

2020

Sustainability Report

KBC Group





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.



Each of the six 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](#).



Focuses on our sustainability strategy. Contains detailed non-financial 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.

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 can have a material impact on our business. To identify those topics, we conducted a materiality assessment in 2020. Both the results of that assessment and the material topics identified in the process (see the '[Our approach](#)' section 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.

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.

Reporting guidelines

We have prepared this sustainability report in accordance with the GRI Standards: Core option. In line with those standards, we have included the GRI indicators most material to our business. Since 2019, we are also mapping our material topics to SASB standards, and include 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. The aggregate balance sheets of entities excluded from the consolidation do not exceed 1% of the consolidated balance sheet total. For human capital data, however, we have included some additional entities that do not feature in the scope of financial consolidation.

We have collected our non-financial data through a group-wide process that includes strict hierarchical validation. All KBC entities in our core countries report on all the various non-financial areas (sustainable finance, human capital, environment, customers and community involvement). In addition, we gather human capital data for the entities located outside our core countries. The reporting period is 1 October 2019–30 September 2020, unless otherwise stated in the report.

Our group has published a sustainability report annually since 2005. You can find our previous report, which appeared in April 2020, on our [corporate website](#). There are no substantive differences in scope or boundary compared to the previous 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 18 March 2021.

Assurance

This sustainability report has not been externally audited, 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 via csr.feedback@kbc.be

CONTENT

Leadership statement



Our approach

Sustainability highlights 2020

Highlights

Our targets and commitments

Covid-19

KBC at a glance

Who we are

Value creation

How we listen

Our stakeholder engagement

Materiality assessment

Material topics

Sustainability strategy

The cornerstones of our sustainability strategy

Our commitment to the UN Sustainable Development Goals

Sustainability governance

Sustainability dashboard

Our people



Our responsibility

Responsible business

Sustainability policies



Sustainable finance

Our commitment concerning our social impact

Our commitment to the climate

Equator principles

United Nations Environment Programme Finance Initiative (UNEP FI)

Socially responsible investment

Impact investing



Our sustainable business solutions

Financial literacy

Entrepreneurship

Environmental responsibility

Longevity and health



Sustainability facts and figures



GRI/SASB index

Appendices

- PRB
- PSI
- PACTA
- PCAF
- UNEP FI
- Trucost



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 commonly abbreviations used can be found at the back of this report.

LEADERSHIP STATEMENT

Dear Reader,

The very least we can say about 2020 is that it was a challenging year in which Covid-19 caused unprecedented disruption and uncertainty. The year started on relatively positive notes but quickly became one of the most difficult in the past 75 years. People, households, healthcare institutions, governments and businesses all over the world were impacted by the pandemic.

As a multi-domestic bank-insurer, we have the significant responsibility to help minimise the social and economic damage Covid-19 has caused to our people, our clients and society as a whole. We have provided support and advice and are determined to continue to show our responsibility towards society and the local economies which we serve.

Thanks to our robust financial position we have been able to weather the first financial consequences of the crisis. On an organisational level we were already well equipped and used to working from home and organising meetings and seminars through digital channels. The past year has proven that we can make that work.

The way we interact with our clients also changed significantly over the course of last year. Digitising our processes and services had already been very high on our agenda for several years. Shifting it up another gear has been at the heart of our response to the coronavirus pandemic. We are grateful for the trust our clients continue to bestow on us as we continue to serve them to the best of our abilities under these drastically changed circumstances. We refer to our renewed strategy 'Differently: The Next Level' that we launched in 2020 and that focuses on anticipating our clients'

needs, maximising the experience we provide them and offering data-driven personalised solutions embedded in a relationship of trust.

At KBC, we firmly believe that when society emerges from this crisis it will not only be more digital, but will also have no other option than to be more sustainable. Reaching the Paris Agreement goals and striving towards climate-neutrality are pivotal objectives for the years to come. Financial institutions have been called on to accelerate this transition. As one of the 38 signatories of the Collective Commitment to Climate Action (CCCA) we fully support this plea. Through our active engagement within the CCCA, we can help bring about a substantial positive change within the financial sector, the economy and society at large, in all our core countries.

Our group wants to remain the reference amongst the financial institutions in Europe. Responding to society's and our stakeholders' expectations, we have raised the bar substantially for our climate-related ambitions. In 2020, we increased our sustainability targets for our portfolio of socially responsible investment (SRI) funds and renewable energy loans as well as for our own green electricity use and the greenhouse gas emissions coming from our own operations. We also further tightened our already far-reaching coal financing policy and we are firmly committed to exiting the direct coal-fired energy sector in 2021. As part of this commitment, we will continue to support and help our existing clients in their transition, enabling them to leave coal behind. You can read all the details in this report.

As a multi-domestic bank-insurer, we have the significant responsibility to help minimise the social and economic damage Covid-19 has caused to our people, our clients and society as a whole. We are determined to continue to support society and the local economies which we serve.

LEADERSHIP STATEMENT

In 2020, we further analysed the risks and opportunities that climate change entails for our banking, insurance and investment activities. We started drawing up white papers on the impact and exposure relating to the most material industry sectors. These white papers contain our concrete strategies to mitigate the risks both for our clients as well as for ourselves, to support our clients in relevant and necessary transitions and to grasp the opportunities related to climate change. Each of our core countries contributed to the sector strategies in order to respond to local differences with measures and solutions that are relevant locally, but always in line with the group-wide ambition. The white papers completed in 2020 are described in a dedicated section of this report. We will continue this strategic work in 2021 and the years to come.

