectives is therefore to contribute to the transition to a low-carbon economy and society. We are aware that we have an impact through our operations and businesses and have taken initiatives to support energy efficiency programmes, finance renewable energy projects, promote sustainable mobility and incorporate circular procurement practices in our supply chain.

Mobility

Mobility services through our mobile apps

The Covid-19 pandemic has had (and still has) an impact on employee mobility. Since the start of the pandemic, home working has increased and the use of cars for commuting and business travels has decreased. As a consequence, companies are adapting their mobility policies. They are moving away from cars as part of employees' salary package and are seen to embrace (multi-) mobility budgets and green fleets. In addition, they are welcoming smooth-paced and efficient fleet management processes against the background of this new context. To address these trends, KBC Autolease launched the MoveSmart app, which allows users to track the order of their new lease car or lease bicycle, in addition to having full access to the contract details and vehicle specifications. The MoveSmart app also enables users to call on car or bicycle-sharing services and public transport in a bid to make users multi-mobile 24 hours a day, 7 days a week. More info on the greening of our own employee mobility policy can be found in the part on 'Our commitment to the environment and climate action'.

Green car loan and lease products

KBC Belgium offers its clients incentives to buy eco-friendly vehicles instead of standard petrol cars which are more harmful to the environment. In the Czech Republic, ČSOB launched the green car loan with a preferential fixed interest rate for the financing of a range of vehicles.

Leasing bicycles and their second life

Bicycle leasing has been booming in Belgium for quite some time. Now that the first bicycle lease contracts are set to expire, the question arises of what to do with the end-of-lease bicycles. KBC Autolease – which has more than 20 000 bicycles out on lease – decided to give the bicycles a second life by selling them on the private second-hand market. KBC Autolease is also mindful of the social and economic factors involved by working with charity organisations that take care of bicycle maintenance and by working with local dealers.

Energy

Green housing loan

To help mitigate the effects of climate change, ČSOB in the Czech Republic aims to incentivise its clients to buy or build energy-efficient homes or to make homes more energy-efficient by rewarding them with a lower mortgage rate.

Benovation (beter renoveren)

Since 2018, KBC Belgium has been offering individual clients energy-saving renovation advice. In 2021, we continued our work on sustainable housing renovations with a second pilot project which focuses on energy scans. We firmly believe in the social importance of this step: over 2.9 million private homes still need to be renovated for Belgium to meet its climate targets.

Relevant SDG goals (high-impact areas):

There is a clear link between KBC's business solutions for our 'environmental responsibility' focus area and several of the SDGs: SDG 13 (climate action), SDG 7 (affordable and clean energy) and SDG 12 (responsible consumption and production).

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

3 Sustainable and responsible lending, insurance and advisory service offering

5 Partner in the transformation to a more sustainable future

6 Corporate citizenship

ENVIRONMENTAL RESPONSIBILITY

The goal of this project is to give home owners energy advice and to encourage them to make smart investments that will reduce the impact on the environment. Over these two pilots, we have given advice to 430 home owners.

Partnership with Encon

KBC Belgium successfully continued its partnership with Encon in 2021. Approximately 90 corporate banking companies contracted Encon for a variety of sustainability assessments on setting up sustainability strategies, conducting thorough carbon footprint analyses of specific investments in real estate and renewable energy and providing support in developing a clear sustainability communication strategy.

Circular procurement

Eco-friendly payment cards

ČSOB in Slovakia aims to contribute to a greener society through its banking services. Starting in 2021, ČSOB now offers its clients an eco-friendly payment card which has been through an eco-friendly production process and is made of industrial corn. Also, in 2020 ČSOB was the first bank in the Czech Republic to re-use plastic waste to issue new cards. ČSOB clients can already use the ecological payment card when paying in stores or on the internet. From spring 2022, KBC Belgium will offer its clients payment cards made of 100% recycled PVC (polyvinylchloride) instead of virgin PVC, thanks to a new production process. KBC has opted for a gradual introduction replacing cards that reach their expiry date with the new eco-friendly version to avoid unnecessary PVC production. KBC has around 3 million payment cards in circulation in Belgium.

From food waste to green energy

In our company restaurants in Belgium, food waste is collected separately. Renewi collects the food waste at KBC's facilities and takes it to its sites for further processing. The food waste is used for bio-fermentation, turning it into green electricity. From what remains afterwards, high quality compost is made. In 2021, the corona measures that applied to companies in terms of social distancing and safe seating were very strict. The number of colleagues working at our head offices was therefore rather low and as a consequence, the food waste collected and transformed into green electricity was low.

From coffee grounds to soap cubes

KBC Belgium joined a project to recycle the coffee grounds from the coffee machines at our Ghent building as of January 2022. Over a 10-week, a private company by the name of Kaffee Circulair will collect the coffee grounds from our head office. The wet grounds are pressed to extract oil which in turn will be processed into liquid soap for dispensers. From the residue, Kaffee Circulair will be make hard soap bars.

Community involvement

Close the Gap

KBC has been partnering for years with 'Close the Gap' – a non-profit organisation that collects surplus computers and repurposes them for educational, social and medical projects in Europe and in developing countries. Close the Gap also helps to create a more circular economy and reduces the environmental impact of our IT assets by extending the service life of donated laptops by four years. Since 2011, KBC has donated more than 95 000 IT assets to Close the Gap. As such, the environmental impact savings of these IT assets for a lifetime extension of 4 years amounts to an estimated 36 000 ton of CO_2e. That is equivalent to taking more than 7 700 cars off the road.[1]

[1] Source: Close the Gap Environmental Impact Report KBC – September 2021

FINANCIAL LITERACY

People take financial decisions on a daily basis, such as transacting payments, taking out loans, financing a car and opening a bank account. KBC has defined financial literacy as a focus area and aims to contribute to improving the general public's understanding of financial concepts and products. As part of this goal, we aim to communicate clearly and transparently about our products and services and provide pertinent financial advice. Lastly, we collect and analyse data about our clients to proactively respond to their needs. We do so in an open, honest and transparent way.

Financial advice and clear communication

As a bank-insurer, we offer our clients a wide range of financial products and services. To help our clients make responsible decisions we provide them with clear and transparent advice – tailored to their needs – so that they clearly understand the details of a product or service and more importantly the long and short-term impacts of their choices. We train our sales staff in carrying out risk assessments for products and services and launched a mandatory training course on responsible behaviour for all employees. More information on responsible behaviour can be found in the 'Responsible behaviour' part of this report.

Digicoaches

KBC Belgium's ambition is to communicate digitally with 80% of its clients. The strategic project set up for this purpose entered its final and most difficult phase in 2021: getting clients who do not yet use KBC Mobile or KBC Touch onto the digital path. This demands proper support, including support delivered by digicoaches who assist clients over the phone and through extensive communications that highlight the advantages of digitisation. Clients can request a starter pack for Touch or Mobile by phone and those who need more support can make an appointment with a digicoach. We realise that it is not possible to get everyone on the digital train and that there will always be a group of people who stick to the traditional service of face-to-face banking. Which is certainly okay with us. After all, we are moving towards a digital-first distribution model and not to a digital-only distribution model.

KBCs of Banking

KBC Bank Ireland works with the Irish Banking Culture Board to look at how we can communicate with clients in letters, looking to enhance client letters to make them more personal, ensure they are written in plain English and to explain the relevant technical terms. Since the launch of the project, KBC Bank Ireland has developed the 'KBCs of Banking', a digital book with answers to commonly asked financial questions, seen from the client's perspective and we share this information on our website as a quick and easy financial jargon buster.

Relevant SDG goals (high-impact areas):

We support responsible consumption and production (SDG 12) by helping our clients address several environmental and social challenges on which we have chosen to focus, including the development of business solutions for our 'financial literacy' focus area.

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

- 13 Ethical business conduct and responsible behaviour
- 9 Fair, understandable and transparent information to clients
- 10 Information security and data protection
- 6 Corporate citizenship
- 8 Usability of banking and insurance products and services

Financial behaviour

Digitalisation in general and the growing number of clients using digital technologies in particular, give us the opportunity to collect an increasing amount of data. The better we know our clients, the more effectively we can advise them. With the support of artificial intelligence and smart data analysis, we can also offer them proactive solutions and make their lives easier. But not every client is comfortable with this and so we clearly inform them about how their details are used and allow them to decide for themselves whether they wish to receive general or personalised information. All choices they make can easily be adjusted at any time. For more information on our privacy and data management, please see the part on 'Privacy and data protection' in this report.

Financial education

KBC also aims to combat financial illiteracy and acknowledges that financial education needs to start early on in life. We aim to help build a strong basic understanding of financial terms and develop people's skills and behaviour in order to acquire the right money habits and to avoid mistakes that lead to money struggles.

Get-a-Teacher

Get-a-Teacher is a social programme in which enthusiastic teachers from the KBC team work to increase pupils' financial literacy in schools. KBC attaches great importance to financial education and therefore does not consider Get-a-Teacher as a commercial project but as an investment in the future. The packages are taught by KBC employees who are passionate about education and their jobs at a financial institution. In 2021, we reached more than 4 500 students across 167 schools. Unfortunately we had to postpone and even cancel several classes because of Covid-19.

FILIP App

In the Czech Republic, ČSOB recently launched the new app FILIP for educational purposes. This app enables children to improve their financial and digital literacy in an entertaining way and has been downloaded more than 5 000 times since it was launched.

ČSOB ambassadors teaching financial literacy

Over the past year, ČSOB in the Czech Republic continued to offer its unique educational programme for schools. Since 2016, our employees have been able to volunteer to visit Czech schools and offer children lessons on managing their money. The aim of the programme is to increase children's general financial literacy in an interactive way. New technologies such as tablets and mobile phones are used in the classroom. Since the launch of the programme, our ambassadors have taught more than 40 000 pupils in 500 schools. To ensure quality teaching, ČSOB obtained accreditation from the Ministry of Education. Programme graduates receive a certificate, which also serves as confirmation of continued education of teaching staff under the programme of the Ministry of Education.

Ready Steady Home

At KBC in Ireland, we continued to educate prospective home buyers as they navigate buying a new home in the new normal. The popular virtual series 'Ready Steady Home' gathered a panel of property and mortgage experts, helping participants with 360° tips and insights into the mortgage journey.

Community Involvement

POI DOTOHO

ČSOB Poisťovňa set up the POI DOTOHO project, an online platform aimed at increasing the financial literacy of children on insurance and a source of inspiration for teachers. The whole project is run on a voluntary basis, it is free of charge and accessible to a wide range of audiences, schools and students in two languages – Slovak and Hungarian.

Board game 'All the Money'

'All the Money' is an educational game, developed by UBB, which helps young people to acquire financial knowledge and skills, to make appropriate decisions about their personal finances and thus reach financial wealth. Over the past year, our colleagues have visited orphanages in Bulgaria and played the game together. In 2022, they are planning to digitise the game so that it is easily accessible to a wider audience.

LONGEVITY AND HEALTH

At KBC, we want to meet the growing needs of an ageing population and develop specific solutions through our core businesses that will make a positive difference to elderly people. In Belgium and the Czech Republic, we focus on longevity, while our other core countries focus on the development of products and services aimed at improving quality of life, healthcare and health in general.

Digital medical records in the KBC mobile app

As of 2021, KBC clients in Belgium are able to use the KBC Mobile app to gain quick, safe and easy access to Helena, a secure platform for exchanging medical data between patients and healthcare providers. On the platform, they can check their medical records and documents such as prescriptions, vaccinations – including Covid-19 jabs – along with test results and Covid-19 certificates.

Measures to help our clients during the pandemic

In response to the Covid-19 pandemic in 2020, retail clients in all our core countries were offered payment breaks for mortgages. We granted payment holidays totalling 10 billion euros under the various relief schemes. In addition, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets. The pandemic has further developed in the past year and additional lockdown measures were put in place in each of our core countries. The phasing out of the payment holiday schemes and other support measures have led some clients to get into financial difficulties. KBC continues to support its clients and has fielded several local initiatives in its core countries. KBC and CBC in Belgium have temporarily allowed their clients (private individuals and SMEs) to suspend their loan repayments in order to reduce their financial burden linked to the pandemic. On top of this, KBC Insurance has provided support and advice and put in place additional measures in line with the needs of its clients. In addition to the no-cost staggering of premium payments, home working was included in the work accident policy. KBC Insurance is also very active in social profit, with lots of activity in schools, residential care centres, hospitals and childcare. During Covid-19, KBC Insurance provided the sector with solutions to be able to maintain their activities and to enable them to vaccinate their population. Some examples are the expansion of the guarantees liability and physical accidents for volunteers of residential care facilities, protection of vaccines (defrosting) and the vaccine centres.

Because of the extended impact of the pandemic on the economy, some of our clients in Ireland required assistance and further support. This support was well received by clients with many sending messages of appreciation to the Arrears Support Unit (ASU). In late 2020 and throughout 2021, KBC Ireland posted regular updates on its website to assist clients with the payment break process and the steps involved in seeking further support, if required. In 2021, the ASU of KBC Ireland – as part of the Responsible Behaviour Framework – started applying the Customer Interests Wheel in its interactions with clients to support balanced decision making for clients in financial difficulty. In addition to the above initiatives, over the last year the ASU has continued to support other clients in financial distress, providing an extensive range of long and short term debt resolution options tailored to meet clients' needs.

Relevant SDG goals (high-impact areas):

We contribute to SDG 3 (good health and well-being) and to SDG 12 (responsible consumption and production) by developing banking and insurance products that focus on health, healthcare and improving quality of life.

Relevant material topics

The material topics are discussed throughout the report and referred to where relevant.

6 Corporate citizenship

7 Accessible finance

8 Usability of banking and insurance products and services

LONGEVITY AND HEALTH

Ageing and digitalisation

Senior's Guide to the World of Finance

The ČSOB website in the Czech Republic includes a section dedicated to senior citizens. The special eBook helps elderly people to better find their way around the world of finance. The guide includes practical instructions on how to prepare for retirement, which account or savings plan to choose, online shopping, secure passwords, internet risks and how to protect oneself against cyber risks. The ambition of the eBook is to bring financial services – and digital services in particular – closer to seniors so they can reap the full benefit of digital finance. The eBook is being distributed to senior clubs and care homes by our ambassadors.

Don't get lost in old age

In association with the Sue Ryder Home non-profit organisation, ČSOB in the Czech Republic developed the www.neztratitsevestari.cz portal (Don't get lost in old age). The portal offers guidance for seniors and people caring for the elderly on how to solve age-related problems and provides answers in areas such as legal, social, health, family and psychological matters.

Inclusive banking

At KBC, we foster inclusion and accessibility by providing affordable financial products and services, including basic banking services while supporting our clients' accessibility requirements.

ČSOB in the Czech Republic was awarded as a Bank without Barriers thanks to its service delivery for disabled people. The award is granted by the *Konta Bariéry*, a project of the Charter 77 Foundation to improve the lives of disabled people.

Affordable financial products and services

For clients who are less advantaged, KBC offers special accounts with free banking services in almost all its core countries (e.g. K&H Plus Konto/*Poštovni účet* or the free KBC Basic Account). In addition to the basic payment features, KBC Belgium gives all holders of a current account (including the free KBC Basic Account) access to a whole range of non-financial services, such as managing parking sessions, checking meal voucher balances and buying bus and train tickets. These broader economic services provided under our 'bank-insurance+' concept are valued by our clients. ČSOB Bank in the Czech Republic has a special account for clients aged 58 and older that comes with several services such as free cash delivery to their home (once a month) and free cash withdrawals at the counter.

Accessibility of our products & services

K&H in Hungary set up a clear strategy and came up with an action plan to provide a full range of services to disabled people. Most of the actions from this plan have already been put in place. All of K&H's ATMs (automated teller machines) are accessible to visually as well as hearing-impaired people. 80% of the K&H branches in Hungary are accessible to physically disabled people. The K&H website and online banking tools are fully readable to visually impaired people. K&H also launched an initiative to create a barrier-free environment in the branches and offers an e-learning course for advisers and a manual on how to appropriately assist disabled clients.

ČSOB Bank in the Czech Republic offers voice control on ATMs for visually impaired clients and an online transcript service called 'eScribe' for clients with hearing impairments.

KBC Ireland has a dedicated Vulnerable Customer phone line where clients can self-identify as being in a position that requires extra assistance. All brochures and all documentation are subjected to a plain English assessment prior to publication. We provide leaflets in braille at clients' requests and have a hearing loop system for those who need further assistance in this respect.

KBC Belgium made accessibility improvements to its website's home page and the product overview ("My KBC") on the Mobile app based on the outcome of a review carried out in 2021 in association with digital accessibility experts DiAX. Visually impaired clients can easily use the KBC Mobile app using the accessibility features of the operating system. For the updated KBC Touch, we strive to have an accessibility review with improvements implemented by spring 2022. In the meantime, we are embedding accessibility in our way of working, by conducting staff awareness sessions, providing internal training modules on this topic and

LONGEVITY AND HEALTH

being mindful of the need for accessibility throughout the various project phases. Visually impaired clients can receive their account statements in braille on demand while card readers are available with large buttons. A read-aloud function and a shortcut for cash withdrawal is also available.

Community involvement

K&H Medical Magic Storytellers

For 18 years, K&H's Medical Magic programme has been steadily supporting child healthcare institutions in Hungary. To date, 501 child healthcare institutions have received new equipment worth nearly 2.3 million euros to help children heal faster and more easily. In 2021 another 11 institutions – 8 hospitals and 3 medical practices – received a total amount of 60 000 euros mainly in grants for equipment to help young patients in intensive care.

National Ambulance Service

K&H clients were encouraged to support a good cause and for every payment made using their mobile phone, K&H donated 10 forints to the National Ambulance Service. The money raised (totalling 50 million forints) was used to equip the nationwide ambulance network with more than 400 innovative life-saving devices for children.

Cycling contest in Bulgaria

The Bulgarian Cycling Federation (BCF) and DZI organised the 68th International Cycling Tour of Bulgaria (ICTB) – one of the most popular competitions, gathering renowned athletes from all over the world. DZI – as the event's sponsor – is continuing to promote cycling in Bulgaria. Cycling is not only a healthy way of getting around, it is also an eco-friendly and cost-efficient alternative for engine-powered vehicles.

Kom op tegen kanker

KBC Belgium has been a partner of *Kom op tegen Kanker* since 1989. In Flanders, the anti-cancer organisation collects money to improve the quality of life of cancer patients by funding scientific research, influencing policy and providing information and prevention. The Covid-19 crisis has greatly disrupted the operations of *Kom op tegen Kanker* and the charity sector at large, e.g. due to fewer volunteering opportunities and the postponement or cancellation of fundraising activities. Despite the difficulties, KBC Belgium and *Kom op tegen Kanker* joined forces and made it possible for people to make donations to the organisation through the KBC Mobile app, using a dedicated payment button. Since the button launched, 7 600 donations were made for a total amount of 407 000 euros.

LONGEVITY AND HEALTH

Solidarity campaigns

For more than 20 years, KBC Belgium has been organising the KBC Solidarity Campaign with the aim of supporting our employees to take up social responsibility. As such, the campaign is well-established by now. Through the campaign, 50 employees who commit to a social project can apply for 1 300 euros to fund their small-scale social organisations devoted to the disabled, the integration of migrants, neighbourhood development, the fight against poverty and initiatives for the Global South.

Street nurses

Homelessness is a pressing problem in major cities like Brussels. KBC Brussels therefore supports the *Straatverplegers* (Street nurses) charity, an organisation that aims to combat homelessness by supporting homeless people in finding new homes, and also supports people that live on the streets by providing access to medical and hygiene services. The Covid-19 pandemic drastically changed the way *Straatverplegers* operates as the consecutive lockdowns made it more difficult for the street nurses to accompany ex-homeless people to their new home as administrative services were no longer accessible. In response, the teams immediately went into emergency mode, expanded their teams and bought food and materials such as sleeping bags, blankets and coats to hand out the people on the streets.

#DWW21

De Warmste Week (The warmest week) is an annual Belgian event that raises money for a dedicated charitable cause across multiple media channels. In 2021, KBC Belgium committed to become the official partner of *De Warmste Week* over the next three years. Along with its employees in Belgium, KBC played an active role in supporting the chosen charitable cause for the year, i.e. 'Being able to be who you are' *('Kunnen zijn wie je bent').* Every 1 in 5 people in the Flemish region says they cannot be themselves because of how they look, who they like, because they have fewer opportunities in life or because they are mentally or physically challenged. Social commitment is close to KBC's heart and there is a great social vibe among the company's employees. Initiatives such as *De Warmste Week* and this year's charitable cause are a perfect fit with our company values and our DNA. KBC Belgium also launched a dedicated payment button in the 'Additional service' feature of the KBC Mobile app. 4 700 donations were made this way for a total amount of 142 000 euros. KBC volunteers were actively involved at local as well as national level.

CAP48

LabCAP48 offers organisations that provide support to disabled people and that operate in the area of youth care the opportunity to opt for alternative forms of financial support (e.g. crowdfunding), in addition to government support. In 2021, we organised the 10th edition of our annual crowdfunding campaign in association with CBC. 39 NGOs got involved, raising 34 000 euros, a record sum. Almost 2 500 donations were made with an average amount of 116 euros per donation.

CBC also organised a running and walking challenge to beat the pandemic fatigue and reenergise its teams. For every kilometre our employees ran, CBC donated 1 euro to CAP48. This raised a total of 15 000 euros.

Good Will debit payment card

Together with the Master Card Association, ČSOB in the Czech Republic supports individual donations in the private banking segment. Thanks to a special debit payment – the Good Will debit payment card – ČSOB Private Banking clients can contribute to charitable causes. The client sets the amount of the voluntary contribution and then donates the amount from each business transaction to help children and adults who are struggling with their health. Both ČSOB and Mastercard donate additional funds, and thanks to the Good Will Card, we donated 2.1 million Czech Koruna to people in need in 2021. One example of a community project is *Černí koně* (Dark horses) which manufactures adaptive bikes for disabled children and runs a special bike rental service.

Sustainability facts and figures

SUSTAINABILITY FACTS AND FIGURES

This section of the report provides transparent information on sustainability and climate related data on our portfolio. We have collected our sustainability data through a group-wide process which involves strict hierarchical validation. All KBC entities in our core countries report on the non-financial areas of human capital, direct footprint, clients and community involvement. Climate-related data on our loan, insurance and investment portfolio are gathered as part of the data and metrics project set up under the KBC Sustainable Finance Programme. We acknowledge that the data collection process – especially related to climate related data of our business portfolios – is not completed and we will continue to improve the data quality going forward. The reporting period is 1 October of the previous year until 30 September of the current year, unless otherwise stated.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

Suppliers

	Note	Unit	2021	2020	2019
Operating costs	1	m EUR	1 058	1 015	1 104

[1] FY data, see note 3.8 of the 2021 KBC Group Annual Report. Includes: general administrative expenses such as repair and maintenance expenses, advertising costs, rent, professional fees, utilities and other such expenses

Employees

	Note	Unit	2021	2020	2019
Staff expenses	1	m EUR	2 457	2 329	2 357

[1] FY data, see note 3.8 of the 2021 KBC Group Annual Report

Shareholders

	Note	Unit	2021	2020	2019
Net result	1	m EUR	2 614	1 440	2 489
Gross dividend per share	2, 3	EUR	8.6	2.44	1

[1] FY data, see 'Consolidated income statement' in the 2021 KBC Group Annual Report
[2] FY data, see 'Our employees, capital, network and relationships' in the 2021 KBC Group Annual Report
[3] Of the interim dividend of 3 euros per share entitled to dividend paid in November 2021, we allocate 2 euros to fiscal year 2020 and 1 euro to fiscal year 2021. Dividend 2021 subject to approval by the General Meeting

Clients

	Note	Unit	2021	2020	2019
Interest paid to clients (interest expense)	1	m EUR	1 869	1 797	2 626

[1] FY data, see note 3.1 of the 2021 KBC Group Annual Report

Governments (tax)

For detailed country-by-country reporting on tax, please refer to the 2021 KBC Group Annual Report.

Community

	Note	Unit	2021	2020	2019
Total corporate community investment	1	m EUR	13.0	11.9	12.7

[1] Based on the B4SI (Business for Societal Impact) Framework.

POLICY INFLUENCE

KBC prohibits political involvement of any kind within the group and remains impartial by adopting a strict policy of not expressing political convictions and not making contributions to political parties, government organisations, politicians or campaign events. Readers are referred to KBC Group Corporate Public Affairs Policy.

	Note	Unit	2021	2020	2019
Annual total monetary contributions to trade associations, industry associations and business associations	1	m EUR	5.00	4.44	4.25

1 FY data

SUSTAINABLE FINANCE

Financing contributing to environmental objectives

	Note	Unit	Target	2021	2020	2019
Loan portfolio in renewable energy and biofuel sector (granted amount)	1	bn EUR		2.11	1.84	1.77
Of which renewable energy project finance (granted amount)	1	bn EUR		1.74	1.48	1.59
Avoided CO_2 emissions through renewable energy project finance	2	Tonnes CO_2e		447 460	448 351	473 012
Loan portfolio in renewable energy and biofuel sector, share in total energy portfolio (excluding transmission and distribution)	1	%	65 (2030)	63	61	57
Mortgages for energy efficient housing (granted amount)	3	bn EUR		9.5	8.8	-
Low carbon vehicles financing (outstanding amount)	4	m EUR		120		
Exposure to coal-related activities: remaining direct coal-related financing (granted amount at year-end)	1	m EUR	0 (2021)	0	11	36

1 FY data
2 Part of the new financed renewable assets are not yet in production, which explains the lower avoided emissions despite increased financing.
3 Includes data as at 30 September 2020 for Belgium, the Czech Republic, Ireland and Slovakia and data as of 30 September 2021 for all KBC's core countries (newly built dwellings with energy performance label A and B, based on actual EPC labels or on first approximation when no labels are available, and considered as energy-efficient housing).
4 Includes data for financial leasing, loans and operational leasing from 1 October 2020 up to 30 September 2021 for Belgium, the Czech Republic, Bulgaria, Hungary and Slovakia (vehicles with emissions < 50 g CO_2/km and in alignment with substantial contribution criteria of the EU taxonomy, including bicycles, motorbikes, passenger cars and light commercial vehicles).

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

1 FY data

Advice provided by Group Corporate Sustainability in 2021

Policy domain	Total	Conclusion of advice			Type of advice		
		Positive	Positive with con-ditions	Negative	Related to lending	Related to insurance	Related to advisory services
Human rights	3	2	–	1	3	–	–
Controversial weapons (including nuclear and white phosphorous weapons)	10	9	–	1	9	1	–
Controversial regimes	9	3	2	4	9	–	–
Biodiversity	25	21	3	1	23	2	–
Soft commodity speculation	–	–	–	–	–	–	–
Arms-related activities with exception of controversial weapons	34	26	–	8	31	3	–
Energy	128	89	25	14	123	4	1
Gambling	11	5	2	4	11	–	–
Tobacco	12	4	4	4	7	5	–
Others	19	18	–	1	12	7	–
Total	251	177	36	38	228	22	1

KBC green bonds

	Note	Unit	2021	2020	2019
Current year					
Total amount of green bonds issued	1	m EUR	750	500	0
Aggregated					
Total amount of green bonds issued	1	m EUR	1 750	1 000	500
Total annual avoided emissions	1, 2	Tonnes CO_2e	298 789	188 139	44 942
Total renewable energy produced	1, 2	MWh	1 383 667	775 162	296 783
Total energy saved	1, 2	MWh	76 804	38 827	25 933

1 FY data
2 Includes end-of-year data for 2021 and data as of 31 March for 2020 and 2019.

Socially responsible investments (SRI)

	Note	Unit	Target	2021	2020	2019
Total assets under distribution in sustainable funds (at year end)	1, 2	bn EUR	30 (2025)	31.7	16.8	12
Of which sustainable pension savings fund (SRI Pricos)	1	m EUR		6 494	105	73
SRI funds in % of total annual fund production	1, 2	%	50% (2021)	54.92%	40.32	30.00

1 FY data
2 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. Excluding 1.4 billion euros in Pensioenfonds KBC.

Equator Principles

	Note	Unit	2021	2020	2019
Project finance, number of transactions	1	Number	9	9	11
of which Category A transactions	1	Number	0	0	0
of which Category B transactions	1	Number	5	7	4
of which Category C transactions	1	Number	4	2	7
Project-related corporate loans, number of transactions	1	Number	8	13	6
of which Category A transactions	1	Number	0	0	1
of which Category B transactions	1	Number	0	0	1
of which Category C transactions	1	Number	8	13	4
Project finance advisory	1	Number	0	0	0
Project finance and project-related corporate loans, by sector	1				
Real estate	1, 2	Number	8	11	0
Infrastructure	1	Number	2	3	1
Power	1	Number	7	6	10
Other	1	Number	0	2	6
Project finance and project-related corporate loans, by region	1				
Europe, Middle East and Africa	1	Number	17	22	17
Project finance and project-related corporate loans, designated country	1				
Yes	1	Number	17	14	11
No	1	Number	0	8	6
Project finance and project-related corporate loans, independent review	1				
Yes	1	Number	8	6	6
No	1	Number	9	16	11

Category A projects are projects with potential significant adverse environmental and social risks and/or severe impact, Category B projects are projects with potential limited adverse environmental and social risks and/or impact that are less severe and Category C projects are projects with minimal risks and projects in legal compliance in the country of execution.
1 FY data
2 From 2020 onwards our Equator Principles reporting also include large real estate development and real estate re-development projects, albeit confined t projects with investment costs exceeding 30 million euros.

Financial inclusion and impact investing

BRS vzw

	Note	Unit	2021	2020	2019
Number of projects in the Global South	1	Number	10	14	12
Number of countries	1	Number	9	11	10
Financial support for projects	1	EUR	161 904	252 765	171 162
Number of days of coaching and training (mainly by KBC staff volunteering for BRS)	1	Number	236	267	821
Number of days of training via Microfact, a training platform jointly created by BRS and partner organisation ADA, specialised in performance management for microfinance and microinsurance	1	Number	142	257	295
Budget spent on coaching and training	1	EUR	74 044	57 038	143 480

[1] FY data

BRS Microfinance coop

	Note	Unit	2021	2020	2019
Cooperative share capital	1	m EUR	22.3	22.38	22.16
Share of capital contributed by KBC		%	33.62	33.51	33.85
Outstanding balance (loans to microfinance institutions and investment in microfinance funds)	1	m EUR	10.2	11.5	14
Number of microfinance institutions financed	1	Number	8	10	12

[1] FY data

UNEP FI Principles for Sustainable Insurance (PSI)

In 2018, KBC became a signatory to the UNEP FI PSI, which serve as the global framework for insurance companies to better manage ESG risks, as well as opportunities in their core business strategies and operations.

As a PSI signatory, we report on our progress in embedding the principles into all aspects of our operations. This reporting and self-assessment template outlines the activities we have undertaken to demonstrate our commitment to the UNEP FI PSI. The template is included in the 'Principles for Sustainable Insurance' appendix of this report.

UNEP FI Principles for Responsible Banking (PRB)

KBC was a founding signatory of the UNEP FI PRBs in September 2019. The principles set out the framework for a sustainable banking system and help us to demonstrate how we make a positive contribution to society. They embed sustainability at the strategic, portfolio and transactional levels, and across all business areas.

The third self-assessment, which monitor our progress towards implementing the UNEP FI PRBs Banking, is included in the 'Principles for Responsible Banking' appendix of this report.

UN Principles for Responsible Investing (PRI)

As a longstanding signatory to the PRIs since 2016, we continue to report the actions taken each year in relation to the six principles for responsible investment. The report is available to be consulted on the UN PRI website.

ENTREPRENEURSHIP

	Note	Unit	Target	2021	2020	2019
Number of start-ups supported through Start it @KBC	1	Number		130	134	121
Female entrepreneurs selected (in % of total entrepreneurs)	1, 2	%	50%	46%	53%	30%

[1] Scope: Start it @KBC in Belgium.
[2] Number of start-ups with minimum one female co-founder at the last pitch of the year (October).

SUPPLIERS

	Note	Unit	2021	2020	2019
Number of suppliers that signed the Code of Conduct for suppliers	1	Number	3 200	2 553	2 289

[1] 2020 data are corrected compared to the previous Sustainability Report.

ANTI-MONEY LAUNDERING, ANTI-CORRUPTION, DATA PROTECTION AND CYBER SECURITY

	Note	Unit	2021	2020	2019
Employees that have completed training in:					
Anti-money laundering (in % of target audience)	1	%	99	97	98
General Data Protection Regulation (GDPR) (in % of target audience)	1	%	97	97	97
Anti-corruption		%	96	–	–
Cyber security		%	100	100	–

[1] Based on the average employee coverage in % of target audience at all entities rather than the employee coverage in % of target audience at group level.

EMPLOYEES[1]

Number of employees

	Note	Unit	2021	2020	2019
Full-time equivalents (FTE)	1	Number	37 244	37 354	37 908
Headcount	1	Number	40 088	40 401	41 131
Full-time equivalents (FTE) excluding flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia		Number	37 091	37 218	37 763
Headcount excluding flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia		Number	39 025	39 255	39 929

[1] FTE and headcount figures differ from the figures reported in the 2021 KBC Group Annual Report and on p. 13 of this report due to a difference in reporting period. See 2021 KBC Group Sustainability Report: 'About this report'.

Employees, by core country

	Note	Unit	2021	2020	2019
Belgium		%	40.4	41.4	41.9
Bulgaria		%	10.7	10.1	10.0
Czech Republic		%	25.9	26.4	26.1
Hungary		%	9.7	9.9	10.1
Ireland		%	3.0	3.4	3.4
Slovakia		%	9.3	7.9	7.4
Rest of the world		%	1.0	1.0	1.1

[1] FTE and headcount figures include flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia while no other people indicators take account of the flexible DPP and DPC contracts.
Basic people data alone have been gathered for some small entities (together representing less than 60 FTEs) located outside the core countries and which are not corporate branches of KBC Bank NV. These entities have therefore not been included in the employees indicators (except for headcount, FTE, gender and employee categories).
Employee figures are based on headcount data unless otherwise stated.

Employees, by age group

	Note	Unit	2021	2020	2019
Total employees					
< 30 years		%	14	15	15
30-50 years		%	57	57	58
> 50 years		%	29	28	27
Board of Directors					
< 30 years	1	%	0	0	0
30-50 years	1	%	6	13	6
> 50 years	1	%	94	87	94
Executive Committee					
< 30 years		%	0	0	0
30-50 years		%	14	0	0
> 50 years		%	86	100	100

1 The difference with data reported in KBC Group's Annual Report is explained by the different reporting period. In this report we report data as at 30 September 2021 (please refer to the 'About this report' section of this report). Following the resignation of one female independent Board member late 2021, the Board reduced to 15 members temporarily.

Employees, by employment type

	Note	Unit	2021	2020	2019
Permanent		%	95	95	94
Temporary		%	5	5	6

	Note	Unit	2021	2020	2019
Full-time		%	83	83	83
Part-time		%	17	17	17

Employees, by employment type, by gender

	Note	Unit	2021		2020		2019	
			Men	Women	Men	Women	Men	Women
Full-time		%	48	52	48	52	48	52
Part-time		%	24	76	24	76	24	76

Employees, by employment type, by core country

	Note	Unit	2021	2020	2019
Belgium					
Permanent		%	98.9	98.5	98.1
Temporary		%	1.1	1.5	1.9
Bulgaria					
Permanent		%	96.6	96.3	96.3
Temporary		%	3.4	3.7	3.7
Czech Republic					
Permanent		%	89.8	89.5	88.1
Temporary		%	10.2	10.5	11.9
Hungary					
Permanent		%	99.5	99.5	99.3
Temporary		%	0.5	0.5	0.7
Ireland					
Permanent		%	96.0	96.5	93.2
Temporary		%	4.0	3.5	6.8
Slovakia					
Permanent		%	88.1	86.2	85.1
Temporary		%	11.9	13.8	14.9
Rest of the world					
Permanent		%	94.5	93.3	92.5
Temporary		%	5.5	6.7	7.5

Employees, by function classification

	Note	Unit	Target	2021	2020	2019
Senior management (Top 300)		%		0.5	0.6	0.7
Middle and junior management	1	%		40.3	39.6	44.6
White and blue collar	1	%		59.2	59.8	54.7

1 The 2020 figures are restated due to changes made to the grade-levelling system of employees in Belgium.

SUSTAINABILITY FACTS AND FIGURES

New employees and employee turnover

	Note	Unit	2021	2020	2019
New employee hires, total headcount		Number	3 799	3 590	4 184
Employee turnover, total headcount	1	%	14.5	11.9	13.1
Proportion of voluntary leavers		%	80.5	79.1	80.0
Internal mobility	2	%	24.4	22.0	23.0
Average seniority		Years	13	13	13

[1] Employee turnover: total leavers (excluding internal mobility) divided by total population at the end of the reporting period (headcount)
[2] Internal mobility: internal mobility divided by the total population at the end of the reporting period (headcount)

New employee hires and employee turnover, by country

	Note	Unit	2021	2020	2019
New employee hires					
Belgium		Number	723	483	780
Bulgaria		Number	809	817	834
Czech Republic		Number	1 130	1 192	1 208
Hungary		Number	646	482	605
Ireland		Number	53	113	282
Slovakia		Number	410	480	447
Rest of the world		Number	28	23	28
Employee tunover					
Belgium		%	10.1	9.5	6.6
Bulgaria		%	17.7	17.9	24.6
Czech Republic		%	17.7	12.3	15.6
Hungary		%	18.8	15.5	16.7
Ireland	1	%	21.4	13.5	21.3
Slovakia		%	14.9	12.3	16.8
Rest of the world		%	8.5	10.7	10.9

[1] The increased turnover in KBC Ireland is a consequence of the announced sale of the Irish portfolio to Bank of Ireland

New employee hires, by age

	Note	Unit	Targe	2021	2020	2019
< 30 years		%		47.0	45.5	42.9
30-50 years		%		46.2	47.5	49.6
> 50 years		%		6.8	7.0	7.5

New employee hires, by gender

	Note	Unit	2021		2020		2019	
			Men	Women	Men	Women	Men	Women
New employee hires		%	39.9	60.1	39.7	60.3	39.8	60.2

Gender diversity

	Note	Unit	2021	2020	2019
Employees by gender					
Male		%	44	44	43
Female		%	56	56	57
Women promoted in % of total promotions		%	70.6	58.7	–

Gender diversity, by management level

	Note	Unit	2021		2020		2019	
			Men	Women	Men	Women	Men	Women
Board of Directors	1	%	62	38	62	38	69	31
Group Executive Committee		%	86	14	86	14	86	14
Senior management	2	%	76	24	78	22	79	21
Middle and junior management	3	%	59	41	59	41	57	43
White and blue collar	3	%	33	67	34	66	32	68

[1] The difference with data reported in KBC Group's Annual Report is explained by the different reporting period. In this report we report data as at 30 September 2021 (please refer to the 'About this report' section of this report). Following the resignation of one female independent Board member late 2021, the Board reduced to 15 members temporarily of which 5 women. Subject to customary regulatory approvals and confirmation at the Annual General Meeting, the Board of Directors will expand again to 16 members of which 6 will be women and 3 independent directors.
[2] To support gender diversity in the higher echelons of our organisation – where women at KBC currently remain underrepresented – we have set the goal to have one female candidate and one male candidate for each new senior management nomination.
[3] The 2020 figures are restated due to changes made to the grade-levelling system of employees in Belgium.

Health and workplace

	Note	Unit	2021	2020	2019
Sick leave (days)		Number	8.0	7.5	8.6
Sick-leave rate (share of working days)		%	3.8	3.5	3.8
Lost-time injury frequency rate (LTIFR) (per million hours worked)	1	Number	3.91	5.0	-
Employees entitled to workplace flexibility options		%	80	80	-
Employees able to control and/or vary the start or end times of the working day or working week		%	99	99	-
Employees able to control and/or vary the location where they work		%	99	98	-

1 Lost-time injury frequency rate (LTIFR) = the number of fatalities as a result of work-related injury/number of hours worked x 1 000 000

Labour relations

	Note	Unit	2021	2020	2019
Employees covered by collective bargaining agreements	1	%	82	81	81
Employees covered by employee representation structures		%	79	77	-

1 The 2019 figures were restated in the 2020 KBC Group Sustainability Report to include some smaller group entities, which were not in the scope of previous reports.

Competence, learning and development and engagement

Highest educational level achieved

	Note	Unit	2021	2020	2019
Master's degree and higher		%	36.9	35.6	37.8
Bachelor's degree		%	35.6	35.6	33.5
Secondary education certificate		%	27.3	28.6	28.5
Primary education certificate		%	0.2	0.3	0.2

Learning and development

	Note	Unit	2021	2020	2019
Total time spent on learning and development per FTE	1,2	Days	4.0	3.6	4.3
Money invested in learning and development		m EUR	22	12.9	29.7
Employees participating in (top) talent development programmes (end of year data)		Number	331	392	315
Male		Number	217	265	211
Female		Number	114	127	104
KBC University Programme					
Total time spent by top management and top talents on KBC University training programmes and events	3	Days	123	602	528

1 This excludes KBC University training programmes completed by top management and top talents as these are reported separately.

2 Learning and development data only include training courses for which a formal registration in the local learning management system exists. On-the-job learning and knowledge sharing amongst employees is often not formally registered while – based on relevant literature – it is assumed that employees spend up to one third of their working hours on informal learning activities. Formally registered training courses therefore only cover a small part of total learning activities and it is fair to assume that the actual time spent on learning and development is much higher than the figure reported in the table above.

3 The total time spent by top management and top talents on the KBC University training programmes and events decreased in 2021 compared to 2020 and 2019 due to the disruption caused by Covid-19 and the measures taken. The live modules were cancelled. The virtual session was dedicated to climate, climate change and its impact on KBC as a financial institution and included a Climate Business Game.

SUSTAINABILITY FACTS AND FIGURES

Group Employee Survey

	Note	Unit	2021		2020	2019[1]
Response rate/ engagement score[2]			1st half year	2nd half year		
Belgium		%	69/72	64/68	57/74	–
Bulgaria	2	%	64/70	75/69	64/61	–
Czech Republic	2	%	31/74	–	37/71	–
Hungary		%	85/62	84/55	70/70	–
Ireland		%	–	–	72/69	–
Slovakia		%	44/59	45/67	55/65	–
Shared service centres		%	78/71	83/71	77/64	–

1 In 2019, which was an important transitional year with numerous changes, we focused on short, action-oriented interviews.
2 For more information on the employee engagement survey, we refer to the 'Listening to our employees' part of this report. The engagement score is the sum of the engaged and strongly engaged employees. This represents the sum of the employees who, on a 6-points scale going from strongly disagree to strongly agree, score on average 4.5 or more on the three defined engagement questions (feeling proud, motivated and committed).
3 Excluding KBC's own shared service centres in the Czech Republic and Bulgaria, which are reported separately.

COMMUNITY INVOLVEMENT

	Note	Unit	2021	2020	2019
Total corporate community investment	1	m EUR	13.0	11.9	12.7
By country					
Belgium		m EUR	9.8	7.0	7.5
Bulgaria		m EUR	0.1	0.3	0.2
Czech Republic		m EUR	1.8	3.0	3.2
Hungary		m EUR	0.4	0.7	0.5
Ireland		m EUR	0.5	0.6	0.9
Slovakia		m EUR	0.4	0.3	0.4
By motivation for contribution					
Charitable donations		m EUR	1.8	2.0	2.3
Community Investments		m EUR	9.5	7.1	7.7
Commercial activities		m EUR	1.7	2.8	2.7
Employee volunteering hours (estimated number)	2	Number	12 000	12 000	26 300

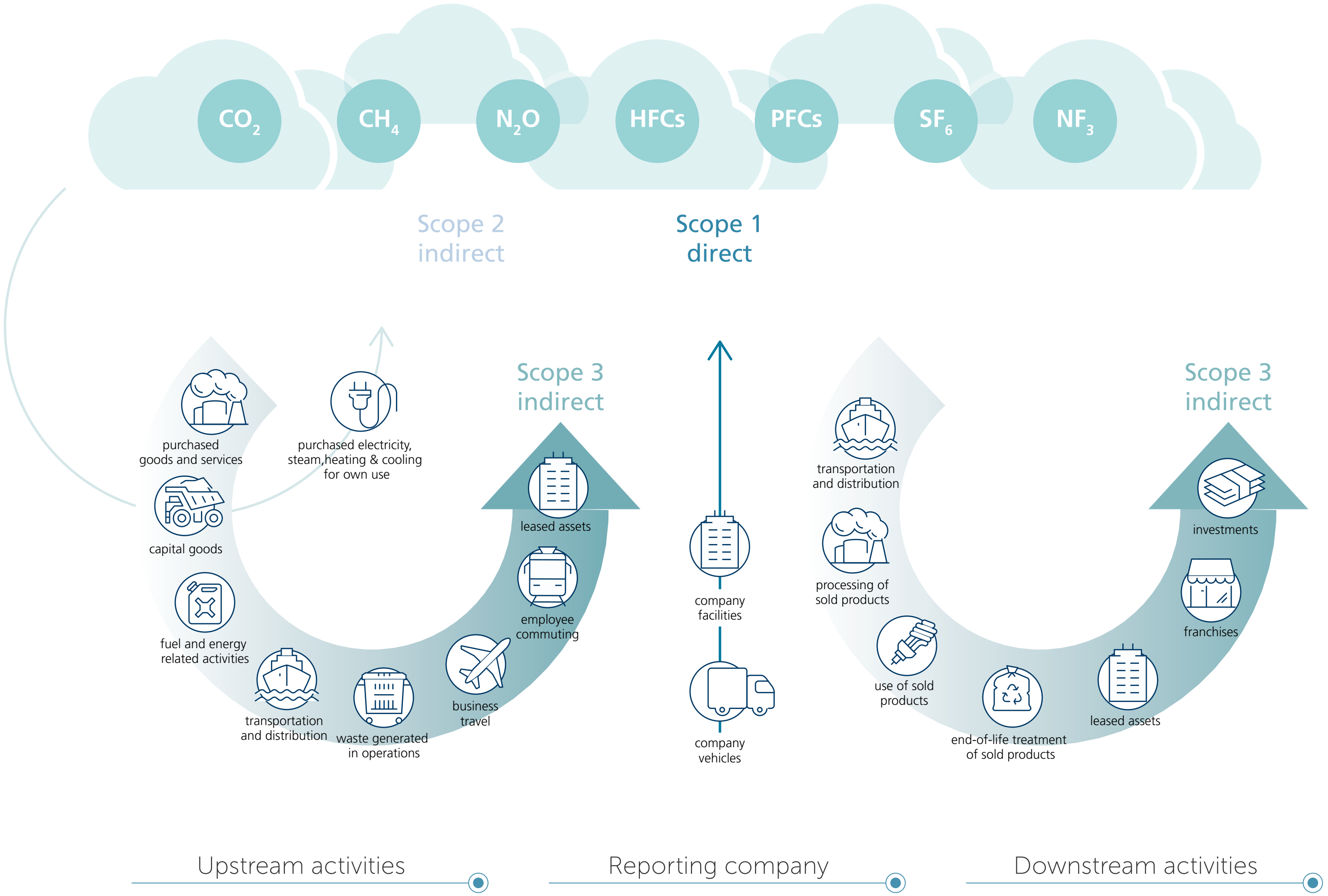
1 Based on the B4SI (Business for Societal Impact) Framework.
2 The drop in employee volunteering hours between 2019 and 2020 can be explained by Covid-19 related measures, restricting physical interactions.

