



An update on ESG

KBC Group Corporate Sustainability

Filip Ferrante, General Manager Group Corporate Sustainability

December 2021



2020

Sustainability Report

KBC Group



Interactive digital publication available on
www.kbc.com



Defining report content:



- Prepared in accordance with the **GRI Standards: Core option**
 - Two yearly **materiality assessment** to identify material topics, complemented with maturity assessment
 - The **material topics define the content of the report**, and are discussed throughout the report
- Includes relevant disclosure topics and associates metrics under the **SASB Commercial Banks** industry standard
- Describes our contribution to address the **UN Sustainable Development Goals**
- Includes reporting on our ongoing climate change actions in line with our commitment to the **Collective Commitment to Climate Action** and structured according to the four pillars of the **TCFD Framework**



GRI/SASB
Content Index



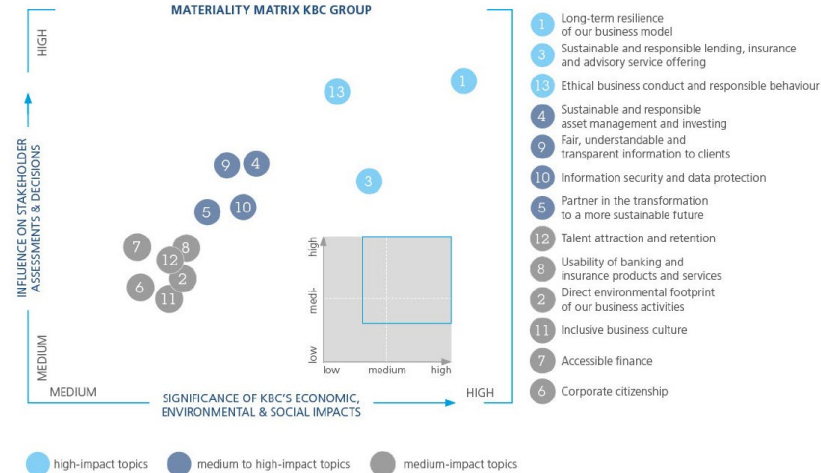
Collective
Commitment
to Climate Action



Stakeholder engagement and materiality assessment



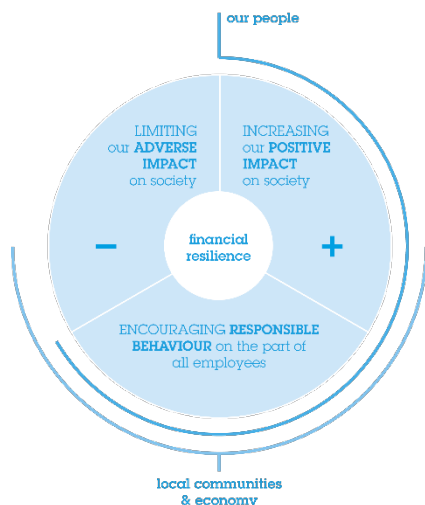
- Stakeholder identification and engagement
- Materiality assessment:
 - Setting the scope: stakeholder mapping
 - Selecting relevant topics considering relevant sustainability frameworks and benchmarks
 - Validating topics and determining importance through surveys and in-depth interviews
 - Concluding on materiality: plotting high-impact, medium to high-impact and medium-impact topics on the materiality matrix
 - Determining maturity of the material topics through an internal self-assessment identifying urgent topics
- Determining relevance for our stakeholders (= boundary) and mapping material topics to our corporate strategy, high-impact areas (SDGs) and relevant GRI/SASB standards



During 2021 and for the coming years, we will set the priorities of our sustainability strategy on the basis of these results.