Now more than ever our employees are aware of our sustainability strategy and are engaged in shaping our sustainability journey. We enhanced our sustainability governance to ensure that throughout the organisation, many more people are actively involved and feel accountable. We start at the top with the Board of Directors and Executive Committee but diligently implement all aspects of our sustainability approach in all businesses and all countries.

Although we still have a lot of work to do, we are delighted to report that our sustainability efforts and results up to now have not gone unnoticed. For the second year in a row, we have been included in The Sustainability Yearbook 2021 issued by S&P Global, which places us among the 15% best performers in the financial sector worldwide. CDP again awarded us an A- leadership rating, and rating agency Sustainalytics attributed us the highly coveted 'low ESG risk' status.

The pandemic has taught us once again that resilience, agility, innovation and our Team-Blue spirit are essential for our group to flourish, even when faced with significant challenges. If we continue to apply those same tried and tested ingredients for success to a sustainable recovery, we are convinced we are building a brighter future throughout the societies we serve.

We hope you enjoy reading our 2020 sustainability report.

Kind regards,

Johan Thijs
Chief Executive Officer
KBC Group

Koenraad Debackere
Chairman of the Board of Directors
KBC Group





OUR APPROACH

[Sustainability highlights 2020](#)

[KBC at a glance](#)

[How we listen](#)

[Sustainability strategy](#)



SUSTAINABILITY HIGHLIGHTS 2020

Highlights

2020 was obviously dominated by a significant health crisis caused by the Covid-19 virus. True to our strategy of playing an important role in society, our group has co-developed various relief programmes in consultation with industry organisations and governments. We report on the economic effects and the social impact of this crisis in our annual report and in the [‘Covid-19’](#) section below. We also emphasised our support to the existing social projects which we have been supporting throughout the years. In addition, our partner BRS has done the same thing in support of microfinance and microinsurance initiatives around the world.

One year after signing the UN’s Collective Commitment to Climate Action (CCCA), **we have made substantial progress and have taken all sorts of initiatives to make our business operations fundamentally more sustainable and climate-resilient.** Through our commitment to the CCCA, we have agreed to align our portfolios and business strategy with the Paris Agreement to keep global warming below 2°C while striving for a target of 1.5°C. For more information, please refer to the [‘Collective Commitment to Climate Action – Year One in Review’](#)

report published by the United Nations Environment Programme Finance Initiative (UNEP FI) in December 2020.

In 2020, **we continued the methodological tracks to implement new measuring instruments** like the Paris Agreement Capital Transition Assessment (PACTA), the Partnership for Carbon Accounting Financials (PCAF), the UNEP FI and the Trucost methodology. Such uniform methodologies are crucial for measuring and mapping the impact of climate change in a consistent way across the financial sector. So far we have calculated the greenhouse gas (GHG) emissions for almost 40% of KBC Group’s total outstanding loan portfolio through PCAF analysis, representing 94% of our outstanding loan portfolio for private individuals. You can find more details on our work in the [‘Sustainable finance’](#) section and the [appendices](#) of this report.

We launched several strategic industry tracks on the most carbon-intensive industrial sectors in our businesses and product lines. We report on the results in white papers.

At the same time we launched several strategic industry tracks on the most carbon-intensive industrial sectors in our businesses and product lines

to further integrate climate-related risks, opportunities and targets into the strategy of these sectors and business lines and to further develop the methodologies used in this respect. We report the results of these deep dives from a climate perspective in white papers and discuss them in detail in the [‘White papers’](#) part of the ‘Sustainable finance’ section of this report.

We further tightened our policy on the financing and insurance of coal-related industries. In general, KBC does not want to be involved in the financing, insuring or providing of advisory services with regard to coal-fired electricity generation, district heating or coal mining. We accelerated our planned exit from existing direct coal-related financing and introduced a comprehensive policy on biodiversity in 2020. Please refer to the [‘Sustainability policies’](#) part of the ‘Our responsibility’ section of this report for more information on our exclusion policy.

As part of our updated corporate strategy, we have raised our climate-related ambitions significantly:

- Substantially increase the volume of socially responsible investment (SRI) funds by 2025, targeting 30 billion euros, with SRI funds accounting for 50% or more of new production by 2021
- Target for share of renewable energy in total lending to the energy sector increased from 50% by 2030 to 65% by 2030
- Full exit from direct coal-related financing by 2021, thereby dropping the last remaining exception in the Czech Republic for funding of coal-fired power stations for communal heating systems
- Target for own green electricity consumption increased from 90% by 2030 to 100% by 2030
- Target to reduce own greenhouse gas emissions raised to 80% by 2030 (compared to base year 2015) rather than 65% by 2030, and goal to achieve climate neutrality as early as 2021 by offsetting the balance

We have set out in the following pages the main non-financial targets and our realisations to date.

To achieve all of the above effectively and to implement centrally-decided strategies in all our core countries, **we further strengthened our sustainability governance in 2020.** We re-emphasised the important roles of the Board of Directors, Executive Committee and Internal Sustainability Board and nominated country coordinators in all our core markets to ensure uniform, smooth and swift implementation. Furthermore, we continued the external challenge of our sustainability strategies, policies and products by using well-established external advisory boards.

We continued to focus on activities with a positive impact such as the launch – in partnership with the European Investment Bank – of a 300-million-euro loan facility for sustainable projects to small and medium-sized enterprises (SMEs) in Belgium, the issue of our second 500-million-euro KBC Green Bond, the financing of green energy projects to the tune of 1.48 billion euros, our involvement as one of the arrangers of a first social bond for the Walloon Region and various (green) mobility solutions. You will find our main achievements throughout this report.