ENVIRONMENTAL DATA AND EMISSIONS

Scope and boundary of KBC Group total GHG emissions

The greenhouse gas (GHG) inventory of KBC Group was prepared in accordance with the requirements of The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard. Specifically for our Scope 3 value chain emissions, we observe the Corporate Value Chain (Scope 3) Accounting Standard and The Global GHG Accounting and Reporting Standard for the Financial Industry, developed by the Partnership for Carbon Accounting Financials (PCAF) in compliance with the requirements set forth in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard for Category 15 investment activities.
The figure on this page gives an overview of GHG Protocol scopes and emissions of a reporting company across the value chain. Please refer to the table on the following page for an overview of the Scope 1, Scope 2 and Scope 3 categories we report on for KBC Group.

The Global GHG Accounting and Reporting Standards for the Financial Industry provides detailed methodological guidance to measure and disclose GHG emissions associated with six asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages and motor vehicle loans. As the Standard and PCAF evolve, additional asset classes will be added to the Standard. We apply the PCAF methodology for our loan and lease portfolio (financed Scope 3 emissions) while for our asset management and own investments, we apply the Trucost data and methodology. We will expand the scope of our financed emissions calculations in line with the prescribed PCAF timelines with an initial focus on the White Paper sectors, i.e. the most material climate-sensitive industrial sectors and product lines. For more information, please refer to the 'White Papers' appendix of this report. Also, going forward we aim to further increase the accuracy and granularity of the emissions associated with our loan portfolio. Presently, two calculation approaches were applied: 1) for a select set of our loan portfolios we calculate financed emissions based on asset-specific data, in which we aim for a high data quality level. We currently apply this approach to our mortgage loans, motor vehicle loans and motor vehicle leasing portfolios; 2) for the oil and gas and mining sectors and the remainder of our loan portfolio we calculate financed emissions based on outstanding loan amount and country and (sub-)sector-specific emission factors from the PCAF emission database (also see the 'PCAF' appendix of this report).



SUSTAINABILITY FACTS AND FIGURES

The table provides a schematic overview of the scope and boundary of KBC Group's GHG emissions and the respective data quality of the GHG emissions calculations. Detailed GHG emissions and activity data are reported on the following pages.

Certain

- **Score 1:** highest data quality
- Score 2
- Score 3
- Score 4
- Score 5: lowest data quality

Uncertain

		Source of GHG emissions	Scope and boundary KBC Group GHG emissions	Data quality[1]	Third party external verification[3]
DIRECT	Scope 1	Fuel combustion	Emissions of fuel combustion in all company owned or -controlled groupwide operations are included		✓
		Company owned or -controlled vehicle fleet	Emissions of employee commuting and business travel by company owned or -controlled vehicle fleet of all groupwide operations are included[2]		✓
		Refrigeration and air-conditioning equipment	Fugitive emissions from refrigeration and air conditioning equipment in all groupwide operations are included		✓
INDIRECT	Scope 2	Purchased electricity, steam, heating and cooling for own use	Emissions from purchased electricity, steam, heat and cooling of all groupwide operations		✓
	Upstream scope 3	Purchased goods and services (Category 1)	Emissions from paper and water consumption of all groupwide operations are included		✓
		Capital goods (Category 2)	Not relevant or not material for KBC Group as a financial services company		
		Fuel- and energy-related activities (Category 3)	Not relevant or not material for KBC Group as a financial services company		
		Upstream transportation and distribution (Category 4)	Not relevant or not material for KBC Group as a financial services company		
		Waste generated in operations (Category 5)	Emissions from waste generation and waste processing of all groupwide operations are included		✓
		Business travel (Category 6)	Emissions from business travel by not-own fleet (vehicles, public transport and air travel) of all groupwide operations are included		✓
		Employee commuting (category7)	Emissions from employee commuting travel by not-own fleet (vehicles and public transport) of all groupwide operations are included		✓
		Upstream leased assets (category 8)	Not relevant or not material for KBC as a financial service company		

SUSTAINABILITY FACTS AND FIGURES

Certain

- Score 1: highest data quality
- Score 2
- Score 3
- Score 4
- Score 5: lowest data quality

Uncertain

		Source of GHG emissions	Scope and boundary KBC Group GHG emissions	Data quality[1]
INDIRECT	Downstream scope 3	Downstream transportation and distribution (Category 9)	Not relevant or not material for KBC Group as a financial services company	
		Processing of sold products (Category 10)	Not relevant or not material for KBC Group as a financial services company	
		Use of sold products (Category 11)	Not relevant or not material for KBC Group as a financial services company	
		End-of life treatment of sold products (Category 12)	Not relevant or not material for KBC Group as a financial services company	
		Downstream leased assets (Category 13)	Emissions from KBC Group's operational lease portfolio (Scope 1)[2]	
		Franchises (Category 14)	Not relevant or not material	
		Investments (Category 15)[4]	Emissions from KBC Group's mortgages portfolio (Scope 1 and Scope 2)	
			Emissions from KBC Group's motor vehicle loans portfolio (Scope 1)	
			Emissions from KBC Group's oil and gas loan portfolio (Scope 1, Scope 2 and Scope 3)	
			Emissions from KBC Group's mining loan portfolio (Scope 1, Scope 2 and Scope 3)	
			Emissions from KBC Group's remaining loan portfolio (Scope 1, Scope 2 and Scope 3)	
			Own investments of KBC Group are excluded[4]	

1 For Scope 3 Category 13 and Category 15, data quality scores are in accordance with the PCAF data quality scoring method as specified in The Global GHG Accounting and Reporting Standard for the Financial Industry with score 1 reflecting the highest data quality and score 5 the lowest data quality. We acknowledge that the data collection process related to climate-related data of our business portfolios is not completed and we will continue to improve the data quality going forward.
2 Scope 2 emissions of electric fleet are not taken into account, which is justifiable given the still limited share of electric vehicles at the end of the reporting period.
3 KBC Group's direct environmental footprint have been externally verified in accordance with ISO 14064-3.
4 In 2021, for the first time we conducted an analysis of the climate-related impact for the majority of KBC Insurance's own investments managed by Group Treasury and the investments of Pensioenfonds KBC based on the Trucost data and methodology. The results of this first pilot can be found in the Trucost appendix to this report.

Summary of KBC Group total GHG emissions

	Note	Unit	Target	2021	2020	2019
Scope 1						
Energy		Tonnes CO_2e		12 850	13 576	15 141
Refrigerants		Tonnes CO_2e		1 302	993	1 455
Employee commuting (own fleet)		Tonnes CO_2e		2 498	4 016	8 676
Employee business travel (own fleet)		Tonnes CO_2e		2 861	6 615	9 466
Total Scope 1		Tonnes CO_2e		19 511	25 200	34 739
Scope 2 (market based)	1					
Energy		Tonnes CO_2e		3 857	11 748	17 006
Total Scope 2 (market based)		Tonnes CO_2e		3 857	11 748	17 006
Scope 3						
Employee commuting (excluding own fleet)		Tonnes CO_2e		10 022	13 402	12 885
Employee business travel (excluding own fleet)		Tonnes CO_2e		675	2 332	4 873
Paper consumption		Tonnes CO_2e		1 844	2 042	2 651
Water consumption		Tonnes CO_2e		101	337	385
Waste generation		Tonnes CO_2e		830	791	229
Total Scope 3 excluding portfolio data		Tonnes CO_2e		13 473	18 903	21 024
Total own operational footprint (Scope 1 + Scope 2 + Scope 3 excluding portfolio data)	2	Tonnes CO_2e		36 841	55 850	72 769
% change compared to base year 2015	3, 4	%	-80% (2030)	70.89%	55.86%	42.49%
Carbon credits purchased		Carbon credits	Net climate-neutrality (2021)	37 000	–	–
Emission from leasing and lending portfolio	5	Tonnes CO_2e		57 045 386	–	–
Total Scope 3 including portfolio data		Tonnes CO_2e		57 058 859	–	–
Total Scope 1 + Scope 2 + Scope 3 including portfolio data		Tonnes CO_2e		57 082 227	–	–

Notes:
1 Location-based Scope 2 emissions are reported on the following pages.
2 KBC Group direct footprint includes Scope 1 emissions, Scope 2 emissions and Scope 3 emissions from sources over which we have direct operational control.
3 Significant decrease in our own operational footprint emissions is predominantly caused by the switch to 100% electricity from renewable sources amongst other emission reduction activities and further impact of Covid-19 related measures on our GHG emissions. Moreover, reporting year 2021 includes the full-year impact of Covid-19 measures whereas the report for the previous reporting year only reported the impact of two quarters.
4 We have set 2015 as our base year for our own operational footprint as reliable data have been available since that year for the whole group.
5 For the calculated Scope 3 emissions from our leasing and lending portfolio, we have not included the results of 2020 and 2019. These are not comparable due to differences both in the scope and methodology of the calculated Scope 3 emissions. The results of 2020 and 2019 are included in our 2019 and 2020 Sustainability Report. For detailed emissions data per sector and the calculation methodology, please refer to the part on 'Indirect environmental impact: Scope 3 GHG emissions from lease and lending portfolio' in this section and the PCAF appendix of this report.

Direct environmental footprint

KBC Group's own operational footprint has been externally verified in accordance with ISO 14064-3 by an independent third party. Vinçotte has verified KBC Group's GHG assertion of 36 840.85 of CO_2e to a level of reasonable assurance and concluded that KBC Group's reported GHG emissions for 2021 are reliable and fairly stated. View the verification statement here.

Our direct footprint emissions include:

- Scope 1: direct emissions from fuel combustion and refrigerant gases in our office buildings and from business and commuter travel by our own company car fleet
- Scope 2: indirect emissions from purchased energy (electricity, heat, cooling and steam consumption)
- Scope 3: indirect emissions from business travel and commuter travel and emissions from sources over which we have direct operational control (paper and water consumption and waste generation)

The system boundaries for GHG emissions were determined by operational control and aligned with the financial consolidation scope of the KBC Group. The greenhouse gases included were: CO_2, N_2O, CH_4 and refrigerant gases.

The data for the GHG inventory were mainly historical in nature. Extrapolations were performed for missing data. As not all entities are able to provide all required emission source data and entities in countries that have less than 100 FTEs are out of scope of the non-financial environmental data-gathering, we have extrapolated available data based on historical activity data per FTE and CO_2e emissions per FTE respectively, so as to reflect our total GHG emissions. The GHG emissions calculated by extrapolation account for about 2% of total GHG emissions in 2021. Hypothetical approaches were only used for limited activities.

SUSTAINABILITY FACTS AND FIGURES

Coverage

	Note	Unit	2021	2020	2019
Full-time equivalents (FTE) covered)	1	Number	36 004	36 323	36 948
		%	100%	100%	100%

[1] FTEs covered differ from the FTE figures reported under people indicators as the system boundaries for GHG emissions were determined by operational control and aligned with the financial consolidation scope of the KBC Group. Some entities have therefore not been included in the environmental data while they are included in employee information. As from reporting year 2021 onwards, OTP Banka Slovensko is included in the reported data.

Direct footprint, by country

	Note	Unit	2021	2020	2019
Belgium		Tonnes CO_2e	13 909	22 245	29 159
Bulgaria		Tonnes CO_2e	3 529	5 606	7 505
Czech Republic		Tonnes CO_2e	10 584	17 450	23 055
Hungary		Tonnes CO_2e	4 476	4 806	5 388
Ireland		Tonnes CO_2e	374	1 381	2 626
Slovakia	1	Tonnes CO_2e	3 577	3 749	4 213
Rest of the world		Tonnes CO_2e	392	613	823
Total own operational footprint (Scope 1 + Scope 2 + Scope 3 excluding portfolio data)		Tonnes CO_2e	36 841	55 850	72 769

[1] From reporting year 2021, GHG emission data for Slovakia include data for OTP Banka Slovensko, acquired at the end of November 2020.

Energy consumption

	Note	2021		2020		2019	
		kWh	Tonnes CO_2e	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e
Scope 1							
Natural gas		69 212 196	12 677	72 362 087	13 305	80 855 351	14 865
Heating oil		666 915	171	1 046 543	269	1 062 955	273
Electricity (own production) from renewable sources		1 472 715	0	1 204 223	0	1 115 830	0
Electricity (own production) from non-renewable sources		248 082	0	297 715	0	376 473	0
Other types of direct energy consumption		2 917 812	2	2 602 014	2	3 080 143	3
Total Scope 1		74 269 637	12 850	77 512 582	13 576	86 490 752	15 141
Scope 2							
Purchased electricity – market based		122 305 765	0	139 411 289	7 492	150 829 029	12 591
- of which renewable electricity		122 305 765	0	121 956 363	0	451 499	0
Purchased electricity – location based		122 305 765	30 775	139 411 289	38 589	150 829 029	46 142
District heating, cooling and steam consumption		22 571 103	3 857	24 655 189	4 256	25 077 349	4 415
Other types of energy consumption		0	0	0	0	0	0
Total Scope 2 (market based)		144 876 868	3 857	164 066 478	11 748	175 906 378	17 006
Total Scope 2 (location based)		144 876 868	34 632	164 066 478	42 845	175 906 378	50 557
Total Scope 1 + 2 (market based)		218 898 423	16 707	241 281 345	25 324	262 020 657	32 147
Total Scope 1 + 2 (location based)		218 898 423	47 482	241 281 345	56 420	262 020 657	65 698

Total energy consumption differs from the sum of the various energy sources, as the consumption of self-generated electricity from non-renewable fuel has been excluded to avoid double counting and was counted under fuel consumption.
Source emission factors: Department for Business, Energy & Industrial Strategy (DEFRA) GHG reporting: 2021 conversion factors; European Residual Mixes 2020 Association of Issuing Bodies

SUSTAINABILITY FACTS AND FIGURES

Refrigerants

	Note	2021		2020		2019	
		Kg	Tonnes CO_2e	Kg	Tonnes CO_2e	Kg	Tonnes CO_2e
Scope 1							
Refrigerants and air condition equipment		690	1 302	493	993	525	1 455
Total Scope 1		690	1 302	493	993	525	1 455

Source emission factors: DEFRA GHG reporting: 2021 conversion factors and supplier data

Employee commuting and business travel

	Note	2021		2020		2019	
		Km	Tonnes CO_2e	Km	Tonnes CO_2e	Km	Tonnes CO_2e
Scope 1							
Employee commuting by own fleet	1	22 344 925	2 498	36 784 450	4 016	76 341 470	8 676
Business travel by own fleet		23 783 635	2 861	58 845 910	6 615	81 349 028	9 466
Total Scope 1		46 128 560	5 360	95 630 360	10 631	157 690 498	18 143
Scope 3							
Employee commuting on foot/ by bicycle		5 070 680	0	8 275 346	0	12 189 570	0
Employee commuting by road other than own fleet		61 474 134	7 728	81 768 333	10 187	79 418 698	9 604
Employee commuting by public transport		43 879 711	2 294	61 829 163	3 215	82 956 856	3 282
Business travel by road other than own fleet		4 806 660	603	10 492 986	1 310	17 548 851	2 216
Business travel by public transport		687 329	22	2 632 000	81	6 597 902	231
Air travel		324 286	50	5 887 626	940	15 084 991	2 427
Total Scope 3		111 172 121	10 698	170 885 455	15 733	213 796 868	17 758
Total Scope 1 + 3		157 300 681	16 057	266 515 815	26 365	371 487 366	35 901
Total employee commuting		132 769 451	12 521	188 657 293	17 418	250 906 594	21 561
Total business travel		29 601 910	3 536	77 858 523	8 947	120 580 772	14 339

Source emission factors: DEFRA GHG reporting: 2021 conversion factors; European Environment Agency (EEA) and car manufacturer data

[1] GHG emissions calculation are based on average emission factors of our own and not-own fleet based on EEA and car manufacturers data. Hence, Scope 2 emissions of electric fleet are not taken into account, which is justifiable given the still limited share of electric vehicles at the end of the reporting period.

SUSTAINABILITY FACTS AND FIGURES

Paper consumption

	Note	2021		2020		2019	
		Tonnes	Tonnes CO_2e	Tonnes	Tonnes CO_2e	Tonnes	Tonnes CO_2e
Scope 3							
Recycled paper consumption		58	43	64	47	230	183
Other paper consumption		1 959	1 801	2 170	1 995	2 591	2 468
Total Scope 3		2 017	1 844	2 234	2 042	2 821	2 651

Source emission factors: DEFRA GHG reporting: 2021 conversion factors

Water consumption

	Note	2021		2020		2019	
		M^3	Tonnes CO_2e	M^3	Tonnes CO_2e	M^3	Tonnes CO_2e
Scope 3							
Drinking water consumption and water treatment		240 758	101	320 067	337	365 977	385
Total Scope 3		240 758	101	320 067	337	365 977	385

Source emission factors: DEFRA GHG reporting: 2021 conversion factors

Waste generation

	Note	2021		2020		2019	
		Tonnes	Tonnes CO_2e	Tonnes	Tonnes CO_2e	Tonnes	Tonnes CO_2e
Scope 3							
Recycled waste generation		1 628	35	2 130	45	2 761	59
Incinerated waste generation		534	11	720	15	569	12
Landfilled waste generation		1 679	784	1 593	730	1 588	158
Total Scope 3		3 841	830	4 443	791	4 918	229

Source emission factors: DEFRA GHG reporting: 2021 conversion factors

Indirect environmental impact: financed Scope 3 GHG emissions from lease and lending portfolio and emission intensity

Product lines and sectors	Data quality level score[1]	Scope and boundary			Financed GHG emissions (tonnes CO_2e)	Emission intensity per million euro outstanding (tonnes CO_2e/ m EUR)	Scope (private individuals or professional counterparties)
		Scope 1	Scope 2	Scope 3			
WHITE PAPER SECTORS AND PRODUCT LINES[2]							
Energy							
Oil and gas extraction and manufacturing[3]	5	●	●	●	2 293 167	16 935	Professional counterparties
Oil and gas (remaining portfolio – mainly transport/distribution)	5	●	●	●	379 613	368	Professional counterparties
Electricity	5	●	●	●	3 251 659	1 113	Professional counterparties
Total energy					5 924 439	1 449	
Real estate							
Mortgages[4]	5	●	●	–	1 685 594	23	Private individuals
Commercial real estate	5	●	●	●	5 228 836	457	Professional counterparties
Total real estate					6 914 430	81	
Building and construction[5]	5	●	●	●	4 036 737	515	Professional counterparties
Transport: automotive and vehicles financing							
Financial lease and loans[4, 6]	4	●	–	–	923 110	214	Private individuals and professional counterparties
Operational lease[4, 7]	1	●	–	–	337 166	254	Professional counterparties
Automotive	5	●	●	●	1 947 779	428	Professional counterparties
Total automotive and vehicles leasing					3 208 054	315	
Agriculture	5	●	●	●	9 457 628	1 831	Professional counterparties
Food and beverage producers							
Food producers	5	●	●	●	2 979 985	896	Professional counterparties
Beverages	5	●	●	●	337 610	431	Professional counterparties
Total food and beverage producers					3 317 595	808	
Chemicals[5]	5	●	●	●	2 082 152	839	Professional counterparties
Metals[5]	5	●	●	●	2 779 968	1 058	Professional counterparties
Total White Paper sectors and product lines					37 721 003		

This is the first time that KBC has reported on the financed emissions associated with its total loan portfolio based on the PCAF standard and the emission factors made available in the PCAF emission factor database. 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. Hence, 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. Readers are referred to the PCAF appendix for more details on the methodological approach.

SUSTAINABILITY FACTS AND FIGURES

Product lines and sectors	Data quality level score[1]	Scope and boundary			Financed GHG emissions (tonnes CO_2e)	Emission intensity per million euro outstanding (tonnes CO_2e/ m EUR)	Scope (private individuals or professional counterparties)
		Scope 1	Scope 2	Scope 3			
REMAINING SECTORS							
Mining[8]	5	●	●	●	128 542	855	Professional counterparties
Services	5	●	●	●	6 591 178	338	Professional counterparties
Distribution	5	●	●	●	3 740 468	263	Professional counterparties
Shipping	5	●	●	●	1 739 071	1 324	Professional counterparties
Finance and insurance	5	●	●	●	1 816 593	161	Professional counterparties
Authorities	5	●	●	●	760 440	145	Professional counterparties
Machinery and heavy equipment	5	●	●	●	755 953	454	Professional counterparties
Textile and apparel	5	●	●	●	572 562	663	Professional counterparties
Timber and wooden furniture	5	●	●	●	549 614	689	Professional counterparties
Water	5	●	●	●	538 639	1 068	Professional counterparties
Aviation	5	●	●	●	479 524	1 489	Professional counterparties
Electrotechnics	5	●	●	●	453 576	487	Professional counterparties
Horeca	5	●	●	●	414 735	302	Professional counterparties
Paper and pulp	5	●	●	●	200 641	418	Professional counterparties
Traders	5	●	●	●	185 810	198	Professional counterparties
Consumer products	5	●	●	●	176 456	578	Professional counterparties
Media	5	●	●	●	112 730	236	Professional counterparties
IT	5	●	●	●	73 169	223	Professional counterparties
Telecom	5	●	●	●	34 653	86	Professional counterparties
Tobacco	5	●	●	●	28	371	Professional counterparties
Total remaining sectors					19 324 382		
Total					57 045 386	312[9]	

●: in scope
–: out of scope

1 Data quality scores are in accordance with the PCAF data quality scoring method as specified in The Global GHG Accounting and Reporting Standard for the Financial Industry with score 1 reflecting the highest data quality and score 5 the lowest data quality. We acknowledge that the data collection process related to climate related data of our business portfolios is not completed and we will continue to improve the data quality going forward.

2 For more information on the White Paper approach, please refer to the White Paper section and White Paper appendix of this report.

3 Based on data as of 30 September 2021 (see PCAF appendix)

4 Based on data as of 30 September 2021 (see PCAF appendix).

5 These sectors also include outstanding exposure to mining activities which may already be accounted for in the mining sector in the table above and thus may be double counted (calculation performed separately for the mining sector as part of the PCAF timeline).

6 Financed emissions associated with vehicles may be double counted for vehicles loans granted the sectors specified below.

7 This includes Scope 1 emissions associated with our own fleet, which is also included in our direct environmental footprint calculations and thus double counted.

8 Mining activities are part of the sectors energy, building and construction, metals and chemicals. As a consequence mining activities are also included in the White Paper approach. The financed emissions associated with the mining sector are reported separately in response to the PCAF reporting timeline.

9 Figure calculated based on aggregated outstanding exposure as used for PCAF calculation purposes. Please note that this aggregated exposure does not mirror the same scope of the reported outstanding loan book of KBC as per 31 December 2021 (i) for a number of sectors outstanding exposure as per 30 September 2021 was used and (ii) the calculations also include operational lease which is not included in the scope of loan book reporting. Also, for an approximate 1% of the outstanding loan book no PCAF calculation could be made.

GRI/SASB index

GRI/SASB INDEX

This sustainability report has been prepared in accordance with the GRI Standards: 'Core' option and has not been externally audited. Since 2019, we have also been mapping our material topics to relevant Sustainability Accounting Standards Board (SASB) standards within the Financial Industry Standards.

The content index includes reporting on the relevant disclosure topics and associated metrics under the 'Commercial Banks' industry standard only (primary industry as defined in the SASB's Sustainable Industry Classification System (SICS)). Given that we have activities in multiple industries and not only primary industry commercial banks, we will continue to evaluate the standards in the future in order to report on other industry standards as well. Please note that we do not currently disclose all metrics included in the standards.

The GRI/SASB content index is set out below. Reference is made to our 2021 Annual Report (AR 2021), our 2021 Sustainability Report (SR 2021), the KBC Group Sustainability Framework and our corporate website.

Complementarity of the GRI and SASB standards

The GRI and SASB standards meet the needs of different audiences. The SASB standards focus on identifying and communicating material sustainability factors likely to impact financial performance to investors whereas GRI standards are designed to provide information on a very broad array of topics to a wide variety of stakeholders, including suppliers, clients, communities and interest groups. In this respect, we greatly welcome the commitment of five framework and standard-setting institutions – CDP, CDSB, GRI, IIRS and SASB – to work towards a comprehensive corporate reporting system.

GRI 101: FOUNDATION 2016

GRI 101 does not include any disclosures

GRI 102: GENERAL DISCLOSURES 2016

Organisational profile

102-1	Report the name of the organisation	AR 2021 p. 2; SR 2021 p. 3
102-2	Activities, brands, products, and services	AR 2021 Inside cover, p. 8-9, p. 14, p. 20; SR 2021 p. 14
102-3	Location of headquarters	AR 2021 p. 279
102-4	Location of operations	AR 2021 p. 20, p. 78; SR 2021 p. 14
102-5	Ownership and legal form	AR 2021 p. 279
102-6	Markets served	AR 2021 p. 20, p. 78; SR 2021 p. 14
102-7	Scale of the organisation	AR 2021 Inside cover, p. 1, p. 20, p. 21-25; SR 2021: p. 14-15
102-8	Information on employees and other workers	SR 2021 p. 2, p. 124-127
102-9	Supply chain	SR 2021 p. 20, p. 22, p. 124
102-10	Significant changes to the organisation and its supply chain	No significant changes were made to the organisation and its supply chain.
102-11	Precautionary principle or approach	AR 2021 p. 43-65, p. 138-144; SR 2021 p. 51-52, p. 69-105
102-12	External initiatives	SR 2021 p. 7-8, 12-13
102-13	Members of associations	SR 2021 p. 7-8, p. 16, p. 51

Strategy

102-14	Statement from senior decision maker	AR 2021 p. 6-7; SR 2021 p. 4-5

Ethics and integrity

102-16	Values, principles, standards, and norms of behaviour	AR 2021 p. 12, p. 46, p. 164-169; SR 2021 p. 14, p. 42-48

Governance

102-18	Governance structure	AR 2021 p. 50, p. 152-156; SR 2021 p. 26-28, 25-26, p. 78

GRI/SASB INDEX

Stakeholder Engagement

102-40	List of stakeholder groups	SR 2021 p. 16
102-41	Collective bargaining agreements	AR 2021 p. 25, p. 64; SR 2021 p. 31, p. 36, p. 127
102-42	Identifying and selecting stakeholders	SR 2021 p. 16
102-43	Approach to stakeholder engagement	SR 2021 p. 16-22
102-44	Key topics and concerns raised	AR 2021 p. 18-19; SR 2021 p. 16-22

Reporting Practice

102-45	Entities included in the consolidated financial statements	AR 2021 p. 273-275; SR 2021 p. 2 See our corporate website for a complete list of companies belonging to the group
102-46	Defining report content and topic boundaries	SR 2021 p. 2, p. 18-22
102-47	List of material topics	SR 2021 p. 20-21
102-48	Restatements of information	No substantial restatements of information given in previous year's 2020 Sustainability Report
102-49	Changes in reporting	SR 2021 p. 2
102-50	Reporting period	SR 2021 p. 2
102-51	Date of most recent report	SR 2021 p. 2
102-52	Reporting cycle	SR 2021 p. 2
102-53	Contact point for questions regarding the report	SR 2021 p. 2
102-54	Claims of reporting in accordance with the GRI standards	SR 2021 p. 2
102-55	GRI content index	SR 2021 p. 138-150
102-56	External assurance	SR 2021 p. 2

MATERIAL TOPICS

Long-term resilience of our business model

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 40-42, p. 43-45, p. 51-60, p. 66-68, p. 164-169
103-3	Evaluation of the management approach	AR 2021 p. 40-42, p. 43-45, p. 51-60, p. 66-68, p. 164-169; SR 2021 p. 13, p. 16-22, p. 29

GRI 201: Economic Performance 2016

201-1	Direct economic value generated and distributed	AR 2021 Inside cover, p. 8-11; SR 2021 p. 120
201-2	Financial implications and other risks and opportunities due to climate change	AR 2021 p. 51-60, p. 72-77, p. 138-144; SR 2021 p. 69-105 2021 KBC Group CDP Report KBC Group Environmental Policy
201-4	Financial assistance received from government	KBC did not receive financial assistance from any government during 2021.

SASB Commercial Bank Sector Disclosure: Systemic Risk Management

FN-CB-550a.1.	Global Systemically Important Bank (G-SIB) score, by category	KBC Group is not considered as a Global Systemically Important Bank (G-SIB) as per definition, methodology and most recently updated list of the Financial Stability Board (FSB)
FN-CB-550a.2	Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy and other business activities	AR 2021 p. 138-144, p. 145-146; SR 2021 p. 90-95, p. 100-103 2021 KBC Group CDP Report

Direct environmental footprint of our business activities

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 40-42, p. 51-60, p. 138-144, p. 164-169; SR 2021 p. 23-29, p. 69-77
103-3	Evaluation of the management approach	AR 2021 p. 40-42, p. 51-60, p. 138-144, p. 164-169; SR 2021 p. 13, p. 16-22, p. 23-29, p. 69-77

GRI 302: Energy 2016

302-1	Energy consumption within the organisation	SR 2021 p. 133
302-4	Reduction of energy consumption	SR 2021 p. 133

GRI 305: Emissions 2016

305-1	Direct (Scope 1) GHG emissions	AR 2021 p. 59; SR 2021 p. 132-135
305-2	Energy indirect (Scope 2) GHG emissions	AR 2021 p. 59; SR 2021 p. 132-135
305-3	Other indirect (Scope 3) GHG emissions	AR 2021 p. 59; SR 2021 p. 132-135
305-4	GHG emission intensity	AR 2021 p. 59; SR 2021 p. 132-135
305-5	Reduction of GHG emissions	AR 2021 p. 59; SR 2021 p. 132-135

Sustainable and responsible lending, insurance and advisory service offering

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 43-46, p. 46-65, p. 138-144, p. 164-169; SR 2021 p. 23-29, p. 49-52, p. 54-56, p. 63-64, p.69-73
103-3	Evaluation of the management approach	AR 2021 p. 43-46, p. 46-65, p. 138-144, p. 164-169; SR 2021 p. 12-13, p. 16-19, p. 23-29, p. 49-52, p. 54-56, p. 63-64, p.69-73

GRI 203: Indirect Economic Impacts 2016

203-2	Significant indirect economic impacts	AR 2021 p. 8-11, p. 43-46, p. 52-56; SR 2021 p. 9-11, p. 23-25, p. 54-105, p. 106-118, p. 121-123

GRI 412: Human Rights Assessment 2016

412-1	Operations that have been subject to human rights reviews or impact assessments	AR 2021 p. 64-65; SR 2021 p. 45, p. 49-52, p. 121 See KBC Group Human Rights Policy See KBC Group UN Global Compact Communication on Progress

G4: Product Portfolio (awaiting new GRI Sector Standards)

FS6	Percentage of the portfolio for business lines by specific region, size (e.g., micro/SME/large) and by sector	AR 2021 p. 99-111
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR 2021 p. 54-55, p. 106-118, p. 121-123
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	SR 2021 p. 54-55, p. 84-87, p. 106-118, p. 121-123

SASB Commercial Bank Sector Disclosure: Incorporation of Environmental, Social, and Governance Factors in Credit Analysis

FN-CB-410a.1.	Commercial and industrial credit exposure, by industry	AR 2021 p. 58, p. 103-107; SR 2021 p.79-80
FN-CB-410a.2.	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	AR 2021 p. 46-49, p. 52-65, p. 138-144; SR 2021 p. 49-52, p. 53-105 KBC Group Sustainability Framework

Sustainable and responsible asset management and investing

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 44-46, p. 46-65, p. 138-144, p. 164-169; SR 2021 p. 23-29, p. 49-52, p. 53-56, p. 57-62, p. 64-68
103-3	Evaluation of the management approach	AR 2021 p. 44-46, p. 46-65, p. 138-144, p. 164-169; SR 2021 p. 12-13, p. 16-19, p. 23-29, p. 49-52, p. 53-56, p. 57-62, p. 64-68

G4: Product Portfolio (awaiting new GRI Sector Standards)

FS6	Percentage of the portfolio for business lines by specific region, size (e.g., micro/SME/large) and by sector	AR 2021 p. 99-111
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR 2021 p. 54-55, p. 63-68, p. 121-123
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	SR 2021 p. 54-55, p. 63-68, p. 121-123

GRI 203: Indirect Economic Impacts 2016

203-2	Significant indirect economic impacts	AR 2021 p. 8-11, p. 43-46, p. 52-56; SR 2021 p. 23-25, p. 54-56, p. 57-62, p. 64-68, p.106-118, p. 121-123

GRI 412: Human Rights Assessment 2016

412-1	Operations that have been subject to human rights reviews or impact assessments	AR 2021 p. 64-65; SR 2021 p. 45, p. 49-52, p. 121 See KBC Group Human Rights Policy See KBC Group UN Global Compact Communication on Progress

Partner in the transformation to a more sustainable future

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 44-46, p. 46-65, p. 138-144, p. 164-169; SR 2021 p. 23-29, p. 49-52, p. 54-56
103-3	Evaluation of the management approach	AR 2021 p. 44-46, p. 46-65, p. 138-144, p. 164-169; SR 2021 p. 12-13, p. 16-19, p. 23-29, p. 49-52, p. 54-56

GRI 203: Indirect Economic Impacts 2016

203-2	Significant indirect economic impacts	As a financial institution KBC plays a crucial role in achieving the UN Sustainable Development Goals and in the fight against climate change thanks to its unique position in directing capital through loans, investments and advisory services. KBC is committed to contributing to a sustainable society, both directly through our own operations and indirectly by helping our clients to be more sustainable. AR 2021 p. 44, p. 46-47, p. 51-56; SR 2021 p. 54-56, p. 57-60, p. 82-87, p. 106-118

Corporate citizenship

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 43-65, p. 78-93; SR 2021 p. 12-13, p. 10, p. 23-25, p. 106-118
103-3	Evaluation of the management approach	AR 2021 p. 43-65; SR 2021 p. 12-13, p. 10, p. 16-19, p. 23-25, p. 29

KBC 1: Community Investment

KBC 1	Total community investment and community involvement initiatives	We promote volunteer working and sponsor those activities, initiatives and campaigns that have on the one hand a direct connection with our strategy and our four focus domains, and on the other give individuals and organisations opportunities to grow, self-develop and increase self-confidence. SR 2021 p. 76-86, p. 97 See KBC Group Community Involvement Policy

Accessible finance

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 12-15, 31-36, 78-93; SR 2021 p. 10, p. 23-25, p. 64-68, p. 108-110, p. 116-117
103-3	Evaluation of the management approach	AR 2021 p. 43-65; SR 2021 p. 12-13, p. 10 , p. 16-19, p. 23-25, p. 29, p. 64-68

GRI 203: Indirect Economic Impacts 2016

203-2	Significant indirect economic impacts	Stimulating the local economy by financing and supporting small businesses is KBC's core business. As an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap client, we have an indirect impact on the economy and society at large through all our products and services. Due to the significant scale and wide variety of our indirect impact, we cannot report on it in full. When we support a start-up, for instance, we have an impact not only on that start-up, but also on the community in which it operates. AR 2021 p. 12-13, p. 43-65; SR 2021 p. 15, p. 106-118

SASB Commercial Bank Sector Disclosure: Financial Inclusion and Capacity Building

FN-CB-240a.4	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	AR 2021 p. 32, p. 47; SR 2021 p. 64-68, p. 113-114

Usability of banking and insurance products and services

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p, 31-36, p. 164-169; SR 2021 p. 10, p. 23-25, p. 113-117
103-3	Evaluation of the management approach	AR 2021 p. 31-36, p. 164-169; SR 2021 p. 12-13, p. 16-19, p. 29

GRI 203: Indirect Economic Impacts 2016

203-2	Significant indirect economic impacts	Stimulating the local economy by financing and supporting small businesses is KBC's core business. As an integrated bank-insurance group, catering mainly for retail, private banking, SMEs and mid-cap clients, we have an indirect impact on the economy and society at large through all our products and services. Due to the significant scale and wide variety of our indirect impacts, we cannot report thereon in full. When we support a start-up for instance, we have an impact not only on that start-up, but also on the community in which it operates. AR 2021 p. 12-13, p. 31-36; SR 2021 p. 15, p. 116-117

G4: Product Portfolio (awaiting new GRI Sector Standards)

FS14	Initiatives to improve access to financial services for disadvantaged people	AR 2021 p. 47; SR 2021 p. 116-117

SASB Commercial Bank Sector Disclosure: Financial Inclusion and Capacity Building

FN-CB-240a.4	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	SR 2021 p. 113-115, 116-117

Fair, understandable and transparent information to clients

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 31-36, p. 37-39, p. 46-47, p. 164-169; SR 2021: p. 23-25, 42-48 , p. 113-114
103-3	Evaluation of the management approach	AR 2021 p. 31-36, p. 37-39, p. 46-47, p. 164-169; SR 2021 p. 12-13, p. 16-19, p. 29, p. 42-48

GRI 417: Marketing and Labelling 2016

417-1	Requirements for product and service information and labelling	We want clients to be able to make smart and well-informed financial decisions. We therefore focus on financial advice and clear communications on our products and services and their impact. We have a New and Active Products Process (NAPP) in place for the creation of all new products and the modification or review of all existing products. Through this process, the business side has to consider the main risks related to all new, modified or reviewed products and services. The advice of the support functions (Risk, Compliance, Legal, Tax, Finance, Credit, Business Architecture) also has to be sought. If the risks related to a product or service are deemed too great, the business proposal will be rejected or subjected to conditions. The intention is that we should not sell any unsuitable products or services to clients. AR 2021 p. 31-36, p. 37-39; SR 2021: p. 23-25, 42-48

Information security and data protection

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 19, p. 33-35, p. 94-97, p. 122-125, p. 164-169; SR 2021: p. 46-48
103-3	Evaluation of the management approach	AR 2021 p. 19, p. 33-35, p. 94-97, p. 122-125, p. 164-169; SR 2021: p. 12-13, p. 16-19, p. 29, p. 46-48

GRI 418: Customer Privacy 2016

418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2021, KBC Group received 36 privacy-related complaints in which the local Data Protection Authority was involved. 76 complaints of clients were qualified as a data breach of which 52 were reported to the local DPA. These data are excluding K&H in Hungary.

SASB Commercial Bank Sector Disclosure: Data Security

FN-CB-230a.2	Description of approach to identifying and addressing data security risks	AR 2021 p. 19, p. 94-97, p. 122-125, p. 164-169; SR 2021: p. 46-48

Inclusive business culture

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 8-12, p. 21-2556-157, p. 164-169; SR 2021 p. 14-15, p. 23-25, p. 30-40
103-3	Evaluation of the management approach	AR 2021 p. 8-12, p. 21-2556-157, p. 164-169; SR 2021 p. 12-13, p. 16-194-1524, p. 29, p. 30-40

GRI 405: Diversity and equal opportunity 2016

405-1	Diversity of governance bodies and employees	AR 2021 p. 15, p. 23-24, p. 156-157; SR 2021 p. 31, p. 37-40, p. 124-127

KBC 2: Corporate Culture

KBC 2	'Team Blue' spirit	AR 2021 p. 10-12, p. 22; SR 2021 p. 14, p. 23-25, p. 30-40

Talent attraction and retention

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p. 8-12, p. 21-25, p. 164-169; SR 2021 p. 14-15, p. 23-25, p. 30-40
103-3	Evaluation of the management approach	AR 2021 p. 8-12, p. 21-25, p. 164-169; SR 2021 p. 12-13, p. 29, p. 30-40

GRI 401: Employment 2016

401-1	New employee hires and employee turnover	AR 2021 p. 22-24; SR 2021 p. 32-33, p. 126

GRI 403: Occupational health and safety 2018

403-1	Occupational health and safety management system	AR 2021 p. 22-24; SR 2021 p. 35-36
403-9	Work-related injuries	SR 2021 p. 127

GRI 404: Training and education 2016

404-1	Average hours of training per year per employee	AR 2021 p. 22-24; SR 2021 p. 16, p. 32, p. 127
404-2	Programmes for upgrading employee skills and transition assistance programmes	AR 2021 p. 21-23; SR 2021 p. 16, p. 30-40, p. 127

Ethical business conduct and responsible behaviour

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary	SR 2021 p. 21
103-2	The management approach and its components	AR 2021 p.45-46, p. 164-169; SR 2021 p. 23-25, p. 42-47 KBC Group Code of Conduct
103-3	Evaluation of the management approach	AR 2021 p. 45-46, p. 164-169; SR 2021 p. 12-13, p. 16-25, p. 29, p. 42-47 KBC Group Code of Conduct

GRI 205: Anti-Corruption 2016

205-1	Operations assessed for risks related to corruption	AR 2021 p. 64-65, p. 164-169; SR 2021 p. 42-47
205-2	Communication and training about anti-corruption policies and procedures	AR 2021 p. 164-169; SR 2021 p. 42-47, p. 124 KBC Group Code of Conduct

GRI 207: Tax 2019

207-1	Approach to tax	AR 2021 p. 167 KBC Group Tax policy
207-2	Tax governance, control and risk management	KBC Group Tax policy
207-4	Country-by-country reporting	AR 2021 p. 234-235

SASB Commercial Bank Sector Disclosure: Business Ethics

FN-CB-510a.1	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behaviour, market manipulation, malpractice, or other related financial industry laws or regulations	AR 2021 p. 227, p. 263 Net provisions for taxes and pending legal disputes were 27m euros in 2021.
FN-CB-510a.2	Description of whistleblower policies and procedures	AR 2021 p. 164-169 KBC Group Policy for the Protection of Whistleblowers

SASB Activity metrics

FN-CB-000.B	1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate7	AR 2021 p. 103

Appendices

APPENDIX: WHITE PAPERS

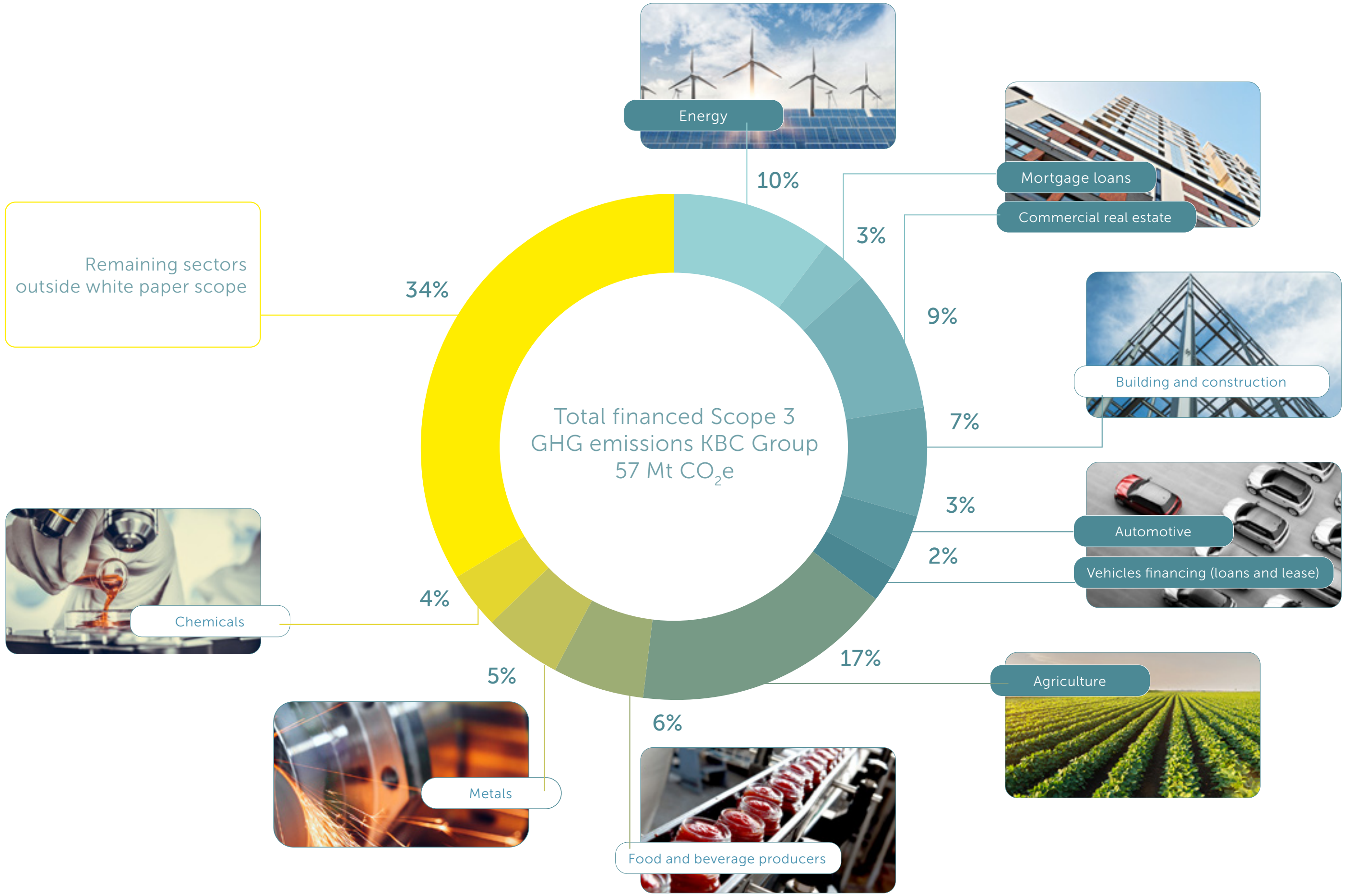
Among the focal points of our climate change strategy are the strategic assessments of the most carbon-intensive industrial sectors in our businesses and product lines. These are referred to as the White Paper sectors.

Based on a materiality analysis, as stipulated in the TCFD recommendations, we decided to focus on the industry sectors with granted loan volumes representing more than 5% of industrial loans designated as climate-sensitive, i.e. sectors that are important from the perspective of GHG emissions and that have a significant impact on climate change. The GHG calculations performed in 2021 for our total loan portfolio using the PCAF methodology, confirm that this focus is correct. Combined, the most material climate-sensitive sectors and product lines – in scope of the White Paper approach – represent approximately 2/3rds of both the total financed GHG emissions (see Graph 10.1.1) and of our total outstanding loan portfolio.

More information on the generic approach regarding these White Papers can be found in the part on 'Updated strategies on the most carbon-intensive industrial sectors and product lines' of this report. This appendix provides an overview of the main findings for each of these sectors and business lines. Some sectors are discussed together as they have strong overlapping characteristics.