KBC sustainability strategy



- To avoid or **limit the negative impact** of our products and services as much as possible
- To provide financial solutions and business opportunities that have a **positive impact** in a number of pre-determined focus domains
- We focus especially on **responsible behaviour** as the foundation for sustainability at KBC.
- **Financial resilience and strict risk management**

Our **commitment to climate action** – through our dedicated Sustainable Finance Programme - is **both on limiting our adverse impact and increasing our positive impact:**

- Increasing the opportunities of and exposure to low-carbon clients and activities;
- Reducing the risks of and exposure to high-carbon clients and activities; and
- Engaging, working with and supporting our clients in their transition towards climate resilience

Our climate strategy encompasses the '**double materiality**' approach, comprising our commitment on the one hand to manage the direct and indirect impact of our company on the climate ('environmental and social materiality'), and to manage the financial impact of climate change on our company ('financial materiality') on the other.

Our sustainability ambitions

Strong ESG ratings, substantially above industry average



Our sustainability ambitions

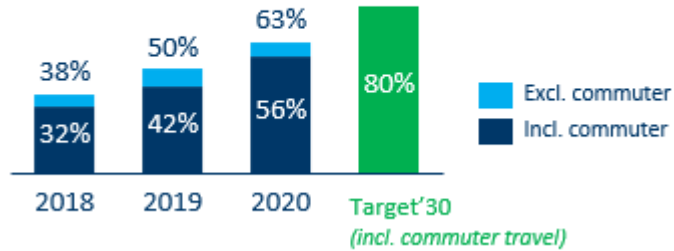


Strengthened **climate-related ambitions**

Reduction own GHG emissions

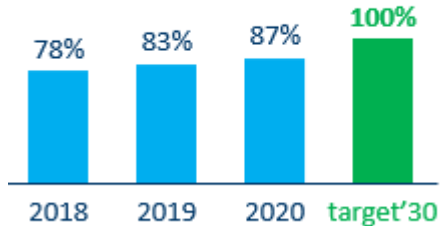
(incl. commuter travel)

(In % compared to 2015)



Green electricity

(In % of own electricity consumption)



Direct footprint

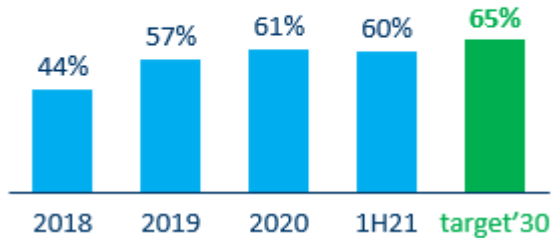
- KBC will achieve climate-neutrality as from 2021 by offsetting the balance
- At the same time, KBC will continue to reduce its actual direct footprint and we have set ambitious targets: 80% reduction of **total** own GHG emissions by 2030 (compared to 2015)
- 100% own green electricity consumption by 2030

Our sustainability ambitions



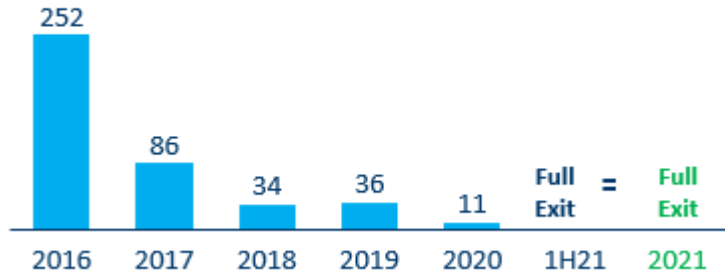
Renewable energy loans

(In % of total energy-sector loan portfolio)



Direct coal-related finance

(In millions of EUR)



Financing of renewable energy

- Renewable energy being key in the EU Action Plan
- Ambition to increase the share of renewables in the total energy credit portfolio to minimum 65% by 2030