SUSTAINABILITY HIGHLIGHTS 2020

Highlights

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 emitters and other companies across the global economy that have significant opportunities to drive the transition to clean energy and help achieve the goals of the Paris Agreement.

We took several initiatives to reduce our own greenhouse gas emissions going forward. These include installing photovoltaic panels on buildings we own and operate group-wide – reaching an installed capacity of 1.5 MWp in 2020 and resulting in avoided emissions of 245 tonnes of CO₂ in 2020 and launching a new green mobility policy for our employees in Belgium. We explain more about our direct footprint and emission reduction activities in the [‘Our direct environmental impact’](#) part of the ‘Sustainable finance’ section of this report.

As we continue to believe that **responsible behaviour is the basic layer of our sustainability strategy**, we developed a mandatory all-staff awareness e-learning programme on this important topic. We launched the training in Belgium and other countries will follow suit. The platform we used for the training in Belgium, StIPPLE – which stands for Skills to improve Performance Progression Learning and Employability – has been positioned as the key digital learning tool for all KBC employees. As such we are also focusing on the continuous development of our staff and ensuring their skills are in line with the expectations of a rapidly changing environment for financial institutions.

KBC Asset Management joined the collective engagement initiative Climate Action 100+ in 2020.

Financial results



Watch the video in which our CEO, Johan Thijs, looks back on one of the toughest years in the last 75 years, with the coronavirus causing human suffering all over the world and unprecedented economic upheaval.