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[1]

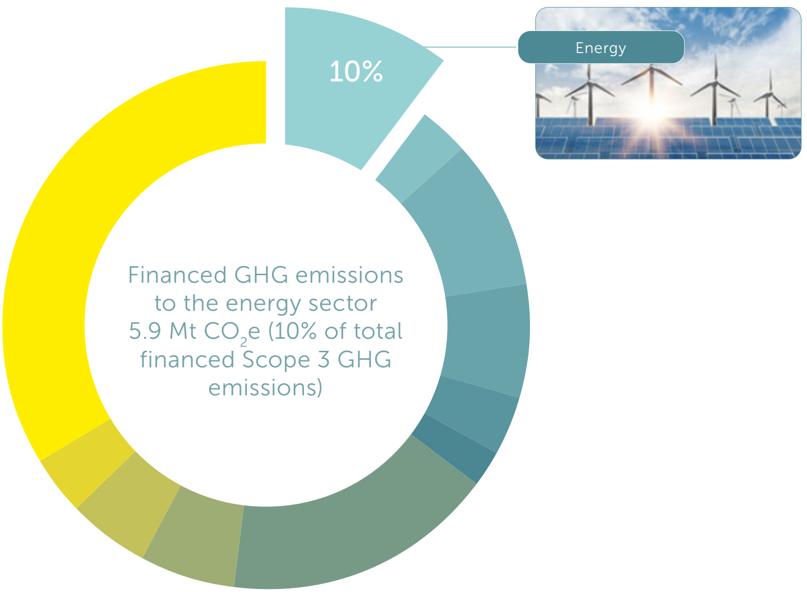
[1] For detailed emission figures per sector and more information on the calculation methodology, please refer to the 'Sustainability facts and figures' section of this report.



We would expressly point out that where we use terminology such as 'green' and 'sustainable' throughout this appendix (as in the rest of this report), these terms in no way suggest that what we describe is already (fully) aligned with the EU taxonomy.

Energy

Accounting for 28% of European greenhouse gas (GHG) emissions[1], the energy sector is the number one contributor to the block's climate impact. Which explains why the transition of the energy sector towards net zero emissions is at the centre of attention of policy makers, investors, clients, NGOs and other stakeholders. Greening the energy mix has an immediate and direct positive effect on emissions and also creates a big positive leverage on the decarbonisation of industrial processes, real estate and mobility. In 2021, energy stood at the heart of national and intergovernmental climate-related discussions, in amongst other forums at the UN COP26 in Glasgow. The challenge ahead for the energy sector is huge. The energy sector and related infrastructure form the backbone of the EU Fit for 55 action plan. The 2021 Net Zero report of the International Energy Agency (IEA) stated that, as of this year no new oil and gas sources should be explored in order to meet the objective of restricting the unfolding temperature rise to 1.5°C by 2100. The same report stated that existing oil and gas resources should be sufficient to meet demand if complemented by a wide-ranging set of governmental policy measures that influence and incentivise low-carbon purchase and investments. The energy sector will also be heavily impacted by potential future carbon taxes and by the review of the European Emissions Trading System (ETS). The ongoing transition creates both new business opportunities in financing and insuring of renewables and in delivering advisory services but also a growing risk of stranded assets linked to the fossil fuel (coal, oil and gas) industry. A massive scale-up of renewable energy capacity is needed to support the growing electrification and fossil fuel (coal, oil and gas) energy supply should quickly drop. The future energy system requires an upscaled availability of low-emission fuels (like bio- and hydrogen-based fuels) for end-use sectors where electrification is not technologically or economically viable. For KBC Group, energy and the energy transition are among the focus domains in which we both support the maximum roll-out of renewables – with a vision that almost everyone can become a green energy producer – while gradually decreasing our exposure on fossil fuels. In testimony thereof, in 2021 we went to zero direct exposure to thermal coal and started with restrictions on financing the exploration of new oil and gas fields.



[1] 2019 data European Environmental Agency (EEA): EEA greenhouse gases dataviewer.

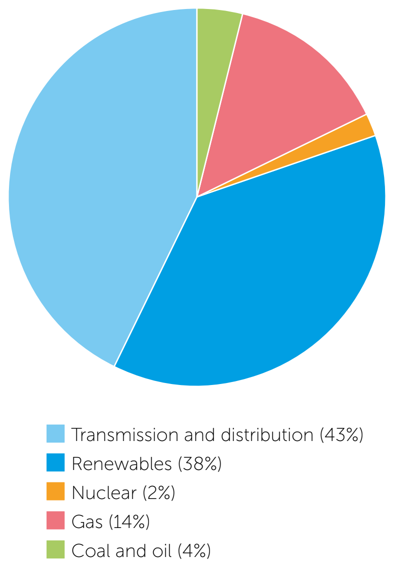
Energy

KBC's energy portfolio

KBC's outstanding loan volume to the energy sector was 4.1 billion euros, which represented 2.2% of KBC's lending portfolio at year-end 2021. The most notable climate mitigation measures and investments need to be focused in the energy sector portfolio over the next decade. Reducing the carbon intensity of conventional fossil fuel power generation and deploying new renewable energy capacity are both positive levers for decarbonising many other sectors. This observation explains why energy production ranks among the priority sectors for KBC Group.

Our energy portfolio predominantly consists of corporate clients. However, in line with our strategy to get everyone on board the energy transition and to support the required increase in renewable production capacity and the transformation towards a low-carbon economy as much as possible, we also finance investments in renewable energy assets for non-energy companies, SMEs and private individuals. Large companies still play the predominant role in the sector, as they account for the highest share of energy production and emissions.

Graph 10.1.2: Breakdown of energy sector loan portfolio into the various sub-segments as defined in the UNEP FI transition risk assessment (based on outstanding exposure as per 30 September 2021)



KBC Group's outstanding exposure to the oil and coal sub-segment consists of our remaining indirect coal exposure and exposure to the oil sector. For both restrictive policies are in place. The share of direct coal exposure has been reduced to zero in line with our commitment and we ask our clients on whom we have indirect coal exposure to commit themselves to fully exit coal by 2030 at the latest.

There are strong local differences in the energy mixes in each of KBC's core markets: in Belgium for instance, thermal coal is no longer part of the power supply, whereas the Central European region still relies on thermal coal for a substantial portion of its power and heat supply. With an exposure of approximately 2.1 billion euros, the Belgian portfolio accounts for the largest exposure. It is very important to note that the bulk of this portfolio relates to the financing of renewable energy production and energy transmission (electricity, oil and gas). At the other end of the spectrum, we became more restrictive on fossil fuel financing. The share of direct coal exposure in our loan portfolio has been actively reduced to zero, six months before our publicly announced deadline, and new restrictions on the financing of the exploration of new oil and gas sources have been implemented.

Energy

Measurements for energy portfolio

Our 2020 White Paper resulted in an strengthened ambition statement to gradually increase the share of renewables in the total energy loan portfolio and to take a clear and concrete stance on activities in the energy sector that we no longer wish to support or that may need to be phased out. As a subsequent step and as an effort to translate this ambition into practical actions, we aim to gain more of an in-depth insight into our own portfolio through our Data and Metrics Project and customer engagement approach so that we will be able to create a strategy that is more tailored to our current portfolio. In these endeavours, we strive to take into account local energy mixes and local governmental transition plans. All in all, as energy is a domain with cross-sectoral influence we want to gain a better understanding of our clients' (green) energy usage and investments in renewables.

The White Paper risk analyses and the UNEP FI inspired transition risk assessment have highlighted that the main transition risks faced by the energy sector are mostly relevant for fossil fuels, mainly coal and oil, but also gas. Renewable energy however is projected to benefit from the transition both indirectly, through the irrelevance of emission costs, and directly, through the increase in revenue generation as it gradually replaces fossil fuel-fired power facilities. As innovation continues to drive down the costs of solar and wind power, these technologies will see a more widespread uptake. However, grid operation and transition will need to be updated to support renewable power generation and significant investments in power storage are needed to maintain a reliable energy supply. Going forward, further restrictions for fossil fuels and carbon-intensive plants will need to be considered. However, finding a balance between national energy plans (while ensuring security of supply) and what is needed to achieve the objectives of the Paris Agreement will be crucial in this respect. Given the long lifespan of power plants, the construction of new fossil fuel plants is likely to lock-in emissions for decades and increase the risk for so-called climate-related stranded assets (assets which, prior to the end of their intended economic lifespan, are no longer able to generate cash flows or have suffered from premature write-downs due to unanticipated climate-related policies). While coal and oil plants are likely to be hit first and hardest, gas and gas power plants will also be impacted by an ambitious transition. Current carbon capture utilisations and storage (CCUS) technologies provide no solution yet as they are not always mature and market-ready. The results of the UNEP FI transition risk assessment are summarised in Table 10.1.1.

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

For further information on the methodology, please see UNEP FI appendix

APPENDIX: WHITE PAPERS

Energy

Regarding energy generation from renewable sources, a 2030 target was set to step up the share of renewable energy in KBC Group's total energy portfolio to 65%. The share of renewable energy and biofuels at year-end 2021 stood at 63% of our total granted loan portfolio for the energy sector (excluding transmission and distribution). Specifically in project finance Belgium, we lent 198 million euros in financing renewable energy in 2021, resulting in 122 megawatt of new installed capacity. Please note that the aforesaid metrics only consider renewable energy companies or special purpose vehicles for renewable energy loans. We have not yet included financing for purposes such as solar panels for non-energy producing companies or private individuals. KBC wishes to remain a leading financier of renewable energy projects in the years to come. We also wish to support our clients in the transition to a carbon-neutral society by providing advisory services and solutions to ease the switch to a greener energy provider.

Table 10.1.2: Share of renewables in the total energy loan portfolio

Indicator	Target	2021	2020	2019	
Share of renewables in the total energy loan portfolio (excluding transmission and distribution)	Minimum 65% by 2030	63%	61%	57%	●

The restrictive policies on thermal coal, further tightened in January 2021, resulted in a decrease in direct exposure to zero by mid-2021. The pathway to reduce the share of indirect financing of thermal coal to zero by 2030 also became stricter. Since April 2021, we no longer accept new counterparties that are energy companies with any thermal coal capacity and we are exiting from relations with existing counterparties that are energy companies with more than 25% of thermal coal capacity. Furthermore, we require all existing counterparties with any thermal coal-related capacity, regardless of whether or not they are energy companies, to:

- submit and publicly commit to a realistic and detailed plan explaining how thermal coal is to be completely phased out by 2030 at the latest. Such plans are to be submitted by the end of 2022 (or 2023 for smaller companies);
- commit not to engage in new thermal coal projects, either by increasing existing thermal coal capacity or acquiring new capacity, even if they were to dismantle other capacity at the same time.

Table 10.1.3: Evolution of direct thermal coal-related financing

Indicator	Target	2021	2020	2019	
Financing of thermal coal-related activities	Full exit from direct thermal coal-related financing by 2021	0 million euros remaining	11 million euros remaining	36 million euros remaining	✓

The age of coal is almost at an end, but going forward the use of other fossil fuels such as oil and gas for energy generation will need to be phased out too. We already abstain from financing oil-based electricity generation, exploration and the development of unconventional oil and gas (including Arctic and Antarctic on- and offshore oil and gas, tar sands, shale oil and gas and deep-water drilling) and specialised companies that only operate in the field of the extraction and development of oil and gas fields. In response to the above learnings of the latest IEA 'Net Zero by 2050' report, our oil and gas policies became even more restrictive. Starting from November 2021, KBC Group no longer provides direct financing, insurance or advisory services for the exploration and extraction of any new oil and gas fields. In addition, vertically integrated energy companies that operate in the field of the extraction of oil and gas:

- will see their financing term limited to 2030 at the latest, unless the company concerned has publicly committed to cease starting up new oil or gas fields;
- starting from 1 January 2022, KBC will ensure that all new general financing and advisory contracts include a contract clause whereby the client accepts that the funding provided by KBC cannot be used for the exploration of new oil and gas fields.

Energy

By doing so, KBC adopts a clear stance and expresses its support for the immediate cessation of the exploration of new oil and gas fields, while simultaneously not entirely denying vertically integrated energy companies access to financing for their activities, as KBC is mindful about their remaining importance in securing an orderly energy transition, from an economic as well as from a societal perspective.

KBC currently has no direct loan exposure to nuclear power plants. Although nuclear power technology is neutral from a climate perspective, we have adopted a very cautious stance with respect to the financing of existing and new plants, given their association with health and environmental risks. KBC is prepared to consider taking part in the financing or insuring of, or to provide advisory services to, new nuclear power plants only if the project is part of an energy transition strategy and supported by the local government.

Apart from our traditional financial metrics, the exposure of KBC Group to the energy sector is also expressed in production technologies (for power) or fuel mix profiles (for fossil fuel extraction) through the PACTA analysis, and financed emissions (Scope 1, 2 and 3) through the PCAF methodology, which we applied for the first time in 2021 to our oil and gas loan portfolio.

The PACTA results are extensively detailed in the relevant PACTA appendix to this report. The methodology for the 2 672 780 tonnes of CO_2e of financed Scope 3 emissions we calculated for our Oil and Gas loan portfolio is detailed in the relevant PCAF appendix to this report.

Where are we heading

In 2022 and beyond, we wish to continue to support projects aimed at increasing the renewables capacity, by looking outside the traditional boundaries of financing the energy sector directly. In line with this vision, we strongly believe that investments in renewable energy should be stimulated for virtually all clients. At KBC we are therefore firmly committed to engaging with our clients on this topic in providing support on their sustainability journeys.

By continuing our customer engagement and data collection strategies, we want to gain detailed insights into our portfolio and its current and forecast climate impact as a starting point to better tailor the solutions we offer our clients, to set targets in relation to our CCCA commitment and to shape our future policies.

As the energy landscape is in full transformation, we are in touch with local sector federations, innovation-hub initiatives and individual clients to find solid ground within a context of rapidly changing technology readiness levels in order to understand new business models with the aim of supporting clients in their energy transition.

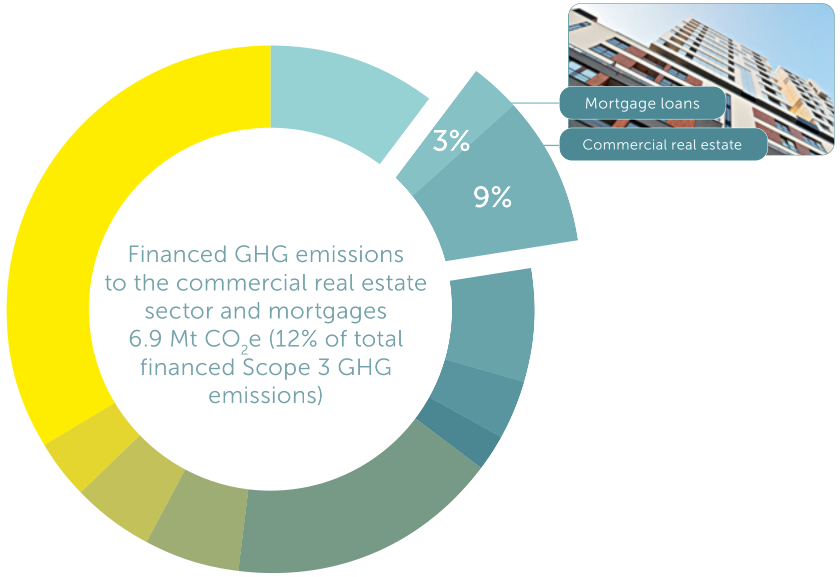
We will continue to closely monitor the possible impact of policy changes in the national energy plans which we expect will be implemented from as early on as 2022 in the energy domain as the European Commission moves forward with its Fit for 55 legislative agenda. The energy transition stands at the forefront of the EU decarbonisation path and is the backbone of the EU Fit for 55 action plan. The EU aspires to drive down the use of fossil fuels to generate power and heat in order to reach its 55% emission reduction goal by 2030 compared to the 1990 level. The cornerstone policy tool of the EU to fulfil this ambition will remain a carbon pricing mechanism – through either carbon taxation or by revising and extending the ETS. By monitoring the potential impacts of these policy changes on our portfolio, we aim to adapt our approach in a timely manner as well as seize on the opportunities created by these new regulations.

Commercial real estate and mortgages

Buildings are among the biggest energy consumers and GHG emitters in Europe. They account for 40% of the EU's energy consumption and roughly 13% of total GHG emissions[2]. The vast majority of the building stock in Europe is energy-inefficient, so the potential savings are huge. However, with a rate of energy-efficient renovation efforts at just around 1%-2% a year, this potential has barely been tapped. In addition to its impact on climate change, the sector is closely linked with other environmental concerns, such as water, waste and mobility.

For many years now, the EU has had a regulatory framework in place, which has been transposed into national or local regulations in all EU countries. The aim is to help EU governments speed up the implementation of sustainability measures in respect of their building stock. For newly built real estate, the regulations impose high energy-efficiency standards and control mechanisms are built in. The challenge is the older building stock and the need to boost renovation in such a way that a highly energy-efficient and decarbonised building stock is achieved by 2050.

Already embedded in the EU Green Deal, the EU is moving up a gear with its Fit for 55 package. The latter comes with two key dimensions for reducing the energy consumption of buildings and bringing down emissions, i.e. energy system optimisation and deep renovation. These dimensions are consequently key policy priorities. For the first dimension, the Fit for 55 proposals for real estate support the development of renewable and less polluting energy systems such as heat pumps for homes and buildings. The second dimension, deep renovation, is a core pillar of the energy efficiency strategy and is part of the Commission's previously published Renovation Wave Strategy. The adoption of a second package of 'Fit for 55' proposals in December 2021 included a revised Energy Performance of Buildings Directive. As the use of fossil fuels in buildings is a substantial source of emissions and pollution, the EU Commission is also proposing to establish a new Emissions Trading System (ETS) for fuels in the building sector from 2026 onwards in order to boost the consumption of cleaner heating fuels on the market. The proposals also look at the use of energy performance certificates (EPCs) for large non-residential buildings to incentivise renovation.



[2] 2019 data European Environmental Agency (EEA): EEA greenhouse gases dataviewer.

Commercial real estate and mortgages

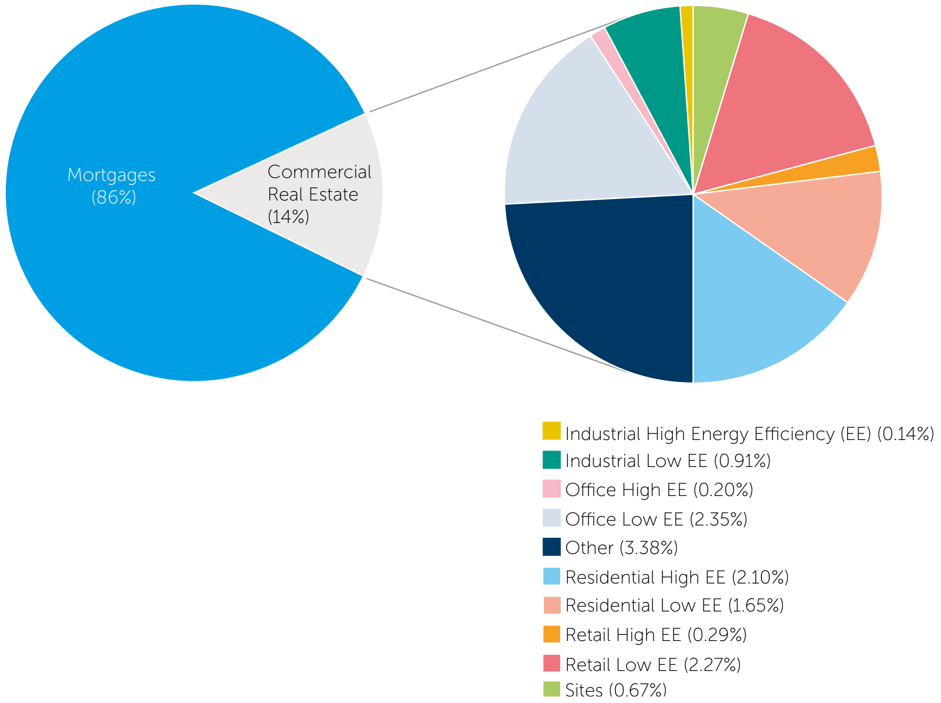
KBC's real estate portfolio

The financing of real estate constitutes a major part in KBC's outstanding loan portfolio. At year-end 2021, the combined mortgages and commercial real estate (CRE) portfolios represented 47.3% of the total outstanding loan book, respectively amounting to 77.6 billion euros for the mortgage portfolio and 11.5 billion euros for commercial real estate finance.

Mortgage loans to finance housing for private individuals are a core product for KBC in all our core countries, in many of which we enjoy a significant share of the market. Commercial real estate finance relates to the development of or investment in real estate assets (or a portfolio of such assets) by property developers or investors, which are subsequently sold or let to third parties. The composition of the CRE loan portfolio is detailed in Graph 10.1.3.

Graph 10.1.3: Breakdown of real estate loan portfolios (based on outstanding exposure as per 30 September 2021)

The drill-down of the commercial real estate portfolio on the right is based on the various sub-segments as defined in the UNEP FI transition risk assessment.



Commercial real estate and mortgages

Measurements for mortgage portfolio

We use the PCAF methodology as the tool for identifying, measuring and tracking the GHG emissions of our mortgages portfolio. We started a first pilot in 2019 for the home loan portfolio in Flanders and rolled out this approach to all our core countries starting in 2020. Also in 2020, we carried out a calculation of the GHG emissions associated with our mortgage portfolio. In 2021, the financed Scope 3 emissions of our mortgage portfolio amounted to 1 685 594 tonnes of CO_2e. The average intensity per unit is 4.91 tonnes of CO_2e. Read more about the 2021 results in the 'PCAF' appendix to this report.

Alongside setting up a methodology for the measurement of the transition, we are also in the process of gradually assessing climate-related physical risks. In 2020, we performed a climate-related physical flood risk assessment for our Flemish residential mortgage portfolio using the methodology developed by UNEP FI and Acclimatise, the results of which were detailed in the 'UNEP FI' appendix of our 2020 KBC Sustainability report. In short, having computed the risk-adjusted loan-to-value ratio for the properties at risk both under the 2020 and 2050 climate conditions, the exercise showed that the flood risk embedded within the Flemish home loan portfolio is limited. For this reason, we decided not to change our credit underwriting policies right away.

This was the first step towards gaining a better understanding of the potential impact of climate-related, acute or chronic flood events on our mortgage loan-to-value ratios. Going forward, we will follow up this assessment by keeping a close eye on possible changes in the situation. In 2021, we started to extend these assessments to other regions and home countries, depending on the availability of granular geolocation data and forward-looking regional flood maps.

Measurement for the commercial real estate portfolio

We use the UNEP FI methodology to assess climate-related transition risks in our corporate loan portfolio. The sensitivities of the various sub-segments of our commercial real estate portfolio were assessed against these Risk Factor Pathways. All "real estate developments" were considered "highly energy-efficient" and all "investments" as "low energy-efficient". The results of our sensitivity assessment are shown in Table 10.1.4.

Table 10.1.4: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the commercial real estate loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Residential developments	LOW	LOW	LOW	POSITIVE
Residential investments	MODERATE	MODERATE	MODERATELY HIGH	MODERATE
Office developments	LOW	MODERATELY LOW	LOW	POSITIVE
Office investments	MODERATELY HIGH	MODERATELY HIGH	HIGH	MODERATELY HIGH
Retail developments	MODERATELY LOW	MODERATELY LOW	LOW	MODERATE
Retail investments	MODERATELY HIGH	MODERATELY HIGH	MODERATELY HIGH	MODERATE
Industrial developments	LOW	MODERATELY LOW	LOW	MODERATE
Industrial investments	MODERATELY HIGH	MODERATELY HIGH	MODERATELY HIGH	MODERATE
Sites	NO IMPACT	NO IMPACT	NO IMPACT	NO IMPACT
Other	MODERATE	MODERATE	MODERATE	MODERATE

For further information on the methodology, please see UNEP FI appendix

Conclusions drawn from the impact assessment and corresponding sector analysis:

- Transition to highly energy-efficient and low-carbon buildings, constructions and real estate is essential to get on a sustainable pathway.
- Significant progress can be achieved by focusing on the adoption of high-efficiency technologies and more sustainable building designs, as well as making greater use of renewable energy sources both in the construction and the operation of the new buildings. New buildings which produce their own energy or that are highly energy-efficient will have an important effect on future building-related energy use and emissions. Please refer to our ambition and actions on renewable energy in the 'Energy' part of this appendix.

Commercial real estate and mortgages

- In parallel, improving energy efficiency and achieving emissions reductions of existing buildings should be pursued by way of thorough energy renovations and other energy efficiency improvements. Measures should be taken to achieve a reduction of energy demand related to heating, cooling and ventilation systems, deployed appliances and equipment, lighting, etc. Specifically lighting, appliances and equipment systems, which commonly have a shorter lifetime than the buildings they are in, offer a significant opportunity to reduce emissions in new and existing buildings.
- Delivering efficient and resilient new and renovated low-emission buildings is essential, but should be supplemented with energy management improvement measurements of existing buildings. Better energy management can reduce the amount of energy consumption and emissions.

Where are we heading

As early as late 2020, all KBC core countries delivered White Papers on the mortgages and CRE sectors, presenting their analyses of the local characteristics of these sectors together with proposals for steering their portfolios towards more energy-efficient finance and greater climate resilience in terms of energy performance and risk. The widely accepted key performance indicator for real estate is its energy performance which is translated in an EPC (Energy Performance Certificate) label, where so required under local regulations. Acquiring an understanding of the energy performance associated with our real estate financing is needed to measure our impact in terms of CO_2 emissions, to report thereon, to set targets, to evaluate the impact of our actions and for these insights to be incorporated into the collateral valuation process. The real estate sector ranks among the priority sectors for which we are preparing to set targets in 2022 in the context of our CCCA commitment.

In 2021, we continued our efforts to deliver on this ambition and we focused on the key elements detailed below that were addressed in the real estate White Papers:

- Defining the relevant metrics for the real estate sector.
- Setting up a data and metrics track so as to initiate the process changes needed both at local and centralised level and to incorporate the metrics in a structured reporting system.
- Addressing the sustainability issues in real estate in our dialogues with professional clients.
- Starting data collection on energy performance and EPC labels of the buildings financed or the collaterals backing such financing. Several sources of information are explored but not all of our home countries currently have access to a publicly available EPC database which would allow for a smooth-paced collection of data.
- On the opportunity side, developing solutions for sustainable housing and energy solutions has been set as one of the key topics we will be working on in all our core countries going forward, whereby we can act within our core activities and as well deliver advisory services. We will focus on three main topics:
  - the possibility of offering renovation loans to motivate homeowners to renovate and opt for renewable energy sources,
  - a pilot for a one-stop shop for sustainable home renovations to unburden our clients, and
  - providing carbon-reducing advisory services and solutions towards SMEs.

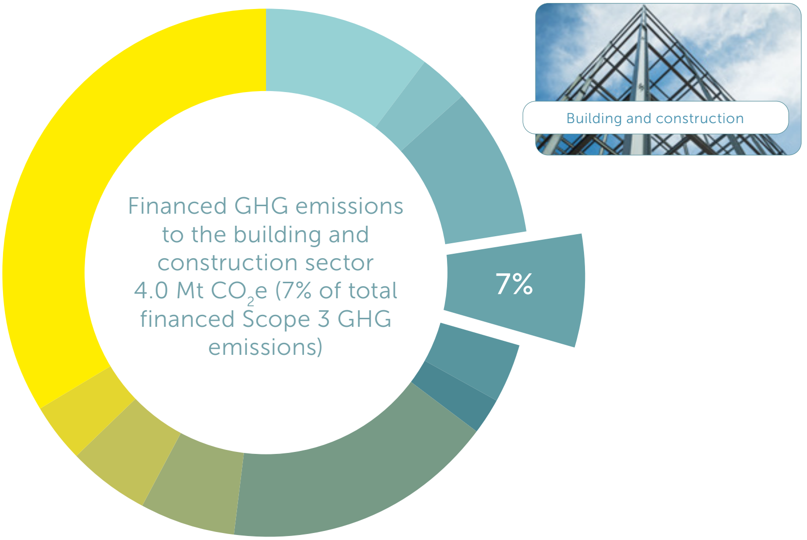
  Please refer also to some examples of our support for government incentives for beneficial renovation loans (see part on 'Products, solutions and transactions that contribute to a greener environment' of this report).

Our work in 2022 will continue to drive progress on all these elements. An update of the White papers for mortgages and CRE is planned this year in order to prepare for setting climate-related targets for the real estate sector. These targets will be determined in close consultation with the business as they should investigate policy actions with a view to restricting the worst energy-intensive buildings and stimulating the best energy performing buildings. We will also pursue our efforts for measuring climate-related risks in these portfolios and for developing opportunities and solutions to stimulate the transition.

Building and construction

From a full life-cycle emissions perspective, which includes the emissions associated with the extraction, manufacture, transport, construction and end-of-life processing, buildings are responsible for 50% of all energy use and material extraction in Europe, contributing to an estimated 10% of the continent's GHG emissions[3]. The embodied carbon footprint associated with the manufacturing process of building materials is responsible for large quantities of fossil fuels even before these materials reach the construction site. The embodied carbon of construction materials can represent up to 50% of a building's total footprint over its full life-cycle. The most commonly used materials – cement, concrete and steel – are the main sources of material-related emissions in construction. Many other materials such as glass, aluminium and plastics also contribute to the total embodied carbon.

Within the building and construction industry, only European Emissions Trading System (ETS) sectors are subject to a clear framework on carbon emissions reduction. Technical innovations to reduce CO_2 emissions in key construction material sectors remain technologically challenging. The tools to calculate the life-cycle emissions of buildings are still in their infancy. As the value chain of the building and construction industry is relatively complex, many actors – from materials producers, building designers to constructors – need to be mobilised to effectively reduce the embodied carbon in future buildings.



[3] 2019 data European Environmental Agency (EEA): EEA greenhouse gases dataviewer.

Building and construction

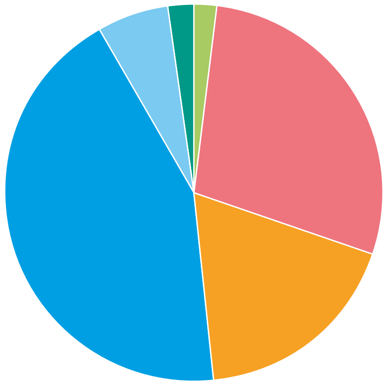
KBC's building and construction portfolio

At year-end 2021, the Building and Construction portfolios represented 4.2% of the total outstanding loan book and amounted to 7.8 billion euros.

The composition of the loan portfolio is shown in Graph 10.1.4. Our building and construction sector loan portfolio comprises a diversified profile of players in a complex value chain with a mix of materials producers and construction companies. The building contractor segment (i.e. the 'construction' and 'finishing works' categories in Graph 10.1.4) typically includes a large fraction of small companies, while materials producers also comprise larger groups and companies subject to EU ETS such as cement, ceramics and flat glass.

Please note that the steel and aluminium producers are covered in our Metals White Paper.

Graph 10.1.4: Breakdown of the building and construction loan portfolio into the various sub-segments as defined in the UNEP FI transition risk assessment (based on outstanding exposure as per 30 September 2021)



- Building materials: basic (2%)
- Building materials: composites (6%)
- Construction infrastructure (43%)
- Construction residential/non residential (18%)
- Finishing works (28%)
- Raw materials mining (2%)

Building and construction

Measurements for building and construction portfolio

In 2021, the UNEP FI methodology to assess climate-related transition risks was rolled out to all our highly climate-relevant sectors in scope of the White Papers, as well to the building and construction portfolio.

The sensitivities of the various sub-segments of our building and construction portfolio were assessed for each of the Risk Factor Pathways. The results of our sensitivity assessment are shown in Table 10.1.5.

Conclusions drawn from the impact assessment and corresponding sector analysis:

- Focusing on embodied carbon emissions released throughout the total value chain and full life-cycle of a building is clearly a more holistic approach than solely looking at the direct emissions of a building. Gaining a deeper understanding of buildings' embodied carbon should better reflect the actual climate impact of buildings .
- Special attention needs to be paid to the cement producers and other EU-ETS obligors' progress in abating their operational CO_2, due to their significant impact and considering the technological challenges they are facing in reducing their CO_2 footprint. Technical innovations to reduce CO_2 emissions in key construction material sectors are still in their infancy and will require considerable investments which will influence the transition pathway.

Within the building and construction sector, in 2019 we started using the PACTA methodology for our cement producers portfolio to measure the alignment of our portfolio with the Paris agreement. This sustainability report contains the third publication of our PACTA results for cement, which shows that we have only limited exposure to this sector.

Read more about the methodology and results of the PACTA pilot for cement in the 'PACTA' appendix to this report.

Table 10.1.5: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the building and construction loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Raw materials mining	MODERATE	MODERATE	MODERATE	MODERATE
Building materials: basic	HIGH	MODERATELY HIGH	HIGH	MODERATELY HIGH
Building materials: composites	MODERATELY HIGH	MODERATELY HIGH	MODERATELY HIGH	MODERATE
Construction residential/non-residential	MODERATELY HIGH	MODERATELY HIGH	MODERATE	MODERATELY HIGH
Construction infrastructure	MODERATELY HIGH	MODERATE	MODERATE	MODERATELY LOW
Finishing works	MODERATELY LOW	MODERATELY LOW	MODERATELY LOW	POSITIVE

For further information on the methodology, please see UNEP FI appendix

APPENDIX: WHITE PAPERS

Building and construction

Where are we heading

At the start of 2021, all KBC core countries delivered White Papers on the building and construction sector, presenting their analyses of the local characteristics of these sectors. The following key elements were addressed in the building and construction White Paper:

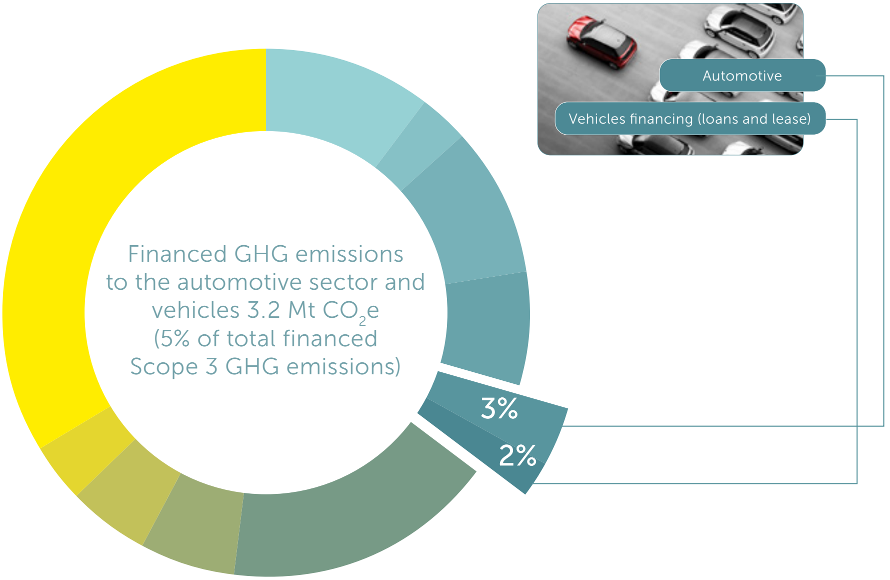
- Defining the relevant metrics, we will first and foremost focus on the embodied carbon of construction materials for which CO_2 emissions-related metrics have been set up.
- Addressing the sustainability issues in building and construction in our dialogues with clients. We will give priority to companies active in EU ETS sectors and to larger and top clients. For EU ETS clients, a pilot has been set up to integrate carbon cost scenarios as part of the financial assessment (see more in the 'Internal Carbon Price' part of this report).
- Setting up a Data and Metrics Project so as to initiate the process changes needed both at local and centralised level and to incorporate the metrics in a structured reporting system.

In 2022, we will continue to make progress on these elements and further follow up on market developments in respect of the embodied carbon approach and available tools and metrics in this respect. Even if no tools are available yet, the climate topic and life-cycle approach can be addressed in customer engagement discussions. We will also pursue our efforts in the area of measuring climate-related risks.

Transport: automotive sector and vehicles financing

People and goods are travelling faster, further and more than ever. Unfortunately, in establishing the price of transport, the environmental cost is often left out of consideration while in fact all this travel takes up a vast portion of the remaining carbon budget. The transport sector – including the production, maintenance and use of transport infrastructure and mobility equipment – represents almost one third's of Europe's GHG emissions[4]. Within the sector, road transport is the biggest emitter accounting for 72% of emissions (62% passenger – 38% freight), followed by shipping (14%), aviation (13%) and finally railway transport (0.5%)[4].

Furthermore, the transport sector also accounts for over a third of final energy consumption (in OECD countries), which means the electrification of the sector – especially of passenger vehicles – will be part of the solution for a more sustainable transport system: reducing direct vehicle tailpipe emissions whilst decarbonising the power supply in parallel. For the remaining part of this section, the term "transport" is used to refer to "road transport" activities in line with the scope boundary of the White Paper. Also, in representing KBC's financing of road transport activities, we use portfolio data of our industrial loans to the automotive sector, vehicle loans and vehicle leasing.



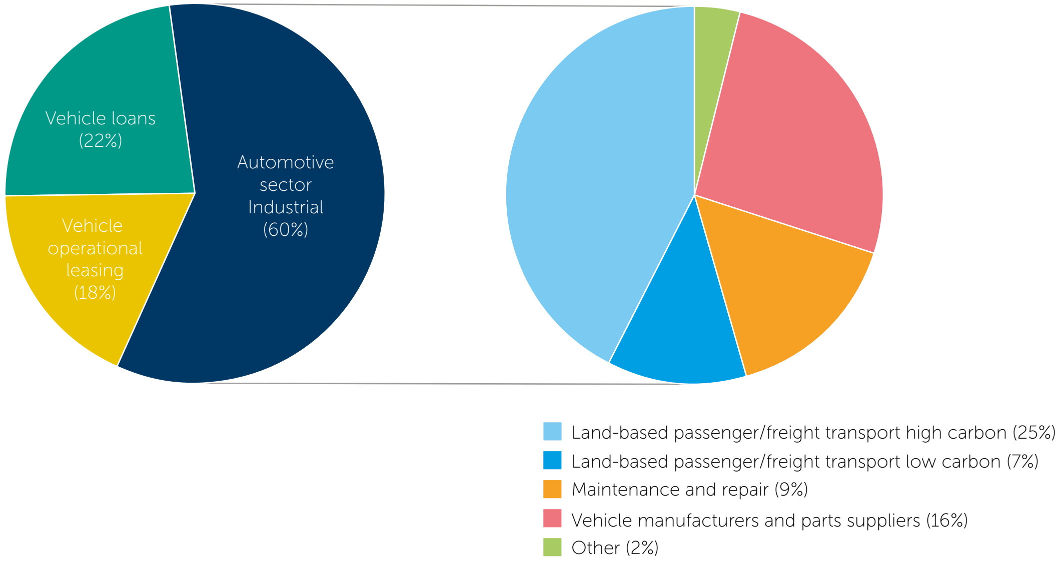
[4] 2019 data European Environmental Agency (EEA): EEA greenhouse gases dataviewer.

Transport: automotive sector and vehicles financing

KBC's transport portfolio

KBC's outstanding loan amount to the automotive sector was 4.6 billion euros, which represented 2.4% of KBC's lending portfolio at year-end 2021. Also, as per 30 September 2021 vehicle financing – which includes, next to car loans, also financial and operational lease – reached 5.6 billion euros. Our transport portfolio predominantly consists of SMEs and large companies for our operational leasing products. Our loan and financial leasing products on the other hand are also popular with retail clients. Insurance, which is also in scope for this sector, is offered to all segments. The composition of the loan portfolios is shown in Graph 10.1.5.

Graph 10.1.5: Breakdown of transport loan and lease portfolios (based on outstanding exposure as per 30 September 2021).
For the automotive industrial loan portfolio, the breakdown is based on the various sub-segments as defined in the UNEP FI transition risk assessment



Transport: automotive sector and vehicles financing

Measurements for transport portfolio

In 2020, a first version of a White Paper series for our transport sector focused on operational car leasing, delivered by all core countries (see the part in our 2020 Sustainability Report). In 2021, we extended the scope to include all our product lines and for the most material parts of our portfolio. To ensure maximum alignment with the outside world, we re-aligned our internal approach with the structure provided by the EU Taxonomy, which breaks down the transport sector into a range of activities. A prioritisation in respect of these activities was made by taking into account the importance of each activity in terms of global GHG emissions, the exposure of the activity in our portfolio and opportunities for our clients. Our main focus currently goes out to road transport, as this is the biggest emitter and also covers the most significant portion of our portfolio. The latter statement is reflected in the fact that our automotive industrial loan portfolio (land-based transport) entails over 4.6 billion euros exposure compared to 1.3 billion euros in shipping and 0.3 billion euros in aviation. More specifically, our efforts in 2021 have been primarily in the area of "Transport by motorbikes, passenger cars and light commercial vehicles" as well as "Freight transport services by road". We aim to gradually expand this focus to include other activities within the automotive sector scope whilst continuously working to improve our knowledge and to increase our data coverage on the transport sector. For example: as the transport sector also includes vehicle manufacturing activities, we are currently extending the scope of our transport White Papers with a "Suppliers to car manufacturers" section.

Table 10.1.6: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the automotive and land-based transport loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Land-based passenger transport high carbon	HIGH	HIGH	MODERATELY HIGH	MODERATELY HIGH
Land-based freight transport high carbon	HIGH	HIGH	MODERATELY HIGH	MODERATELY HIGH
Vehicle manufacturers and parts suppliers	MODERATE	HIGH	MODERATELY HIGH	MODERATELY HIGH
Land-based passenger transport low carbon	MODERATE	MODERATELY HIGH	MODERATE	NO IMPACT
Land-based freight transport low carbon	MODERATE	MODERATELY HIGH	MODERATE	NO IMPACT
Maintenance and repair	MODERATE	MODERATE	MODERATELY LOW	MODERATE
Other	MODERATE	MODERATE	MODERATE	MODERATE

For further information on the methodology, please see UNEP FI appendix

The transport sector is directly impacted by climate change. One such example concerns waterways that become less accessible for high-capacity vessels due to prolonged periods of drought. The White Paper risk analyses and the UNEP FI Inspired transition risk assessment have shown that, when looking at the transition scenarios, the transport sector is facing risks as well as opportunities. With direct tailpipe emissions accounting for the bulk of emissions a vehicle generates over its lifetime, the industry will see an accelerated shift from internal combustion engine (ICE) vehicles to electric vehicles (EVs) whilst further exploring the possibilities of other alternative solutions such as hydrogen for freight transport. Fuelled by a carbon credit system that offsets penalties on more carbon-intensive models, car manufacturers are increasing their EV offerings and in some instances are even phasing out their ICE models. As the transport industry's overall carbon footprint is mostly associated with the indirect emissions as a result of fossil fuel consumption, modes of transport are likely to transition towards low-carbon alternatives due to rising fossil fuel costs and policy incentives. This evolution will most likely accelerate spurred on by the EU Fit for 55 action plan which, in case of full and effective adoption, for one thing would result in the event of a new ETS system which focuses on regulating fuel suppliers and for another would trigger an update of the energy taxation directive which will raise the costs of less sustainable energy consumption. The transition risk assessment also shows that a modal shift is expected to favour freight transport by rail over the use of medium and heavy duty trucks. Governments are already offering incentives to use the public transport systems

Transport: automotive sector and vehicles financing

over the use of private vehicles. Carbon-intensive vehicles are even discouraged through policy incentives. In Belgium for example, only company vehicles with zero tailpipe emissions will remain tax deductible from 2026 onwards and low-emission zones are already in place in a number of cities throughout Europe. The results of the UNEP FI transition risk assessment are summarised in Table 10.1.6.

To cope with the transition risks of the sector, we observed a strong need for strategies that stimulate and accommodate the overall electrification of the car fleet, fuel efficiency improvement, clean and alternative fuel deployment and distribution. This transformation of the car industry will run in parallel with a shift towards more multimodal solutions. We have based much of our approach on these findings.

To accommodate the shift towards more efficient vehicles, we are offering several sustainable mobility products:

- In Belgium, KBC provides charging solutions, including full installation of a charging point at home. Discounts are offered for loans and insurance on ‘green’ vehicles as well as environmentally friendly investments related to electric cars (charging stations, solar panels, home batteries, etc.).
- In the Czech Republic, ČSOB promotes a ‘green car of the month’ among its leasing clients as well as a ‘green car loan’ that is offered at a rate that is 2.99% less than the standard ICE vehicle. In association with a partner, new EV owners were offered free charging for 5 000 km when financing a vehicle with ČSOB. As to road freight transport, ČSOB is financing solutions that optimise the efficiency of trucks with specialised software reducing GHG emissions by 15%.
- UBB Interlease Bulgaria offers COSME Green, an opportunity to finance electric and hybrid cars and/ or equipment related to renewable energy for the needs of small and medium-sized enterprises (SMEs).
- In Slovakia, Campaign *EKO financovanie* (ECO financing) was launched to persuade clients to purchase electric vehicles.

To support the mobility modal shift needed, we have developed solutions that encourage clients to opt for the convenience of public transport, bicycles or for a combination of travel options.

- In Belgium, bicycle leasing was launched in 2016 as a new business line offering. It enables SMEs, midcaps and large corporates, as well as governments, municipalities and institutions to offer their employees a bicycle for commuter travel in a tax-friendly way. The solution has positive social as well as environmental outcomes, as cycling is healthier and more eco-friendly than driving. By October 2021, we had sold 21 271 bicycle leasing products, primarily consisting of electric and speed e-bicycle models, ideal for commuters.
- To support easy access to public transport and bicycle sharing were integrated into our KBC Mobile app in Belgium. By the end of 2021, a total of 18 462 bus tickets, 285 851 train tickets and 3 768 shared bicycle/car sessions had been sold through the KBC Mobile app.

From a policy point of view, KBC has decided to stop financing road freight transport vehicles below the EURO VI standard starting from 1 January 2022. Furthermore, although defined as a transition measure by the EU taxonomy, KBC remains cautious when it comes to promoting compressed natural gas (CNG) as an intermediary sustainable fuel solution as well-to-tank emissions are potentially underestimated.