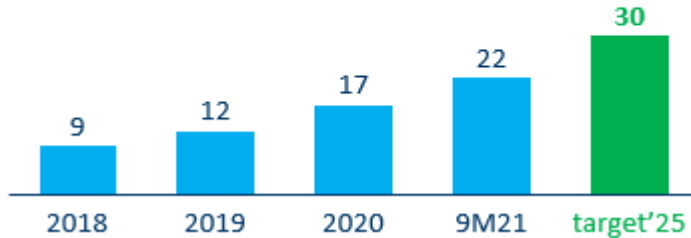
Financing of coal-related activities

- All remaining direct coal exposure has been phased out in line with our commitment.
- Firm commitment to exit indirect coal exposure, supporting existing clients in their transition. In order to remain eligible for any kind of financing, the related client must commit not to engage into any new coal project and must submit a coal-phase-out plan (to be achieved by 2030 at the latest)

Our sustainability ambitions



Volume of SRI Funds
(In billions of EUR)



Socially Responsible Investments (SRI)

- SRI as our first offer and preferred investment solution, clearly translated in ambitious targets
- SRI funds to reach 30 billion euros by year-end 2025
- SRI funds to account for more than 50% of new production by the end of 2021 (including art. 8 & 9 of SFRD)
- SRI offering in all our core countries except for Bulgaria (launch in 2022)

Our approach for the energy sector



NOV/21

- Ban on specific financing of new oil & gas fields
- Term of new general financing to vertically integrated oil & gas companies is limited to 2030 at the latest, unless the company publicly commits to no longer start operating new fields, and a contractual clause will be added in which the client commits that the funding provided by KBC will not be used for the exploration of new oil & gas fields

APR/21

- Scope of energy policy widened and includes also companies using thermal coal from all sectors
- Stricter rules regarding derogation in the Czech Republic: all remaining coal-related financing to be fully phased out by the end of 2021 – ACHIEVED by mid 2021
- Compulsory submission of transition plan for existing customers with thermal coal activities

2020

- Stop financing and insurance of new customers if they obtain any energy production capacity (electricity and heat) from coal
- Stricter rules regarding derogation in the Czech Republic: Stop financing and insurance of heat distribution networks and end of financing and insurance for coal-related activities and companies by 2030

2018

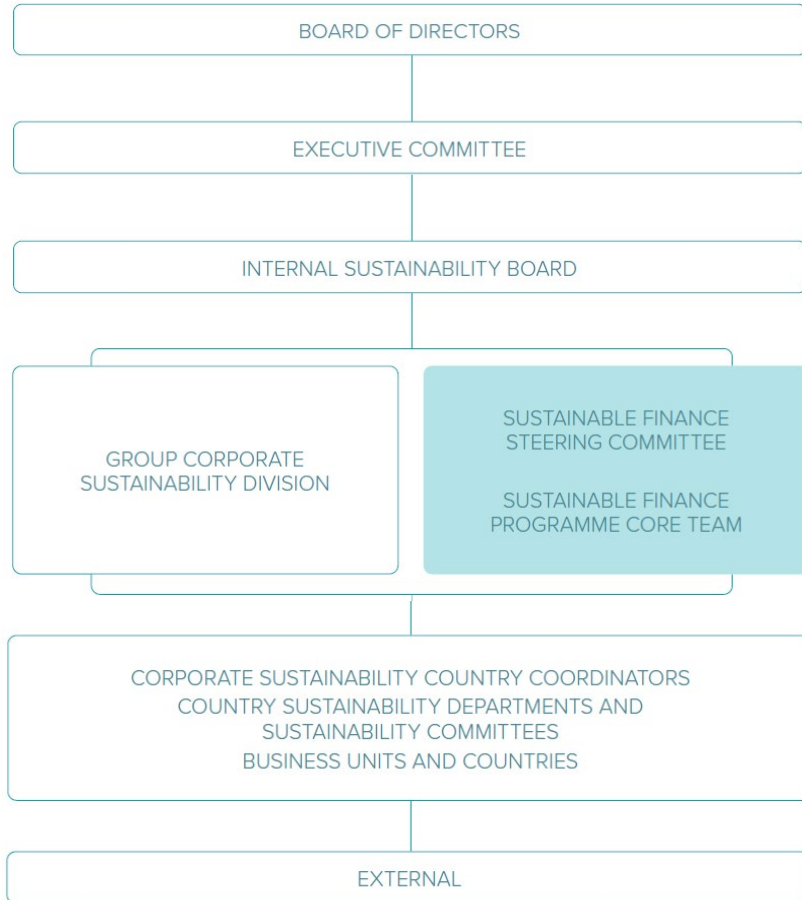
- Stricter rules regarding derogation in the Czech Republic: Exposure to coal-based electricity generation to be scaled back to zero by 2023 and existing coal-fired central heating plants to be financed until 2035 at the latest (strict conditions)