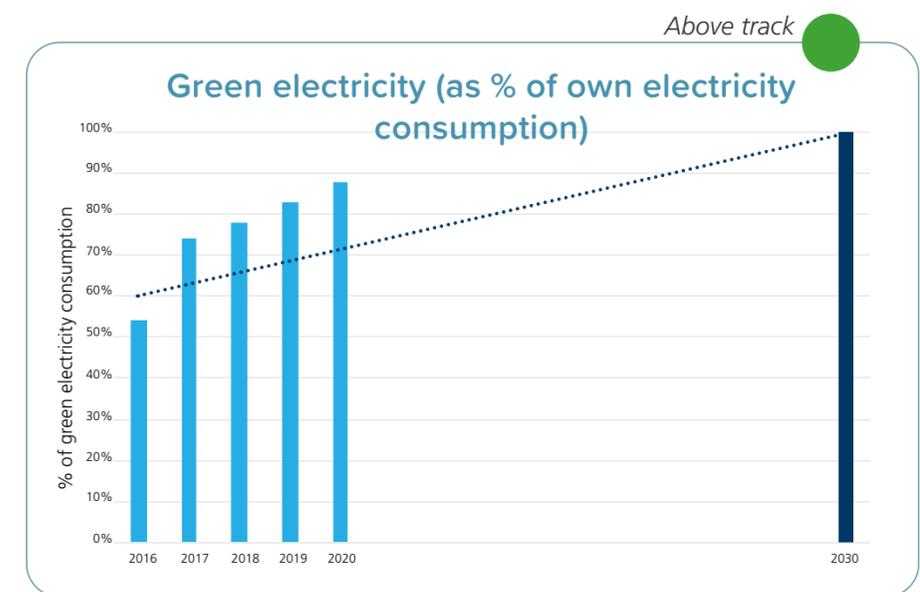
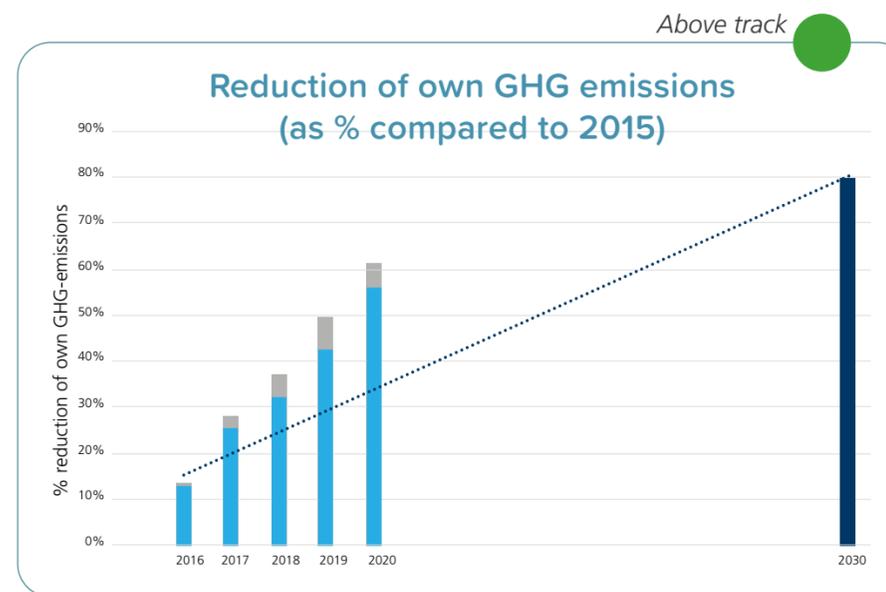
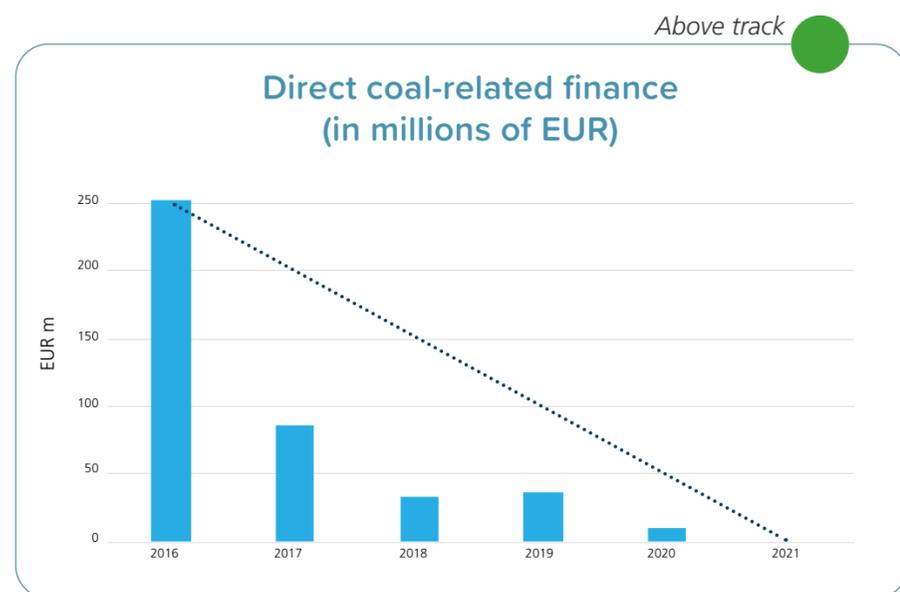
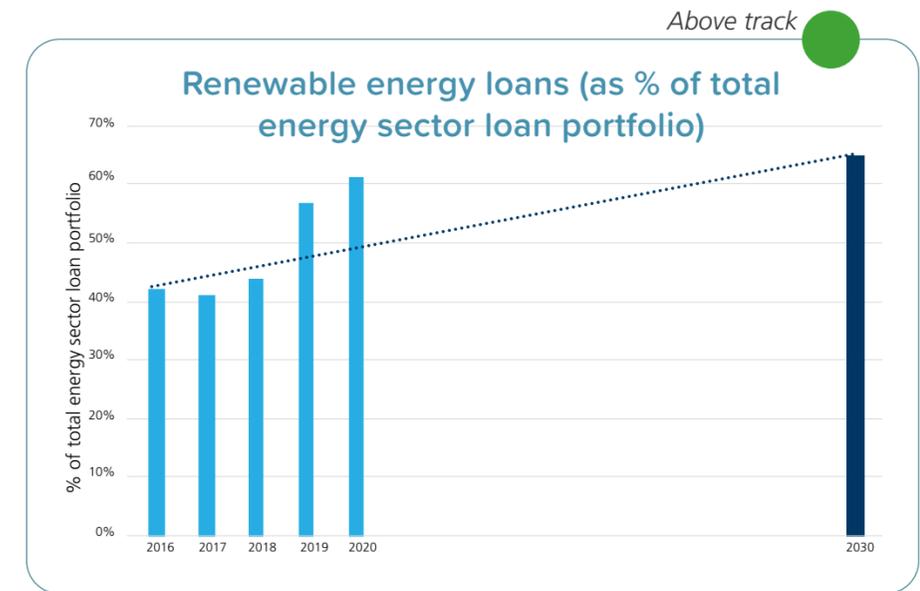
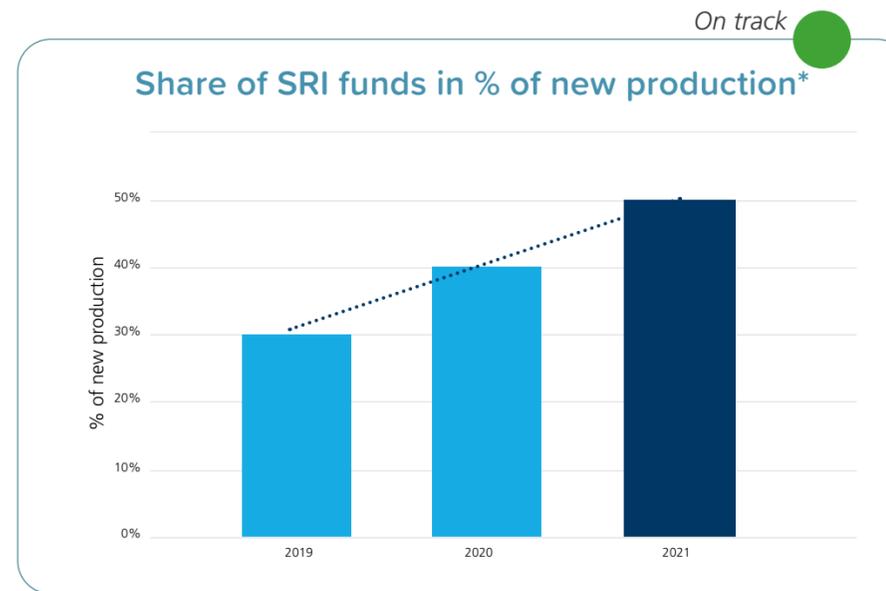
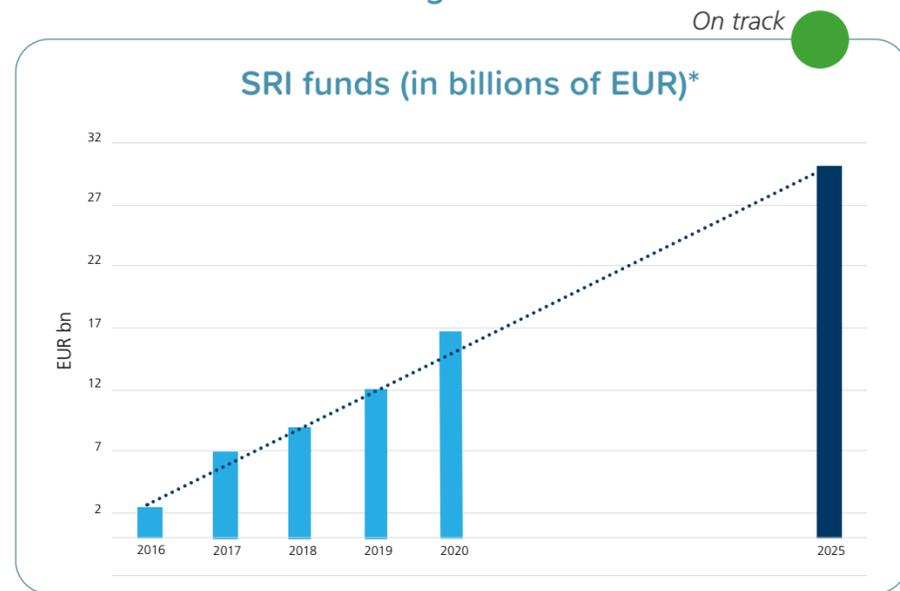
SUSTAINABILITY HIGHLIGHTS 2020