Transport: automotive sector and vehicles financing

At the beginning of 2021, we put targets in place to encourage the reduction of emissions of our transport portfolio. A first target relates to the efficiency of our operational car leasing fleets. In concrete terms, this means that we have set a target to reach an average of 81 g CO_2/km for new cars in our lease fleet by 2025, and of 58 g CO_2/km by 2030. These targets are entirely in line with the existing targets set by the EU for car manufacturers. It is worth pointing out that in 2021, a car newly added to our portfolio on average emitted 34 g CO_2/km less than in 2020 (see Table 10.1.7). Also, we defined a target for the share of sustainable vehicles in our transport portfolio. Compared to last year's report however, we have decided to make targets even more stringent by making the definition of a sustainable vehicle compliant with the substantial contribution criteria of the EU taxonomy. This sees us focus on full electric vehicles and vehicles that emit less than 50 g CO_2/km. Please note that we primarily focus on CO_2 emissions when looking at the climate impact of our transport portfolio. Although emissions of other GHG have a higher global warming potential (GWP), these emissions are negligible by comparison to CO_2 emissions.

Table 10.1.7: Breakdown of KBC Group's operational car lease portfolio and progress with respect to set targets

Indicator	Scope	Target	2021[1]	2020[1]
Average CO_2 emissions (g CO_2/km)	New cars in portfolio	81 g CO_2/km by 2025 58 g CO_2/km by 2030	98	132
% Share of electric vehicles, plugin-hybrid and full hybrid vehicles	Existing cars in portfolio	27% by 2025 34% by 2030	12%	9%
	New cars in portfolio	45% by 2025 90% by 2030	31%	20%
% Share of zero tailpipe vehicle	Existing cars in portfolio	Targets to be determined in 2022	2%	–
	New cars in portfolio	Targets to be determined in 2022	5%	–
% Share of vehicles <50 g CO_2/km	Existing cars in portfolio	Targets to be determined in 2022	7%	–
	New cars in portfolio	Targets to be determined in 2022	24%	–

[1] Belgium Business Unit only

Transport: automotive sector and vehicles financing

Where are we heading

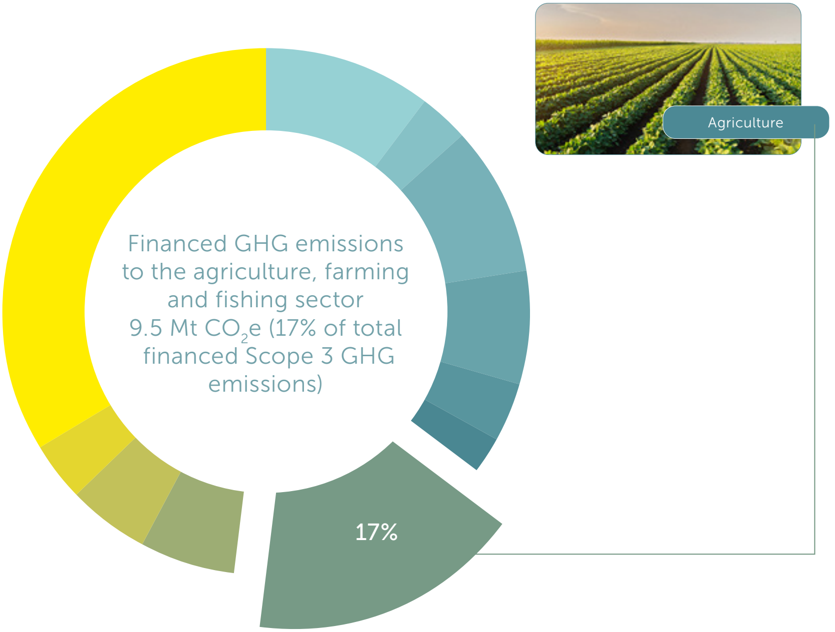
In the near future, our focus will continue to go out to multimodal mobility (e.g. rail as an alternative to road freight transport) and to optimisation and efficiency improvements of current technologies (initiatives to move towards more efficient transport modes). We will also continue to monitor the development of alternative solutions such as synthetic fuels and hydrogen for heavy transport. Initiatives to increase the share of "green" assets and to reduce GHG emissions will be taken up with high priority. To measure and steer this shift, the Data and Metrics Project focuses specifically on metrics related to GHG emissions and the ratio of green assets in our portfolio, both in terms of volume and in terms of numbers. KBC acknowledges that road transport is also responsible for other pollutants (e.g. NOx) that have a high impact on the air quality as well as on biodiversity. For this reason, aside from targets linked to CO_2 emissions, other relevant air pollutants may be targeted over time after a closer investigation.

In order to facilitate the transition to a low-carbon economy, KBC will continue to encourage the use of cleaner transport modes (in the first instance focusing on fuel efficiency, the use of more efficient vehicles, electrification and multimodal modality).

As transport is one of the four priority sectors, we will not only update our insights on an annual basis, we will also gradually expand our understanding through other activities, while keeping a close watch on technological advancements.

Agriculture

Agriculture is responsible for an estimated 13% of EU-27 GHG emissions[5]. Over half of these emissions result from livestock breeding for food production. Rather than CO_2 emissions, the main GHGs emitted by the sector are methane and nitrous oxide. The fact that most of these emissions result from biological processes is unique to the sector. The agricultural sector is more vulnerable to climate change than most other economic sectors but it can also be part of the solution. Specifically, the reduction of methane emissions can help limit temperature rises in the short term. Also, by applying certain 'carbon farming practices', agricultural land can act as a carbon sink, thereby helping to offset GHG emissions.



[5] 2019 data European Environmental Agency (EEA): EEA greenhouse gases dataviewer.

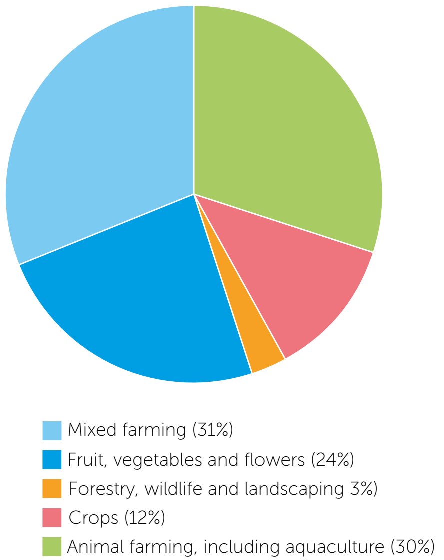
Agriculture

KBC's agricultural portfolio

At the end of 2021, agriculture represented 2.7% of the total outstanding loan portfolio with a credit exposure of 5.2 billion euros. Especially in Belgium and Hungary, agriculture accounts for an important portion of KBC's loan portfolio.

The White Papers on agriculture cover our agricultural portfolio in Belgium, Hungary, Slovakia, the Czech Republic and Bulgaria. Our agricultural credit portfolio in these countries mainly consists of SME clients and private individuals. We only have a very limited exposure in the corporate segment for this sector. At group level, our largest exposures are situated in the sub-sectors of mixed farming, animal farming and the growing of fruit, vegetables and flowers. Crops too account for a substantial portion of our exposure (see Graph 10.1.6). It is worth pointing out that the breakdown division into these sub-sectors tends to differ significantly across KBC's core markets, due to the strong localised nature of this portfolio. In 2021, a White Paper was written on our agricultural insurance portfolio too. In most of our core countries, our insurance exposure in the sector is very low (less than 1% of our total insurance portfolio). The exceptions are Belgium and the Czech Republic, where agriculture respectively makes up 2.4% and 1.9% of the total insurance portfolio.

Graph 10.1.6: Breakdown of agricultural loan portfolio into the various sub-segments as defined in the UNEP FI transition risk assessment (based on outstanding exposure as per 30 September 21).



Agriculture

Measurements for agriculture portfolio

The physical risk analyses that were performed for this portfolio have shown that agriculture is directly impacted by climate change. Moreover, this impact is expected to increase in the future. Global warming is already causing – and is expected to increasingly cause – more extreme weather conditions. Even though farmers are used to dealing with weather events such as heat waves, droughts, hail and storms, the occurrence and severity of these events are expected to increase in the future. The UNEP FI inspired transition risk assessment that was conducted showed that animal farming may be particularly heavily impacted by the transitional impacts of climate change mitigation. Because of agriculture's strong dependence on local climatic conditions, we are currently closely monitoring the potential impacts of weather conditions such as droughts, floods and (hail) storms on this portfolio, which we will continue to do going forward. The results of the UNEP FI transition risk assessment are shown in Table 10.1.8.

Table 10.1.8: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the agricultural loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Mixed farming	MODERATELY HIGH	MODERATELY HIGH	MODERATE	MODERATE
Fruit, vegetables, flowers	MODERATE	MODERATELY HIGH	MODERATE	MODERATE
Crops	MODERATE	MODERATE	MODERATE	MODERATE
Forestry, wildlife and landscaping	MODERATELY LOW	MODERATELY LOW	MODERATELY LOW	MODERATELY LOW
Animal farming, incl. aquaculture	HIGH	HIGH	MODERATE	MODERATELY HIGH

For further information on the methodology, please see UNEP FI appendix

Sustainability-related rules and guidelines that apply in our credit policies when accepting new credits in amongst other elements cover compliance with local and EU regulatory requirements and ensuring sufficient financial buffers in the case of harvest losses or other setbacks. Also, a selective approach is in place to the financing of biogas plants and agricultural biogas stations. In amongst other things, this means that extra measures are in place to ensure that only sustainable input materials are used, e.g. financed biogas plants are not allowed to use food suitable for human consumption or raw materials grown in areas converted from land with previously high-carbon stock such as wetlands or forests. Moreover, through our biodiversity policy we aim to address some of the negative biodiversity impacts that agricultural activities may generate. This means that we will not finance agricultural activities located in or which significant impact on protected areas for instance. Nor do we finance the farming of animals for fur or the farming of addictive or intoxicating crops.

For more extensive information on our sustainability policies, please visit the relevant webpage.

Furthermore, in 2021 we supported Belgian farmers in the installation of renewable energy technologies by way of a cooperative scheme involving advisory services in this regard. We also piloted a customer engagement approach specifically developed for the agricultural industry in Belgium. Even though the customer engagement approach for agriculture observes our overarching customer engagement strategy as widely as possible, the specificities of the sector also demand a more customised approach. At the time of writing, the pilot had just started. In 2022, we will continue to work on this.

Finally, KBC Insurance Belgium developed a multi-peril weather insurance product. The insurance allows farmers with open cultivation systems, such as fruit growers or arable farmers, to take out insurance against damage to crops caused by extreme and unfavourable weather conditions such as storms, hail, frost, ice, precipitation and drought. In addition, the terms of the insurance contract are aimed at nudging farmers to focus on the adoption of climate adaptation measures, e.g. by applying more climate-resilient cultivation methods or the installation of technologies that optimise on-field water management. Currently, around 1 250 farmers have taken out this insurance under this system, with a total insured amount of over 2 million euros.

Agriculture

Where are we heading

Due to the substantial climate impact and the importance of the agricultural sector in our portfolio, especially in Belgium and Hungary, agriculture ranks as one of our priority sectors. In 2022 we will therefore continue to focus and work on the sustainability impacts of our agricultural credit portfolio.

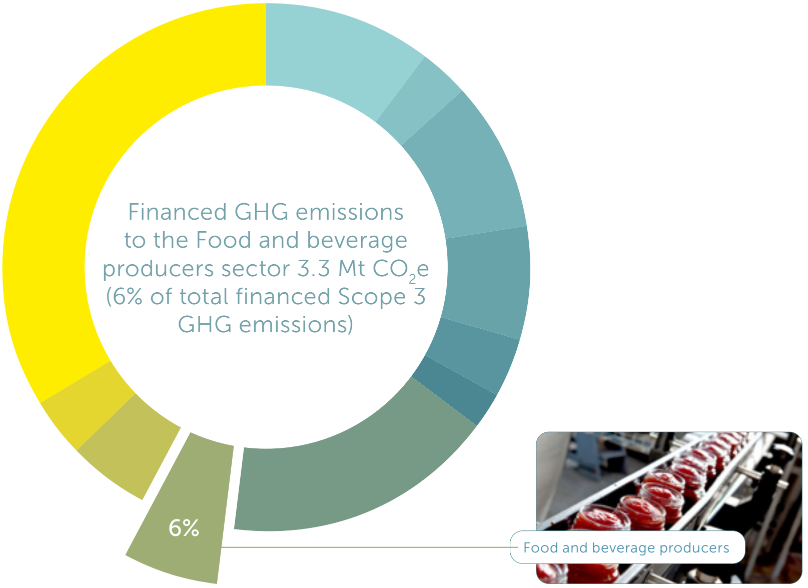
The current version of the EU Taxonomy does not include agricultural activities. The absence of a coherent definition of 'sustainable activities' in the farming industry complicates the formulation of sustainability policies for our agricultural portfolio. We are therefore closely monitoring the reform of the Common Agricultural Policy, of which the local implementations will be finalised in 2022, and which will enter into force on 1 January 2023. In 2022, we will investigate the impacts of this policy reform on our activities and potentially adapt our policies accordingly. Moreover, regardless of the outcomes of this reform, we will continue to explore possibilities to further elaborate KBC's agricultural sustainability policies.

In 2022, we will also continue to analyse our own portfolio. For instance, we will analyse the implications of the transition risk assessment that was conducted in 2021. We will also work to gain more in-depth insights into our portfolio through the aforementioned customer engagement discussions in amongst other things. Based on the outcomes of these explorations, we will continue to work on creating tailored financing opportunities to support our clients in driving down the sustainability impact of their activities. As part of this, we will investigate which opportunities will support our clients in reducing the negative impact of their activities and in increasing the positive impact.

Finally, we acknowledge that the agricultural sector also contributes to and is impacted by issues such as biodiversity loss, soil health and soil erosion. We will continue to carefully monitor these issues.

Food and beverage producers

Food production, including agriculture, accounts for over a quarter of global GHG emissions[6]. Most of these emissions may be attributed to land use, agriculture and fishing. The actual processing of food only accounts for 4% of the total emissions resulting from food production. As such, most emissions are generated in food producers' supply chains (see White Paper on Agriculture). Next to generating GHG emissions, food production is also related to other environmental issues such as food waste, packaging and plastic waste, and water use. The food production sector covers a wide range of sub-sectors (beverages, animal feed, milk and dairy, frozen foods and bakery products), each with their own specific sustainability challenges and impacts.



[6] Ritchie & Roser (2020) "Environmental impacts of food production". Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/environmental-impacts-of-food' [Online Resource]

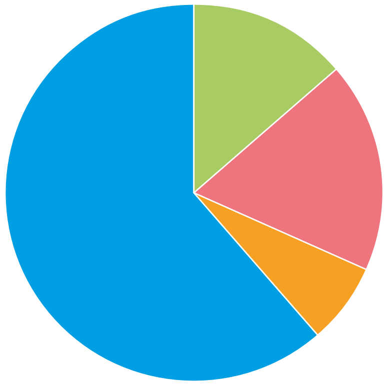
Food and beverage producers

KBC's food and beverage producers portfolio

At the end of 2021, KBC's outstanding loan amount to food and beverage producers was 4.1 billion euros, which represented 2.2% of KBC's lending portfolio. In 2021, a White Paper was written by five of KBC's core countries (Belgium, Bulgaria, the Czech Republic, Hungary and Slovakia). The focus of the White Papers did not include insurance due to the low materiality of food producers in our insurances portfolio.

Our food producers portfolio predominantly consists of SMEs. However, we also provide credits to a small number of large companies. These large companies typically play an important role in the sector, as they account for a high share of the total food production. At group level, our main exposure is on non-animal based food. To a smaller extent, we have exposure in the sectors of beverage production, animal-based foods and frozen foods. However, the sector is characterised by a strong local differentiation in each of KBC's core markets. With an exposure of approximately 3.1 billion euros, the Belgian portfolio accounts for the largest exposure.

Graph 10.1.7: Breakdown of food and beverages loan portfolio into the various sub-segments as defined in the UNEP FI transition risk assessment (based on outstanding exposure as per 30 September 21)



Food and beverage producers

Measurements for food and beverage producers portfolio

Our first analysis of the sector highlighted the sector's high dependency on energy and the high energy intensity of food production processes. Our current focus consequently goes out to the reduction of energy use, the energy intensity of food production processes and increasing the share of renewable energy consumption, where possible. However, these insights are based on generic insights from the sector. Through our data and metrics project and customer engagement approach, we seek to gain a more in-depth insight into our own portfolio, to enable us to create an approach that is more tailored to our current portfolio.

In line with our customer engagement approach, we have initiated conversations with a number of clients in our food producers portfolio. Through these customer dialogues we envision multiple goals. First of all, we aim to explore these clients' current sustainability approach. Secondly, we wish to gain insights into the specificities of our portfolio and its sustainability impacts. To this end, we piloted two tools in 2021: a carbon footprint calculator, which calculates producers' Scope 1 and 2 emissions, and an in-depth survey focused on a wider range of sustainability issues that are relevant for this sector (e.g. plastic packaging and water use). The main goal of our customer engagement approach is to work with our clients towards sustainability goals, and to serve as a partner in their sustainability journey. In some of KBC's core countries, we rely on the expertise of third party advisory bodies that provide consultancy services to our clients where they wish to implement such solutions.

The White Paper risk analyses and the UNEP FI Inspired transition risk assessment highlighted the fact that the main risks faced by food producers are indirect, due to a strong dependence on agricultural value chains. Hence, there is a strong overlap between the risks faced by the agricultural sector and the food producers sector. Next to this, the physical risks the agricultural sector is exposed to – such as flooding, droughts or storms – may impact on crop production and consequently severely disrupt food producers' supply chains (for further risks to primary production, please see agricultural sector White Paper). How to mitigate food producers' risk is therefore a matter that is indirectly addressed in our agricultural policies. Yet, not all supply chains relevant to our food producing clients are in scope of the climate-related risk analyses of our agricultural portfolio. For instance, food producers may import primary products that are subject to risks – both physical and transitional – that have not been included in our analyses of the agricultural sector. This is especially relevant in the meat processing and animal feed sectors. These specific risks are therefore also assessed and addressed for our food producer portfolio. Moreover, some of the indirect risks to food producers' supply chains are addressed through our policies on biodiversity, fisheries, soy, palm oil, cocoa and coffee. The results of the UNEP FI transition risk assessment are shown in Table 10.1.9.

Table 10.1.9: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the food producers loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Production of frozen food	MODERATELY HIGH	MODERATELY HIGH	MODERATE	MODERATE
Production of non-animal-based food	MODERATE	MODERATE	MODERATE	MODERATELY LOW
Production of beverages (beer, soft drinks)	MODERATE	MODERATE	MODERATE	MODERATELY LOW
Production of animal-based food	MODERATELY HIGH	HIGH	MODERATE	MODERATELY HIGH

For further information on the methodology, please see UNEP FI appendix

Food and beverage producers

Where are we heading

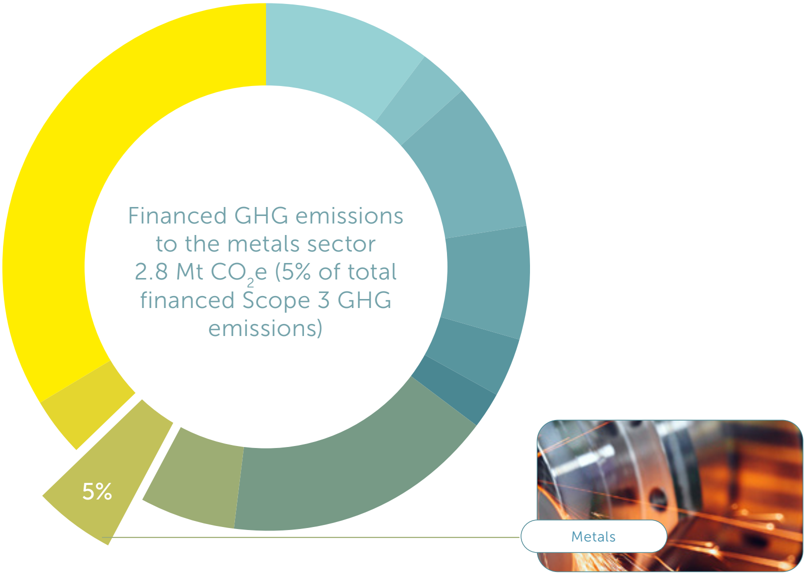
In 2022, we want to further support our clients in their sustainability journeys. In line with our current approach, these solutions will mainly relate to renewable energy and energy efficiency solutions. By continuing our customer engagement and data collection strategies, we wish to gain better insights into our portfolio and pinpoint where the biggest impacts of the portfolio are generated. All of which is in order to better tailor the solutions we offer our clients.

We will also continue to monitor the impact of pending policy changes, such as the Farm-to-Fork strategy or the possible implementation of a carbon tax. By monitoring the potential impacts of these policy changes on our portfolio, we aim to change our approach in a timely manner.

Finally, we are aware that our current focus on Scope 1 and 2 emissions of food producers does not provide the full picture of emissions associated with food production. We will therefore continue to see whether and how to include Scope 3 emissions in our footprint calculations over time. Finally, we acknowledge that our focus on energy does not cover the full spectrum of sustainability issues related to the sector. We will therefore continue to monitor the ever increasing importance of topics such as water use and packaging and food waste. Regarding the use of single-use plastics and plastic waste, we expect to see a substantial impact of the EU directive on packaging and waste. Further information on plastic packaging can be found in the section on our chemicals sector.

Metals

The metals sector is a large industrial energy consumer that accounts for 5% of the European GHG emissions[7]. As a consequence, the decarbonisation of this sector is important for a successful climate transition. From a European perspective, we expect that the metals industry will be impacted by the review of the European Emission trading system (ETS). The stricter emission levels may lead to higher prices of domestically produced metals, which in turn may jeopardise the competitive position of metal producers in the EU compared to non-EU producers, which may ultimately trigger carbon leakage effects. To avoid such effects, the EU is preparing a carbon border adjustment mechanism. On the opportunity side, the metal industry is also a key enabler of the energy transition, producing the necessary innovative materials to enable the low-carbon energy transition.



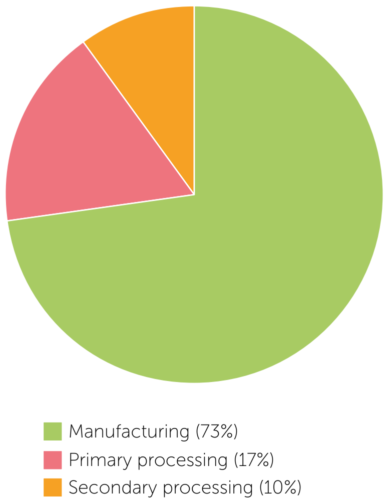
[7] 2019 data European Environmental Agency (EEA): EEA greenhouse gases dataviewer.

Metals

KBC's metals portfolio

At the end of 2021, KBC's outstanding loan amount to the metals sector was 2.6 billion euros, which accounts for 1.4% of KBC's lending portfolio. In 2021, a White Paper was drafted which focused on our lending business. Insurance is not included on account of the low materiality of the metals industry in our insurance portfolio. The White Paper focuses on the primary and secondary ferrous and non-ferrous industries as these are the biggest emitters of greenhouse gases. The metals industry is an important part of our corporate loan portfolio in all of our core countries, where our primary actions are focused on greening the energy supply and increasing the energy efficiency of the companies in this sector, which is also in scope of our overall energy approach.

Graph 10.1.8: Breakdown of metals loan portfolio into the various sub-segments as defined in the UNEP FI transition risk assessment (based on outstanding exposure as per 30 September 21)



Metals

Measurements for the metals portfolio

The White Paper and the UNEP FI-inspired transition risk assessment (see Table 10.1.10 for a summary of the results) have shown that energy efficiency improvements and higher recycling rates for secondary production are necessary to avoid unmanageable climate-related financial impacts. Also, an effective implementation of emissions capture and reduction technologies within the primary manufacturing segment should mitigate direct emission costs going forward. For the latter, we expect to see new business opportunities being created for companies that focus on translating theoretical concepts of new carbon capture and reduction technologies into workable and practical solutions.

The production of precious metals and rare earth metals often has meaningful climate and environmental impacts. However, these metals are also a crucial feedstock for the manufacturing of certain low-carbon products such as electronics, renewables and batteries. Nevertheless, a rapid growth of demand may prove disruptive for global prices and supply chains and represents another form of transition risk. That being said, given the concern about human rights and environmental effects linked to mining activities, KBC is only willing to finance metals, scarce minerals and chemicals mining activities under strict conditions (see the KBC Group Mining Policy for more information).

Table 10.1.10: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the metals loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Primary processing	HIGH	HIGH	HIGH	MODERATE
Secondary processing	MODERATELY HIGH	HIGH	MODERATE	HIGH
Manufacturing	LOW	MODERATELY HIGH	LOW	HIGH

For further information on the methodology, please see UNEP FI appendix

Metals

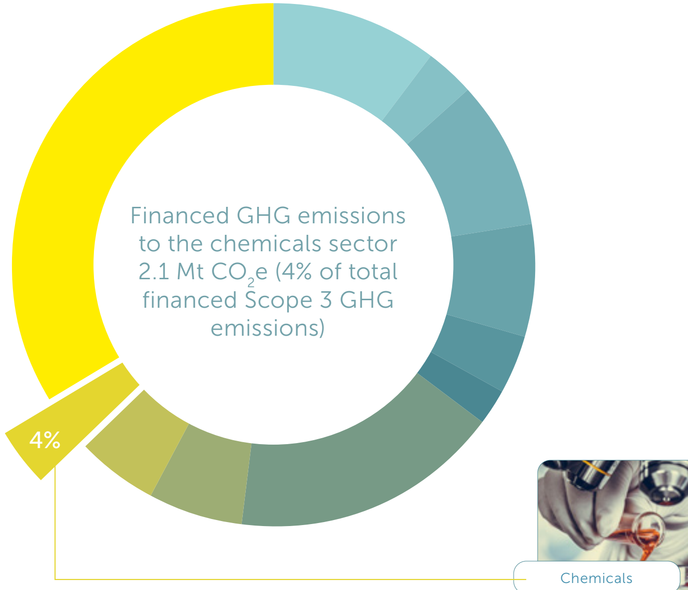
Where are we heading

The climate impact is heavily dependent on the amount of virgin materials used and the required input of energy (for secondary producers the main energy source is electricity). Greening the electricity supply and increasing the recycling rate of materials are likely to have the biggest short-term positive impact. Which explains why these two elements make up the backbone of our customer engagement approach and data and metrics track. Acknowledging the importance of circularity in this sector too, we also selected the recycling ratio of materials as a key indicator for assessing the circularity of a product or process.

Through customer engagement and data collection, we aim to gain a more in-depth insight into our own portfolio to enable us to tailor our approach to our current portfolio, to set targets and to serve as a basis for potential future KBC Group policy proposals.

Chemicals

As chemical processes often take place at high temperatures and under high pressure, the chemical industry is the largest industrial consumer of energy[8] and accounts for 4% of the European GHG emissions[9]. From a European perspective, we expect that the chemicals industry may be heavily impacted by the review of the European Emissions trading system (ETS). At the same time, global demand for chemicals is expected to increase as chemistry is the starting point of many value chains and is therefore also ideally placed to not only deliver the required innovative materials to enable the low-carbon energy transition but also to support the transition towards a circular economy through chemical processing. Plastics in particular have already outpaced all other bulk materials and have nearly doubled in volume since the start of the millennium. Specifically for plastics, the new EU directive on packaging and waste sets higher recycling targets. Public opinion and local governments are also gradually imposing bans on the use of single-use plastics and we are gradually increasing our mindfulness of these topics.



[8] See Figure 66 of EU Commission Impact Assessment "Stepping up Europe's 2030 climate ambition Investing in a climate-neutral future for the benefit of our people".

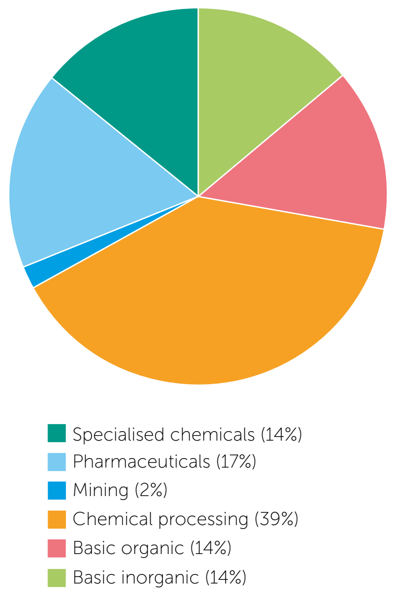
[9] 2019 data European Environmental Agency (EEA): EEA greenhouse gases dataviewer.

Chemicals

KBC's chemicals portfolio

At the end of 2021, KBC's outstanding loan amount to the chemical sector stood at 2.5 billion euros, which accounts for 1.3% of KBC's lending portfolio. In 2021, a White Paper was drafted which focused on our lending business. Insurance is not included on account of the low materiality of the chemicals industry in our insurance portfolio. Chemicals are an important industry in all of our core countries, with petrochemical and plastics as the main sub-sectors in all countries. In Belgium and Bulgaria, the pharmaceutical industry is also an important part of the chemicals portfolio. In our White Paper approach, our current focus is on climate change mitigation and adaptation, although other environmental challenges in each sub-sector should not be overlooked (e.g. microplastics and single-use plastic waste in the plastic sub-sector and the nitrogen emissions in the fertilisers sub-sector).

Graph 10.1.9: Breakdown of chemicals loan portfolio into the various sub-segments as defined in the UNEP FI transition risk assessment (based on outstanding exposure as per 30 September 21)



Chemicals

Measurements for the chemicals portfolio

The White Paper research and the UNEP FI-inspired transition risk assessment (see Table 10.1.11 for a summary of the results) have shown that energy efficiency improvements and higher recycling rates are necessary to reduce the environmental footprint of consumer products. Apart from that, the implementation of emissions capture technologies and other chemical production innovations such as hydrogen will be needed to avoid the impact of increasing emission costs. However, the combinational feature of the sector's sizeable emissions footprint and its concentrated presence in chemical hubs, some of which are located in our home countries, provide a sound starting base for concentrated business opportunities that target innovative emission capture and reduction technologies. Although innovation may impose significant capital expenditures on the counterparties in this sector, the sharply rising demand for various chemicals may compensate for the additional costs.

Table 10.1.11: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the chemicals loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Basic organic	HIGH	HIGH	MODERATELY HIGH	MODERATE
Basic inorganic	HIGH	MODERATE	MODERATELY HIGH	MODERATE
Pharmaceuticals	LOW	MODERATE	MODERATELY LOW	LOW
Specialised chemicals	MODERATE	HIGH	MODERATELY HIGH	MODERATE
Chemical processing	MODERATE	HIGH	MODERATELY LOW	MODERATELY LOW
Mining	MODERATE	MODERATE	MODERATE	LOW

For further information on the methodology, please see UNEP FI appendix

Chemicals

Where are we heading

The climate impact greatly depends on the amount of virgin materials used and the required input of energy. As greening the electricity supply and increasing the recycling rate of materials are likely to have the biggest short-term positive impact, these two elements constitute the backbone of our customer engagement approach and data and metrics track for the chemicals industry.

Since plastics are a very important sub-sector of the chemical sector, we will focus on the potential impact of the new EU directive on packaging and waste as it should result in higher recycling targets per material, and on bans on the use of single-use plastics. These increased requirements also have a direct link with the approach we maintain for the food producers we finance. Going forward, we will therefore explore this further in the following cycles of the White Papers.

Chemistry will play a crucial role in creating more sustainable products from waste or recycled materials and innovative breakthroughs are needed to facilitate these circular principles. To closely follow up on changing technology we are in interaction with sector initiatives and individual clients in order to understand clients' technological options and directions in their climate transition path.

We are mindful about the fact that – apart from climate – the production, use and disposal of chemicals and chemical products continue to create a variety of other environmental and health-related challenges. Therefore, in relevant cases, other environmental domains (biodiversity, circularity, waste and hazard minimisation) will be discussed as part of customer engagements.

Through customer engagements and data collection we aim to gain a more in-depth insight into our own portfolio to enable us to tailor our approach to our current portfolio, to set targets and to serve as a basis for potential future KBC Group policy proposals were deemed necessary.

APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

In 2021, for the third consecutive year, we determined our Scope 3 financed greenhouse gas (GHG) emissions of a selection of our portfolios using the PCAF (Partnership for Carbon Accounting Financials) methodology. In 2019 and 2020 we piloted the PCAF methodology applying it to a limited selection of our portfolios and countries. In 2021, we extended the pilot of the methodology and included all of KBC's core countries and a wider range of our portfolios in the scope of our Scope 3 GHG emission calculations. This year's report therefore does not include comparisons with the calculations of previous years, since the difference in scope makes it impossible to do so.

Like last year, the scope of our 2021 PCAF pilot Scope 3 GHG emissions calculations includes: operational vehicle lease, motor vehicle loans (including road freight transport) and mortgages. Moreover, following the PCAF reporting timeline, this year the PCAF pilot scope also includes the portfolios of mining and oil and gas. Finally, different from last year, we also apply a high-level calculation to the rest of our portfolio – outside the PCAF pilot scope – to obtain an insight in the financed emissions of our entire loan book. In this chapter, we further elaborate on how we applied the methodology to each of these sectors.

Whereas for the sectors and products in the PCAF pilot scope, the GHG emissions calculations are based on asset- and subsector specific data, the calculations for the remainder of our portfolio are performed on a macro level. As such the latter calculations only give a first and high-level indication about the emission weightiness of the different sectors and products in our loan portfolio and should not be confused with the actual real-world emissions of counterparty borrowers that take place through our financing.

In Table 10.2.1 we give an overview of the level of emission source data used to calculate the Scope 3 financed GHG emissions for sectors and products inside and outside the PCAF pilot scope. Moreover, it should be noted that the scope and boundary of the calculated Scope 3 GHG emissions of KBC Group differs for the PCAF pilot scope and the remainder of the portfolio outside the PCAF pilot scope. This scope of our analysis is also detailed in Table 10.2.1. The KBC Group's Scope 3 GHG emission calculations are based on our financial exposure to the GHG emissions of our clients. Where applicable, it is indicated that on top of our clients' Scope 1 emissions, we also take account for their Scope 2 and Scope 3 emissions in our Scope 3 GHG emission calculations.

Table 10.2.1: Overview of the scope and boundary of KBC Group's Scope 3 financed GHG emissions and the level of emission source data used in the calculations

	Level of emission source data	Scope 1	Scope 2	Scope 3
PCAF pilot scope				
Motor vehicle loans	Asset specific	•	–	–
Operational Lease	Asset specific	•	–	–
Mortgages	Asset specific	•	•	–
Mining	Subsector specific	•	•	•
Oil and gas	Subsector specific	•	•	•
Remainder of portfolio outside PCAF pilot scope	Macro level	•	•	•

•: in scope
–: out of scope

APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Also different from previous years, this year's report includes a weighted data quality score[1] for each of the sectors. In doing so, we aim to increase the transparency of our reports. For the purpose of data gathering and reconciliation, the reporting period for all portfolios with dedicated financed emission calculation methodologies covers the time period from 1 October 2020 to 30 September 2021. As for the remaining part of the loan portfolio, the financed emission calculations were not preceded by a granular data gathering exercise, the reporting date is 31 December 2021. In Table 10.2.1 we specify which countries are in scope for the calculations for each of the portfolios as well as the data quality score obtained per asset class in each of the countries.

Finally, please note that the PCAF methodology also provides the basis for our ongoing data and metrics exercise, through which we aim to improve our data collection processes, and consequently increase our data quality score over time. Further information on the data and metrics exercise can be found in the respective chapter.

Table 10.2.1: Overview of the scope and data quality score of the calculations of the Scope 3-financed emissions for indicated portfolios according to the PCAF-methodology

	Motor vehicle loans	Operational Lease	Mining	Mortgages	Oil and gas	Remainder of portfolio
Belgium	4	1	5	5	5	5
Czech Republic	3	2	5	5	5	5
Slovakia	2	3	5	5	5	5
Ireland	4	N/A	N/A	5	N/A	5
Bulgaria	2	1	5	4	5	5
Hungary	4	4	5	4	5	5
Weighted data quality score	3	1	5	5	5	5

1 In Bulgaria and Hungary, the scope of our exercise only covers financial leasing. This is due to the fact that it is not possible for the time being to determine the purpose of private loans and so these have not been included in the calculations. Truck leasing is included In the scope of the exercise.
2 In Hungary, no operational truck leasing is offered. The scope therefore does not include truck leasing.

1 In the chapter on Data and Metrics we briefly explain the concept of data quality levels as defined by PCAF. For more in-depth information, readers are referred to the PCAF Standard

Operational leasing

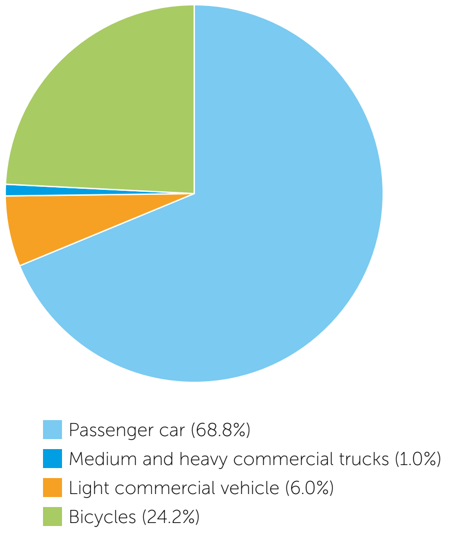
This portfolio consists of the operational lease fleet of KBC Group. Operational leasing refers to a service where companies can rent company cars through our leasing company. Normally, the duration of the contract, the number of kilometres to be travelled and the price are predetermined. In the case of operational leasing, KBC Group remains the owner of the car, which means there is no transfer of ownership.

Last year, the calculations for operational leasing covered Belgium, the Czech Republic, Slovakia and Bulgaria. This year, operational leasing in Hungary has also been included in the calculations. Moreover, the scope of the exercise has been widened to include medium and heavy commercial trucks (which are only offered on operational lease in the Czech Republic and Slovakia) in our calculations. As such, this year the calculations included:

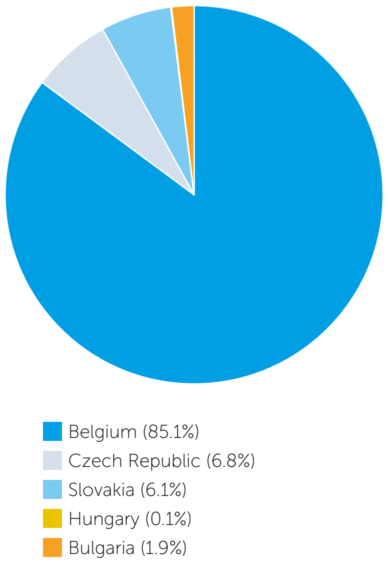
- Passenger cars
- Motorcycles
- Bicycles (only offered in Belgium)
- Light commercial vehicles
- Medium and heavy commercial trucks

On 30 September, 2021, there were 87 857 active contracts for vehicles in our portfolio. The breakdown per vehicle type of the portfolio in numbers and the share in portfolio value per country are shown in Graphs 10.2.1 and 10.2.2.

Graph 10.2.1: Breakdown of types of vehicles in numbers



Graph 10.2.2: Share of portfolio value per country



Operational leasing

Methodology

Our calculations are based on CO_2 emissions per kilometre. In most countries, the number of kilometres travelled per year is determined contractually for our operational lease fleet. Only in Slovakia, local statistical averages were used as a proxy for distance travelled.

For non-electric vehicles (non-EV) and plug-in hybrid electric vehicles (PHEV), Scope 1 emission calculations are based on tank-to-wheel CO_2 emission data per individual asset as provided by the manufacturers where available. Our primary data set includes a mix of NEDC (New European Driving Cycle) and WLTP (Worldwide harmonised Light vehicles Test Procedure)[2] emission factors, depending on the data provided to us by the manufacturers. For coherency, it was decided to calculate the financed emissions of our operational lease portfolio with either the WLTP data or with a converted NEDC value. To convert the NEDC value to WLTP we used the PCAF approach of multiplying the NEDC value with a factor 1.23. In the case of Belgium, we have detailed information on the share of WLTP emission factors used for the total portfolio. For passenger cars, 4.7% of the emission factors used is based on WLTP data, and for Light Commercial Vehicles (LCV) this share is 4.3%. In the other countries, we do not have insight into the exact share of NEDC versus WLTP data. We have therefore taken a conservative approach for these portfolios and multiplied the full outcome of our calculations by a factor of 1.23.

In the Czech Republic and Slovakia we did not have manufacturer data for medium and heavy trucks. We therefore used emission factors that we obtained from the PCAF emission factor database. Finally, in Hungary, we did not have access to manufacturer emission data for any vehicle type. We therefore used emission factors for all vehicle types that also were obtained from the PCAF emission factor database.

Our calculations for PHEV only take into account Scope 1 emissions, since we lack reliable data on the share of kilometres travelled based on electricity and the share travelled based on other fuel types.

[2] WLTP refers to a global standard that aims to determine the tailpipe emissions and fuel efficiency of passenger cars. The WLTP has been developed as a replacement of the older NEDC, since NEDC has been shown to be flawed. The WLTP standard was published in 2015 and will gradually replace NEDC. (source: PCAF Standard)

Finally, for electric vehicles (EV), the overall proportion of battery electric vehicles in the operational lease fleets in our core countries remains small for the time being. Therefore we have not taken into account Scope 2 emissions arising from the electric vehicles in our portfolio. Since the delivery of ordered EV's is delayed due to the current global chip-shortage, we expect a limited rise in the share of electric vehicles in 2022 in our total operational lease fleet. We will start including Scope 2 emissions from electric vehicles when the share of the portfolio becomes significant.

Our operational lease fleet in Belgium partly consists of bicycles (28% of number of vehicles in Belgium and 3.8% of Belgian portfolio value). Our calculations for the moment do not include Scope 2 emissions emanating from our operational (electrical) bicycle lease. Since we do not have kilometre data for these bicycles, we used proxies. We aimed to approximate the distance travelled per type of bicycle, based on the average number of kilometres travelled with passenger cars in our operational lease fleet in Belgium. This approach is similar to the one taken in 2020, though we took a more conservative approach by halving the number of kilometres travelled compared to the assumptions made in 2020.

For the calculation of our financed emissions, we do not work with an attribution factor, since we have full ownership over our operational lease fleet. We therefore account for 100% of the emissions caused by our operational lease fleet. The number of vehicles we report is based on the number of active contracts on 30 September 2021.

Finally, it should be noted that the calculations of our operational lease fleet, and our direct footprint calculations for commuter and business travel (own fleet) partly overlap as KBC entities are also clients of our operational leasing companies. There is thus a double counting for a part of our operational lease portfolio.

Based on the available data and the above methodology, the weighted data quality score for this portfolio is 1.23.

APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Operational leasing

Financed GHG emissions

An overview of the outcomes of our calculations is provided in Table 10.2.2 below.

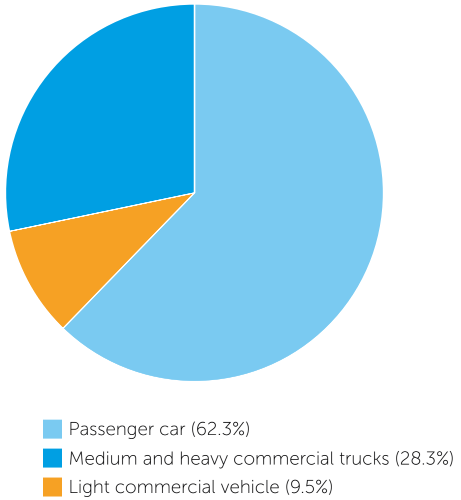
Table 10.2.2: Overview of outcome emissions calculations

Asset	Data quality	Numbers	Numbers (%)	Outstanding book value (in EUR)	Total distance km/year	Emissions (tonnes CO_2e / year)	Emissions (%)	Intensity (tonnes CO_2e per unit)	Intensity (grammes CO_2e per km)
Passenger cars	1.10	60 405	69%	1 161 310 594	1 565 402 608	209 903	62%	3.5	134
Light commercial vehicles	1.19	5 312	6%	75 151 930	158 136 780	31 953	9%	6.0	202
Medium and heavy commercial trucks	4.00	869	1%	46 265 418	101 412 781	95 310	28%	109.7	940
Bicycles	2.00	21 271	24%	43 032 159	90 396 574	0	0%	0.0	0
Total	1.23	87 857	100%	1 325 760 102	1 915 348 743	337 166	100%	3.8	176

Our calculations have shown that in total, in 2021, our operational lease portfolio accounted for 337 166 tonnes of absolute and financed CO_2 emissions (due to the attribution factor of 100%). The share of these emissions per vehicle type is shown in Graph 10.2.3. For the entire operational lease portfolio we determined two types of intensity: average CO_2 emissions in tonnes per unit (3.8 tonnes of CO_2/unit), and average CO_2 emissions per kilometre travelled (176 grammes of CO_2/ km).

Please note that our calculations only provide a static view of our financed emissions for the year 2021. As the scope of the 2021 calculations is wider than in previous years, comparisons between years is not possible. From 2022 forward, comparisons between the different years is likely to become possible. For the progress made with respect to the targets set for our operational vehicle leasing, readers are referred to the White Paper part on transportation. Given the technological differences, we expect to see a sharper reduction in intensity in our passenger car portfolio as compared with the light commercial vehicles and definitely with the medium and heavy commercial trucks.

Graph 10.2.3: Share of emissions per type of vehicle



Motor vehicle loans

This portfolio consists of loans (Belgium, Bulgaria, the Czech Republic, Hungary, Ireland, and Slovakia) and financial leases (Belgium, Bulgaria, the Czech Republic, Hungary, Slovakia) for vehicles. Financial leasing refers to a service where a client leases a vehicle against periodic payments. At the end of the contract, the client has the option of purchasing the vehicle. As such, financial leasing can be seen as an alternative form of investment.

Last year, the calculations included cars, light commercial vehicles, motorcycles and bicycles. This year, the scope was expanded to include medium and heavy commercial trucks. As such, this year the scope of the calculations included:

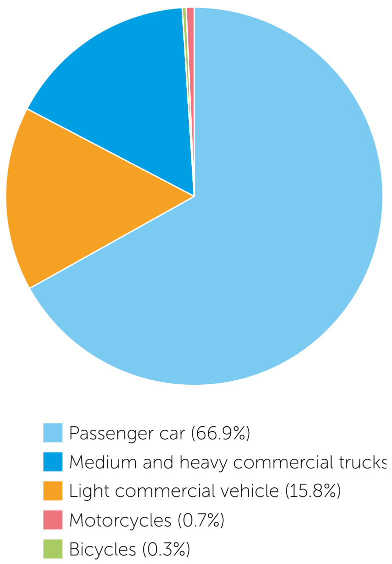
- Passenger cars
- Bicycles
- Light commercial vehicles
- Medium and heavy commercial trucks

In Bulgaria and Hungary, it is currently not possible to determine the purpose of private loans. For this reason, we only cover financial leases for these two countries. We aim to improve our data availability in the future through our data and metrics project and to include all vehicle loans in the future.