2016

- End of financing of thermal coal activities including coal mining and coal-fired plants
- Transition period until 2050 in the Czech Republic seen the specific local energy situation

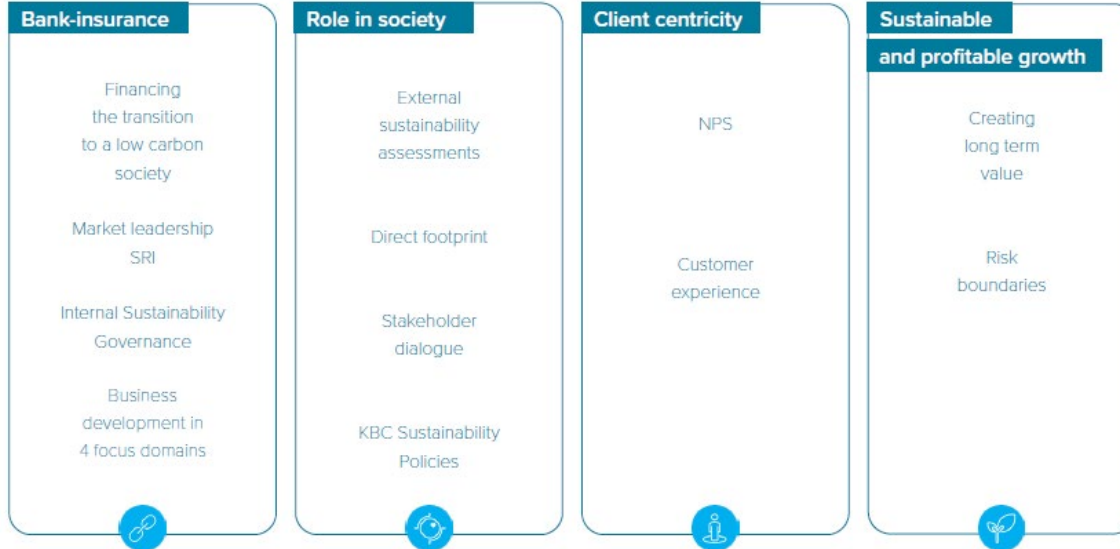


Updated KBC sustainability governance



- **Top level responsibility** for sustainability and climate strategy
 - The **Executive committee** has the highest level of direct responsibility for sustainability and climate change and reports on it to the **Board of Directors**
 - **Direct responsibility of the Group CEO and Group CFO** for sustainability and climate as chairman in the different governance bodies
- Nomination of **country coordinators in all our core markets** to effectively implement centrally-decided strategies, senior representation of all core countries in **Internal Sustainability Board**.
- Specific **Sustainable Finance Programme** to integrate our policy on climate change and climate action plan within the group
- **External advisory boards** to advise and challenge us on our sustainable strategy

KBC Sustainability Dashboard



- Presented twice a year to Board of Directors
- To follow-up and evaluate the implementation of our sustainability and climate strategy
- The assessment impacts the variable remuneration of the Executive Committee members