Our targets and commitments

Our main non-financial targets:

● KBC realisation versus pathway (on or above track)

● KBC realisation versus pathway (below track)



■ KBC realisation ■ KBC target Pathway

■ Reduction of total GHG emissions excluding commuter travel (previous target scope) ■ Reduction of total GHG emissions

* During 2021 KBC will re-evaluate this target and its definition of SRI funds in line with the new EU Sustainable Finance Disclosure Regulation (SFDR).

SUSTAINABILITY HIGHLIGHTS 2020

Our targets and commitments

Our non-financial environmental social governance (ESG) ratings:

Rating agency	Rating/score 2020 ¹	Rating/score 2019 ¹	Sustainability recognition and indices
S&P Global	73/100 85th percentile of 253 banks assessed	72/100	Inclusion in the S&P Global Sustainability Yearbook 2021 
Carbon Disclosure Project (CDP) (Climate Change)	A- Leadership	A- Leadership	CDP Supplier Engagement Leader 2020 
FTSE4Good	4.7/5	4.6/5	FTSE4Good Index Series 
ISS ESG	C Prime	C Prime	Prime (best-in-class) 
Sustainalytics ²	Low Risk (16.2): 3rd percentile of 408 diversified banks (29 January 2021)	86/100 (4 September 2019)	STOXX® Global ESG Leaders indices 
Vigeo Eiris	Not publicly available	Not publicly available	Euronext Vigeo indices: Benelux 20, Europe 120, Eurozone 120 and Ethibel Sustainability Index Excellence Europe 
MSCI	AAA	AAA	MSCI Belgium Investable Market Index (IMI), MSCI Belgium Index 

¹ End-of-year data, unless otherwise stated.

² Sustainalytics has updated the scoring methodology as a result of which the scoring results are not comparable between 2019 and 2020.