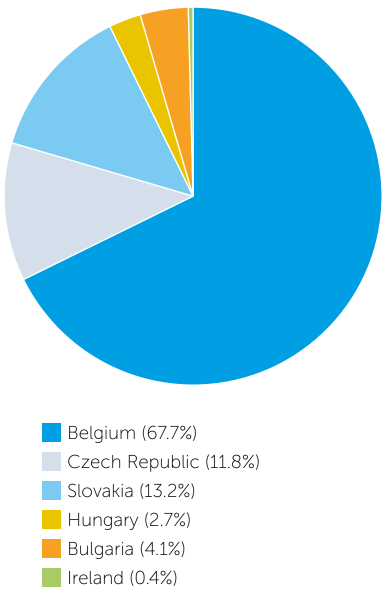
On 30 September, 2021, our portfolio included 218 383 passenger cars (Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria, Ireland), 41 848 light commercial vehicles (Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria), 16 187 medium and heavy commercial trucks (Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria), 5 422 motorcycles (Belgium, the Czech Republic, Slovakia) and 6 740 bicycles (Belgium, Slovakia).

The share in outstanding amount per vehicle type is shown in Graph 10.2.4. The share in outstanding amount per country is shown in Graph 10.2.5.

Graph 10.2.4: Share of outstanding amount per vehicle type



Graph 10.2.5: Share of outstanding amount per country



APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Motor vehicle loans

Methodology

The calculations of the financed Scope 3 GHG emissions for our motor vehicle loan and financial leasing portfolios were based on tank-to-wheel emissions per kilometre travelled.

In most countries, distances travelled per year were estimated based on local statistical data. In the Czech Republic, the average distance travelled by passenger cars and light commercial vehicles was based on the average distance travelled by the operational lease portfolio. In Bulgaria, the average distance travelled by passenger cars was based on available internal remarketing data.

Different approaches were taken to determine the emissions per travelled kilometre, based on different levels of data availability. In some cases, we had asset-linked emission data:

- In Slovakia, we had access to asset-linked data for tank-to-wheel emissions per kilometre based on make and model for passenger cars, light commercial vehicles and motorcycles.
- In the Czech Republic, we had access to asset-linked data for tank-to-wheel emissions per kilometre based on make and model for passenger cars and light commercial vehicles.
- In Bulgaria, we had asset-linked data for tank-to-wheel emissions per kilometre based on make and model for passenger cars, light commercial vehicles and medium/heavy commercial trucks.
- In Belgium, we had asset-linked data for tank-to-wheel emissions per kilometre based on make, model and cylinder type for 16.3% of the KBC passenger car loan portfolio.

Where we did not have asset-linked emission data, we used proxies to arrive at an estimation of tank-to-wheel CO_2 emissions per kilometre. Below, we further specify which emission factor proxies were used for the different vehicle and fuel types.

- For passenger cars we made different assumptions based on fuel type:
  - For non-electric vehicles, the Scope 1 calculations were based on tank-to-wheel CO_2 emission data for an average vehicle in each of our core countries. The same emission data were used, as for the calculation of our direct footprint relating to commuter travel (not-own fleet). These data were audited and approved by a third-party auditor.
  - For plug-in hybrid electric vehicles , we lack reliable data on the share of kilometres travelled based on electricity, and the share of kilometres travelled using other fuel types. We therefore treat PHEV as a non-electric vehicle, meaning only Scope 1 emissions are calculated. Given the low share of PHEV in our operational lease fleet, the impact of leaving Scope 2 emissions for PHEV out of scope is negligible. Moreover, we assume that by treating PHEV as average non-electric passenger cars, we overestimate our actual emissions.
  - For electric vehicles, the proportion of battery electric vehicles and light commercial vehicles in the fleets in our core countries remains negligible for the time being. Therefore we have not taken into account Scope 2 emissions arising from the electric vehicles in our portfolio.
- For motorcycles, light commercial vehicles and medium and heavy commercial trucks we used emission factors obtained from the PCAF emission factor database. In doing so, we made a distinction per country in which the loan or lease was granted.
- In Belgium and Slovakia we also finance bicycles. On 30 September 2021, the total number of bicycle loans was 6 740. Currently, we have no information as to the proportion of electric and non-electric bicycles. We assume distances travelled per year that are similar to those seen in our bicycle operational lease portfolio in Belgium (see the 'Operational car lease' part of this appendix).

Based on the available data and the above methodology, the weighted data quality score for this portfolio is 3.47 as motor vehicle loans are in scope in our priority sectors, we aim to improve this data quality level in the years to come through our Data and Metrics track. Initially, we will do so by focusing on obtaining more detailed information on the vehicle makes and models in our portfolio.

APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Motor vehicle loans

Financed GHG emissions

Table 10.2.3 below provides an overview of the calculations for the financed emissions relating to our motor vehicle loans portfolio for 2021.

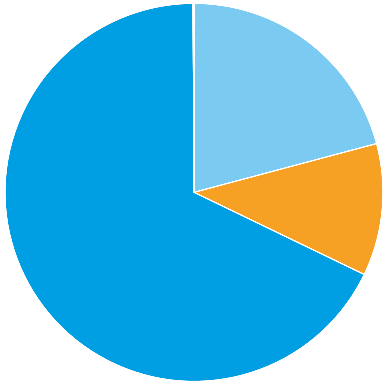
Table 10.2.3: Overview of outcomes of the emission calculations of motor vehicle loans and financial lease portfolio according to PCAF methodology

Asset	Data quality	Numbers	Numbers (%)	Outstanding Amount (in EUR)	Average outstanding amount per vehicle type (in EUR)	Total distance km/year	Intensity (tonnes CO_2e per unit)	Intensity (grammes CO_2e per km)	Financed emissions (tonnes CO_2)	Financed emissions (%)
Passenger cars	3.36	218 383	75.7%	2 880 709 444	13 191	3 599 110 020	2.2	132	192 428	20.8%
Light commercial vehicles	3.61	41 848	14.5%	678 684 111	16 218	1 044 138 173	5.0	200	104 414	11.3%
Medium and heavy commercial trucks	3.82	16 187	5.6%	702 626 896	43 407	1 338 593 717	77.4	936	625 503	67.8%
Bicycles	2.00	6 740	2.3%	14 426 977	2 141	28 645 000	0.0	0	0	0.0%
Motorcycles	3.49	5 422	1.9%	29 458 569	5 433	24 732 342	0.3	67	765	0.1%
Total	3.47	288 580	100.0%	4 305 905 996	14 921	6 035 219 252	6.7	321	923 110	100.0%

The financed emissions of our motor vehicle loan portfolio in 2021 amounted to 923 110 tonnes of CO_2. Furthermore, we determined two types of intensity: average CO_2 emissions in tonnes per unit, and average CO_2 emissions per kilometre travelled. The calculated intensities are detailed in the table above.

Finally, the share of financed emissions per vehicle type is shown in Graph 10.2.6. Financed emissions for medium/heavy commercial trucks amounted to 625 503 tonnes of CO_2, and as such account for the largest share of the total emissions of the portfolio.

Graph 10.2.6: Share of financed emissions per vehicle type



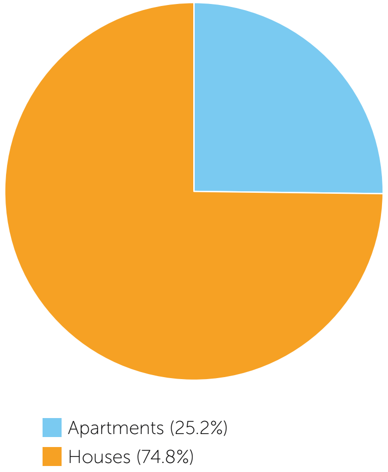
- Passenger car (20.8%)
- Medium and heavy commercial trucks
- Light commercial vehicle (11.3%)
- Motorcycles (0.1%)

Mortgages

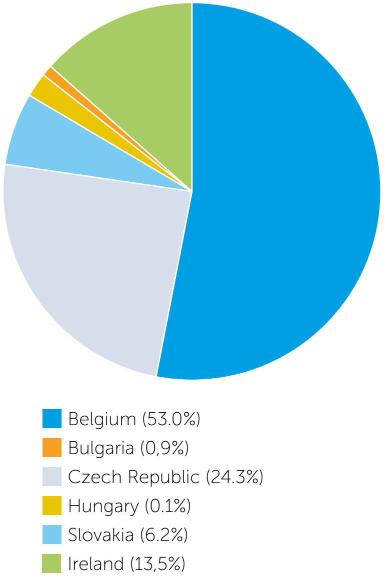
The calculation of our mortgage portfolio covers mortgage loans in all of KBC's core countries. The calculations of our financed Scope 3 GHG emissions cover mortgages for houses and apartments. Moreover, our calculations include mortgages for the purchase, construction or remortgaging of a property. Mortgages for the renovation of properties have not been included in the scope of the calculations, as we assume these are linked to properties already included in the portfolio and it is currently impossible to know what the renovation loan is being used for and what impact the renovation will have on the emissions of a property.

In 2021, the mortgage portfolio of houses and apartments included 983 848 loans for a total outstanding amount of 73 996 608 977 euros. The breakdown of the portfolio is shown in Graphs 10.2.7 (by outstanding amount by purpose) and 10.2.8 (by outstanding amount per country).

Graph 10.2.7: Outstanding loan amount of mortgage portfolio by purpose



Graph 10.2.8: Breakdown of mortgage portfolio by outstanding loan amount per country



APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Mortgages

Methodology

Our calculations for the mortgage portfolio are based on the estimated building energy consumption according to floor area. For all countries, we have data on whether the financed property is an apartment or a single-family house.

For Bulgaria and Hungary, we have primary data on floor area for most of the buildings, complemented by locally available statistical data for an average apartment or single-family house.

For Belgium, the Czech Republic, Slovakia and Ireland we do not have sufficient primary data on floor areas. The floor areas for the buildings were therefore approximated with the use of locally available statistical data for an average apartment and an average single-family house.

The calculations of the financed emissions were carried out using emission factors obtained from the PCAF emission factor database. In Belgium, Hungary and Ireland we also have information on the energy labels of the financed properties. However, we did not use these to directly calculate the financed emissions of a property, as our initial calculations showed that going by the EPC value of a given property leads to a distinct overestimation of the actual energy use. We are currently in discussion with PCAF on how to deal with this issue and are looking forward to the updated PCAF emission factor database that will include emission factors per energy label. For the time being, the financed emissions of the entire mortgage portfolio are therefore calculated using the currently available PCAF emission factors, meaning that we make no distinction yet between different EPC labels when determining the emissions.

Based on the available data and the above methodology, the weighted data quality score for this portfolio is 4.98. This is mostly due to the lack - in most countries - of sufficient primary data on the floor areas of the properties we finance. Through our data and metrics project, we have set in motion concrete steps to improve the availability of the data necessary to improve this data quality level in the future. In the past year, we have already made first steps towards gathering data on the EPC labels of part of our mortgage portfolio. In the coming years we will further focus on improving the data quality level of the calculations in this portfolio by focusing on gathering data on the floor area and EPC labels of financed properties.

Financed GHG emissions

An overview of the outcomes of the calculations of the financed GHG emissions is shown in Table 10.2.4. In 2021, the financed emissions of our mortgage portfolio amounted to 1 685 594 tonnes of CO_2e. 1 302 715 tonnes of CO_2e or 77.3% of these emissions could be attributed to single family houses and 382 880 tonnes of CO_2e or 22.7% to apartments. The average CO_2e intensity per unit is 4.91 tonnes of CO_2e.

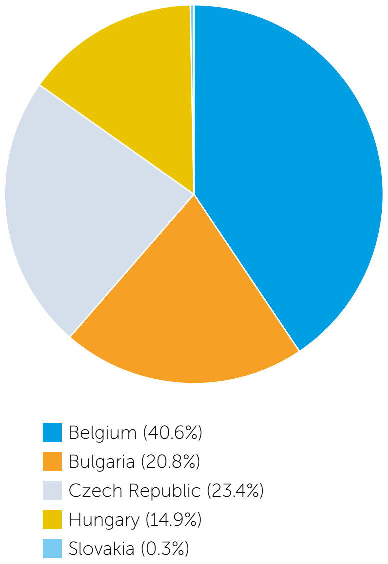
Table 10.2.4: Results of calculations for mortgage portfolio following the PCAF methodology

Assets	Data quality	Numbers	Value at origination (in EUR)	Outstanding loan amount (in EUR)	Habitable surface area (m^2)	Emissions (tonnes CO_2e)	Emission/ unit (tonnes CO_2e)	Financed emissions (tonnes CO_2e)
Apartments	4.94	264 767	35 881 668 510	18 643 268 559	18 307 201	763 451	2.88	382 880
Houses	4.99	719 081	157 787 431 045	55 353 340 418	106 019 604	4 067 925	5.66	1 302 715
Total	4.98	983 848	193 669 099 555	73 996 608 977	124 326 804	4 831 377	4.91	1 685 594

Oil and gas

In 2021, we expanded the scope of our Scope 3 financed GHG emission calculations by also including the oil and gas sector. The calculations cover loans in all of KBC's core countries, except for Ireland, where we have no exposure in this sector. At 30 September 2021, the total outstanding loan amount for this portfolio amounted to 135 411 654 euros. This represents approximately 0.2% of our total industrial loan portfolio. Oil and gas is a sub-sector of the energy sector.

Graph 10.2.9: Outstanding amount in the oil and gas sector per country



APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Oil and gas

Methodology

The calculations of this portfolio are based on the estimated emissions based on the outstanding loan amount as per 30 September 2021. We multiplied the total outstanding loan amount in this sector in each country by a country-specific emission factor obtained from the PCAF emission factor database[3]. Our financed emissions were calculated by multiplying the outstanding amount in the sector with these emission factors.

Based on the available data and the above methodology, the weighted data quality score for this portfolio is 5. It is also important to note that this calculation used proxies which are rough estimates based on country averages. The resulting financed GHG emissions could therefore be an overestimation of our actual financed emissions. The sub-sector is not one of our priority sectors and is currently not yet in scope of our Data and Metrics project. Due to the large environmental impact of the sector, we did implement restrictive sustainability policies for new oil and gas fields. For further details on these policies, readers are referred to the chapter on our Energy sector. In addition, we are planning steps to improve our data quality level and to become more specific on the activities we are financing in this sector, for which we aim to use client-specific emission data. For example in Bulgaria, based on the calculation using the PCAF emission factor database, our limited financial exposure results in a large amount of financed emissions. However, more detailed analysis has shown that our main client in this sector is merely active in the less GHG intensive activity of distribution of imported fuels.

Financed GHG emissions

The results of our calculations are shown in Table 10.2.5. In 2021, our total financed GHG emissions for our oil and gas portfolio amounted to 2 293 167 tonnes of CO_2e. The table furthermore shows the breakdown of our financed emissions in Scope 1, 2 and 3 emissions of our clients.

Table 10.2.5: Overview of outcomes of the emission calculations for the oil and gas sector

Country	Financed Scope 1 emissions (tonnes CO_2e)	Financed Scope 2 emissions (tonnes CO_2e)	Financed Scope 3 emissions (tonnes CO_2e)	Financed emissions (tonnes CO_2e)	Emission intensity (tonnes CO_2e/ m EUR)
Belgium	1 327 646	2 337	59 891	1 389 874	25 291
Bulgaria	529 468	8	12 911	542 387	19 255
Czech Republic	255 234	2 446	37 698	295 378	9 314
Hungary	43 017	835	20 751	64 603	3 204
Ireland	0	0	0	0	0
Slovakia	4 156	1	613	924	2 268
Total				2 293 167	16 935

[3] Please note that the country-specific emission factors refer to the country in which the loan is outstanding, not necessarily the country in which the activities of the counterparty are situated.

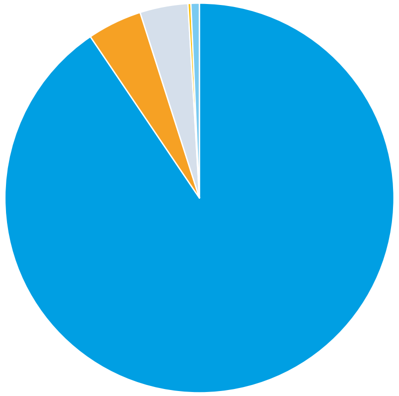
APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Mining

In 2021, we expanded the scope of the calculations of our Scope 3 financed GHG emission calculations to include our mining portfolio. The calculations cover our mining portfolio in all of KBC's core countries, except for Ireland, where we have no exposure to mining counterparties. As per 30 September 2021, this portfolio accounted for a total outstanding amount of 150 416 750 euros. This represents approximately 0.2% of KBC's total industrial loan book.

Graph 10.2.10 shows the share in outstanding amount per country for this portfolio. The graph illustrates that the largest exposure to mining is in Belgium, where the bulk of our outstanding amount is attributable to clients that are mining basic construction materials, where the bulk of our outstandings is attributable to clients that are mining basic construction materials. The other core countries only account for a small portion of the outstanding loan amount for this portfolio.

Graph 10.2.10: Outstanding amount in the mining sector per country



Methodology

The calculations of the financed GHG emissions were carried out based on the outstanding loan amount of the portfolio as per 30 September 2021. We multiplied the total outstanding loan amount in this sector in each country by a country-specific emission factor. The emission factors we used were obtained from the PCAF emission factor database[4]. We took an emission factor for the mining sector in general, per core country and multiplied this by the outstanding loan amount. Our calculations cover Scope 1, 2 and 3 emissions of our clients. As such, the data quality level for this portfolio is 5. The PCAF mining sector is spread-out across various sectors in scope of our sector classification and White Papers approach and data and metrics project – energy, chemicals, building and construction and metals. Moreover, the financial materiality of the sector within our overall portfolio of this sector is small. We therefore currently have no plans for steps aimed at immediately improving this data quality level. Given the environmental impacts of this sector however, we have put strict sustainability policies in place. For further information on these policies readers are referred to the chapter on sustainability policies.

Financed GHG emissions

In 2021, our total financed GHG emissions for our mining portfolio amounted to 128 542 tonnes of CO_2e. Table 10.2.6 shows a breakdown of these emissions for Scope 1, 2 and 3 emissions.

Table 10.2.6: Overview of outcomes of the emission calculations for the mining sector

Outstanding amount (in EUR)	Financed Scope 1 emissions (tonnes CO_2e)	Financed Scope 2 emissions (tonnes CO_2e)	Financed Scope 3 emissions (tonnes CO_2e)	Financed emissions (tonnes CO_2e)	Emission intensity (tonnes CO_2e/ m EUR)
150 416 750	80 108.2	1 185.1	47 248.7	128 542	855

[4] Please note that the country-specific emission factors refer to the country in which the loan is outstanding, not the country in which the activities of the counterparty are situated.

Other sectors (outside PCAF pilot scope)

For the remaining sectors that are not yet included in the PCAF reporting timeline, we applied a separate financed Scope 3 emission calculation method which is briefly described in this section. The calculation covers loans in all of KBC's core countries.

Methodology

The calculations of the financed GHG emissions are determined based on the outstanding loan amount of the portfolio as per 31 December 2021. We multiplied the total outstanding loan amount in the remaining sectors by their country-specific emission factors obtained from the PCAF emission factor database. Our calculations cover Scope 1, 2 and 3 emissions of our clients. The data quality level for this portfolio is 5. For the sectors that are in scope of our white papers and our data and metrics project, data quality may improve over time commensurate with improved data availability.

While these calculations allow us to complete this section's representation and overview, the overall figures still only serve as a first and rough indication of the financed emissions associated with our loan portfolio. On top of the intrinsic lower PCAF data quality score of 5, the following important limitations in the calculation method should be taken into account whilst still requiring further fine-tuning in order to better reflect the significant variance in carbon intensity between sub-sector activities, countries and actual KBC Group counterparts within those sub-sectors and countries:

- Sectors and their exposures have been mapped to the PCAF emission factor database at their highest and most aggregated level. This methodological choice entails the assumption that the selected emission factor is representative for all sub-sectoral activities underlying the sector for which financed emissions are calculated. E.g. for the commercial real estate loan portfolio a very conservative high-level emission factor was selected that is representative for development activities leading very likely to a sizeable overestimation in this first round of financed emission calculations.
- The selection and attribution of country-specific emission factors was entirely based on the business unit loan portfolio breakdown, not on the specific countries where the underlying borrowers in that sector are based;
- Loans at the International Business Unit had to be further disaggregated into country-specific loan amounts to enable the attribution of the PCAF country-specific emission factors. To do so, a fixed allocation key was used for all sectors based on the International Markets Business Unit geographical breakdown on a total loan portfolio level.

APPENDIX: PCAF – FINANCED SCOPE 3 GHG EMISSIONS

Other sectors (outside PCAF pilot scope)

Financed GHG emissions

In 2021, our total financed GHG emissions for the other sectors amounted to 51.7 million tonnes of CO_2e. Table 10.2.7 shows a breakdown of these emissions per sector.

Table 10.2.7: Overview of outcomes of the emission calculations for the other sectors outside PCAF pilot scope (Scope 1, 2 and 3 emissions aggregated)

Product lines and sectors	Financed emissions (Scope 1, 2 and 3) in tonnes CO_2e	Emission intensity per million euro outstanding (tonnes CO_2e/ m EUR)
Other sectors outside PCAF pilot scope		
Energy[1]	3 631 272	919
Real Estate	5 228 836	457
Building and construction	4 036 737	515
Automotive	1 947 779	428
Agriculture	9 457 628	1 831
Food and beverage producers	4 108 115	808
Chemicals	2 082 152	839
Metals	2 779 968	1 058
Services	6 591 178	338
Distribution	3 740 468	263
Shipping	1 739 071	1 324
Finance and insurance	1 816 593	161
Authorities	760 440	145
Machinery and heavy equipment	755 953	454
Textile and apparel	572 562	663
Timber and wooden furniture	549 614	689
Water	538 639	1 068
Aviation	479 524	1 489
Electrotechnics	453 576	487
Horeca	414 735	302
Paper and pulp	200 641	418
Traders	185 810	198
Consumer products	176 456	578
Media	112 730	236
IT	73 169	223
Telecom	34 653	86
Tobacco	28	371
Total other sectors outside PCAF pilot scope	51 677 807	

[1] Excluding oil and gas extraction and manufacturing included in the PCAF pilot scope (see oil and gas section above)

This is the first time that KBC has reported on the financed emissions associated with its total loan portfolio based on the PCAF standard and the emission factors made available in the PCAF emission factor database. 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. Rather, this first publication of our financed emissions constitutes a further step in creating transparency on our indirect climate impact but may implicate an over- or understated condition compared to the real-world situation as most of the calculations are performed on a macro level rather than subsector-, company-financed or asset-specific emission factors or information. PCAF-based financed emission calculations shall improve over time and our endeavour is to continuously and transparently report on quality improvements and subsequent resulting restatements.

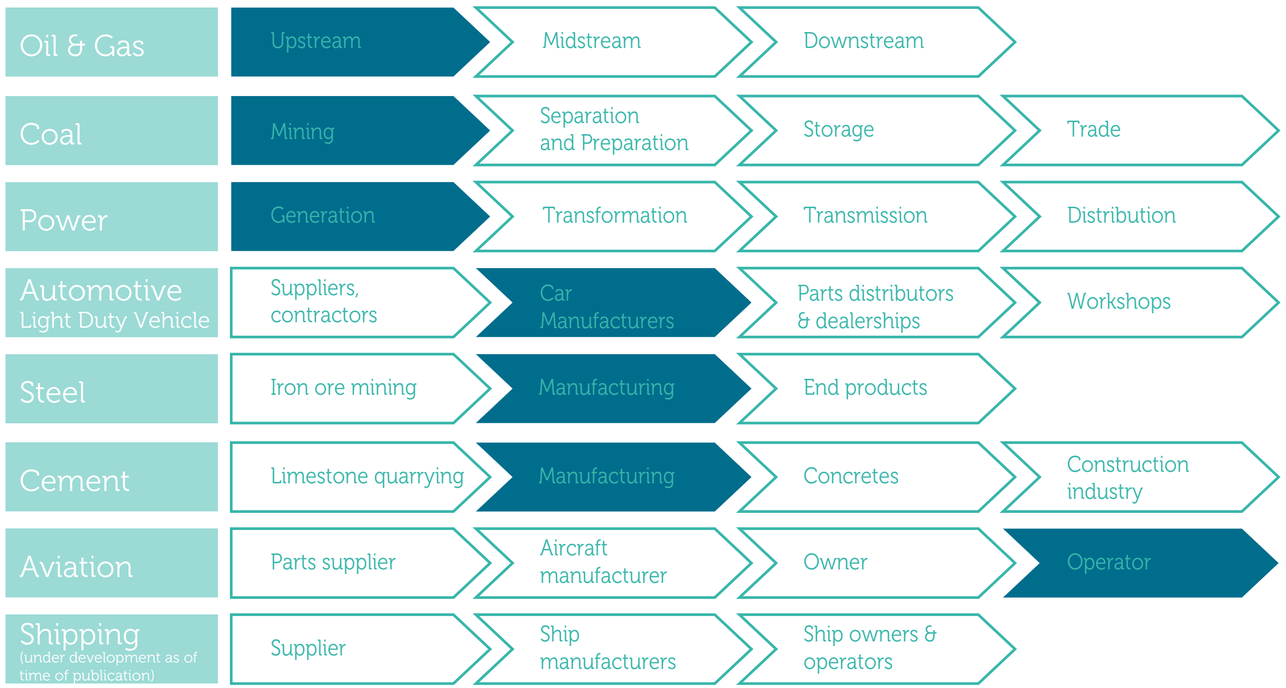
APPENDIX: PACTA

Scope of the PACTA assessment

PACTA (Paris Alignment 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: Fossil fuels (Oil and Gas, Coal), Power, Automotive, Steel, Cement, Shipping and Aviation (Shipping is under development at the time of writing this report). Together, these represent around 75% of global CO_2 emissions.[1] Only the main contributory activities across these sectors' supply chain are in scope of this methodology (see coloured boxes in Figure 10.3.1).

'PACTA for Banks' will continue to evolve with 2DII planning to add new sectors/segments to its methodological scope.

Figure 10.3.1: Technologies and activities in scope of PACTA (source: 2DII)



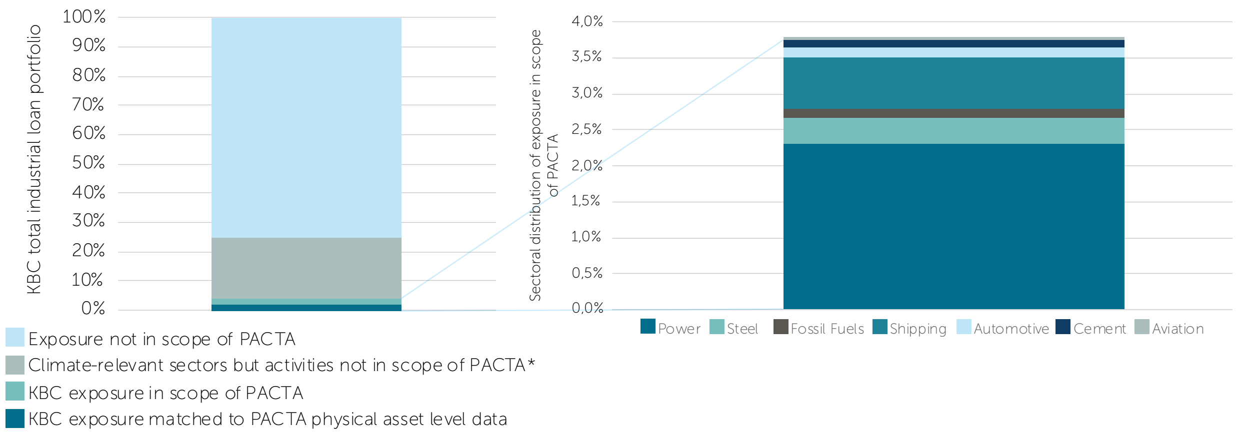
[1] 2DII, referring to separate CO_2 sources database.

APPENDIX: PACTA

Scope of the PACTA assessment

With this year's analysis, KBC Group's granted exposure found in the scope of PACTA amounted to 3.8% (4 595 m EUR) of the total industrial loan book (see Figure 2) compared to 4.0% reported last year[2]. The scope of the analysis was unchanged compared to last year's exercise, i.e. the corporate industrial loan portfolio, which excludes loans to SMEs, private persons, finance and insurance and authorities, and 54.9% (2 522 m EUR) of this exposure could be matched to physical asset-level data (approximately the same percentage as last year)[3]. The figures presented in this report reflect the granted loan exposure as per end June 2021 and asset level data as per year-end 2019. Graph 10.3.1 (right) outlines the distribution of this granted exposure across the key PACTA sectors.

Graph 10.3.1: Granted exposure across the key PACTA sectors



Left-hand graph: Share of total industrial loans (including loans to SMEs but excluding loans to private persons, finance & insurance and authorities) exposed to sectors relevant to the analytical domain of PACTA (defined at the highest sectoral classification)
Right-hand graph: Overview by sector and activities of granted (drawn + undrawn) exposure in scope of PACTA (cf. the scope defined in Figure 10.3.1)
* This includes the segments within the sectors covered by the PACTA model which are not coloured in Figure 10.3.1

The PACTA model

The PACTA model distinguishes climate alignment calculations depending on whether clearly identified technology decarbonisation pathways exist for these sectors:

- Sectors with technology roadmaps (Power, Fossil fuels and Automotive), i.e. sectors for which clear low- or zero-carbon technologies are available: for the Power and Fossil fuels sector the technology roadmaps from the IEA World Energy Outlook 2019/2020 are used as a reference, whereas for the Automotive sector the reference comprises the scenarios from the IEA Energy Technology Perspectives 2017.
- Sectors without technology roadmaps (Cement, Steel, Shipping and Aviation), i.e. sectors for which emission-intensity metrics are calculated and used to measure alignment: for these sectors the production and absolute carbon emission targets provided by the scenarios from the IEA Energy Technology Perspectives 2017 are converted into sector-wide carbon intensities and are to be used as a reference.

The PACTA methodology is agnostic to any climate transition scenario that sets out targets in production capacity at the technology level or emission-intensity units. Table 10.3.1 outlines the scenarios that are used in the analysis to assess the climate alignment of the subject loan portfolios. The scenarios aligned with the Paris Agreement[4] are highlighted in grey:

[2] The fall is primarily the result of the refinements applied to the definition of the sector scopes this year (i.e. exclusion of the so-called borderline segments). These adjustments have been introduced with the aim of further improving the accuracy of the calculation results by minimising the risk of including counterparties in the calculation which have activities that do not come within the official PACTA scope.

[3] Matching loans to the PACTA database is challenging for two main reasons. On the one hand it is difficult to capture loans of companies that have various activities and where logged sector classifications do not fully reflect the company's activity profile. On the other hand, automatic matching requires an extensive additional manual matching and verification exercise.

[4] The Paris Agreement has an objective of 'holding 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'.

Scope of the PACTA assessment

Table 10.3.1: Scenario landscape of the PACTA analysis

Scenario description[5]	Sector coverage
IEA RTS – Reference Technology Scenario from the IEA Energy Technology Perspectives (ETP) 2017: This baseline scenario considers ambitions as reflected by current policies, i.e. it takes into account existing energy and climate-related commitments by countries, including Nationally Determined Contributions pledged under the Paris Agreement. This scenario misses the targets set out in the Paris Agreement, but is considerably better than a business-as-usual scenario. It is most similar to the IEA STEPS.	Automotive, Cement, Steel
IEA 2DS – 2 Degrees Scenario from the IEA Energy Technology Perspectives (ETP) 2017: This scenario sets out a rapid decarbonisation pathway in line with the Paris Agreement, but is less ambitious than the B2DS, as it is aimed at limiting the rise in global temperature to 2°C by 2100 with a 50% chance. This scenario is most similar to the IEA SDS.	Automotive, Cement, Steel
IEA B2DS – Beyond 2 Degrees Scenarios from the IEA Energy Technology Perspectives (ETP) 2017: This rapid decarbonisation scenario assumes carbon neutrality of the energy sector by 2060 to limit future global temperature increases to 1.75°C by 2100 with a 50% chance. This scenario does not necessarily follow the most economically efficient pathway, however it does not depend on the breakthrough of unforeseen technologies (i.e. all technologies included in the ETP are already commercially available or will be within the time frame of the scenario). The energy sector emissions reach net zero around 2060, through a heavy reliance on bioenergy with carbon capture and storage.	Automotive, Cement, Steel
IEA CPS – Current Policies Scenario from the IEA World Energy Outlook (WEO) 2019: This business-as-usual scenario provides a baseline picture of how global markets would evolve if no changes were made to existing government policies. It explores what the future may look like based on what is happening today and assuming no policy changes. In this scenario the energy demand rises by 1.3% each year to 2040.	Power, Fossil fuels
IEA STEPS – Stated Policies Scenario from the IEA World Energy Outlook (WEO) 2020: This scenario incorporates government policies declared in 2020, in order to assess what the world may look like in the future based on policies that have been announced. In this scenario the energy demand rises by 1% per year until 2040. Although this growth is mostly met by solar photovoltaics (PV) and by natural gas enabled by trade in liquefied natural gas (LNG), they are not able to compensate for the global economic and population growth ahead of 2040, and hence globally shared sustainability goals are missed.	Power, Fossil fuels
IEA SDS – Sustainable Development Scenario from the IEA World Energy Outlook (WEO) 2020: This scenario aims to meet strict sustainability development goals, and requires rapid and widespread changes across all parts of the energy system (multiple fuels and technologies). It is aligned with the goals set out in the Paris Agreement, with a 50% chance of limiting global temperature rise to below 2°C by 2100, as well as objectives relating to universal energy access and cleaner air. Under this scenario the global CO_2 emissions from the energy sector and industrial processes are on track to net zero emissions by 2070.	Power, Fossil fuels
IEA NZ – Net Zero Emissions by 2050 scenario 2021: This scenario extends the SDS in order to target net-zero emissions, by responding to the increasing number of countries and companies that have made commitments to reach net zero emissions earlier combined with the aim of limiting the rise in global temperatures to 1.5°C by 2100 with a 50% chance. In particular it explores the actions needed in the period to 2030 in order to be on track to achieve net zero emissions by 2050, including the need to end new fossil fuel exploitation from 2021 onwards.	Power, Fossil fuel, Automotive
ISF NZ – Institute for Sustainable Futures Sectoral Pathways to Net Zero Emissions 2020: This scenario was created at the request of the Net Zero Asset Owners Alliance (NZAOA). It excludes the use of carbon caption and storage technology, and aims to limit global temperature rise to 1.5°C above pre-industrial levels with a 66% chance.	Power, Fossil fuel, Cement, Steel

[5] For more information about the scenarios, see the following webpages: Transition Monitor, IEA World Energy Outlook 2019, IEA World Energy Outlook 2020, IEA World Energy Model SDS, IEA World Energy Model CPS, IEA World Energy Model STEPS, IEA Energy Technology Perspectives (ETP) 2017, IEA ETP Model 2017, IEA Net Zero by 2050, and Institute for Sustainable Futures Sectoral Pathways to Net Zero Emissions 2020.

APPENDIX: PACTA

Scope of the PACTA assessment

The PACTA model allows the generation of three different types of metrics, which are described in Table 10.3.2. Their applicability depends on whether sufficiently granular technology decarbonisation roadmaps are available for a given sector (Fossil fuels, Power and Automotive) or not (Steel, Cement, Aviation and Shipping).

Table 10.3.2: Overview of the climate-related PACTA metrics

Technology/Fuel Mix metric (technology/fuel mix breakdown) This metric focuses on technology shifts within the Fossil fuels, Power and Automotive sectors (i.e. sectors with low carbon alternatives) and compares the shifts identified in the loan book with those required by the various climate transition scenarios detailed on the previous page and those seen in the broader industry. The metric shows what the split between technologies would look like at the end of the analysed time horizon by comparison to what is required under various scenarios. The physical asset-level data have been mapped to the companies (and/or to their parents) to calculate an aggregated current and projected capacity/production profile for each technology. To reflect the bank's relative credit exposure to these technologies, these capacity/production profiles are weighted by the loan amount granted to each company in proportion to the total amount of exposure to companies in the sector. All individual company production profiles were then aggregated into single current and projected portfolio production profiles, which are illustrated in the 1st and 2nd bars respectively of the technology/fuel mix figures, which show the loan portfolio's relative financial exposure to low-carbon (i.e. renewable, nuclear, hydropower) and high-carbon (in descending order of carbon-intensity: coal, oil, gas-fired) power technologies. Alongside the current portfolio distribution, this metric also provides relevant forward-looking information. For the Power and Fossil fuels sectors, the rates of change required under the IEA CPS, IEA STEPS, IEA SDS and IEA NZ scenarios have been used to calculate forward-looking production and capacity profiles and are available in separate bars for each scenario in the technology/fuel mix figures. For the Automotive sector, the rates of change required under the IEA RTS, IEA 2DS, IEA B2DS and IEA NZ scenarios were used to calculate forward-looking target profiles; these are available in separate bars for each scenario in the figures. **Production Volume Trajectory metric** This metric is available for the Fossil fuels, Power and Automotive sectors and measures the alignment of a portfolio's projected change in production volume per technology/fuel against those prescribed in climate transition scenarios, i.e. it assesses the alignment of a portfolio to a range of climate transition scenarios based on the production plans of the companies in the bank's loan portfolio. The loan-weighted projected production volumes of individual companies in the portfolio are aggregated per technology on a time horizon up to 2025 in order to calculate the production volume trajectory figures, then these volume trajectories are compared with the trends set as targets in the climate transition scenarios listed above.	**Emission Intensity Metric** This metric is used for the Steel, Cement, Aviation and Shipping sectors (i.e. for sectors without granular technology decarbonisation roadmaps). The production and absolute carbon emission targets set out in the IEA B2DS and ISF NZ scenarios respectively are used to define the sector emission-intensity targets to which companies should converge (note: the ISF NZ scenario is not available for Aviation, hence the Aviation sector portfolio emission intensity evolution is measured against the IEA B2DS scenario only). This metric is an adaptation of the Sectoral Decarbonisation Approach (SDA) designed by the Science Based Targets Initiative (SBTi). It allows the current lending portfolio's emission intensity to be compared with the sector emission intensity in the context of various scenarios. It also helps to assess the transition risk which the loan portfolio is exposed to, as it follows that carbon-inefficient production operations are more likely to experience higher risk during the transition towards a low-carbon economy. Because if the lending portfolio shows an emission intensity higher than the benchmark for the market, a faster rate of change will be required to converge to the endpoint/goal of the climate transition scenarios.

The next section presents the results for each sector by using the metrics that are relevant to that specific sector, considering a time horizon up to 2025. To calculate the above metrics at sector level, a portfolio-weighted approach is used, whereby the production of a company is allocated to the portfolio based on the size of the exposure to that counterparty.

It is important to note the general limitation that the results outlined below only reflect the exposures that have actually been mapped to physical production data and are not always fully representative for the whole of the portfolio in the scope of the analysis. To shed light on the representativeness of the results, information on the level of exposure that could actually be mapped to physical asset-level data is also provided below. Also note that the results assume that loan portfolio compositions do not change over the five-year projection period.

Sector results

Fossil fuels (Oil and Gas, Coal) sector

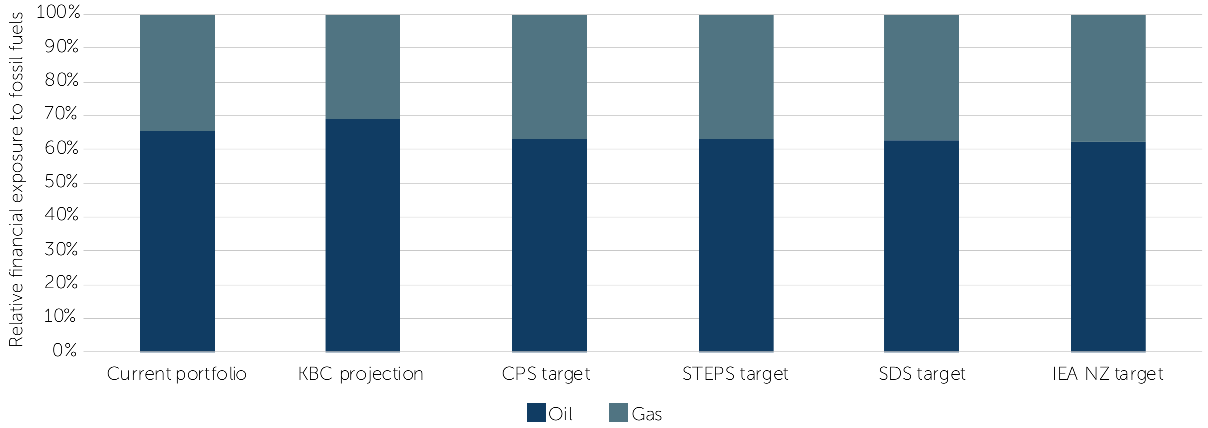
KBC Group's total granted exposure to the Oil and Gas upstream segment – i.e. the PACTA scope within the Oil and Gas sector – is 154 m EUR, which is less[6] than the 174 m EUR total granted exposure of last year. When comparing this figure to KBC Group's overall industrial loan book, it is safe to conclude that KBC is only minimally (0.13%) exposed to such activities, in line with its Oil and Gas sector policy. Furthermore, KBC Group does not have any direct exposure to the Coal sector:

- 3 corporates (the same number as last year) in KBC Group's loan portfolio could be matched to Asset Resolutions' available physical asset-level data. KBC Group's total exposure to these 3 corporates represents 99.99% of KBC Group's upstream Oil and Gas sector exposure in scope of PACTA.
- 97.45% of the exposure in scope is concentrated within a single company group, which means that the results below are particularly influenced by that group's investment plans. The volume analysis trajectories (Graph 10.3.3) below show that these plans are better than the IEA SDS targets. In line with its overall client engagement strategy, KBC actively engages with this company group.
- In line with the PACTA model, the production capacity of fossil fuel extracting physical assets (i.e. oil fields, gas fields and coal mines) up to 2025 (expressed in GJ of oil/gas per year or tonnes of coal extracted per year) is used for the assets mapped to physical production in the Oil and Gas sector.

Graph 10.3.2: Oil and Gas sector fuel mix results

KBC current portfolio, KBC projected portfolio, IEA CPS, IEA STEPS, IEA SDS and IEA NZ targets, capacity profile weighted by loan size (source: KBC and 2DII)

The fuel mixes of the KBC current (1st bar) and projected portfolio (2nd bar) in the Oil & Gas sector are compared with the technology mixes which are in line with the targets of the IEA CPS (3rd bar), IEA STEPS (4th bar), IEA SDS (5th bar) and IEA NZ (6th bar) scenarios respectively.



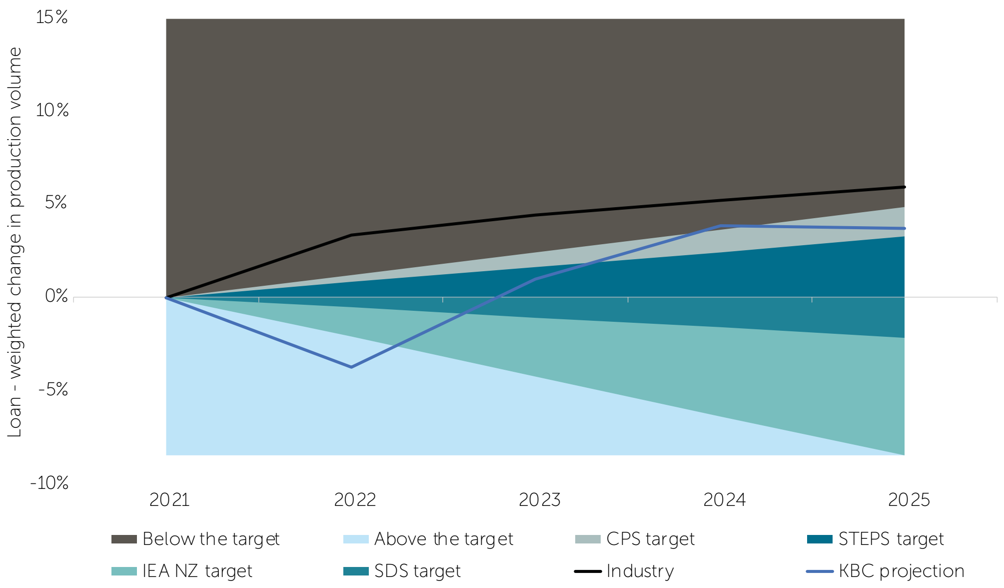
[6] The fall is primarily the result of the refinements applied to the definition of the sector scopes this year (i.e. exclusion of the so-called borderline segments).

APPENDIX: PACTA

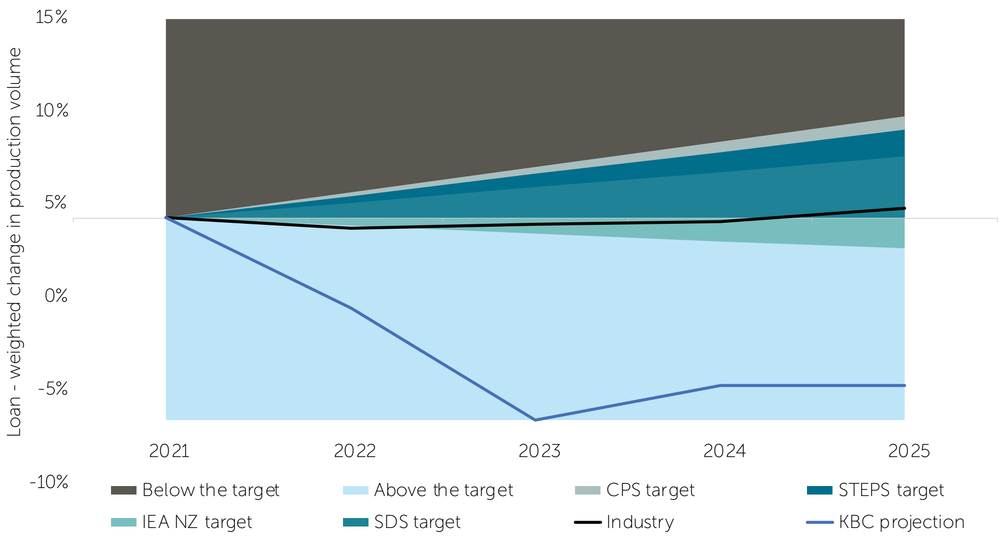
Sector results

Graphs 10.3.3: Oil and Gas sector results in production volume trajectories, weighted by loan size (source: KBC and 2DII)
Projected industry evolution, KBC projected portfolio, IEA CPS, IEA STEPS, IEA SDS and IEA NZ targets (source: KBC and 2DII)

Graph 10.3.3.1: Oil sector results



Graph 10.3.3.2: Gas sector results



The projected changes in Oil production of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the Oil production should decrease to be in line with the IEA NZ or with the SDS targets, and even in the IEA STEPS and in the IEA CPS only a slight increase is in line with the target. By the end of the period analysed (end of year 2025), the KBC projected portfolio meets the IEA CPS target, while the industry performs worse and its Oil production does not meet the targets of any of the scenarios.