OUR PEOPLE



Our people: PEARL+



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



Our people: diversity and inclusion



- **Respect** is one of the key values of our corporate culture: we promote a culture of **diversity and inclusion**, in which we treat each other with respect
- The KBC Group Code of Conduct for Employees – reviewed in 2020 - sets out the key behaviours we expect from all group employees
- Introduction of a first Policy on Diversity and Inclusion based on the following principles:
 - Respect as a basis
 - Equal opportunities for all employees
 - Being aware of and avoid conscious and unconscious bias
- **Internal awareness programme** on diversity and unconscious bias
- Top level commitment and attention to **increase gender diversity in the higher echelons** of our organisation

Gender diversity in 2020

- 56% women in workforce
- 60% of newly hired employees are women
- 59% of total promotions are women

Women in leadership positions in Belgium

- 35% women in leadership positions
- 28% women in IT leadership positions



Transparent external reporting:

- Detailed diversity figures published in the sustainability report
- ESG questionnaires

Trend in the share of women in senior management and in top talent pool

	2020	2019	2018
% women in senior management	22	21	20
% women in top talent pool	32	33	29

Our people: remuneration policy



- **Sustainability integrated into our remuneration policy**

- The variable remuneration of **Executive Committee** members is linked to - amongst others - progress made in the area of sustainability, which is evaluated every six months using the KBC Sustainability Dashboard. The Board of Directors, through its Remuneration Committee, assesses the criteria for evaluating the members of the Executive Committee in this respect.
- At least 10% of the variable remuneration received by **senior management** depends on the achievement of individual targets agreed in advance as part of the group's sustainability strategy, including our climate policy.
- The non-recurrent results-based bonus KBC pays its **employees** in Belgium has been partially linked to sustainability targets since 2012. In 2020, the targets were linked partly to our direct footprint – reducing paper consumption – but also to employee development (training days, digitality and progress management) and to cybersecurity (phishing tests).
- The main aspects of the **remuneration policy** are set out in the 'Corporate governance statement' of the KBC Group Annual Report 2020, which also includes the main aspects of our **corporate governance policy**
 - KBC Group Corporate Governance Charter available at <https://www.kbc.com/en/corporate-governance/corporate-governance-charter.html>
 - KBC Group Remuneration policy available at <https://www.kbc.com/en/corporate-governance/leadership/board-of-directors--information.html?zone=topnav#remuneration>



OUR RESPONSIBILITY

- ⌕ Responsible business
- ⌕ Sustainability policies



Our responsibility: responsible business



- **Responsible behaviour** is crucial to an effective and credible sustainability strategy
 - **Trust** is fundamental to 'our social license to operate'
 - **Sound risk awareness**
 - Groupwide **compulsory awareness training**

- **Business ethics:**

Compliance with relevant rules and regulations and corporate policies:

- Code of Conduct
- AML
- Anti-corruption and bribery
- Responsible tax payer
- Responsible AI
- ...



Our responsibility: Sustainability policies



- 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.
- The **KBC sustainability policies are regularly reviewed**, at least every 2 years or more frequently if necessary, to make sure that they continue to meet the concerns and expectations of society
 - KBC is assisted in this by two External Sustainability Boards, panels of outside, independent experts with expertise in the various sustainability domains (one for asset management and one for all other activities)
- Recently **updated and new sustainability policies – most significant changes:**

Indicator	Goal/ambition level	2020	2019
Sustainability policies	Regular review (every two years) of our sustainability policies	Update regarding thermal coal and introduction of a new, comprehensive policy on biodiversity	Intermediate update: extending exclusion of the tobacco industry to KBC Asset Management's conventional investment funds and KBC's own investment portfolio

- 2021: Further strengthening of the policy on coal-related activities, asking a.o. clients to submit a plan on how to phase out coal by 2030 and to commit not to engage into any new coal-related investment and new restrictions on the financing of new oil & gas fields.