Our commitments

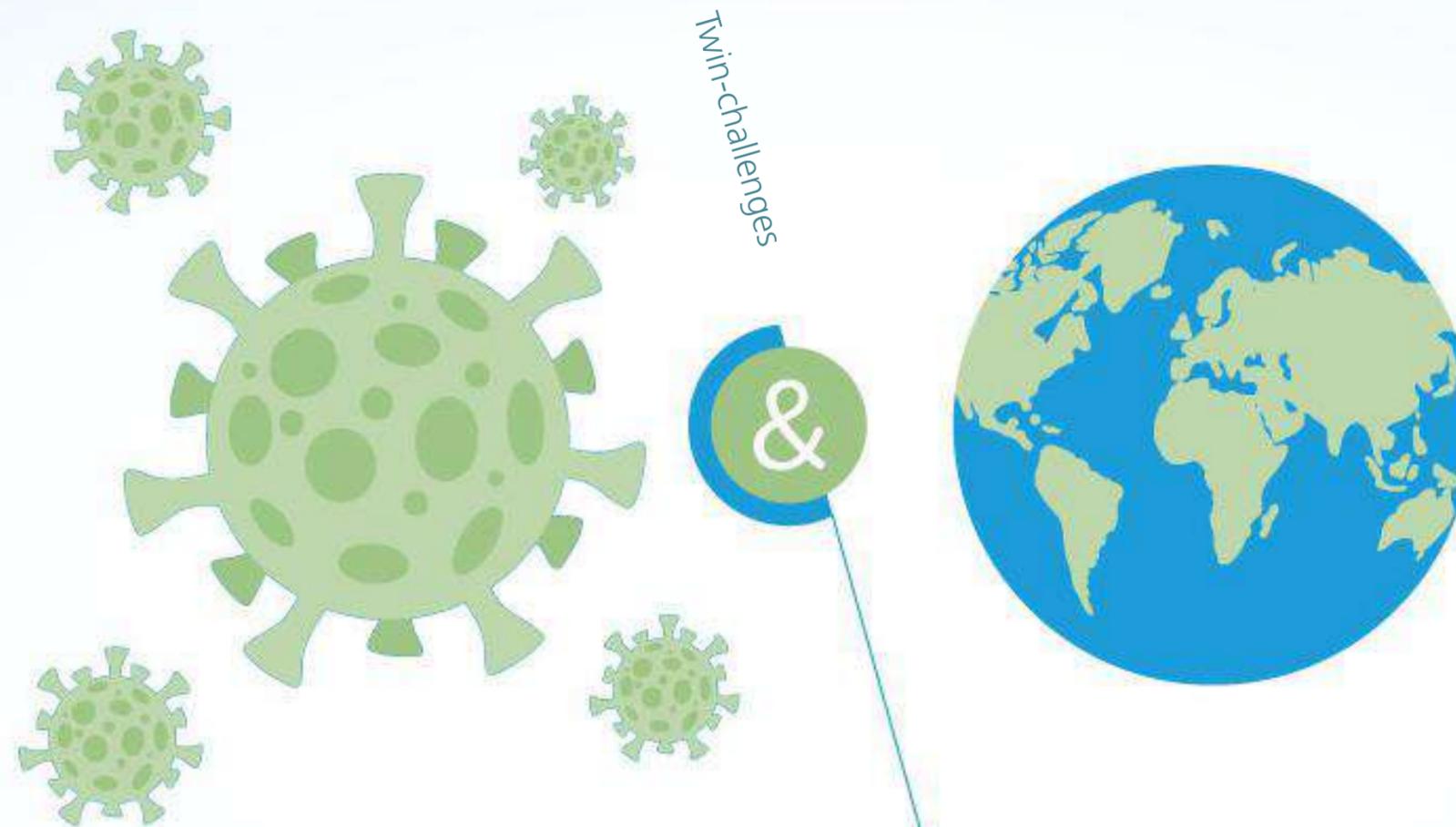


SUSTAINABILITY HIGHLIGHTS 2020

Covid-19

The Covid-19 pandemic has led to suffering and to a dramatic loss of human life worldwide. It is one of the biggest global events and challenges of our lifetimes. People, households, healthcare institutions, governments and businesses all over the world have been impacted by the pandemic.

As a multi-domestic bank-insurer, we have the significant responsibility to help minimise the social and economic damage Covid-19 has caused to our people, our clients and society as a whole. We have provided support and advice and are determined to continue to show our responsibility towards society and the local economies which we serve.



Tackling the Covid-19 pandemic and the social and economic damage it is causing will definitely be high on the agenda at KBC Group, too. The Covid-19 crisis has shown that we are all vulnerable. The same is true of climate disruption. Both can only be addressed through ambitious global action. At KBC, we firmly believe in a sustainable and climate-resilient recovery from Covid-19. We will continue to support both our employees and clients in this recovery. At the same time we are committed to ensuring ambitious climate action consistent with the Paris Agreement goals and striving towards climate-neutrality.

You can find our climate actions and ambitions in the '[Sustainable finance](#)' section of this report.

Economic

Whereas the European banking sector was part of the economic problems in the financial crisis of 2008-2009, during the Covid-19 crisis it is playing a critical role in the solution. Our group has taken up this role in the pandemic by supporting the real economy and our clients.

In 2020, companies increased borrowing from KBC and our loan volumes went up by 3%. The volume of granted loans with payment holidays under the various relief schemes amounted to 13.4 billion euros by the end of the year. Of that volume, these deferrals have expired for approximately 8.7 billion euros and payment has resumed for 96% of this amount. We also granted 0.8 billion euros' worth of loans under public coronavirus guarantee schemes in our core countries. Thus, during the shock of the coronavirus, our group did its bit to stabilise the economy and itself remained in a strong liquidity position. Our capital base remained robust as well with a fully loaded common equity ratio of 17.6%.

🏠 SUSTAINABILITY HIGHLIGHTS 2020

Covid-19

Our clients

During this difficult period, we have continued providing a high level of service to our clients in all our core markets, thanks to the expertise and commitment of our employees combined with the efforts and investments we have made over the past few years on the digital transformation front. Given that the pandemic has accelerated the trend to digitalisation, we are clearly benefiting from our digital transformation efforts. During the coronavirus crisis we realised even more how important digital literacy is and took concrete actions.

Here are a few examples:

- We launched several tutorials and guides that helped first-time users to become comfortable with our mobile apps and to pay safely during the coronavirus crisis.
- We continued to offer our clients advice in our branches but recommended that they use our online tools or get in contact with our colleagues from our remote bank branches such as KBC Live in Belgium. KBC Live – founded in 2014 – continued to play a crucial supporting role in meeting our clients' demands – not only during weekdays, but also outside office hours and on Saturdays.
- Since March 2020, a team of seven digicoaches in Belgium has been contacting clients aged 55 and over by telephone to encourage them to use our digital services. That approach is paying off: the fastest growing group of digitally active clients is the over-55 age category. Moreover, one in three KBC clients in the over-80 age category uses a digital channel to contact KBC and more than half of KBC clients in the 65-80 age category use digital channels.
- We actively encouraged our clients to shop safely with contactless payments

through their range of digital wallets including Apple Pay™, Google Pay™, Fitbit Pay™, Garmin Pay™ and Wena Pay™. KBC Ireland even recorded a 119% year-on-year increase in clients using its leading range of digital and mobile wallets.

- KBC Ireland phoned more than 5 000 cocooning clients who had no online access. These care calls reassured clients in Ireland that we had the necessary supports in place to help them with questions regarding Covid-19 and their financial concerns.
- To give special assistance to those who need it most KBC Ireland introduced a dedicated phone line for their elderly and vulnerable clients.

Unfortunately, cyber criminals around the world have undoubtedly taken advantage of increased digitalisation. Fraudulent parties used Covid-19 as a ploy to mislead people. We took proactive steps by advising our clients to be extra vigilant and cautious, especially when opening links, emails and documents related to Covid-19, and to protect their password.