The projected changes in Gas production of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the fall in Gas production of the KBC portfolio is significant enough to perform better than all of the IEA scenarios' targets analysed as well as the projected changes in the Gas production of the industry.

APPENDIX: PACTA

Sector results

Power sector

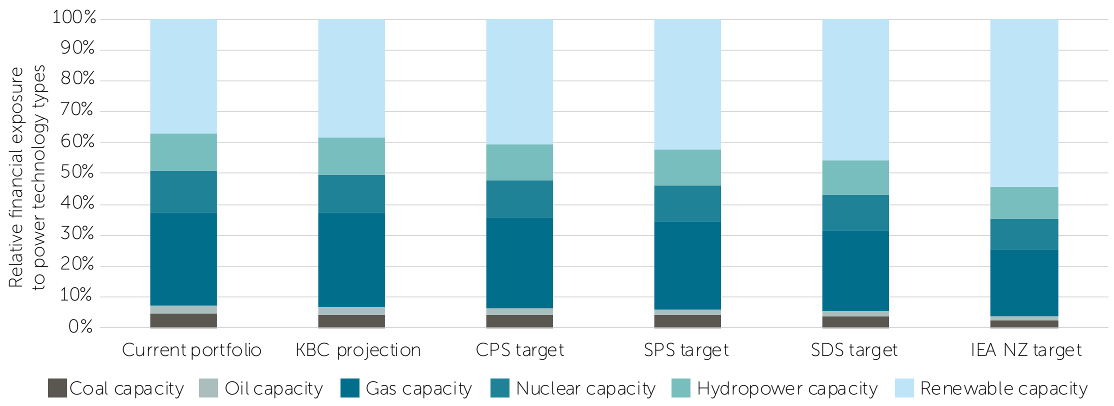
KBC Group's total granted exposure to the Power generation segment – i.e. the PACTA scope within the Power sector – is 2 796 m EUR, which is only marginally higher than the 2 339 m EUR total granted exposure of last year. The power generation segment exposure found in scope of PACTA amounts to 2.31% of KBC Group's overall industrial loan book.

- 73 corporates (59 last year) in KBC Group's loan portfolio could be matched to Asset Resolutions' available physical asset-level data. KBC Group's total exposure to these 73 corporates represents 60.07% (1 680 m EUR) of KBC Group's Power generation sector exposure in scope of PACTA.
- In line with the PACTA model, the current electric capacity as well as newly installed capacity up to 2025 by fuel or technology type expressed in MW (e.g., renewables and gas) is used for the assets mapped to physical production in the Power sector.
- The technology mix analysis (Graph 10.3.4) outlines the portfolio's relative financial exposure to low-carbon (renewable, nuclear and hydraulic power generation) and high-carbon (coal, oil and gas-fired power generation) power technologies. It shows what proportion of the portfolio is exposed to the transition risk associated with high-carbon technologies, and suggests a slight underweight in changes in renewable electric capacity and a slight overweight in changes in installed fossil fuel-fired capacity in terms of alignment with the IEA SDS.
- The volume trajectories (Graph 10.3.5) show that changes in volume production of renewables capacity are increasing, but not sufficiently strong to be in line with the targets set out in the IEA SDS scenario. KBC Group's ambition and the target share of renewables in the total energy credit portfolio (65% by 2030) will have a positive impact on financial allocation to volume production of renewables capacity. Apart from coal-fired electricity production, where the decline is very clear and driven by KBC's decision to restrict the financing of coal-related activities, the reduction in other fossil fuel-based electricity production remains stable over the projected five-year period, although this is in line with the less steep transition paths of these fuel types. As part of the strategic white papers on energy, KBC will continue to monitor progress on other fossil fuel types.

Graph 10.3.4: Power sector technology mix results

KBC current portfolio, KBC projected portfolio, IEA CPS, IEA STEPS, IEA SDS and IEA NZ targets, capacity profile weighted by loan size (source: KBC and 2DII)

The technology mix of the KBC current (1st bar) and projected portfolio (2nd bar) in the Power sector are compared with the technology mixes which are in line with the targets of the IEA CPS (3rd bar), IEA STEPS (4th bar), IEA SDS (5th bar) and IEA NZ (6th bar) scenarios respectively.

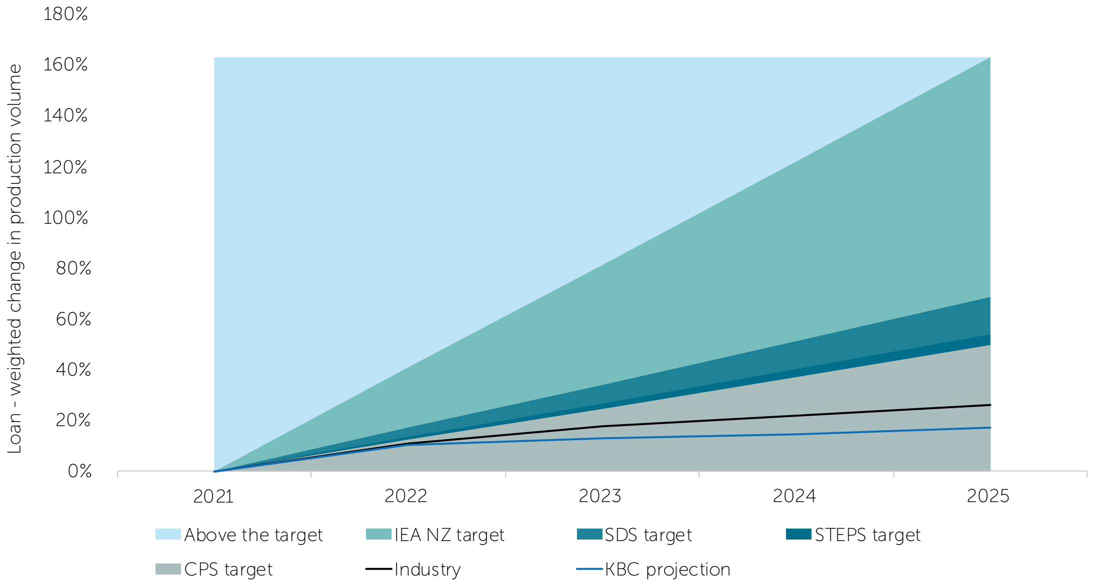


APPENDIX: PACTA

Sector results

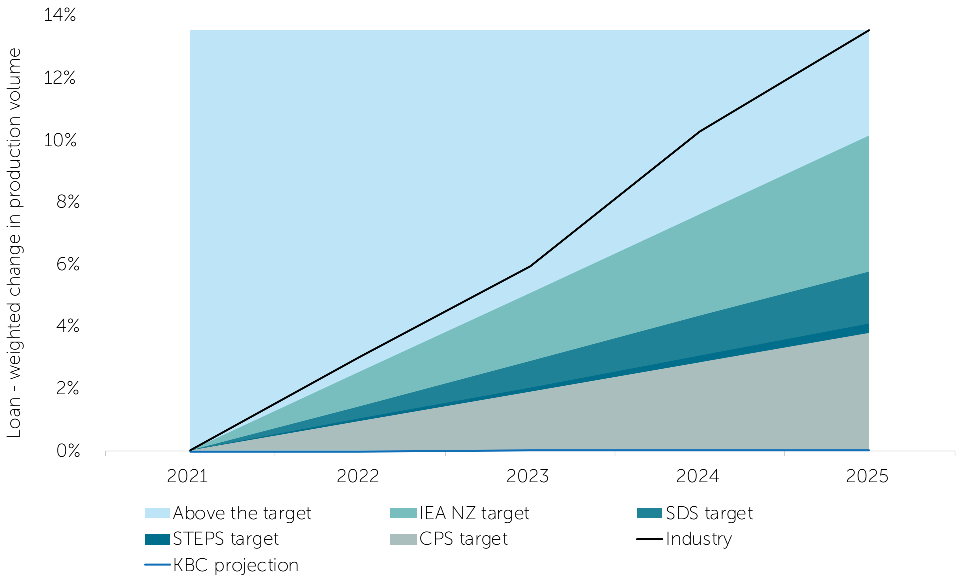
Graph 10.3.5: Power sector results in production volume trajectories, weighted by loan size (source: KBC and 2DII)
Projected industry evolution, KBC projected portfolio, IEA CPS, IEA STEPS, IEA SDS and IEA NZ targets (source: KBC and 2DII)

Graph 10.3.5.1: Renewable production volume trajectories – weighted by loan size (source: KBC and 2DII)



The projected changes in Renewable power capacity of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the increase in Renewable power capacity should be higher to meet the targets of the ambitious IEA SDS scenarios. Unfortunately the KBC projection is not complete as not all Renewable power exposures could be matched to physical assets.

Graph 10.3.5.2: Hydropower production volume trajectories, weighted by loan – size (source: KBC and 2DII)

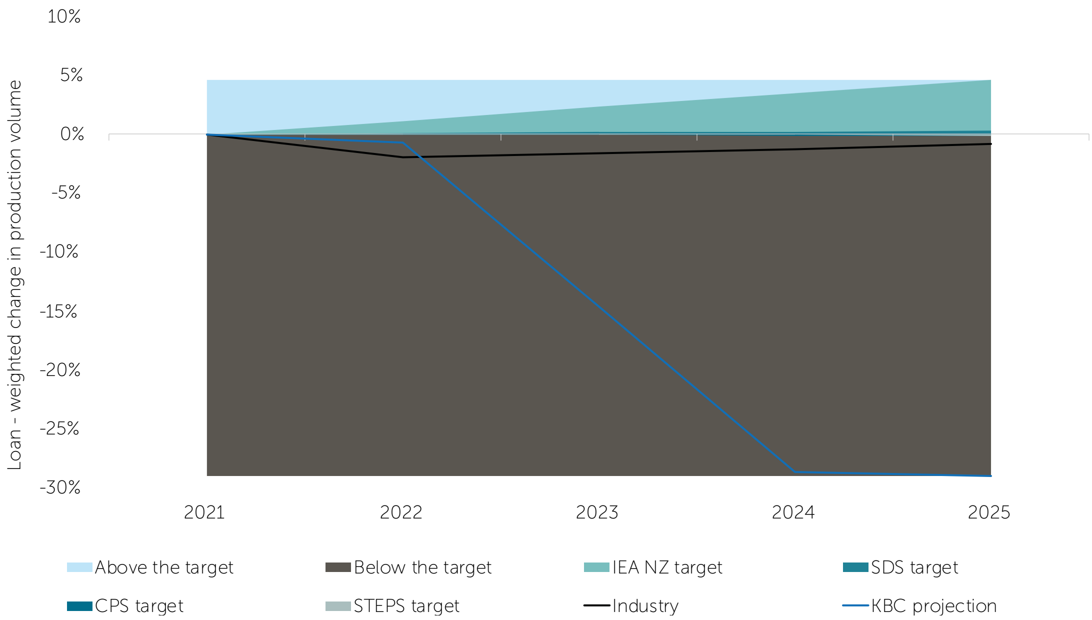


The projected changes in Hydropower capacity of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the Hydropower capacity does not increase sufficiently to meet the targets of the ambitious IEA scenarios. In most of KBC Group's home countries the deployment of additional large-scale hydropower capacity is difficult, in amongst other factors owing to challenges in the areas of public support, land use and impact on environment and biodiversity.

APPENDIX: PACTA

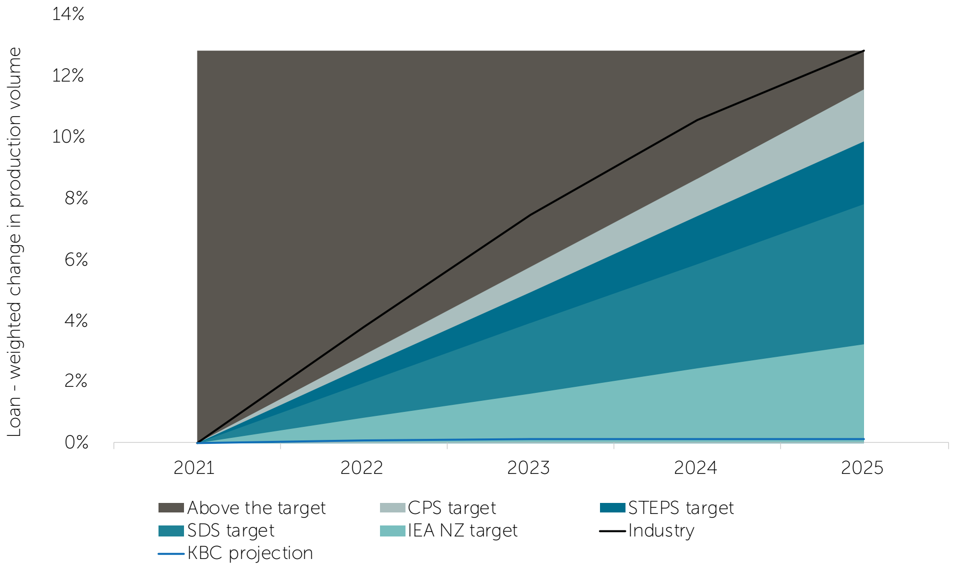
Sector results

Graph 10.3.5.3: Nuclear production volume trajectories, weighted by loan – size (source: KBC and 2DII)



The projected changes in Nuclear power capacity of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows a very significant fall in Nuclear power capacity. While the Industry's Nuclear power capacity is also seen to diminish, neither the industry nor the KBC portfolio is in line with the targets of any IEA scenarios.

Graph 10.3.5.4: Gas production volume trajectories, weighted by loan – size (source: KBC and 2DII)

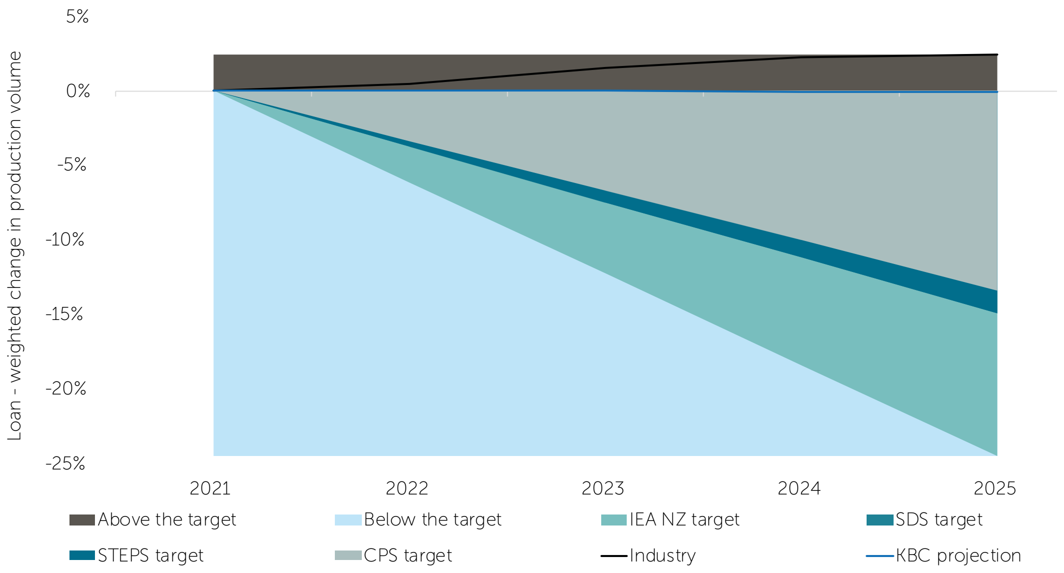


The projected changes in Gas capacity of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory currently shows no increase in Gas capacity, which is why the analysed portfolio in this respect not only outperforms the overall industry, but is also in line with the targets of the IEA NZ scenario.

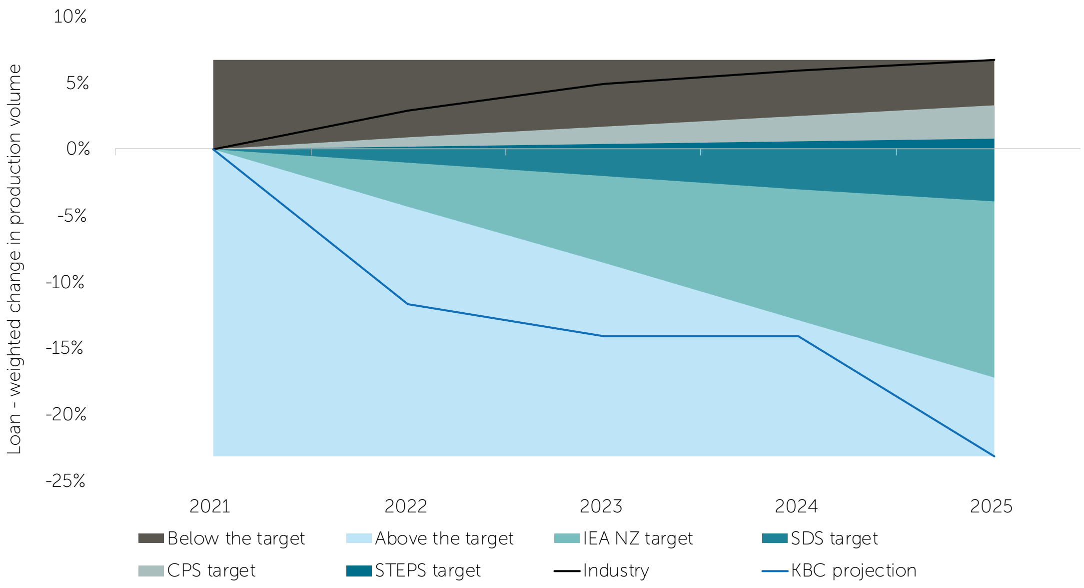
APPENDIX: PACTA

Sector results

Graph 10.3.5.5: Oil production volume trajectories – weighted by loan size (source: KBC and 2DII)



Graph 10.3.5.6: Coal production volume trajectories – weighted by loan size (source: KBC and 2DII)



The projected changes in Oil power capacity volumes of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that, in contrast to industry, the KBC portfolio's Oil capacity remains flat, which is not in line with the targets of the ambitious IEA scenarios.

The projected changes in Coal capacity of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the fall in Coal capacity outperforms the targets of all IEA scenarios.

APPENDIX: PACTA

Sector results

Automotive sector

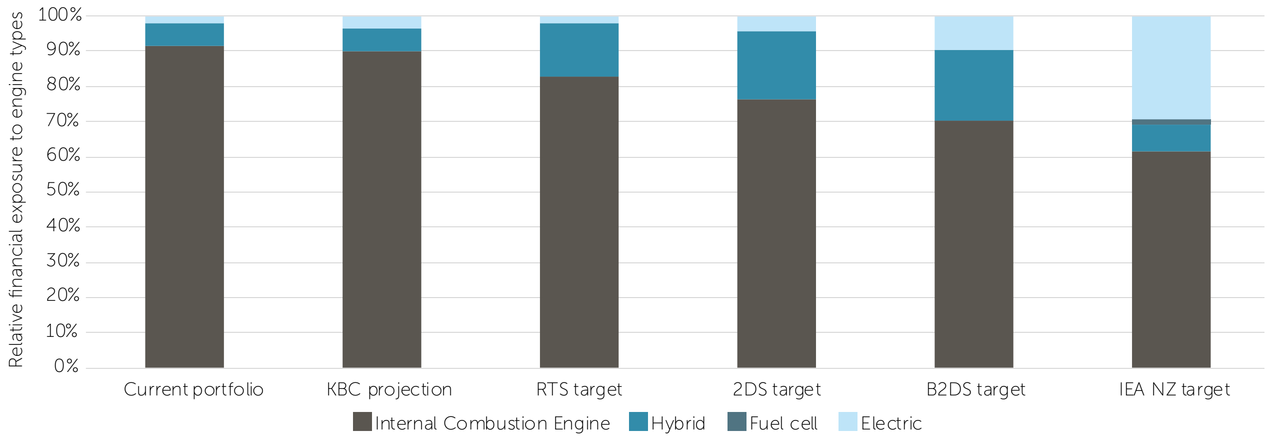
KBC Group's total granted exposure to the Car manufacturers segment – i.e. the PACTA scope within the Automotive sector – is 156 m EUR, which is less[7] than the 254 m EUR total granted exposure of last year. When comparing this figure to KBC Group's overall industrial loan book, it is safe to conclude that KBC is only minimally (0.13%) exposed to this important climate-relevant activity.

- 13 corporates (12 last year) in KBC Group's loan portfolio could be matched to Asset Resolutions' available physical asset-level data. KBC Group's total exposure to these 13 corporates represents 86.84% (135 m EUR) of KBC Group's car manufacturers exposure in scope of PACTA.
- In line with the PACTA model, the current production capacity as well as new production capacity up to 2025 of light-duty/passenger cars expressed in annual volume by technology (ICE (Internal Combustion Engine), Hybrid, Fuel cell or Electric vehicles) is used for the assets mapped to physical production in the Automotive sector.
- The results show that growth in electric passenger car production is in line with the IEA 2DS but that the reduction in ICE car production needed to meet the IEA 2DS is lacking (see Graph 10.3.7). Graph 10.3.6 shows a clear overweight of ICE production and underweight of Hybrid and Electric passenger car production in terms of alignment with the IEA 2DS. This observation is in line with the forecast global production profile of the automotive corporate economy.

Graph 10.3.6: Automotive sector technology mix results

KBC current portfolio, KBC projected portfolio, IEA RTS, IEA 2DS, IEA B2DS and IEA NZ targets, capacity profile weighted by loan size (source: KBC and 2DII)

The technology mix of the KBC current (1st bar) and projected portfolio (2nd bar) in the Automotive sector are compared with the technology mixes which are in line with the targets of the IEA CPS (3rd bar), IEA STEPS (4th bar), IEA SDS (5th bar) and IEA NZ (6th bar) scenarios respectively. There is no clear shift identifiable in the KBC projected portfolio from the Internal Combustion Engine (ICE) car production towards other types, in contrast to the targets of the IEA scenarios analysed. The underlying reason for this evolution can be found in the fact that car manufacturers are only just starting to expand their Electric and Hybrid car production volumes against a backdrop of continuously increasing ICE car production volumes.



[7] The fall is primarily the result of the refinements applied to the definition of the sector scopes this year (i.e. exclusion of the so-called borderline segments).

APPENDIX: PACTA

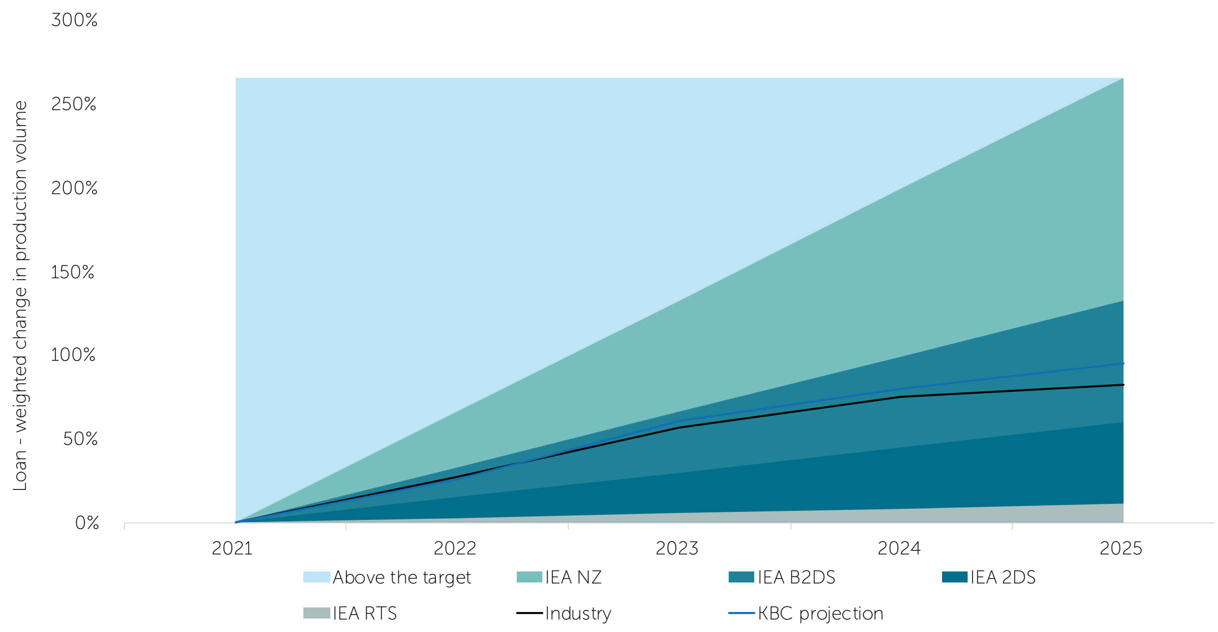
Sector results

Graphs 10.3.7: Automotive sector results in production volume trajectories, weighted by loan size (source: KBC and 2DII)

Projected industry evolution, KBC projected portfolio, IEA RTS, IEA 2DS, IEA B2DS and IEA NZ targets (source: KBC and 2DII)

Graph 10.3.7.1: Electric car production volume trajectories, weighted by loan size (source: KBC and 2DII)

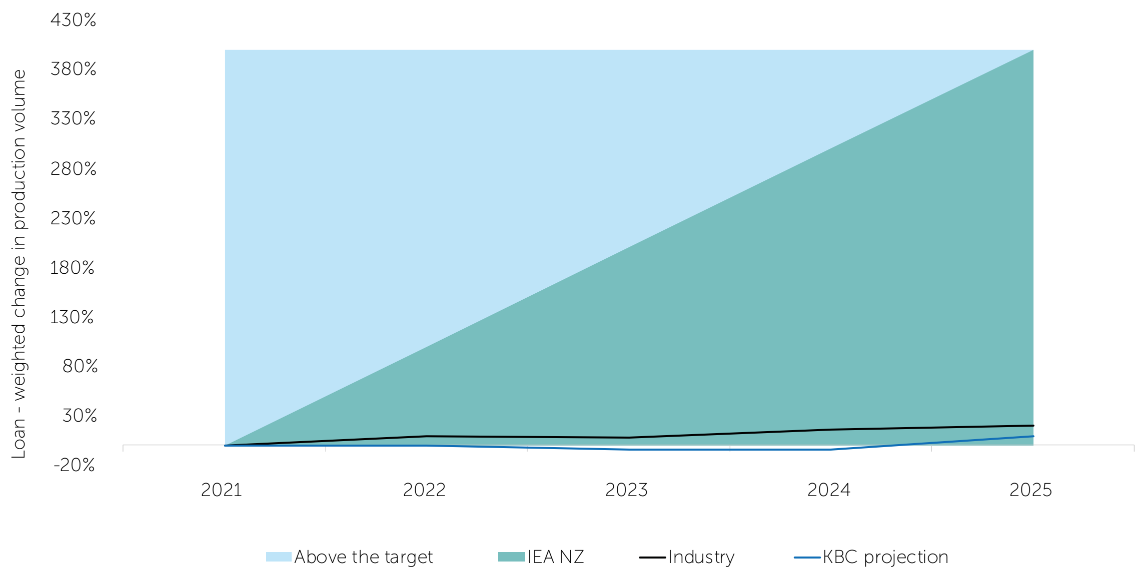
Projected industry evolution, KBC projected portfolio, IEA RTS, IEA 2DS, IEA B2DS and IEA NZ targets (source: KBC and 2DII)



The projected changes in Electric car production volumes of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the increase in Electric car production is in line with the targets of the IEA B2DS scenario, and somewhat overperforms the industry.

Graph 10.3.7.2: Fuel cell car production volume trajectories, weighted by loan size (source: KBC and 2DII)

Projected industry evolution, KBC projected portfolio, IEA RTS, IEA 2DS, IEA B2DS and IEA NZ targets (source: KBC and 2DII)



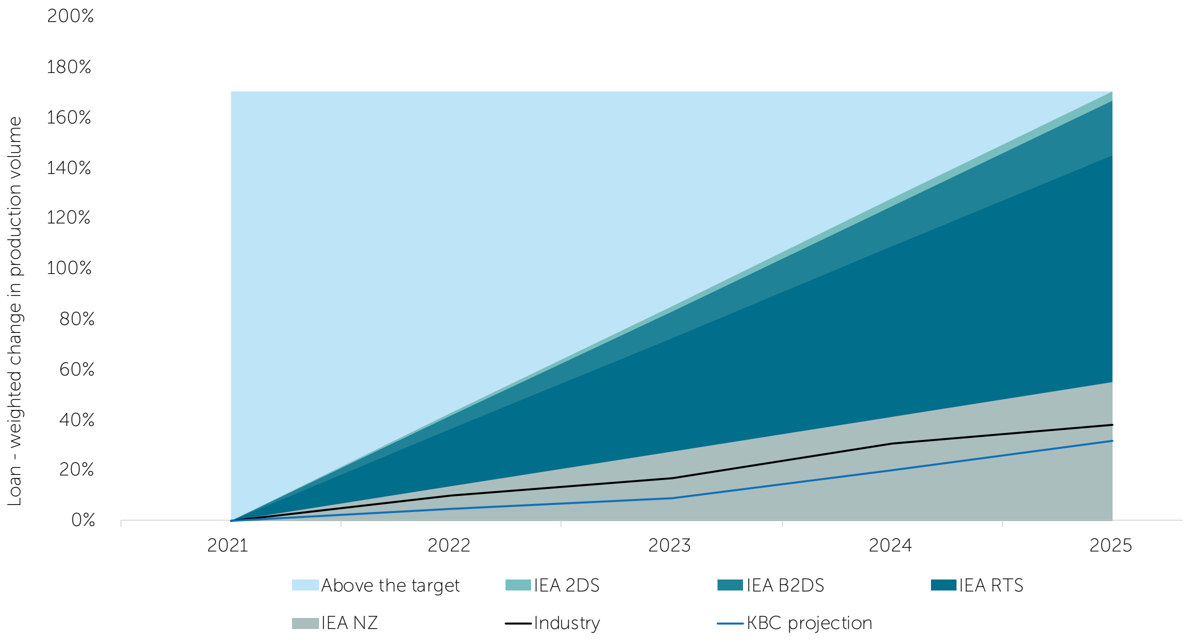
The projected changes in Fuel cell car production volumes of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA NZ scenario (please note that Fuel cell car production targets are not present in any of the other IEA scenarios analysed). The volume trajectory shows that the increase in Fuel cell car production is currently negligible both in the KBC portfolio as well as in the industry.

APPENDIX: PACTA

Sector results

Graph 10.3.7.3: Hybrid car production volume trajectories, weighted by loan size (source: KBC and 2DII)

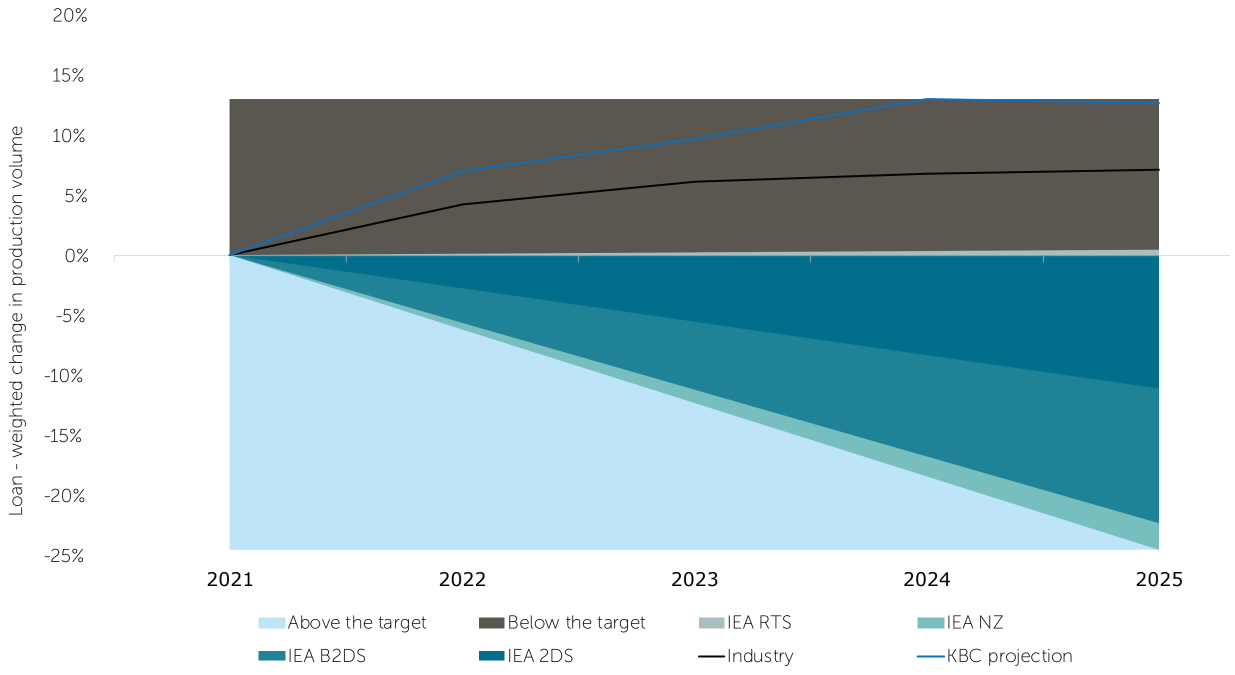
Projected industry evolution, KBC projected portfolio, IEA RTS, IEA 2DS, IEA B2DS and IEA NZ targets (source: KBC and 2DII)



The projected changes in Hybrid car production volumes of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that although the KBC portfolio's increase in Hybrid car production slightly underperforms the industry, it is in line with the targets of the IEA NZ scenario.

Graph 10.3.7.4: ICE car production volume trajectories, weighted by loan size (source: KBC and 2DII)

Projected industry evolution, KBC projected portfolio, IEA RTS, IEA 2DS, IEA B2DS and IEA NZ targets (source: KBC and 2DII)



The projected changes in ICE car production volumes of the KBC portfolio (blue line) are compared with those of the industry (black line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that although a fall in ICE car production volumes would be necessary to be in line with any on the IEA scenarios' targets, both the KBC portfolio projection and that of the industry show a volume increase instead.

APPENDIX: PACTA

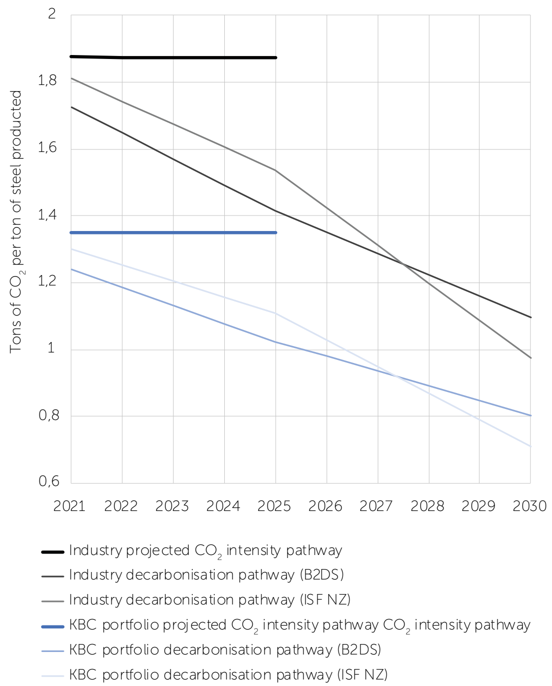
Sector results

Steel sector

KBC Group's total granted exposure to the Steel manufacturing segment – i.e. the PACTA scope within the Steel sector – is 433 m EUR, which is less[8] than the 747 m EUR total granted exposure of last year. When comparing this figure to KBC Group's overall industrial loan book, it is safe to conclude that KBC is only minimally (0.36%) exposed to this important climate-relevant activity.

- 20 corporates (18 last year) in KBC Group's loan portfolio could be matched to Asset Resolutions' available physical asset-level data. KBC Group's total exposure to these 20 corporates represents 98.78% (427 m EUR) of KBC Group's steel manufacturing exposure in scope of PACTA.
- In line with the PACTA model, the emission intensity per tonne of steel produced up to 2025 calculated by combining information on tonnes of steel produced per year with applicable emission factors of the steel plants operated is used for the assets mapped to physical production in the Steel sector.
- The Steel production sector largely depends on the development of breakthrough technologies (e.g., Carbon Capture and Storage (CCS), Carbon Capture and Utilisation, and hydrogen as a reducing agent) to drastically reduce CO_2 emissions. The deployment of each of these technologies will need to play a role in cutting CO_2 emissions and will also enable KBC to further reduce CO_2 emissions through the targeted financing of such technologies once they are proven and stable.

Graph 10.3.8: Steel sector results – emission intensities (weighted by loan size for KBC projections). (Source: KBC and 2DII)



Since companies in the Steel manufacturing segment are currently likely to implement the same or very similar technology, the "Industry projected CO_2 intensity pathway" and the "KBC portfolio projected CO_2 intensity pathway" are believed to remain unchanged over the next few years, which is why they are presented as horizontal lines in Graph 8. However, as the KBC portfolio's current CO_2 intensity is well below that of the industry, the pathway that the companies in KBC's loan portfolio need to follow is less steep in any of the used climate risk scenarios (ISF NZ and B2DS) than the industry average.

[8] The fall is primarily the result of the refinements applied to the definition of the sector scopes this year (i.e. exclusion of the so-called borderline segments).

APPENDIX: PACTA

Sector results

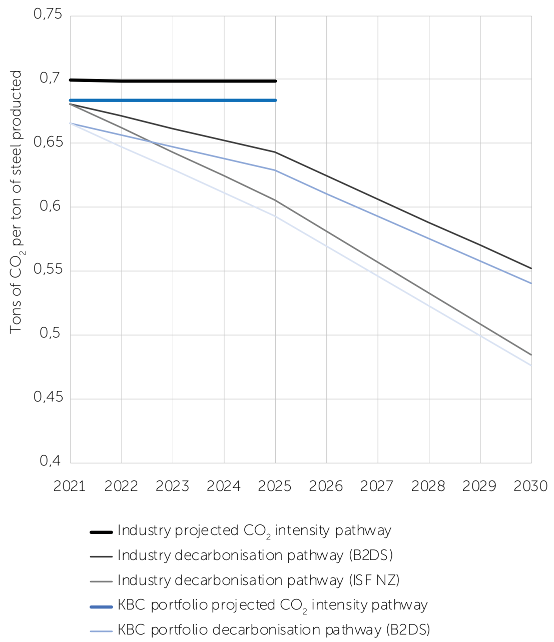
Cement sector

KBC Group's total granted exposure to the Cement manufacturing segment – i.e. the PACTA scope within the Cement sector – is 120 m EUR, which is significantly less[9] than the 420 m EUR total granted exposure of last year. When comparing this figure to KBC Group's overall industrial loan book, it is safe to conclude that KBC is only minimally (0.10%) exposed to this important climate-relevant activity:

- 10 corporates (11 last year) in KBC Group's loan portfolio could be matched to Asset Resolutions' available physical asset-level data. KBC Group's total exposure to these 10 corporates represents 99.50% (119 m EUR) of KBC Group's cement manufacturing exposure in scope of PACTA.
- 75.58% (90 m EUR) of the exposure in scope is concentrated in one company group, which means that the results below are particularly influenced by this group's investment plans. KBC will shortly discuss the sustainability plans and targets with the largest companies operating in the Cement producing sector.
- In line with the PACTA model, the emission intensity per tonne of cement produced up to 2025 calculated by combining information on tonnes of cement produced per year with applicable emission factors of the cement plants operated is used for the assets mapped to physical production in the Cement sector.

Driving down CO_2 emissions while producing enough cement to meet demand is reportedly very challenging for the industry. Key strategies for lowering carbon emissions in cement production include improving energy efficiency, switching to lower-carbon fuels, promoting material efficiency and advancing process and technology innovations such as CCS, for which the IEA stipulates that commercialisation will be needed by 2030 to achieve decarbonisation in line with the Paris Agreement. KBC will be able to help reduce CO_2 emissions through the targeted financing of such technologies once they are proven and stable.

Graph 10.3.9: Cement sector results – emission intensities (weighted by loan size for KBC projections). (Source: KBC and 2DII)



Since companies in the Cement manufacturing segment are currently likely to implement the same or very similar technology, the "Industry projected CO2 intensity pathway" and the "KBC portfolio projected CO2 intensity pathway" are believed to remain unchanged over the next few years, which is why they are presented as horizontal lines in Graph 9. However, as the KBC portfolio's current CO2 intensity is somewhat below that of the industry, the pathway that the companies in KBC's loan portfolio need to follow is less steep in any of the used climate risk scenarios (ISF NZ and B2DS) than the industry average.

[9] The fall is primarily the result of the refinements applied to the definition of the sector scopes this year (i.e. exclusion of the so-called borderline segments).

APPENDIX: PACTA

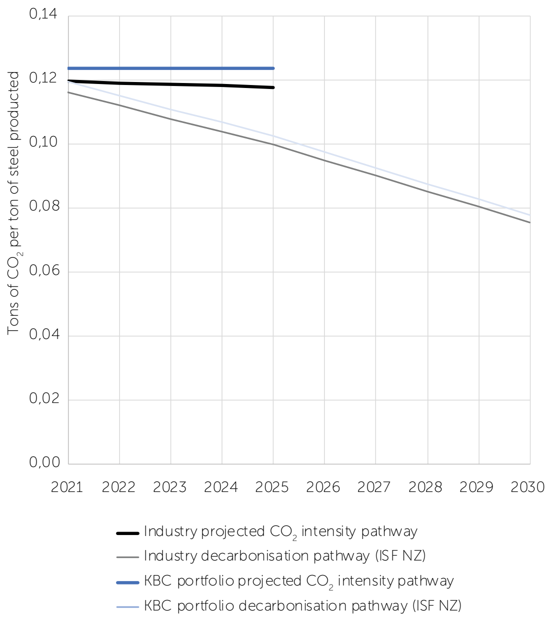
Sector results

Aviation sector

KBC Group's total granted exposure to the Aviation operator segment – i.e. the PACTA scope within the Aviation sector – is 57 m EUR (this sector was not included in the scope of PACTA last year). When comparing this figure to KBC Group's overall industrial loan book, it is safe to conclude that KBC is only minimally (0.05%) exposed to this important climate-relevant activity:

- 3 corporates in KBC Group's loan portfolio could be matched to Asset Resolutions' available physical asset-level data. KBC Group's total exposure to these 3 corporates represents 8.06% (5 m EUR) of KBC Group's aviation exposure in scope of PACTA, therefore the results may not be representative for the whole Aviation sector exposures of KBC Group. Please also note that this sector was not included in the scope of PACTA last year, which is why historical comparison is not possible either.
- 86.46% (4 m EUR) of the exposure in scope is concentrated in one company group, which means that the results below are particularly influenced by this group's investment plans. However, in spite of the high proportion, the exposure amount in question is still limited.
- In line with the PACTA model, the emission intensity per passenger kilometre up to 2025 calculated by combining information on passenger kilometre per year with applicable emission factors of the aviation operators is used for the assets mapped to physical production in the Aviation sector.

Graph 10.3.10: Aviation sector results – emission intensities (weighted by loan size for KBC projections). (Source: KBC and 2DII)



As companies in the Aviation operator segment are currently likely to be characterised by the use of similar technologies, the "Industry projected CO_2 intensity pathway" and the "KBC portfolio projected CO_2 intensity pathway" are believed to remain unchanged over the next few years, which is why they are presented as horizontal lines in Graph 10.3.10. As the KBC portfolio's current CO_2 intensity is slightly above that of the industry, the pathway that the identified companies in KBC's Aviation sector loan portfolio need to follow is somewhat steeper than the pathway of the industry. However, as discussed above, the matching success rate in this sector is rather low (8.06%). Therefore the presented results may not be representative of the entire Aviation sector exposures of KBC Group.

APPENDIX: PACTA

Sector results

Shipping sector

KBC Group's total granted exposure to the Ship owners and operators segment – i.e. the PACTA scope within the Shipping sector – is 876 m EUR (this sector was not included in the scope of PACTA last year). When comparing this figure to KBC Group's overall industrial loan book, it is safe to conclude that KBC exposure to this important climate-relevant sector is limited (0.72%). As the PACTA methodology for the Shipping sector is still under development, no exposure could be matched to Asset Resolution' available physical asset-level data. We will follow up on the developments in the PACTA methodology and will publish the updated results in the KBC Sustainability Reports over the years ahead.

APPENDIX: TRUCOST DATA AND METHODOLOGY

Investment products offered by KBC Asset Management

As part of KBC Group, KBC Asset Management (KBC AM) is keen to step up the transparency on the climate impact of its investments by contributing to sustainability reporting ahead of the upcoming legal obligations imposed by the EU, known as the SFDR (Sustainable Finance Disclosure Regulation).

In the 2020 KBC Sustainability Report, KBC AM reported on a pilot project detailing greenhouse gas (GHG) emissions of aggregated investment products offered by KBC AM. In 2021, KBC AM leveraged the methodology and data set of Trucost by integrating data into our trading systems and by extending the coverage to include corporate and sovereign bonds. The findings presented here 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. Below is a description of the methodology and the assumptions adopted.

Scope

The first step in this pilot project for KBC AM is to map the aggregated GHG emissions of investment products offered to our clients and to translate them into a weighted average carbon intensity score weighted according to our investment exposures. We have chosen to use carbon intensity for both corporates and sovereigns as this is a normalised number which should be less dependent on economic cycles. Carbon Intensity is the recommended metric by the TCFD (Task force on Climate-related Financial Disclosures).

In scope of this exercise are all open investment products managed by KBC Asset Management, including both investment products for retail and institutional clients and representing more than 90% of invested assets at KBC AM. Structured products are not in scope.

For the purpose of this calculation, an investment product only considers direct investments in equities, corporate bonds and government-linked bonds, also representing more than 90% of investments of the products in scope. Indirect investments via Third Party Funds (TPF), cash and exposures via derivatives are not taken into account. To calculate a weighted average carbon intensity, we rebase weights of instruments for which we have data to 100%. We do not mix carbon intensities of corporates and sovereigns as they use a different definition as detailed below, which is why the two carbon intensities are reported separately.

Corporates

In this exercise, we focus on Scope 1 (direct emissions) and Scope 2 emissions such as emissions of purchased electricity from companies as these data points are the most reliable at this point in time. In this context, we should point out that SFDR also requires us to include Scope 3 emissions only after one year of the initial implementation of the regulation. Concerns over Scope 3 emissions are discussed at the end of this part where the methodology is explained. The Scope 1 and 2 emissions in tonnes of CO_2e are then normalised by the revenue in million US dollar of the assessed companies to obtain a carbon intensity.