SUSTAINABLE FINANCE

- ② Our commitment concerning our social impact
- ② Our commitment to the climate
- ② Equator principles
- ② United Nations Environment Programme Finance Initiative (UNEP FI)
- ② Socially responsible investment
- ② Impact investing



Our commitment to climate action



- As a TCFD endorser, we report on our ongoing climate actions in accordance with **the four pillars of the TCFD Framework**



Governance

- Integral part** of our overall sustainability governance
- Dedicated Sustainable Finance Programme** set up in 2019 to focus on integrating KBC's climate approach across the group
- Specific governance bodies** to support the KBC Sustainable Finance Programme
- Top level** responsibility for sustainability and climate-related risks

Our commitment to climate action



Strategy

- Dedicated Sustainable Finance Programme focusing on:
 - Increasing the opportunities of and exposure to low-carbon clients and activities
 - Green products and business solutions
 - Reducing the risks of and exposure to high-carbon clients and activities
 - Applying and regularly revising **strict policies**
 - Applying and developing **methodologies for cataloguing the climate resilience of our business model**
 - **Strategic industry tracks** on the most material carbon-intensive industrial sectors in our businesses and product lines – **White papers**
 - Engaging, working with and supporting our clients in their transition towards climate resilience

Our commitment to climate action



Risk Management

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

Our commitment to climate action



Metrics and targets:

- **Substantially raised climate-related ambitions** related to both our direct and indirect impact
 - 65% renewable energy loans by 2030
 - Fully exit direct coal-related financing by 2021
 - 30 billion euros' worth of SRI funds by 2025 and more than 50% of new production by 2021 (target and definition of SRI funds to be reviewed in line with the new EU Sustainable Finance Disclosure Regulation (SFDR))
 - Reduce direct footprint by 80% by 2030 compared to 2015 and achieve climate-neutrality as from 2021 by offsetting the balance
 - 100% own green electricity consumption by 2030
- Availability of **relevant environmental data as a precondition to set appropriate and clear metrics** and finally intermediate and long-term science-based targets in line with the Paris Agreement
 - **Uniform methodologies** being crucial for measuring and mapping the impact of climate change in a consistent way across the financial sector
 - Ongoing **methodological tracks** to implement new measuring instruments (PACTA, PCAF, UNEP FI, Trucost)

Our commitment to climate action



- Updated strategies on the most carbon-intensive industrials sectors and product-lines (5 out of 11 assessed in 2020)

Most material climate-sensitive industrial sectors and product lines

180.9 billion euros total outstanding loan portfolio of KBC Group 2020 (end-of-year)



- First results and new and updated targets where relevant are presented in so-called **white papers**
- Updated sustainable investment principles for Group Treasury and Pensioenfond KBC

Our commitment to climate action



Energy



- Our ambitions
 - To gradually **increase the share of renewables** in the total energy loan portfolio

Indicator	KBC Target	KBC Realisation		Status
		1H 2021	2020	
Share of renewables in the total energy loan portfolio (excluding transmission and distribution)	Minimum 65% by 2030	60%	61%	Above track

- To take a clear stance on activities in the energy sector that **we no longer wish to support and might need to be phased out**
 - Coal

Indicator	KBC Target	KBC Realisation		Status
		1H 2021	2020	
Financing of coal-related activities	Full exit from direct coal-related financing by 2021	0 million euros remaining	11 million euros remaining	ACHIEVED



Our commitment to climate action



- **Engagement strategy** as explicit part of the KBC Sustainable Finance Programme
 - Client engagement
 - Being a **partner in the transformation** to a more sustainable future
 - **Training of relationship managers** on sustainability themes and climate-related topics, including an in-house developed climate game with specific focus on forward-looking capabilities
 - Informative webinars and one-on-one **sustainability dialogues with corporate clients**
 - Investee engagement
 - Reliance on publicly available data and ESG assessments by external parties on the ESG and climate performance of investees as well as **active engagement to raise awareness of sustainability and to stimulate action in the event of ESG issues**
 - Signatory of **Climate Action 100+**
 - **Proxy voting**
 - Supplier engagement
 - Suppliers to integrate social, ethical and environmental criteria in their operations
 - Supplier assessment and performance monitoring as an integral part of the selection procedure