Here are a few examples:

- Corporate Banking in Belgium launched a webinar that dealt with the hot issue of cybersecurity and gave practical advice on how to defend a company against cyber criminals.
- We launched several demos on social media in Belgium on how to recognise phishing and how to protect online accounts. Furthermore, we promoted Febelfin's awareness-raising campaign 'Be alert to strange behaviour' to our clients through our public website and social media.

The acceleration programmes for start-ups in Belgium and the Czech Republic (Start it @KBC and Start it @ČSOB) also made additional efforts during this difficult period and provided extra webinars on topics that entrepreneurs are struggling with, such as sales and finance. In times when online sales are rising sharply, the strategic use of a digital network as a sales channel is more important than before. What strikes us most is that despite a turbulent and economically unstable 2020, Covid-19 failed to stifle the spirit of enterprise. Far from it, in fact: a record number of entrepreneurs signed up last year for Start it @KBC (220 at the beginning of 2020 and 280 in the second half of the year). The lockdowns meant that a lot of people suddenly found themselves with more time to focus on their own business ideas. Meanwhile, talented individuals who lost their jobs because of the pandemic took the plunge and started a business of their own.

More details on how we protect KBC against cyberattacks and how we help our clients to keep secure and safe from cybercrime and other online threats are available in the ['Responsible business'](#) part of the ['Our responsibility'](#) section of this report.

SUSTAINABILITY HIGHLIGHTS 2020

Covid-19

Our people

The coronavirus has also disrupted the way we work. Depending on the local measures taken by the government in our core countries, KBC has required its employees to work from home and/or in separate teams as much as possible. In core countries where teleworking was not yet fully operational and people had to work fewer days we opted to offer financial security. In March and April 2020, more than 73% of our employees worked from home.

With the digital and collaboration tools available, a history of teleworking and an adjusted business continuity plan, we were able to reach and assist our clients at their convenience and provide our people with a smooth transition to (full-time) teleworking. Our branches in Belgium worked by appointment under strict conditions. We took maximum account of social contact precautions and hygiene regulations. Needless to say, we did all of this to protect the health of our people and all our clients.

It goes without saying that we kept close track of the well-being of our employees and provided them with accurate information about the coronavirus and the measures taken in response. This was achieved through frequently asked questions and messages from our CEO and senior management, to keep things in good order and to protect our organisation and our employees. We launched tips and tricks for well-being, including the importance of breaks, exercise and a healthy diet, instructed our managers to be vigilant for stress and anxiety symptoms and introduced digital sports activities to keep mind and body healthy. Moreover, we set up a special crisis committee to monitor the situation closely. This committee reports frequently (weekly during peak times) to the Executive Committee.

We also listened closely to our employees in times of Covid-19 and launched a local survey in May 2020 and June 2020 in Belgium, Ireland, the Czech Republic and Bulgaria. The focus of the survey varied in our core countries depending on local needs and the level of maturity in terms of teleworking.

Some key takeaways from the survey in Belgium can be found in the box below.

Based on the results, KBC in Belgium continued to invest in learning that facilitated collaboration and sharing tips and tricks on telework.

Key takeaways from the survey in Belgium:

- 80% of our employees felt the same or better working under lockdown
- 95% of our employees rated teleworking as effective to very effective
- 92% of our employees indicated that their manager cares about their well-being

Social

SUSTAINABILITY HIGHLIGHTS 2020

Covid-19

Society as a whole

The coronavirus is having a major impact on society as a whole. Together with our local partners and our employees, we supported several social projects in 2020.

For instance, KBC Belgium donated laptops to Digital For Youth. Close the Gap then refurbished the laptops and the King Baudouin Foundation redistributed them, selecting high-impact projects aiming to close the digital gap among young people in Belgium. We also noticed – in this difficult period – a great spontaneous solidarity between colleagues and all kinds of heart-warming initiatives, such as #KBCverwarmt (#heartwarmingKBC).

Our group remains committed to quite a few initiatives for socially vulnerable young people and adults. In Belgium, for example, KBC Verbindt continues to support social projects and gives them the opportunity to use KBC communication channels each month to explain the impact of the coronavirus on their operations.

Our heart goes out to the thousands of front-line healthcare workers. We continued to support this sector in 2020 through our core activities as a bank-insurer (please refer to the [‘Our commitment concerning our social impact’](#) part of the ‘Sustainable finance’ section of this report), but also through additional initiatives. We list below a few examples:

- K&H donated 150 000 euros to hospitals treating coronavirus patients in Hungary. The donation was based on the number of online payments through digital K&H channels.
- The Belgian cancer charity Kom op tegen Kanker organised its yearly event of selling azaleas. As a partner of Kom op tegen Kanker, KBC donated 1 000 plants to the healthcare sector and its staff.
- Together with the Czech Ministry of Health our local team allocated a total of 30 operators for tracking patients infected with Covid-19.

You can find more examples of our support to the healthcare sector – including community involvement – in the [‘Longevity and health’](#) part of the ‘Our sustainable business solutions’ section of this report.

Through our partnership with BRS, our group is also supporting the Global South in these difficult times. For instance, BRS has shown solidarity with its microfinance and microinsurance partners by providing additional financial support of 5 000 euros as a contribution to the costs of preventive measures. You can find testimonials on how those institutions are dealing with Covid-19 on the [BRS website](#). Besides providing remote advice, BRS has taken extra actions such as the launch of a manual for its MicroVision software. This free financial projection tool allows managers of microfinance and microinsurance institutions to work in a practical way to adjust their financial planning and test necessary stress scenarios.