For all equity and corporate bonds investments of the portfolios in scope we had a coverage of 91% based on our positions in 2021. This is comparable to global benchmark coverage rates which are slightly higher for equity indices and slightly lower for corporate bond indices as expected.

The aggregated numbers in Table 10.4.1 are measured in tonnes of CO_2 equivalent emissions per million US dollar of revenues, source S&P Trucost Limited © Trucost (2021). Please note that calculated figures for indices do not necessarily coincide with disclosures of index providers as there is dependency on the data provider used.

Table 10.4.1: Weighted average carbon intensity of all equity and corporate bonds investments

Weighted average carbon intensity Scope 1 + Scope 2 (CO_2e per million US dollar of revenues)	2021	2020	2019
All KBC funds	95	115	157
MSCI ACWI (benchmark)	161	166	203
Iboxx EUR corporates (benchmark)	162	166	180

APPENDIX: TRUCOST DATA AND METHODOLOGY

Investment products offered by KBC Asset Management

We are cautious in drawing conclusions based on these numbers as it is difficult to interpret a calculated number on a large set of portfolios. Which is why we would confine this discussion to a couple of observations:

- We first observed a fall in carbon intensity since end 2019 both in our investment solutions and in broad benchmarks. It is unclear however how this fall is influenced by the effects of the pandemic containment measures put in place globally since 2020.
- We note that our funds and mandates have lower carbon intensity measures than broad benchmarks such as MSCI ACW and Iboxx EUR corporates. A comparison is difficult as not all funds can be compared to a broad benchmark. A more detailed analysis of an individual fund compared to a suitable benchmark is needed to arrive at a fair assessment. However, we would like to stress that since 2020 all of KBC's active investment products have excluded companies involved in the extraction of thermal coal and the generation of electricity based on thermal coal (25% threshold end 2020 and 0% threshold since mid 2021), which may partly explain the more favourable carbon intensity.

If we confine ourselves to socially responsible investment (SRI) funds, we see more or less the same trends with carbon intensities substantially lower than broad benchmarks (see Table 10.4.2). The 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. For more information on our approach to SRI and KBC's SRI methodologies, which focus besides environmental also on important social and governance related items, please refer to the 'Socially responsible investments on behalf of our clients' section of the report.

Table 10.4.2: Weighted average carbon intensity of SRI funds

Weighted average carbon intensity Scope 1 + Scope 2 (CO_2e per million US dollar of revenues)	2021	2020	2019
KBC SRI funds	95	121	117
MSCI ACWI (benchmark)	161	166	203
Iboxx EUR corporates (benchmark)	162	166	180

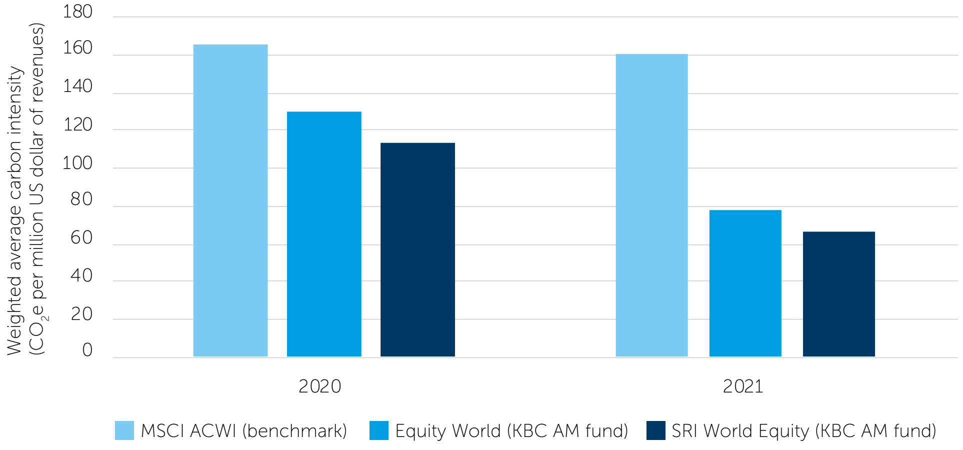
Finally, we observed that the aggregated SRI funds do not necessarily have lower carbon intensity figures than the whole set of investment solutions that we offer at KBC Asset Management. We would like to point out that this is not necessarily a fair comparison as investment characteristics such as regional and sectoral allocations are not necessarily the same between both groups.

To conduct a proper analysis, we should compare at individual fund level rather than at portfolio level. This is illustrated in Graph 10.4.1 and Graph 10.4.2, which respectively show the weighted average carbon intensity of a KBC AM diversified equity SRI fund (Graph 10.4.1) and a KBC AM euro corporate bond SRI fund (Graph 10.4.2) compared to a similar conventional fund with KBC AM and a benchmark (MSCI ACWI). When comparing at individual fund level, the SRI fund does have a lower carbon intensity figure than a similar conventional fund for both equity and corporate bond funds. In both cases, in 2021 the SRI fund was approximately 10% lower in weighted average carbon intensity versus its conventional peer which can be explained by the fact that all SRI funds and mandates apply an even stricter exclusion of fossil fuels (excluding the extraction and burning of fossil fuels for the generation of electricity).

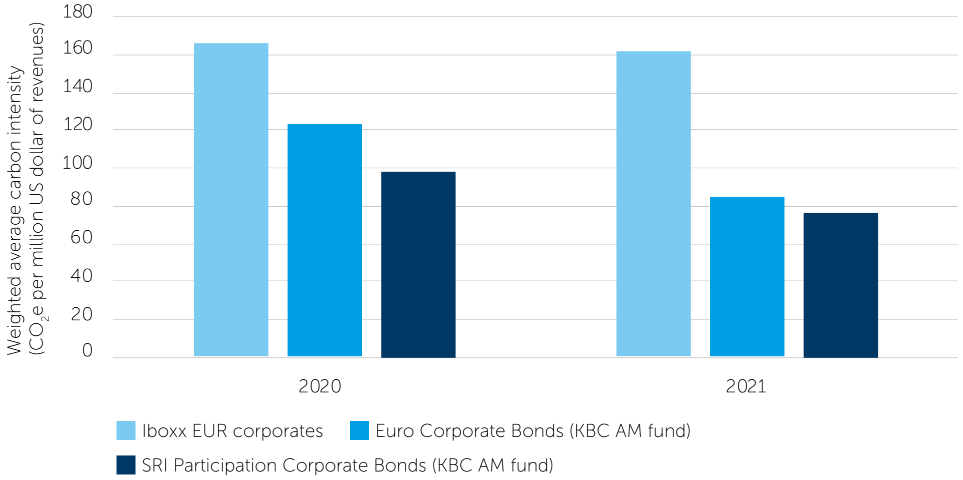
APPENDIX: TRUCOST DATA AND METHODOLOGY

Investment products offered by KBC Asset Management

Graph 10.4.1: Weighted average carbon intensity (CO_2e 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_2e per million US dollar of revenues) of a diversified euro corporate bond: comparison of an SRI fund and a similar conventional fund



Sovereigns

Financial instruments in scope of this assessment are bonds from sovereigns and sub sovereigns where for the latter the data from the parent country are used. Coverage rates based on our positions as per end Q3 2021 exceed 95%. Supranationals are not yet in scope of the assessment. We intend to include supranationals in 2022.

In this first assessment, we have chosen the broader approach of a government as a regulator of all economic activities in its territory. We measure territorial emissions and emissions related to imports and subsequently normalised by the Gross Domestic Product (GDP) expressed in million USD based on data from the International Monetary Fund (IMF) in order to obtain a carbon intensity.

We then proceed analogously as for companies whereby we calculate a weighted average. The weights again are normalised with respect to positions that have issuer data. The results in tonnes of CO_2 equivalent emissions per million US dollar of GDP, source S&P Trucost Limited © Trucost (2021), are shown in the following table.

Table 10.4.3: Weighted average carbon intensity of total sovereigns bonds portfolio

Weighted average carbon intensity sovereigns (CO_2e per million US dollar of revenues)	2021	2020	2019
KBC all funds	511	504	504
KBC SRI funds	376	406	414
JPM EMU govies	347	375	378

APPENDIX: TRUCOST DATA AND METHODOLOGY

Investment products offered by KBC Asset Management

Also for sovereigns we are careful to draw conclusions based on the numbers shown in Table 10.4.3. as it is difficult to interpret a calculated number on a large set of portfolios. We made the following initial observations:

- Compared to companies, the carbon intensities of sovereigns appear to be more stable over time both for our portfolios and the EMU (Economic and Monetary Union) benchmark.
- The carbon intensities of our aggregated portfolios are higher than the EMU benchmark as expected due to the exposure to emerging market sovereigns and to developed market sovereigns with higher carbon intensity scores such as Belgium, the Netherlands, Germany and the US.

Taking a look at some individual portfolios (see Table 10.4.4), we notice that our SRI euro bond fund which invests in euro sovereign bonds has a carbon intensity that is in line with its benchmark JP Morgan EMU investment grade government bonds and the SRI High Interest fund is lower than its benchmark which is composed of two thirds JPM Government Bond Index global and one third JPM Government Bond Index Emerging Markets. The latter can be explained by the fact that no investments are made in high emitting emerging market sovereigns as a consequence of our SRI screening. We would like to repeat that firm conclusions are premature as long as the supranationals are not taken into account.

Table 10.4.4: Weighted average carbon intensity of individual sovereigns bond portfolios

Weighted average carbon intensity sovereigns (CO_2e per million US dollar of revenues)	2021	2020	2019
KBC SRI Euro Bonds	346	388	397
KBC SRI High Interest	490	520	381
JPM EMU govies	347	375	378
High interest benchmark govies	625	627	653

Conclusion

It is clear that companies and governments will need to reduce their CO_2 emissions over the years and decades ahead in order to limit global warming to below 2°C. KBC Asset Management encourages companies to do so by engaging, i.e. interacting with investee companies to discuss specific concerns, and applies strict exclusion criteria related to fossil fuels.

Conventional funds have divested from thermal coal in 2020 and SRI funds from fossil fuels since 2019. More details on our exclusion polices and their scope can be found in the following documents on the commercial website: General exclusion policies for conventional and socially responsible investment funds and Exclusion policies for socially responsible investment funds.

In 2020, KBC AM joined the investor initiative Climate Action 100+ and will use the assessment of companies on the Net-Zero Company benchmark of the Climate Action 100+ to monitor developments and potentially take further action via its Proxy Voting and Engagement Committee in 2022.

More details on investee engagement and the Climate Action 100+ can be found in the 'Socially responsible investments on behalf of our clients' part of this report.

Own investments of KBC Insurance

Given that the largest part of the equity portfolio and corporate bonds portfolio is held by KBC Insurance NV and this specific portfolio is managed by KBC AM, a first pilot assessment of the carbon intensity of investments was performed on this portfolio in 2021. All investments of KBC Insurance NV represent 89% of the total investments of KBC Insurance [1] and the equity and bonds portfolio represents 85% of total investments of KBC Insurance NV (or 75% of the total investments of KBC Insurance). It is not expected that the carbon intensity of the portfolios of the other insurance entities is significantly different as they have similar investment profiles (compliance with the same updated KBC investment policy). The assessment is fully aligned with the methodology of KBC AM. At the end of this appendix, you will find a detailed description of the use of the Trucost data and the methodology, including the challenges and uncertainties that come with Trucost.

We calculated the weighted average carbon intensity in million US dollars of revenues of the listed equity, government and corporate bond portfolios at year-end 2019, year-end 2020 and as of 30 September 2021 and compared the results with the carbon intensity of the benchmarks of these 3 asset classes. The benchmarks used are common in the market but do not necessarily correspond to the benchmarks we use for our investments. For corporates, we limit the scope of the analysis to Scope 1 and 2 emissions, as concerns currently still exist with regard to the data quality of Scope 3 emissions.

Portfolios in scope of the assessment are government bonds, other public bonds, corporate and financial bonds and equities, which jointly represent a market value of 17.2 billion euros as of 30 September 2021.

Equities

For public equities, the carbon intensity of the equity portfolio in 2021, representing a market value of 1.2 bn EUR, stands at around 77% of the MSCI World AC benchmark and already significantly fell by -38% since 2019 (-27% in 2020 and -15% in 2021). Trucost data cover more than 95% of all equities in portfolio.

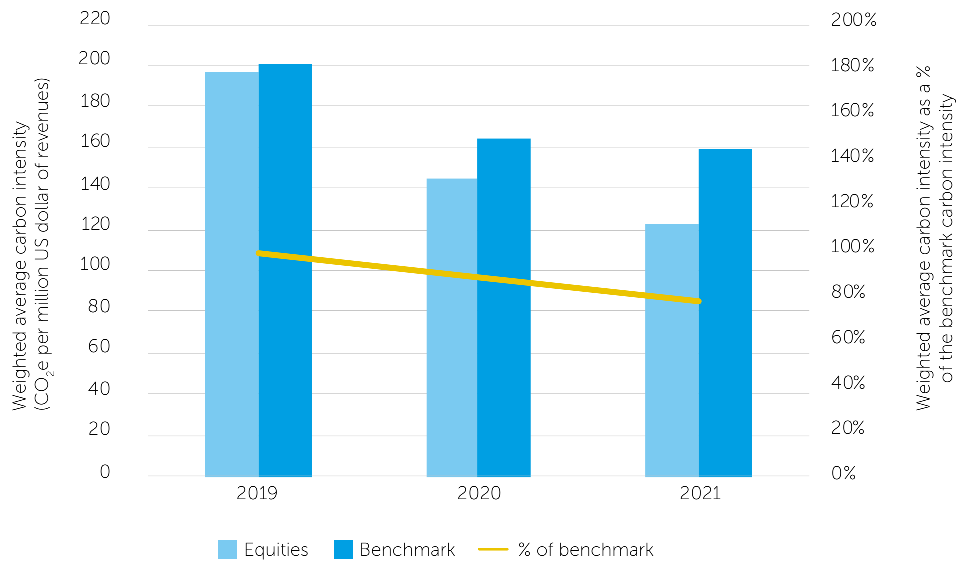
Graph 10.4.3 shows the weighted average carbon intensity as an absolute measure on the left axis (CO_2e emissions per million US dollars of revenues) and as a percentage compared to the benchmark carbon intensity on the right axis (carbon intensity portfolio/carbon intensity benchmark). The carbon intensity of the equity portfolio at the end of 2019 was comparable with the MSCI World AC benchmark but has fallen much faster than the fall of carbon intensity observed in the benchmark (a 38% fall is observed versus a 21% reduction in the benchmark). Although this new KBC investment policy, which adds supplementary exclusion criteria (see description above), formally applicable only as from 2021 and full compliance is only expected by the end of 2022, a large part of the transition has already been accomplished. It has mainly been compliance with the exclusion policy related to fossil fuels, including thermal coal related activities, that had the biggest impact on carbon intensity levels (full divestment of the energy sector within the benchmark).

[1] KBC Insurance Group representing all insurance entities within the KBC Group (KBC Verzekeringen, Group Re, ČSOB Poisťovňa CZ, ČSOB Poisťovňa SK, DZI and K&H Insurance)

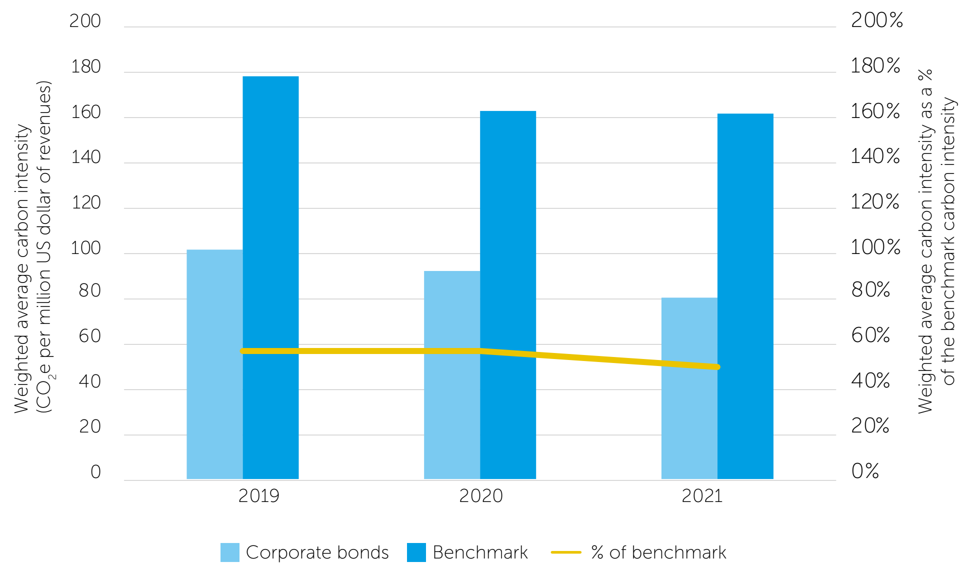
APPENDIX: TRUCOST DATA AND METHODOLOGY

Own investments of KBC Insurance

Graph 10.4.3: Weighted average carbon intensity of KBC Insurance NV's equity portfolio



Graph 10.4.4: Weighted average carbon intensity of KBC Insurance NV's corporate bond portfolio



Corporate bonds

As shown in Graph 10.4.4, the carbon intensity of the corporate bonds portfolio, which represents a market value of 5.3 bn EUR., stands at 50% of the Iboxx EUR Corporates benchmark in 2021 and declined by -20% since 2019, whereas the benchmark only declined by -8%. However, we should mention that only 55% of the corporate bond portfolio is covered by the Trucost data.

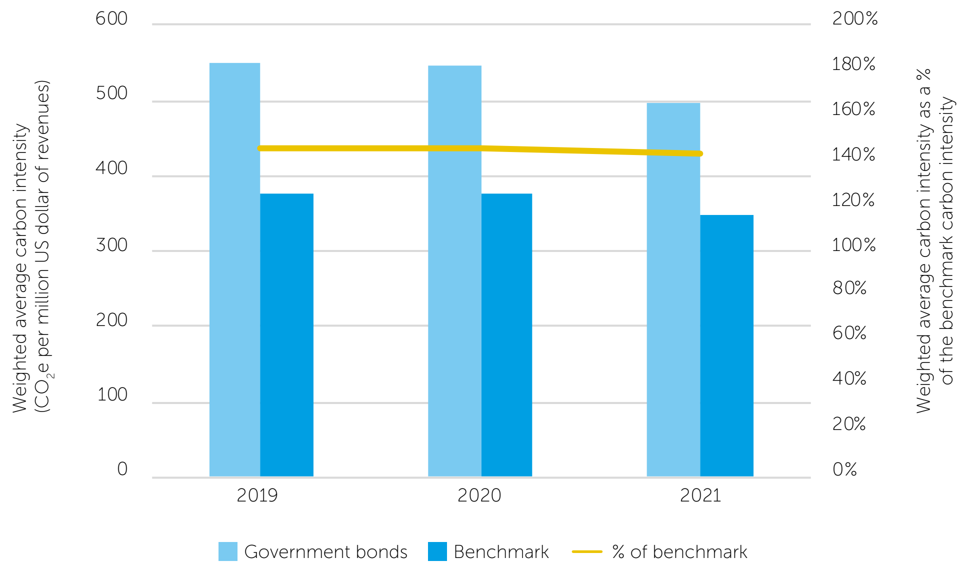
The portfolio has an overweight position on financials with a low carbon intensity compared to the benchmark. But the introduction of the additional exclusion criteria, especially relating to fossil fuels, has also resulted in a decrease (maturing with higher carbon intensity). Given the grandfathering principle and the generally short maturity profile of the bonds that do not meet the fossil fuel exclusion policy, it is expected that carbon intensity will further fall in the coming years. In addition, for some longer dated bonds we have commitment to selling the bonds within a 3-year time frame.

Own investments of KBC Insurance

Government bonds

The carbon intensity of the government bond portfolio, which represents a market value of 10.7 bn EUR, stands at 143% of the JPM EMU government bond benchmark and declined by -10% since 2019 (with a coverage of Trucost data close to 100%).

Graph 10.4.5: Weighted average carbon intensity of KBC Insurance NV's government bond portfolio



As a Belgian insurance company, KBC Insurance is traditionally overweighted in Belgian government bonds, including Flanders, Brussels and Wallonia (40% of the total government bonds portfolio). For these sub-sovereigns, the data from the parent country have been used. The very high carbon intensity score for Belgium fully explains the higher carbon intensity compared to the benchmark.

Investments of Pensioenfonds KBC

A first pilot assessment has been made on the carbon intensity of the investment portfolio of Pensioenfonds KBC, based on the Trucost data and methodology[2]. As the investment portfolio of the defined benefit portfolio is structured in a completely different way compared to the defined contribution portfolios, the analysis is broken down in two parts.

Defined Benefit portfolio[3]

Scope

Currently no methodology or reliable data are available for the unlisted asset classes so the focus of this exercise was on the listed equities and bonds, which account for approximately 87% of the portfolio. We calculated the weighted average carbon intensity of the listed equity, government and corporate bond fund portfolios at year-end 2019, year-end 2020 and as of 30 September 2021 and compared these to the carbon intensity of the benchmarks of these 3 asset classes. For corporates, we restricted the scope of the analysis to Scope 1 and 2 emissions, as currently many concerns continue to exist over the data quality of Scope 3 emissions. The defined benefit portfolio has about 2.3 bn EUR assets under management as of 30 September 2021. Table 10.4.5 provides an overview of the scope of our analysis.

Table 10.4.5: Scope of analysis defined benefit portfolio (DB)

Asset class	Asset manager	% of portfolio (as of 30 September 2021)	Scope 1	Scope 2	Scope 3
Equities	KBC AM	30	●	●	–
	TPF (third party funds)	4.5	●	●	–
Corporate bonds	KBC AM	31.75	●	●	–
Government bonds[1]	KBC AM	16.75	N/A	N/A	N/A
Private equity	TPF	2	–	–	–
Real assets	KBC AM	3.5	●	●	–
	TPF	11.5	–	–	–

●: in scope
–: out of scope
1 Scope 1, 2, 3 typology does not apply to government bonds

Equities

For public equities, the carbon intensity of the equity portfolio stands at around 60% of the MSCI World AC benchmark in 2021 and on average has been declining by -8.1% each year since 2019.

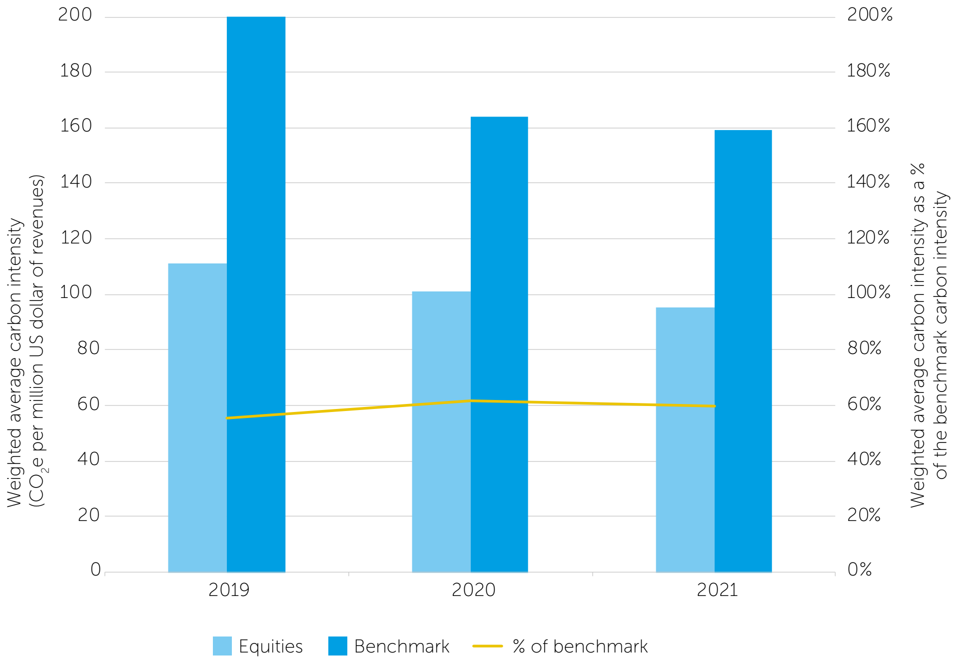
Graph 10.4.6 shows the carbon intensity as an absolute measure on the left axis (CO_2e emissions per million US dollars of revenues) and as a percentage compared to the benchmark carbon intensity on the right axis (carbon intensity portfolio/carbon intensity benchmark).

2 More information on the methodology can be found at the end of this section.
3 In a defined benefit pension plan (DB), employers fund and guarantee a specific retirement benefit amount for each participant.

APPENDIX: TRUCOST DATA AND METHODOLOGY

Investments of Pensioenfonds KBC

Graph 10.4.6: Weighted average carbon intensity of KBC Pensioenfonds' defined benefit equity portfolio

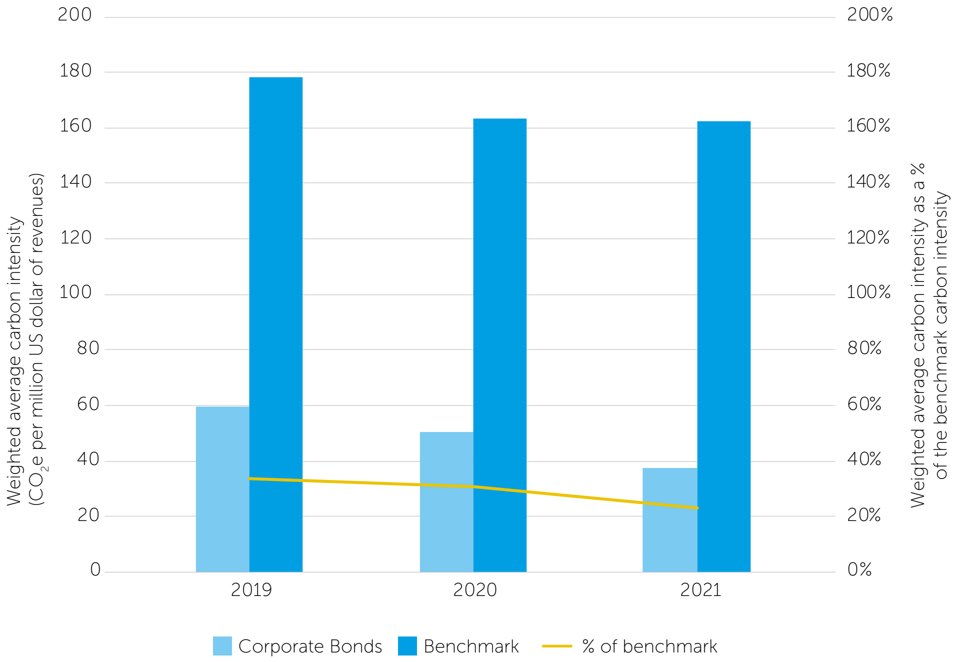


The benchmark equity portfolio had a sizeable decline in carbon intensity in 2021 due to a switch from 50% EMU/50% World ex-EMU to 100% MSCI World All Countries benchmark. It is true to say the EMU benchmark has a higher weight in traditional sectors such as energy, utilities and industrials. In 2021, the EMU bias was almost completely eliminated which resulted in a gain in carbon intensity levels.

Corporate bonds

In 2021, the carbon intensity of the corporate bond portfolio stands at 23% of the Iboxx EUR Corporates benchmark and on average has been declining by -21% each year since 2019.

Graph 10.4.7: Weighted average carbon intensity of KBC Pensioenfonds' defined benefit corporate bond portfolio



The lower carbon intensity may be attributed to the Best-in-Class overlay and to the sector allocation within the LDI (Liability-Driven Investment)[4] portfolio. For historical reasons, the LDI portfolio has an overweight position in financials with a low carbon intensity. Over the years ahead, the LDI portfolio will diversify into non-financial sectors which could cause a slight increase in the carbon intensity score for the corporate bonds portfolio.

[4] The primary goal of an LDI portfolio is to match the interest rate and inflation rate risk of the pension fund assets with that of current and future liabilities.

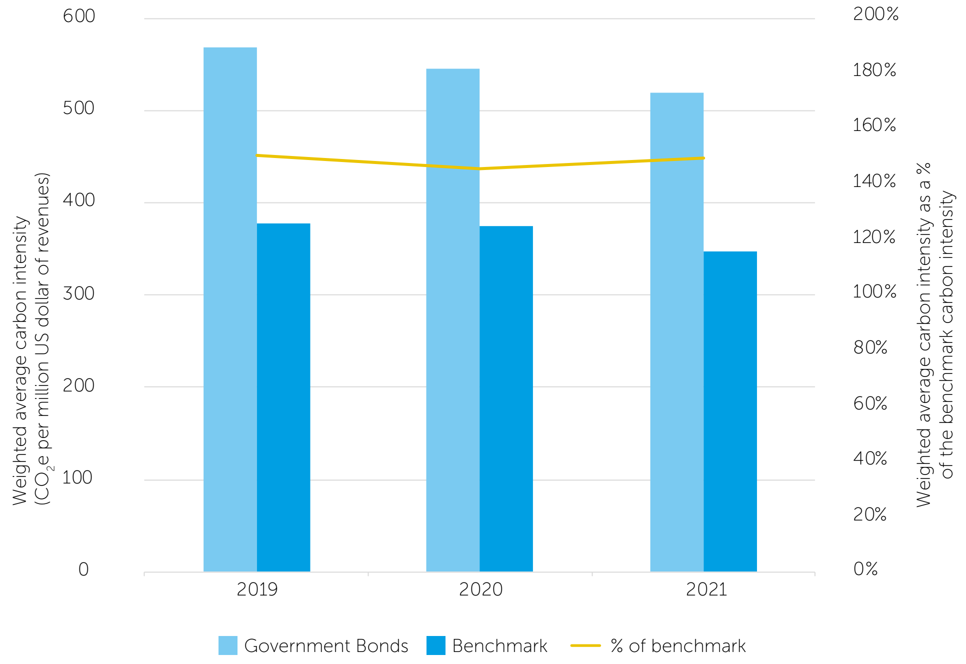
APPENDIX: TRUCOST DATA AND METHODOLOGY

Investments of Pensioenfonds KBC

Government bonds

The carbon intensity of the government bond portfolio stands at 149% of the JPM EMU government bond benchmark and on average has been declining by -5% each year since 2019.

Graph 10.4.8: Weighted average carbon intensity of KBC Pensioenfonds' defined benefit government bond portfolio



This high carbon intensity compared to benchmark is due to the bond themes in the portfolio (Emerging Market Bonds and High Interest Bonds) as well as some higher emitting government bonds in the LDI portfolio (Poland, Slovenia, Belgium, Netherlands, Austria). We consider the benchmark to be more representative for the long-term government bond portfolio, especially in case the yield curve would start to increase.

Investments of Pensioenfonds KBC

Defined Contribution portfolio[5]

Scope

Currently no methodology or reliable data are available for the unlisted asset classes so the focus of this exercise was on the listed equities and bonds invested with KBC Asset Management accounting for approximately 98% of the portfolio. The fundamental difference for the defined contribution (DC) portfolios are the floor protection investment products ("GFA"[6]) that account for approximately 60% of the portfolio. The composition of these portfolios is changed according to the distance to a certain floor value and the volatility in the market. Consequently, these portfolios can be seen to switch from 60% equities to 0% equities over a relatively short period of time. Of course, the carbon intensity footprint of the portfolio changes drastically as the asset allocation of these portfolios evolves. We have therefore assumed a neutral allocation of the GFA products (40% equities, 60% fixed income, 0% cash). The defined contribution portfolios (Plan B: employee contributions, Plan DC: employer contributions) have about 500 m EUR assets under management as of 30 September 2021. For the sake of clarity, please see an overview of the scope of our analysis in Table 10.4.6.

Table 10.4.6: Scope of analysis defined contribution portfolio

Asset class	Asset manager	% of portfolio (as of 30 September 2021)	Scope 1	Scope 2	Scope 3
Floor protection (GFA -neutral)	KBC AM	60	●	●	–
Equities	KBC AM	16	●	●	–
Corporate bonds	KBC AM	11	●	●	–
Government bonds[1]	KBC AM	11	N/A	N/A	N/A
Real assets	TPF	2	–	–	–

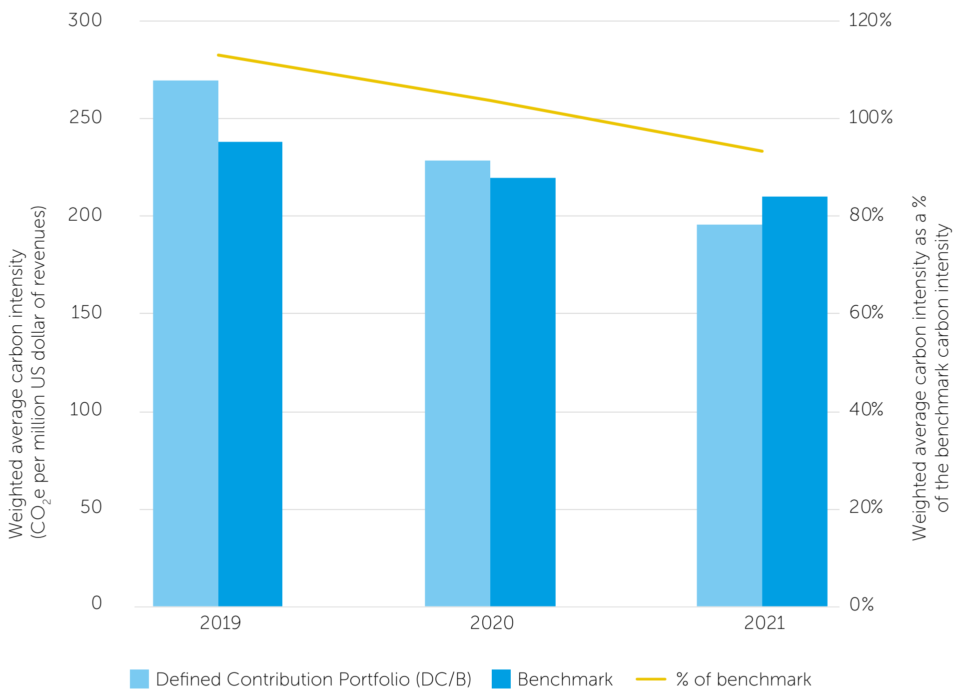
●: in scope
–: out of scope
[1] Scope 1, 2, 3 typology does not apply to government bonds

[5] In a defined contribution pension plan (DC), employers and/or employees fund individual accounts set up for participants. Benefits are based on the amounts credited to these accounts plus any net investment earnings on the money in the account. In defined contribution plans, future benefits fluctuate on the basis of investment earnings. Please note that in Belgium, employers are required by law to guarantee a 1.75% minimum annual return on employer-funded DC pension plans.

[6] Global Flexible Allocation

Results

Graph 10.4.9: Weighted average carbon intensity of KBC Pensioenfonds' defined contribution portfolio



Graph 10.4.9. shows that the defined contribution portfolios' carbon intensity is currently about 93% of the benchmark but has been falling from a relatively high level at an annual rate of 15.6% since 2019.

This rapid decrease was mainly due to the shift towards best-in-class screened floor protection products (from classic "GFA" to "SRI GFA") in 2020 and a decrease of the floor protection investment products from 100% to 60% of the investment portfolio implemented in early 2021.

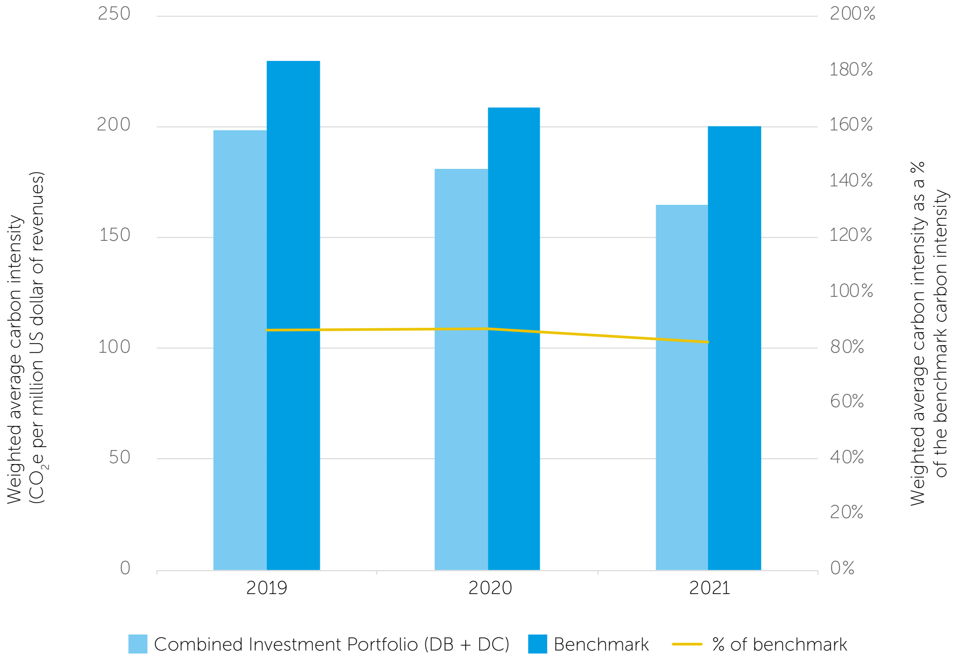
APPENDIX: TRUCOST DATA AND METHODOLOGY

Investments of Pensioenfonds KBC

Conclusion of first carbon intensity assessment

Although the carbon intensity measures of different asset classes and different portfolios are not directly comparable, we nevertheless calculated a weighted average across equities, corporate and government bonds to get an idea of the total carbon intensity of the listed investment portfolios of KBC Pensioenfonds.

Graph 10.4.10: Weighted average carbon intensity of KBC Pensioenfonds' combined investment portfolio (defined benefit and defined contribution portfolios)



The blended carbon intensity figure of the investment portfolio (omitting Scope 3 emissions) stands at approximately 85% of the benchmark while showing a 9.6% annual decrease in carbon intensity over 2021 compared to 2019.

As a pension fund with a long-term investment horizon, it is crucial for all our stakeholders that Pensioenfonds KBC appropriately assumes its role in society. One important way to achieve this is to embed ESG (environment, social and governance) considerations in every step of the investment process. A balanced ESG approach within the various investment building blocks should enable the portfolio to improve on carbon intensity, but other environmental topics such as biodiversity as well as social and governance related matters should not be left out of the equation either. Better data quality (especially on Scope 3 emissions) and more market standardisation (especially on private assets) will improve the monitoring process. This will allow us to define a more concrete path towards climate neutrality in 2050. We continue to closely follow up on the topic, in tandem with the various asset managers and other stakeholders with the aim of structuring our portfolio in an optimal way for our members as well as the plan sponsors whilst moving towards a climate neutral investment portfolio by 2050.

Trucost methodology further explained

Corporates

Trucost data are used to map carbon emissions to companies in our portfolios. The solutions of Trucost, a daughter of S&P, cover a wide range of companies. Data gathering at Trucost follows a 4-step approach:

1. Analyse financial and sector data
2. Map activities to more than 450 business activities to model a company's environmental impact by assigning portions of each company's revenues to one or more of these activities
3. Incorporate publicly disclosed data sources of companies to find usable environmental data
4. Company angagement and data verification

Alongside CO_2 emissions, other GHG emissions are being taken into account by using an appropriate conversion factor.

In this exercise, we focus on Scope 1 (direct emissions) and Scope 2 (emissions from amongst others purchased electricity) emissions of companies as these data points are the most reliable at this point in time. In this context, we should point out that SFDR also requires us to include Scope 3 emissions only after one year of the initial implementation of the regulation. We will elaborate on Scope 3 emissions in the next part. The Scope 1 and 2 emissions in tonnes of CO_2 equivalent emissions are then normalised by the revenue in million US dollar of the assessed companies.

For equity investments we link directly to the issuer data of that company whereas for corporate bond investments we use numbers from the ultimate parent company if no direct link is available. In doing so, we obtain satisfying coverage levels. For all equity and corporate bonds investments of the portfolios of KBC Asset Management in scope for instance, we had a coverage of 91% based on our positions at the end of Q3 2021. This is comparable to global benchmark coverage rates which are slightly higher for equity indices and slightly lower for corporate bond indices as expected.

We noticed a considerable time lag in linking positions of end Q3 2021 to emission data. Approximately 40% of inputs were based on 2020 emission data of issuers. The timing of update depends on the update process of our data provider, which in turn depends on the level of disclosures of the companies. In this exercise we have chosen to use the latest data available, which means that for more than half of corporates, the Q3 assessment will be based on 2019 numbers.

In order to get a feel of the development of carbon intensity numbers, we reconstructed a history since 2019. In order to do so, we had to make an assumption as to which data would be available at that time. For companies for which 2020 emission data were available in Q3, we used 2019 data whereas for the others we used 2018 data to assess end of 2020 positions. We repeated this procedure to assess positions at year-end 2019.

APPENDIX: TRUCOST DATA AND METHODOLOGY

Trucost methodology further explained

Corporates and Scope 3 emissions

Scope 3 emissions are a broad set of indirect emissions related to companies. These cover both upstream activities related to the supply chain as downstream activities such as the use of sold products. We acknowledge that including Scope 3 emissions in the carbon intensity of a company provides the most accurate and complete assessment but taking a more in-depth look at the numbers raised some concerns which we will discuss below.

The first thing we wish to point out is data availability. Disclosures from companies are very limited. Figures from our data provider show that less than 10% of companies in their scope provide a full disclosure of Scope 3 downstream emissions.

Table 10.4.7: CO_2e downstream Scope 3 disclosure in Trucost database: breakdown based on method of calculation or estimation

Carbon disclosure Scope 3 downstream	Percentage
Derived from previous year	3%
Estimate based on partial data disclosure in CDP	7%
Estimate derived from production data	33%
Estimated data derived from other sources	49%
Exact Value from CDP	9%

Secondly, we would point out that including Scope 3 downstream only for companies that disclose makes no sense as, in a lot of industries, this will dominate total emissions. Opting to include all Scope 3 emissions means relying on some form of estimation. As shown in Table 10.4.7., these estimations from our data provider are directly linked to partial company disclosures for another 10% of companies. This means that for more than 80% of companies we are dependent on estimation methods.

As a consequence, we identified the following concerns:

- Model risk. This is not only related to the estimation methods of our data provider but is inherently a problem for Scope 3 as companies too need to make assumptions to be able to disclose Scope 3 emissions. They have no direct control over these emissions. In our view, the problem is most prominent in the use of sold products. A product of factors, each containing uncertainties, could lead to a result with a large degree of uncertainty.
- Restatement risk. Increased disclosure of companies, companies reviewing assumptions of calculations of Scope 3 emissions or data providers using updated estimation methods could lead to a (drastic) change of reported Scope 3 emissions. This effect can be large as Scope 3 emissions dominate total emissions in a lot of industries.
- Outlier dependency. When trying to perform a first assessment of Scope 3 data emissions, we noticed that some companies are outliers in the data set even relative to their most direct peers and we lack reassurance of comparability. Including these numbers could have a large impact on some funds, especially the more concentrated funds.
- Avoided emissions not taken into account. Omitting these avoided emissions, sometimes called Scope 4 emissions, from the assessment of a company may produce strange effects. For instance, a company that manufactures a more energy efficient product could see its Scope 3 downstream emissions rise if this innovation leads to increased sales. Another typical example would be a manufacturer of insulation materials.

Finally, there is the well-known issue of double counting. If one of our investment funds invests in both a company and its supplier for instance, the direct emissions of the supplier will also be added to the Scope 3 upstream emission of the first company.

Moreover, we note that the EU SFDR which will guide asset managers in ESG disclosures going forward has been delayed from its initial application date of 1 January 2022 and allows disclosure of Scope 3 emissions one year later than Scope 1 and 2 emissions. KBC Asset Management will monitor the development of Scope 3 disclosures.

Trucost methodology further explained

Methodology sovereigns

To assess sovereigns we also use data from Trucost to calculate carbon intensities. The coverage of countries by Trucost is even higher than for corporates since our investment solutions typically do not invest – or only to a very limited extent – in sovereign-related bonds of countries where the data are not complete. Coverage rates exceed 95%.

Financial instruments in scope of this assessment are bonds from sovereigns and sub-sovereigns where for the latter, the data from the parent country are used. Supranationals are not yet in scope of the assessment. We intend to include supranationals in 2022.

First, let us discuss how to treat a government. One could see the government as separate from the private sector and households, whereby its emissions are simply those generated by the public sector. Under this approach, the emissions of a national government would principally result from its consumption of goods and services to deliver public services and defence. For example, it would include emissions from energy used in public buildings (Scopes 1 and 2) and embodied in the goods and services of the supply chain (Scope 3 upstream) or the consumption of products (Scope 3 downstream). This is much like any other economic agent, such as corporations. An alternative approach is to quantify a country's emissions more broadly by considering all emissions generated within its territorial boundaries. In that case, the entire economy becomes the unit of analysis, with its own emissions making up its direct emissions, and indirect emissions would include those of its imports from other nations. This is consistent with the scope of a government's regulatory oversight and impact, which is not limited to the activities of central government and public services. Please note that for companies, when including Scope 3 emissions, this inherently means that there is a form of double counting as exports of one country are counted again as imports of another country. For export-led countries however, correcting for exports would ignore a large amount of emissions related to the production of products that are consumed in other countries whereas these governments can still influence the production process through environmental policies. We therefore consider this broader definition as the best-available measure of an economy's dependence on carbon-intensive industries, which in turn contribute to taxes and wages of this economy and also considers private households' emissions which, at least partly, come under the responsibility of governments.

In this first assessment, we have chosen the wider approach of a government as a regulator of all economic activities inside its territory. We measure territorial emissions and emissions related to imports. Territorial emissions of a country consider all economic activities within a country, including land use, land use change and forestry, as reported by PRIMAP. The PRIMAP data set combines several published data sets to create a comprehensive set of greenhouse gas emission pathways. To these territorial emissions we then add direct and indirect imports also based on the PRIMAP data set. The total emissions are then normalised by the Gross Domestic Product expressed in million USD based on data from IMF (International Monetary Fund).

We then proceed analogously for companies whereby we calculate a weighted average. The weights are again normalised with respect to positions that have issuer data.