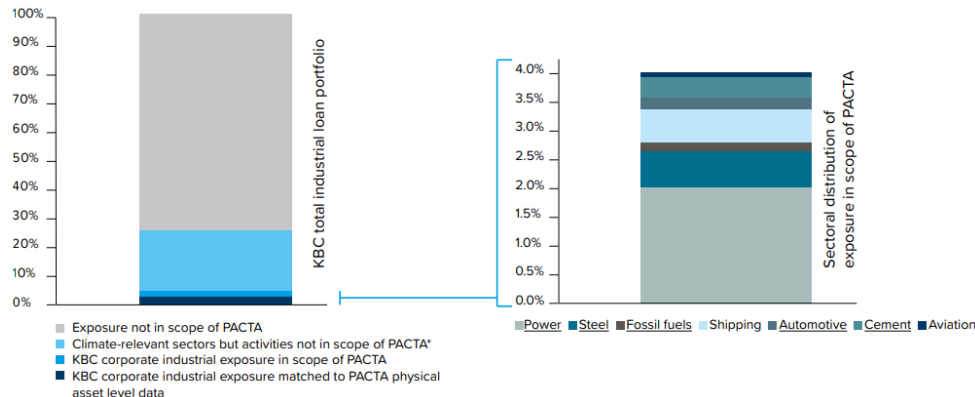
Our commitment to climate action



Methodological tracks or pilot projects to implement new climate measuring instruments

PACTA (Paris Agreement Capital Transition Assessment): second publication of our PACTA results

- Confirmation that overall share of loans in PACTA scope is relatively small, at 4.0% of total industrial loans at end-JUN20, meaning **a limited exposure to companies that contribute the most to global CO₂ emissions.**
- First results published for the fossil fuel, steel and cement sectors. No results available for shipping (discontinuation of 2019 PACTA method) and aviation (method under development).
- Transition risks associated with high-carbon technologies at overall modest levels in the **energy sectors**, but more elevated in the **car manufacturing** sector. **Cement and steel sector** results are a reflection of these sectors' challenging CO₂ abatement path.



Our commitment to climate action



PCAF (Partnership for Carbon Accounting Financials) **Standard** gives guidance to calculate and attribute GHG emissions related to portfolio's of financial institutions.

- KBC is member of PCAF's European team since 17 September 2019
- In 2019, we started using PCAF for the Flemish mortgage loan portfolio and the Belgian car loan and operational vehicle leasing portfolios.
- In 2020, we have tested PCAF intensively on our loan portfolio and vehicle leasing in **all core countries**
 - **Mortgage loans and car loans** together covering 94% of our loan portfolio for private individuals and almost 40% of KBC Group's total outstanding loan portfolio
 - **Vehicle leasing**

Our commitment to climate action



UNEP FI: first results of the analytical tools and indicators used to assess credit risks in our corporate loan portfolio that are associated with the transition to a low-carbon economy and physical risks associated with climate change:

- **Transition risk:**

In 2020 methodology tested on our metals portfolio and further adapted it to improve applicability within our organisation. Several climate scenarios used to calculate degree of financial deterioration (“scenario severity”). Identified, scenario severity is highest in the **primary processing** sub-sector segment of the metals sector when applying **a disorderly 1.5°C transition scenario, i.e.** one with reduced availability of carbon dioxide removal. The adapted methodology was further applied in 2020 and 2021 to the material climate-sensitive sectors of our corporate loan portfolio, i.e. energy, automotive/transportation, chemicals, commercial real estate, building & construction, agriculture and food/beverages producers. The resulting transition risk assessments were presented to the traditional credit risk committees as part of our normal risk management process.