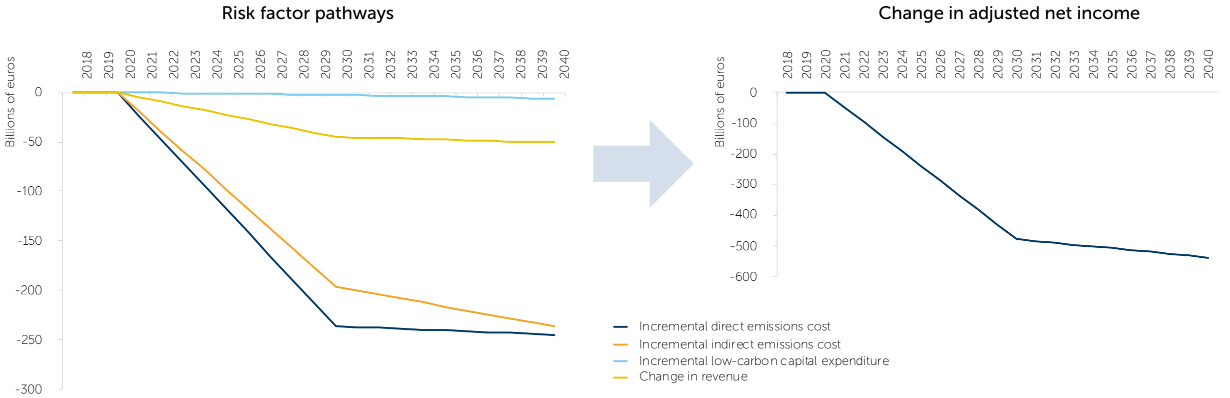
APPENDIX: UNEP FI CLIMATE-RELATED TRANSITION RISK ASSESSMENT

The UNEP FI methodology is forward looking by nature as it translates a given transition scenario into 4 main climate-relevant corporate credit risk drivers, so-called "Risk Factor Pathways" (RFPs)[1], being:

- direct emission costs (Scope 1),
- indirect emission costs (Scope 2 and Scope 3),
- low-carbon capital expenditures and
- changes in net revenues.

These RFPs are scenario, model, geography and sector-dependent and are either directly derived from the Integrated Assessment Model's (IAM) output or enriched. Graph 10.5.1. shows that these RFPs are combined to provide insight into the change in adjusted net income. For scenario generation, in our calculations we used the REMIND[2] model which is one of the most frequently cited IAMs.

Graph 10.5.1: Translation of the RFP's to change in adjusted net income



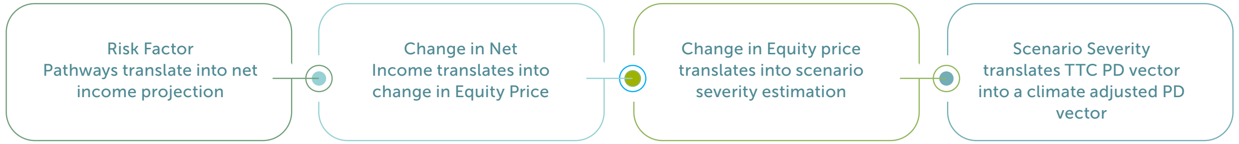
Each segment can have a different sensitivity to these RFPs (see Table 10.5.1). The original UNEP FI (Environmental Programme Finance Initiative) transition risk methodology was built on a very time-consuming and subjective assessment of the relative sensitivities of each industrial segment to these RFPs.

Table 10.5.1: Range of financial sensitivities in the UNEP FI Inspired Transition Risk Assessment

Climate-related transition risks						Potential climate-related opportunity
NO IMPACT	LOW	MODERATELY LOW	MODERATE	MODERATELY HIGH	HIGH	POSITIVE IMPACT

The Vasiček model-based alternative[3], which was developed by KBC's risk specialists, is intended to replace the initial method with an alternative portfolio impact calculation methodology, which – inspired by the Basel framework – transforms a through-the-cycle (TTC) probability of default (PD)[4] into a stressed PD.

Figure 10.5.1: Schematic overview of applying the Vasicek model based methodology



Similar to the initial UNEP FI methodology, the potential impact of the transition scenarios on Loss Given Default (LGD) is not taken into account, i.e. the impact assessment is restricted to the PD impact channel.

[1] The Risk Factor Pathways are meant to indicate the financial pressure a given sector is likely to experience during the transition towards a low-carbon economy, allowing us to assess the evolution of the climate-risk-related financial stress within the sector over the next decades.

[2] https://www.pik-potsdam.de/en/institute/departments/transformation-pathways/models/remind

[3] For the technical details of this methodology, please refer to pages 48-49 of UNEP FI's 'Pathways to Paris' report.

[4] PD is a risk score that provides an estimate of the likelihood that a counterparty will be unable to repay its loan obligations.

APPENDIX: UNEP FI CLIMATE-RELATED TRANSITION RISK ASSESSMENT

The Vasiček model-based methodology is built on the idea that the RFPs can be combined with traditional stress testing concepts, as they reflect a potential development of stress. The severity of the stress is reflected in the systematic risk driver, obtained from the projected evolution of net income (the joint impact of the 4 RFPs). More precisely, the change in net income under a given scenario ought to result in a change in a sector's equity price. Assessing this projected change within its historic context allowed us to estimate the severity of the scenarios.

The transition scenarios describe an evolving economic environment in a consistent manner across time, sectors and geographies. They provide detailed outputs to define sector-level exposure to transition impacts. However, they are not to be interpreted as predictions of the future but rather as explorations of what could/should happen (e.g. what-if, if-then projections). The following scenarios – generated by the REMIND model – have been selected for the current impact assessment:

- Immediate 1.5˚C: collective action is taken now to reduce emissions towards a 1.5˚C warming target (orderly transition);
- Immediate 2˚C: collective action is taken now to reduce emissions towards a 2˚C warming target (orderly transition);
- Low CDR5 1.5˚C: aggressive collective action begins now on a 1.5˚C pathway, with limited use of CO_2 removal technologies (disorderly transition);
- Low CDR 2˚C: aggressive collective action begins now on a 2˚C pathway, with limited use of CO_2 removal technologies (disorderly transition);
- Delayed 1.5˚C: aggressive collective action only begins after 2030 to align with a 1.5˚C target (disorderly transition);
- Delayed 2˚C: aggressive collective action only begins after 2030 to align with a 2˚C target (disorderly transition).

The scenarios selected were translated into projections of the 4 RFPs in order to help assess the financial implications on borrowers over a longer time period. Next, each scenario's outcome was compared to the baseline scenario[6] in order to draw conclusions from the projected differences in the sector's net income and corresponding impact on PD. Having obtained the stressed PD ratings, we finally estimated how the portfolio's Expected Loss (EL) could potentially change if these transition scenarios were to materialise.

The EL simulations are based on credible inputs, e.g. the models are sourced from the United Nations' Intergovernmental Panel on Climate Change (IPCC)-based NGFS (Network for Greening the Financial Sector) scenarios and their sectoral translations provided by UNEP FI. Nonetheless, the output figures should not be interpreted as expected realisations of climate change transition risks, but only as a trend of changes and as an indication of EL dynamics under the chosen transition scenarios and only in terms of "order of magnitude", rather than exact EL impact. The calculated figures are highly dependent on the selected scenarios' underlying assumptions and their severities, but the conclusions drawn from the results are well supported by expert opinion (credit advisors, sector experts as well as literature and other publications). Consequently, the focus should be on the interpretation, rather than on the numbers as such. The results of this exercise are used in our White Paper approach.

[5] Carbon Dioxide Removal (CDR) or "reverse/negative emissions technology" is a process in which greenhouse gas is removed from the atmosphere and sequestered for long periods of time.

[6] 1.5°C – Phase I: collective action is taken to reduce emissions towards a 1.5°C warming target (orderly transition), a scenario used in the first phase of the UNEP FI programme.

APPENDIX: CLIMADA RIVER FLOOD ASSESSMENT

Historical emissions will inevitably lead to a society that is increasingly faced with the adverse effects of a changing climate. As such, it is worthwhile to assess the vulnerability of KBC's home countries' economies to the potential physical damage resulting from adverse climate change. Contrary to the flood risk analysis on a specific mortgage portfolio which was performed in 2020 for example, this physical vulnerability analysis is conducted on a country scale. We first and foremost focused on the impact of future river floods.

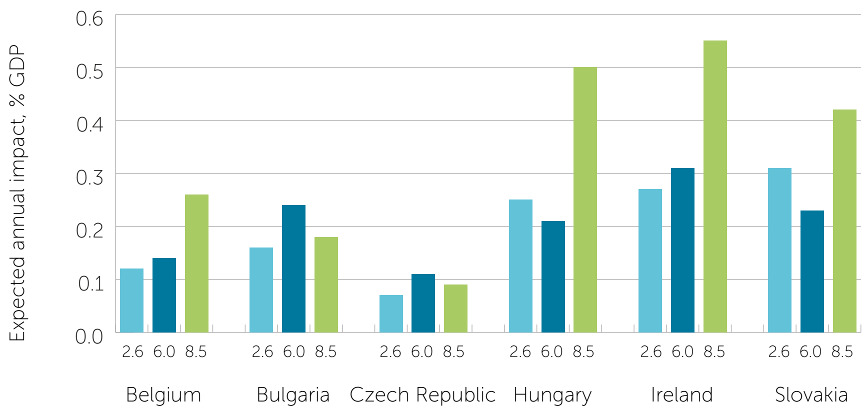
This vulnerability analysis was performed using Climada, an open-source natural catastrophe model developed and maintained by ETH Zurich, in line with the TCFD (Task Force on Climate-related Financial Disclosures). The RiverFlood module, which is publicly available, allows for scientific simulations regarding river floods to be read and analysed. Our starting point are the river flood projections that were simulated within the ISIMIP (Inter-Sectoral Impact model Intercomparison Project), covering the period from 2021 to 2100. Each projection is based on a specific combination composed of a global circulation model for the precipitation forecasts and a hydrological model for the ensuing river flood forecasts. The projections distinguish between three climate warming scenarios corresponding to Representative Concentration Pathways (RCPs) 2.6, 6.0, and 8.5.

The annual economic damage is calculated for a given country, RCP, and year as follows:

- Based on population and night light intensity indicators, Climada maps the country's nominal GDP geographically over the country's territory;
- The flood-affected areas are determined by the projected future river floods;
- The annual economic damage is estimated by combining the mapped economic activity and the projected flooded areas;
- The final expected annual impact for each country and each RCP is calculated by taking the average of the annual impacts across all global circulation and hydrological model combinations. This value is then expressed as a share of the country's nominal GDP (Gross Domestic Product).

Graph 10.6.1 illustrates the expected annual impact of river floods for each KBC home country and RCP scenario, expressed as a percentage of the country's nominal GDP for the 2021-2100 period.

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



The relationship between the RCP scenarios and the river floods is nonlinear with the exception of the two Atlantic countries, Belgium and Ireland. A potential explanation for this nonlinearity in the RCP 6.0 and/or 8.5 scenarios could be that within these adverse climate scenarios the average global circulation pattern is changed significantly and in such a way that certain regions on average will receive less precipitation and as a consequence have a lower risk of flood events. This analysis shows that, based on this specific set of flood projections, the most vulnerable home countries in relative terms to the size of their economy are Hungary, Ireland and Slovakia, while the Czech Republic is the least exposed country.

Other modules of the Climada package (e.g. drought) will be further explored, depending on the availability of applicable projections within the scientific community. Findings of this assessment have been shared with the Chief Economist Department to incorporate in future macro-economic guidance within KBC.

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Founding Signatory of: UNEP FINANCE INITIATIVE PRINCIPLES FOR RESPONSIBLE BANKING

KBC was the first endorser in the Belgian Market of the Principles for Responsible Banking (PRBs), to which we became a signatory in September 2019. The Principles clearly reflect the key elements of our vision on sustainability and reinforce our commitment to the Paris Climate Agreement and the United Nations Sustainable Development Goals (SDGs). Since then, KBC and more than 35 other banks have gone one further with the Collective Commitment to Climate Action. More details regarding this specific commitment are available in the 'Sustainable finance' section of this report. We have adopted the UNEP FI (United Nations Environment Programme Finance Initiative) Reporting and Self-Assessment template to communicate on our progress with the implementation of the Principles. Assurance of alignment to the Principles is not yet mandatory and hence not available at this point in time.

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
Principle 1: Alignment We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.		
1.1 Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.	KBC is an integrated bank-insurance group (banking, insurance and asset management), active in its core markets of Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia. We are also present to a limited extent in several other countries to support corporate clients from our core markets. We offer a wide range of loan, deposit, asset management, insurance and other financial products in virtually all our countries, where our focus is on private individuals, small and medium-sized enterprises (SMEs) and high-net-worth clients. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance. 63.4% of our total loan portfolio is allocated to our clients in the Belgium Business Unit, 18.8% in the Czech Republic Business Unit and 17.8% in our other core countries. Our corporate lending portfolio constitutes 46.8% and private lending portfolio 44.4% of our total loan portfolio. The main sectors in our corporate lending portfolio (as a percentage of the outstanding portfolio) are (1) services 10.3%, (2) distribution 7.5%, (3) real estate 6.1%, (4) building and construction 4.2%, (5) agriculture, fishing, farming 2.7%, (6) automotive 2.4%, (7) food production and beverages (food producers 1.8% and beverages 0.4%), (8) energy (electricity and oil 1.6%, gas and other fuels 0.6%), (9) metals 1.4% and (10) chemicals 1.3%. 93% of our lending to private individuals consists of mortgages which enables many households in our core markets to buy their own property.	KBC Group Sustainability Report 2021: p. 14-15, p. 19-25, p. 53-105 KBC Group Annual Report 2021: p. 8-11, p. 99-111
1.2 Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.	We have translated our sustainability strategy into three cornerstones: limiting our adverse impact on society, increasing our positive impact on society (focus on environmental responsibility, entrepreneurship, financial literacy and health and longevity) and encouraging responsible behaviour among our employees. Our strategy is aligned with the SDGs. We support the Climate Agreement and signed the Commitment to Climate Action. Our Sustainable Finance Programme has been set up as part of our sustainability strategy. The strategy was informed by our 2020 materiality and maturity assessment. We defined the needs and interests of our stakeholders and ensured that our strategy is aligned with current regulations and relevant frameworks and commitments. Given the European Union's focus on its climate ambitions through the EU Green Deal, we firmly believe that KBC's priority across our core countries is climate change. In a first phase, we analysed our loan portfolio while drawing up white papers on how to align our strategy with the EU's ambitions. Colleagues from our credit, business and other relevant departments in all our core markets were involved in the preparation of the white papers to take account of differences in the national situation or government policies.	

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
Principle 2: Impact and Target Setting We will work to continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to people and the environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.		
2.1 Impact Analysis: Show that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfils the following elements: a Scope: The bank's core business areas, products/services across the main geographies that the bank operates in as described under 1.1. have been considered in the scope of the analysis. b Scale of Exposure: In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies. c Context & Relevance: Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates. d Scale and intensity/salience of impact: In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services. (your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d)) Show that building on this analysis, the bank has: • Identified and disclosed its areas of most significant (potential) positive and negative impact • Identified strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts	UNEP FI Impact Identification and Assessment Tool In 2021, we conducted an impact assessment of our corporate loan portfolio in Belgium which represents a material part of our industrial loan portfolio (50%) and used the Impact Identification and Assessment Tool provided by UNEP FI. This tool allowed us to specify the impact areas with the highest negative and positive impacts considering the composition of KBC's corporate loan portfolio in Belgium and establish the country's needs. Our corporate loans were broken down in accordance with the NACE industry classification. Using the Portfolio Impact Identification and Assessment Tool, we found that the most relevant country-specific needs and challenges for Belgium are biodiversity and ecosystems, housing, climate and waste. The assessment of our corporate banking portfolio in Belgium identified the areas with the greatest positive and negative impact: climate, housing, waste, inclusive and healthy economies. The outcome of the impact assessment was supplemented with the results of our 2020 materiality assessment and challenged our strategy. Climate has been identified as our most significant negative impact and is the primary focus of our Sustainable Finance Programme. On biodiversity we already have policies in place and this and other environmental domains – including waste – will be covered in the further developments of the EU Taxonomy which we follow closely already. Hence KBC in Belgium has chosen to work towards a positive impact in the area of inclusive and healthy economies by supporting and encouraging female entrepreneurs. We will continue to mature and refine our impact assessment in the years to come. Inclusive and healthy economies as impact area KBC Belgium intends to play a critical role to stimulate inclusive and healthy economies and defined entrepreneurship as a focus domain where we can create added value. KBC also responds to the current societal need for equal opportunities for leadership and the effective and full participation of women at all levels of the economy and public life. In 2019, one third of all self-employed entrepreneurs in Belgium were women, which is very low compared to other European countries. Start it @KBC – our acceleration programme for start-ups – has been investing heavily in boosting female entrepreneurship for a number of years now. As the largest accelerator in the country, they believe that the new generation of entrepreneurs absolutely needs to be more balanced and more diverse than the previous generations. Strategic projects climate change To determine the impact of climate change on our lending portfolio, we adopted a sector approach (based on a number of factors, including the TCFD (Task Force on Climate-related Financial Disclosures recommendations). The main climate-sensitive industrial sectors and technologies we finance across our business in our core countries (as a percentage of the outstanding portfolio) are (1) real estate 6.1%, (2) building and construction 4.2%, (3) agriculture 2.7%, (4) automotive 2.4%, (5) food and beverage production 2.2%, (6) energy 2.2%, (7) metals 1.4% and (8) chemicals 1.3%. In our energy portfolio, the main technologies financed are solar and wind. In our portfolio of loans to private individuals, we have focused on mortgages and motor vehicles loans, together representing 96% of that portfolio. Operational leasing, which involves full service vehicle lease, amounted to 1.3 billion euros. According to our calculations the sectors and product lines assessed represent around two thirds of the greenhouse gas (GHG) emissions linked to our loan portfolio.	KBC Group Sustainability Report 2021: p. 53-105, p. 108 KBC Group Annual Report 2021: p. 8-11, p. 99-111

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
	Climate change as impact area To determine the scale and intensity of climate change as an area of impact, we continued in 2021 the strategic projects to deliver the white papers for the sectors (transportation, commercial real estate, chemicals, building and construction, metals, food production and agriculture) and product lines (car loans, car leasing and mortgage loans). We have also set up projects for insurance, advisory services, investment and other businesses. • Our total energy sector exposure stands at 2.2% of our total outstanding loan portfolio. To assess the GHG-intensity of our energy portfolio on climate change, we first took a look at our activities in the energy sector and their share of this portfolio per core country: (1) renewable energy and biofuels, (2) oil and gas, (3) nuclear and (4) coal. Regarding the positive impact associated with our energy portfolio, we have identified business opportunities relating to renewable energy and we are supporting our clients in their transition. 63% of our energy credit portfolio consists of renewable energy loans. At the end of 2021, our portfolio of renewable energy project finance stood at 1.39 billion euros (outstanding amount), which resulted in avoided emissions of 447 460 tonnes CO_2. • Financing of real estate constitutes a major part in KBC's outstanding loan portfolio. At year-end 2021, the mortgages and the commercial real estate (CRE) portfolios together represented 47.3% of the total outstanding loan book and amounted to respectively 77.6 billion euros for the mortgage portfolio and 11.5 billion euros for commercial real estate finance. For our mortgage loans, we use the PCAF methodology as the tool for identifying, measuring and tracking the GHG emissions. In 2021, we made significant progress in gaining insights in the distribution of EPC labels in our portfolios across our countries and started to collect EPC information for new home loans from our clients in the credit process. As this covers only an initial part of our portfolio, it was supplemented with other approaches and by using proxies. To assess climate-related transition risks in our commercial real estate portfolio, we use the UNEP FI methodology. In 2021 we continued our work started in 2020 with the white papers for the real estate sectors and we put focus on key elements such as defining metrics, setting up a data and metrics track, data collection and customer engagement, in order to deliver on our intention to set targets in 2022 in the context of our Collective Commitment to Climate Action (CCCA) commitment. • The agriculture sector represents an important part of KBC's lending portfolio (2.7% of our total outstanding). Rather than CO_2 emissions, the main greenhouse gases emitted by the sector are Methane and Nitrous Oxide. In 2021, as a first step, we started supporting farmers in their sustainability transition by focussing on the installation of renewable energy technologies. Besides, because of agriculture's strong sensitivity to local climatic conditions, we monitor the potential impacts of weather conditions. • KBC's outstanding loan amount to food and beverage producers represents 2.2% of KBC's lending portfolio and was hence taken in scope of the white papers in 2021. The sector is, especially in terms of physical and transition risks, highly dependent on the agriculture sector. Given the sector's high energy dependency, our current focus is on supporting clients to improve their energy efficiency and to install renewable energy technologies. • KBC is also involved in the operational leasing of vehicles and has set ambitious targets to reduce the emissions of the vehicles in our car leasing fleets and to step up the share of electric and plug-in hybrid vehicles. In this case too, we have made some calculations based on a preliminary data set using the PCAF methodology, on which more details are available in the 'PCAF' appendix to this report. • Transport: the automotive sector represents 2.4% of our total outstanding loan portfolio. Based on the PCAF methodology we updated the estimated GHG emissions for this portfolio. We refer to the 'PCAF' appendix of this report. In our Data and Metrics project we are setting up the data collection and reporting processes. For this part of our portfolio, we also plan in 2022 to update the White Paper, which will also include proposals for target setting and policies. • The building and construction sector amounts to 7.8 billion euros. The UNEP FI methodology to assess climate-related transition risks was rolled out also to the building and construction sector. A data and metrics track has been set up to define the relevant metrics and incorporate them in a structured reporting system.	

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.

In 2021, we conducted an impact assessment of our corporate loan portfolio in Belgium and used the Impact Identification and Assessment Tool provided by UNEP FI. We have identified 2 areas in which we have the most significant positive and negative impact: inclusive and healthy economies and climate change. As a subsequent step, we will continue to mature and refine our impact assessment and will perform our biennial materiality assessment in 2022.

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
2.2 Target Setting Show that the bank has set and published a minimum of two Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound (SMART) targets, which address at least two of the identified "areas of most significant impact", resulting from the bank's activities and provision of products and services. Show that these targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline. Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.	KBC strongly focuses on climate change and the environmental impact of its financial services and has set clear targets to reduce its direct and indirect exposure to fossil fuels and to increase the financing of renewable energy. These targets are evaluated regularly (at least twice a year by the Board of Directors), and their ambition level is steadily increased based on progress, feasibility and societal expectations. They are linked to our sustainability strategy and aligned with SDG 7 (affordable and clean energy), SDG 12 (responsible consumption and production) and SDG 13 (climate action). In setting the targets, we consider the negative impacts of the set of targets on other dimensions of the SDGs. Our target to exit direct coal-related financing was complemented by our target to increase the share of renewables in the total energy credit portfolio. In 2020, approximately one third of households in the Czech Republic were connected to heat supply systems, with coal accounting for more than 50% of the heat production in the heating systems. Phasing out coal from the energy mix goes hand in hand with renewable energy targets. Target 1: Ambition to increase the share of renewables in the total energy credit portfolio to 65% by 2030. Current status: 63% by year-end 2021 Target 2: Target to exit direct coal-related financing by 2021 reached in June 2021 KBC Belgium aims to have a positive impact on society and the economy and has pre-defined entrepreneurship as a focus domain. We have set strategic objectives and defined targets linked to SDG 8 (decent work and economic growth). We also contribute to SDG 5 (gender equality). Start it @KBC – our acceleration programme for start-ups – has actively committed to fostering female entrepreneurship in the start-up landscape. Target 3: Ambition of a start-up community in Belgium with an equal number of female and male entrepreneurs Current status: 46% of the selected start-ups had a woman as a co-founder. The share of female founders has gone up by 34% since 2017.	KBC Group Sustainability Report 2021: p. 11, p. 23-25, p. 108
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting. We have started up a Data and Metrics project within our Sustainable Finance Programme to set (intermediate) targets and will report on the progress made in our next report. We will continue to monitor the share of female entrepreneurs in our start-up landscape.		
2.3 Plans for Target Implementation and Monitoring Show that your bank has defined actions and milestones to meet the set targets. Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.	In order to implement and monitor our sustainability and climate strategy and to steer our targets we have taken several actions: • We have tightened our Energy Credit Policy twice in 2021 (widening the scope of the policy to include companies from all sectors, compulsory submission of a transition plan, stop of financing the exploration and development of new oil and gas fields) after the landmark Net Zero 2050 report from the International Energy Agency (IEA) made it clear that new fossil fuel exploration is not consistent with the efforts that are needed to limit the long-term increase in average global temperatures to 1.5°C. • We engaged with companies and collaborated in their transition to becoming a low carbon business by offering green financial products. We got in touch with partner organisations to help our clients set up energy-saving initiatives and developed specific banking, insurance and investment products and services to support a sustainable, low-carbon and climate-resilient society. In order to reach our ultimate ambition of a start-up community in Belgium with as many female as male entrepreneurs, Start it @KBC conducted a survey among female founders and organised round tables with founders of start-ups and investors and presented in a white paper the combined conclusions of all the research conducted along with ideas to give female entrepreneurship the boost it needs. To fulfil its ambition, Start it @KBC reached out to partners such as *Netwerk Ondernemen*, VLAIO *(Vlaams Agentschap Innoveren & Ondernemen)* and *Straffe Madammen* and put forward female role models and mentors.	KBC Group Sustainability Report 2021: p. 82-87, p. 106-118
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring. For the third time in just two years, we brought our Energy Credit policy in line with society's constantly changing expectations and progressive insight into how the use of fossil fuels impacts on global warming. We continued to engage and collaborate with companies in their transition to become low-carbon businesses. Our acceleration programme for start-ups continued to promote female entrepreneurship and took actions together with partners.		

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
2.4 Progress on Implementing Targets For each target separately: Show that your bank has implemented the actions it had previously defined to meet the set target. Or explain why actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target. Report on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)	• Target 1: Ambition to increase the share of renewables in the total energy credit portfolio to 65% by 2030. • Target 2: Full exit from direct coal-related financing by 2021, thereby dropping the last remaining exception in the Czech Republic for the funding of coal-fired power stations for communal heating systems. • Target 3: 50% female founders in our start-up community in Belgium	KBC Group Sustainability Report 2021: p. 9, p. 108
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets		
We report transparently on our progress on implementing targets and will continue to do so in our Sustainability Report and elsewhere.		

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
Principle 3: Clients and Customers We responsibly work with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.		
3.1 Provide an overview of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.	We impose stringent rules on ourselves in terms of ethical behaviour, openness and transparency, discretion and privacy. Our Code of Conduct for KBC Group employees was updated in 2020, accompanied by an awareness campaign aimed at all employees. KBC views responsible behaviour as a crucial element in an effective and credible sustainability strategy. The mindset of all our employees should go beyond regulation and compliance. As responsible behaviour is hard to define, we have decided not to draw up precise guidelines for this, but to set out the underlying principles in 'My Responsible Behaviour Compass'. The KBC University provides our management with dilemma training so they are able to share and discuss dilemmas with their staff. In November 2020, we launched an online training module at group level to step up awareness of the importance of responsible behaviour among staff. The vast majority of all KBC employees has completed this training. The online training module has become part of the onboarding programme for new employees. Our compensation report sets out general remuneration guidelines for all staff and specific remuneration guidelines for employees who may have a material impact on the risk profile of our company to avoid mis-selling and unfair practices.	KBC Group Sustainability Report 2021: p. 42-45, p. 29, p. 31-40, p. 82-87, p. 106-118
3.2 Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.	In 2020, KBC Corporate Banking in Belgium started piloting our customer engagement approach by engaging with business clients and exploring how we can be partner for them in their transition towards a greener economy. In 2021, Bulgaria, the Czech Republic, Hungary and Slovakia also launched local customer engagement trajectories. We refer to the 'Customer engagement' part of this report. We have developed green products and solutions in our core countries. We refer to the 'Our sustainable business solutions' section and the 'Products, solutions and transactions that contribute to a greener environment' part of this report. Further details on our Start it @KBC and female entrepreneurship in Belgium are available to be consulted in the 'Our sustainability business solutions' section of this report and on the Start it @KBC website.	

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
Principle 4: Stakeholders We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.		
4.1 Describe which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.	In 2019, we set up a Sustainable Finance Core Team to focus on integrating KBC's climate approach (including our bank's impact) in the activities of all of KBC Group's business units. The team consists of specialists from Group Corporate Sustainability, Group Risk, Credit Risks and Group Finance and is in regular contact with relevant departments and external stakeholders. We also engage with stakeholders with relevant expertise in measuring instruments such as PACTA, PCAF and UNEP FI. Our Executive Committee and the Board of Directors follow up on the progress of our sustainability and climate strategy by means of a KBC Sustainability Dashboard which is presented twice a year. Our External Advisory Board advises us on various sustainability aspects and consists mainly of experts from the world of academia. We maintain an open and constructive dialogue with our stakeholders on a wide range of topics to challenge our strategy, to improve our products and services and to feed our impact assessment. We refer to the 'How we listen' part of this report for further details of our consultations with stakeholders.	KBC Group Sustainability Report 2021: p. 16-21, p. 26-28

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
Principle 5: Governance & Culture We will implement our commitment to these Principles through effective governance and a culture of responsible banking		
5.1 Describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.	Our Group Corporate Sustainability Division is headed up by the Group Corporate Sustainability General Manager, who reports directly to our Group CEO and informs the Board of Directors and the Executive Committee at least twice a year of the progress of the implementation of our strategy through the KBC Sustainability Dashboard (including the follow-up of targets in the significant impact areas). This division develops the sustainability strategy and implements this across the group. The team monitors the strategy and updates the sustainability framework with its guiding principles on a regular basis. The team pays particular attention to ensuring that all sustainability proposals in the organisation adequately reflect the principles of the PRBs and we are often consulted by colleagues across the organisation seeking guidance on important societal topics and potential dilemmas. We have established a governance structure within our group that ensures due attention is paid to sustainability by the highest decision-making bodies while being broadly integrated into our operations. Our Executive Committee is the highest level with direct responsibility for sustainability and climate change (our impact areas) and ratifies the decisions taken by our Internal Sustainability Board and the Sustainable Finance Steering Committee in the area of sustainability and climate change issues. Progress on our Sustainable Finance Programme (including our impact on climate change) is reported to our Sustainable Finance Steering Committee and to our Executive Committee and Board of Directors through a status report at least once a year. Our Sustainable Finance Programme Core Team has integrated climate change within the group and oversees and supports our business departments. Programme members meet every week to ensure swift action on the programme's objectives, including climate change. Our External Sustainability Committee advises our Group Corporate Sustainability Division on KBC's sustainability policies and strategy.	KBC Group Sustainability Report 2021: p. 26-29, p. 78
5.2 Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.	Sustainability, including climate and the associated targets, has been integrated into the remuneration systems of our employees and our senior management in particular. The variable remuneration of Executive Committee members, for example, is linked to 'financing transition to a low-carbon economy society'. This parameter has been embedded in a set of sustainability-linked KPIs (e.g., share of renewables in total energy credit portfolio). Sustainability has also been integrated into management's variable remuneration. At least 10% of the variable remuneration paid to members of senior management depends on the achievement of individual targets agreed in advance as part of the group's sustainability strategy, including our climate policy. We regularly engage with our employees on the topic of responsible behaviour and recently launched an online training course in Belgium and our core countries to raise awareness of this topic.	
5.3 Governance Structure for Implementation of the Principles Show that your bank has a governance structure in place for the implementation of the PRBs, including: a target-setting and actions to achieve targets set b remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.	KBC tracks progress towards achieving our targets via the KBC Sustainability Dashboard which is reported twice a year to the Executive Committee and the Board of Directors. The Internal Sustainability Board and the Sustainable Finance Steering Committee monitor progress and take remedial and other actions if necessary to ensure the targets are achieved. We refer to 5.1 and 5.2 for further information on the existing governance bodies.	
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles. We have substantially updated our sustainability governance structure to ensure, amongst other things, that the Principles for Responsible Banking are implemented in our organisation group-wide.		

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s) and link(s) to bank's full response and relevant information
Principle 6: Transparency & Accountability We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.		
6.1 Progress on Implementing the Principles for Responsible Banking Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4). Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice. Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.	In 2019, we started to report on our climate strategy in line with the Taskforce on Climate-related Financial Disclosure recommendations in order to understand our climate risks. In 2021, we tightened our Energy Credit policy twice. We widened the scope of the policy and included companies from all sectors, set additional conditions for existing clients (submission of a transition plan that the client will fully phase out coal by 2030) and banned financing for the exploration and development of new oil and gas fields. Two years after signing the UN's Collective Commitment to Climate Action, we have made substantial progress and have taken all sorts of initiatives to make our business operations fundamentally more sustainable and climate resilient. Our first report to the Collective Commitment to Climate Action was published by UNEP FI in December 2020. We also refer to the PRBs Collective Progress Report which provides a status update on how the global coalition of banks is implementing the Principles, highlighting progress made and challenges to be addressed. Starting from 2021 and in line with the second impact area of 'healthy and inclusive economies', we will report more in detail on the strategic objectives of and the target set on female founders in the start-up community in Belgium.	KBC Group Sustainability Report 2021: p. 78-87, p. 108
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking We have made good progress with the implementation of the Principles since we first endorsed said principles in 2018 and officially signed them in 2019. We have challenged our climate strategy and will continue to do so. Promoting female entrepreneurship together with partners will remain at the top of the agenda of Start it @KBC.		

APPENDIX: PRINCIPLES ON SUSTAINABLE INSURANCE

In 2018, KBC Insurance became a signatory to the Principles for Sustainable Insurance (PSI), which serve as the global framework for insurance companies to better manage environmental, social and governance risks (ESG), as well as opportunities in their core business strategies and operations. As a PSI signatory, KBC Insurance reports on its progress in embedding the PSIs in all aspects of its operations. These reports and the self-assessment template outline the activities KBC Insurance has undertaken to demonstrate its commitment to the PSIs.

Reporting and Self-Assessment template	High-level summary of bank's response	References and more information
Principle 1		
We will embed in our decision-making environmental, social, and governance issues relevant to our insurance business.	At KBC Group, sustainability is an integral part of the overall corporate strategy. Sustainability is embedded in the strategic cornerstones of putting the client first, offering them a unique bank-insurance experience, focusing on our long-term development and pursuing sustainable and profitable growth and taking our responsibility for society and local economies seriously. Our sustainability policies and restrictions apply in full to our insurance underwriting activities. Insurance underwriting and investments are fully covered by our sustainability governance. The Internal Sustainability Board, chaired by the Group CEO, therefore decides on all insurance-related sustainability topics. Our Sustainable Finance Programme also covers the insurance business. As indicated throughout this report, climate action is a top priority for KBC Insurance, without ignoring other important environmental and societal issues. KBC Insurance already covers environmental and climate-related physical risks in most of its insurance solutions. Moreover, at KBC Insurance in Belgium, the standard Home insurance covers all forms of renewable energy for private use, such as solar panels, heat pumps and charging points. In the event of severe damage, the additional costs of rebuilding in accordance with the latest building regulations are also covered. For similar damage in the case of commercial buildings (Patrimony insurance), cover is provided up to 20% of the insured damage to buildings with a maximum of 150 000 euros. In agriculture, the client can even take out extra cover for rebuilding the stables according to new emission standards after a claim. New in 2021 for the Patrimony insurance is the cover of small wind turbines. In 2022, KBC Insurance will further elaborate its policies and client engagement in the field of sustainability, as part of the Sustainable Finance Programme. In its property underwriting, KBC Insurance: • Will continue to actively cover flood risk; • Will also work on data collection with respect to the energy performance of (non) residential real estate; • Intends to include energy performance as an additional yardstick to determine the quality of a property risk. For the investment portfolio (proprietary assets), KBC Insurance complies with the KBC Group investment policy. This updated policy, which has been in force since 2021, has been tightened and, in addition to the fundamental exclusions, now also encapsulates exclusions and restrictions based on the ESG screening of the counterparties. In amongst other things, these additional exclusions relate to human rights offenders, energy (fossil fuel and thermal coal), tobacco and controversial weapons.	KBC Group Sustainability Report 2021 p. 14, p. 23, p 26-28, p. 49-52, p. 61-62, p. 69, p. 87, p. 104-105

APPENDIX: PRINCIPLES ON SUSTAINABLE INSURANCE

Reporting and Self-Assessment template	High-level summary of bank's response	References and more information
Principle 2		
We will work together with our clients and business partners to raise awareness of environmental, social, and governance issues manage risk and develop solutions.	KBC Insurance has launched several initiatives. In order to raise awareness, data insights are needed. The first steps have been taken in data capture, i.e. determining the data points as described in the Data and Metrics Project and exploring the market of data suppliers. The starting point is that we try to obtain a maximum of data from third parties. During product development, sustainability risks and opportunities are factored in. In mobility, more specifically car insurance, clients are already rewarded for sustainable driving behaviour and have access to a sustainable repair network. In 2021, we made product and process adjustments in response to the trend towards electrification. In the future, we aim to inform and educate our clients even better on all the relevant aspects of an electric vehicle. The first internal training session was organised to make employees and the sales network of KBC Insurance aware of sustainability (climate change first and foremost). This is rolled out in phases and will be continued in the coming years. KBC Insurance will further intensify its client engagement (both internal and external) in the years to come, in close collaboration with KBC Bank. In 2022, we will experiment with entrepreneurs regarding their real estate. We want to explore how we can gain insights into the energy efficiency of their buildings and how we can start a broad conversation on sustainability. We have been investigating how we can help farmers to manage their fields more sustainably. This is a service we could offer our clients with a Multi peril climate insurance.	KBC Group Sustainability Report 2021 p. 26-28, p. 32-33, p. 82-83, p. 84-87
Principle 3		
We will work together with governments, regulators, and other key stakeholders to promote widespread action across society on environmental, social, and governance issues.	KBC Group conducts a materiality assessment every two years in which we engage in dialogue with our internal and external stakeholders to determine our most material topics. See the 'How we listen' section of this report. Initiatives on the part of the EU, government and/or national regulators are also addressed in cooperation with the local insurance associations. Same as in 2020, 2021 was obviously dominated by a significant health crisis caused by the Covid-19 virus. KBC Insurance has provided support and advice and is determined to continue to assume responsibility vis-à-vis society and the local economies which we serve. We have also taken additional measures, going beyond those of the sector. We continually evaluated these in light of the changing needs of our clients, government and sector decisions, etc. These measures were in place for a certain period of time. In addition to Covid-19, during the summer of 2021 Belgium was hit by floods, especially in Wallonia. KBC Insurance assumed its societal role. We used all our expertise in the insurance chain (agents, loss assessors and repairs partners) in order to swiftly offer help and financial compensation to clients who were badly affected by the floods. The law sets out caps on the amounts to be paid by insurers in the event of major floods. We (and other insurance companies) doubled our legal cap and paid compensation up to this new limit. Doing so meant the victims were not left out in the cold. KBC Insurance NV also cooperates with other Belgian insurers in sector association Assuralia around various sustainability topics and the role of insurance companies in this regard. Additional initiatives were launched in 2021 and will be further developed during 2022.	KBC Group Sustainability Report 2021 p. 10, p. 18-21
Principle 4		
We will demonstrate accountability and transparency in publicly disclosing our progress in implementing the Principles at regular intervals.	KBC Insurance published its fourth progress report in 2021 through the sustainability report in hand and will continue to publicly disclose its progress in implementing the PSIs.	

Glossary

2DII	2 Degrees Investing Initiative	
AI	Artificial intelligence	
ASU	Arrears Support Unit	
ATM	Automated teller machine	
BEI	Business Expectations Index	
Bn	Billion	
CCCA	Collective Commitment to Climate Action	
CCUS	Carbon capture utilisation and storage	
CDP	Carbon Disclosure Project	
CDR	Carbon dioxide removal	
CERT	Cyber Expertise and Response Team	
CH_4	Methane	
Climada	Climate adaptation	
CO_2	Carbon dioxide	
CO_2e	Carbon dioxide equivalent	
CRE	Commercial real estate	Commercial real estate finance relates to the development of or investment in real estate assets (or a portfolio of such assets) by property developers or investors, which are subsequently sold or let to third parties.
CSR	Corporate Social Responsibility	
CSRD	Corporate Sustainability Reporting Directive	Review of the EU Non-Financial Reporting Directive (NFRD 2014/95 EU) in a proposed new EU Corporate Sustainability Reporting Directive, under negotiation.
DB	Defined benefit	In a defined benefit pension plan (DB), employers fund and guarantee a specific retirement benefit amount for each participant.
DC	Defined contribution	In a defined contribution pension plan (DC), employers and/or employees fund individual accounts set up for participants. Benefits are based on the amounts credited to these accounts plus any net investment earnings on the money in the account. In defined contribution plans, future benefits fluctuate on the basis of investment earnings. Please note that in Belgium, employers are currently required by law to guarantee a 1.75% minimum annual return on employer-funded DC pension plans.
EL	Expected loss	
EP	Equator Principles	
ESAP	European Single Access Point	

ESG	Environmental, social and governance	
EMU	Economic and Monetary Union of the European Union	
EPC	Energy performance certificate	
EU ETS	European Union Emissions Trading System	Puts a cap on emissions from emission-intensive activities. Within this cap, companies can reduce their emissions and trade emission allowances, in order to achieve the most cost-effective emission reductions.
	EU Green Deal	The EU Green Deal was adopted in December 2019. It is the European Union’s new growth strategy that aims to transform the Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050.
	EU Taxonomy	The Taxonomy Regulation was published in 2020 (2020/852) and establishes an EU-wide framework for sustainable economic activities. The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.
EV	Electric vehicles	
GDP	Gross Domestic Product	
GDPR	General Data Protection Regulation	A regulation in EU law on data protection and privacy.
GFA	Global Flexible Allocation	
GHG	Greenhouse gas	
GHG protocol	Greenhouse Gas Protocol	
GICC	Group Internal Control Committee	
GRI	Global Reporting Initiative	
HFCs	Hydrofluorocarbons	
IAM	Integrated Assessment Model	
ICMA	International Capital Markets Association	
ICP	Internal carbon price	
ICE	Internal combustion engine	
ICT	Information and communication technology	
IEA	International Energy Agency	
ILO	International Labour Organisation	
IMF	International Monetary Fund	
	Industrial loan portfolio	The corporate industrial loan portfolio excludes loans to SMEs, private persons, finance and insurance and authorities.

IPCC	Intergovernmental Panel on Climate Change	
IRM	Information Risk Management	
ISB	Internal Sustainability Board	
ISIMIP	Inter-Sectoral Impact model Intercomparison Project	
IT	Information technology	
KBC AM	KBC Asset Management	
KPI	Key performance indicator	
Kt CO_2e	Kilo tonnes CO_2e	
LCV	Light commercial vehicles	
LDI	Liability-driven investment	The primary goal of an LDI portfolio is to match the interest rate and inflation rate risk of the pension fund assets with that of current and future liabilities.
LGD	Loss given default	
M	Million	
MiFID	Markets in Financial Instruments Directive	The Markets in Financial Instruments Directive is a European directive on investments. The directive has three objectives: Protecting investors and safeguarding the integrity of financial markets; Promoting fair, transparent, efficient and integrated financial markets; Further harmonising European stock trading and the investment market. As part of the drive towards sustainable investing on the part of politicians, regulators and investors, the EU has proposed changes to the MiFID II suitability rules to ensure that investors' environmental, social and governance preferences are taken into consideration during the investment advice and portfolio management processes.
Mt CO_2e	Mega tonnes CO_2e	
MFI	Microfinance institutions	
N_2O	Nitrous oxide	
NACE	Statistical classification of economic activities in the European Community	
NEDC	New European Driving Cycle	
NF_3	Nitrogen trifluoride	
NGFS	Network for Greening the Financial System	
NGO	Non-governmental organisations	
NPS	Net promotor score	
OECD	Organisation for Economic Cooperation and Development	
OHSC	Occupational Health and Safety Committee	
PACTA	Paris Alignment Capital Transition Assessment	
PCAF	Partnership for Carbon Accounting Financials	
PD	Probability of default	PD is a risk rating system that provides an estimate of the likelihood that a counterparty is unable to repay its loan obligations.
PEARL+	Performance, Empowerment, Accountability, Responsiveness, Local Embeddedness Plus	
PFCs	Perfluorinated compounds	
PHEV	Plug-in hybrid electric vehicles	
PRB	UNEP FI Principles for Responsible Banking	
PRI	UN Principles for Responsible Investments	
PSI	UNEP FI Principles for Sustainable Insurance	
PVC	Polyvinylchloride	
RFP	Risk factor pathways	Risk Factor Pathways are meant to indicate the financial pressure a given sector is likely to experience during the transition towards a low-carbon economy, allowing us to assess the evolution of the climate-risk-related financial stress within the sector over the next decades.
RFT	Road freight transport	
STiPPLE	Skills to Improve Performance Progression Learning and Employability	
	Stranded assets	Stranded assets are assets which, prior to the end of their intended economic lifespan, are no longer able to generate cash flows or have suffered from premature write-downs due to unanticipated climate-related policies.
SFDR	Sustainable Finance Disclosure Regulation	The SFDR introduced various disclosure-related requirements for financial market participants and financial advisors at entity, service and product level. It aims to provide more transparency on sustainability within the financial markets in a standardised way, thus preventing greenwashing and ensuring comparability.
SF_6	Sulphur hexafluoride	
SASB	Sustainability Accounting Standards Board	
SDG	Sustainable Development Goals	
SME	Small and medium-sized enterprise	

SRI	Socially responsible investment	
TCFD	Task Force on Climate-Related Financial Disclosures	The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.
TPF	Third Party Funds	
TTC	Through-the-cycle	
UN	United Nations	
UNEP FI	United Nations Environmental Programme Finance Initiative	
VLAIO	Vlaams Agentschap Innoveren en Ondernemen	
WLTP	Worldwide Harmonised Light Vehicles Test Procedure	
YAR	Youth at Risk	

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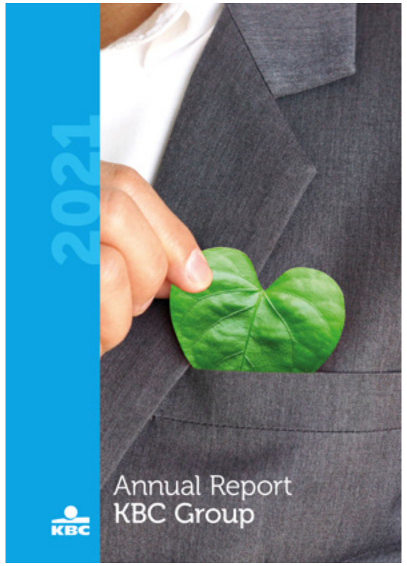

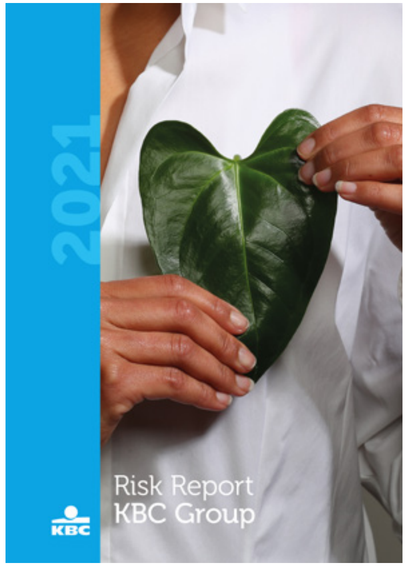

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Feedback

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