- **Physical risk:**

In 2020, we performed a forward-looking flood risk assessment on our Flemish mortgage loan portfolio with impacts on loan-to-value distributions. While the Flemish home loan exposure rises under a set of projected 2050 climate conditions, this has only **limited impact on the overall loan-to-value distribution** of the portfolio.



Our commitment to climate action



- **Trucost:** first assessment of the climate impact of KBC Asset Management's funds, using Trucost's methodology and dataset to map the current and forward-looking impact of its portfolio on global warming
 - Scope: the pilot project only focused on the all-open investment products managed by KBC AM in Belgium and Ireland, including investment products for both retail and institutional customers and representing around 85% of invested assets at KBC AM. Portfolios managed in Central Europe and structured products are currently not in scope.
 - For the purposes of this pilot, the calculation of an investment product's carbon footprint only considers direct investments in equities, representing around 40% of investments of the products in scope.
 - This assessment shows that
 - the weighted average carbon intensity of all the equity investments = 266 tonnes CO₂e / mio US dollars of revenue (including scope 1, 2 and 3 GHG emissions)
 - the portfolio is currently not aligned with the goals of the Paris Agreement (as it also is for broad market indices)
 - See also KBC Asset Management's engagement strategy.

Socially Responsible Investment



- SRI as a **key focus area** of our sustainability strategy: First offer and preferred investment solution
- Belgian **Towards Sustainability** quality label for all our SRI funds
- SRI funds to account for more than 50% of new production by the end of 2021 (including art. 8 & 9 of SFRD)
- Clear **targets**: volume of SRI and % of new production

Indicator	KBC Target	KBC Realisation		Status
		3Q 2021	2020	
Volume of SRI funds at KBC Asset Management	10 billion euros by year-end 2020 (new) 30 billion euros by year-end 2025	22 billion euros	16.8 billion euros	On track
% of new production	SRI funds accounting for more than 50% of new production by 2021		40%	On track

- **Strict exclusion criteria** on top of general exclusion policies for conventional funds
- **Positive impact** by investing in companies and countries that score well on sustainability
- **SRI Advisory Board** = external panel of **independent** experts



Impact investing



- Through its **unique partnership with BRS**, KBC is actively involved in **microfinance and microinsurance**

- Financial services
- Cooperation, training and coaching
- Flexibility and solidarity



- BRS Microfinance Coop** invests capital raised through the issue of cooperative shares in microfinance institutions in Africa, Latin America or Asia, which in turn provide microcredit to local entrepreneurs and farmers, or to the cooperatives that unite them
 - 11.5 million euros in outstanding loans to ten microfinance institutions, which together reach 3.1 million entrepreneurs

Impact investing



 BRS Microfinance Coop

At the end of 2020, BRS Microfinance Coop had 11.5 million euros in outstanding loans (loans to microfinance institutions and investment in microfinance funds). These microfinance institutions together reach 3.1 million customers.

 BRS vzw

 Project finance
252 765 euros

 Consultancy
267 days of coaching and training (BRS vzw)
257 days of training via Microfact
57 038 euros (including Microfact)

 Training





OUR SUSTAINABLE BUSINESS SOLUTIONS

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



Sustainable business solutions



- Aim to provide **financial solutions and business opportunities** that have a **positive impact on society**
- **Four focus areas, close to our activity as a bank-insurer**
 - Environmental responsibility
 - Financial literacy
 - Entrepreneurship
 - Health and longevity

Our commitments



We report on our progress in the KBC Group – UN Global Compact Communication on Progress 2020 available on www.kbc.com



Self-assessment regarding the implementation of the UNEP FI Principles for Responsible Banking included in the sustainability report

Detailed Equator Principles reporting is included in the sustainability report



Self-assessment regarding the implementation of the Principles for Sustainable Insurance included in the sustainability report



We report on actions taken in relation to the PRIs in the Transparency Report available on the website of UNEP PRI





Questions?