BRS Microfinance Coop is closely monitoring its ongoing investments in the Global South, taking account of the fact that some organisations might run into liquidity problems and request postponement of repayment. As a social investor, BRS Microfinance Coop will not treat microfinance institutions with repayment problems as defaulters, but will take measures that consider those institutions’ needs and capacity. This mainly comes down to rescheduling repayment terms and flexibility in the repayment of capital and/or interest. Together with other Belgian impact investors, BRS Microfinance Coop launched a [call for action](#) to all dedicated actors, public and private, to respond to Covid-19 in developing countries.

You can read more details in the [‘Impact investing’](#) part of the ‘Sustainable finance’ section of this report.

Social

KBC AT A GLANCE

Who we are

KBC is an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Through our activities, we want to help our clients to both realise and protect their dreams and projects. We are active 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 mutually reinforcing principles:

- We put our clients' interests at the heart of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim in that way to achieve sustainable and profitable growth.
- We take our responsibility towards society and local economies very seriously, as reflected in our everyday activities.
- We implement our strategy within a strict risk, capital and liquidity management framework.

Differently: the Next Level

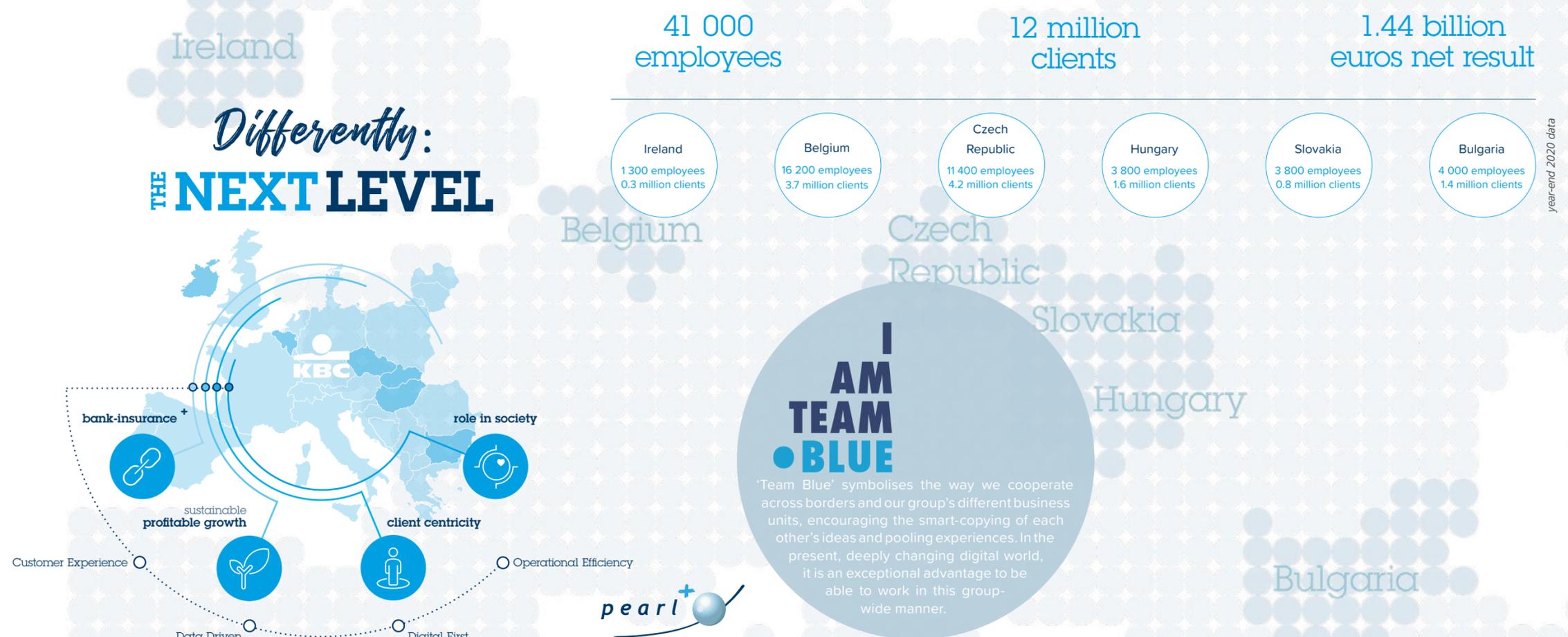
We always put our clients first, and by implementing our strategy as updated in 2020, we are taking our bank-insurance services and customer experience to an even higher level. We want to develop at an accelerated pace into a data-driven and solution-driven, digital-first bank-insurance company.

Our new, personal, digital assistant Kate is a core element of this strategy. For clients who so desire, Kate will play an important part in providing 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 so that they are easy to use throughout it. We achieve cohesion between the various entities of our group not only through our PEARL+ values, but also through our 'Team Blue'. To that end, we can count on a group of 41 000 talented employees from different countries who work hard every day to gain, retain and increase our clients' trust.



[Learn more about our updated corporate strategy in our 2020 annual report.](#)

KBC AT A GLANCE

Value creation

RESOURCES

Financial capital

Total equity of 21.5 billion euros
215 billion euros in deposits and debt securities

Employees and brand

Approximately 41 000 employees
56% women
Strong brands in all core countries, trusted partner
Capacity to innovate

Infrastructure

Various electronic distribution platforms, apps and underlying ICT systems
1 265 bank branches, various distribution channels for insurance

Clients and other stakeholders

Almost 12 million clients in 6 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

Core activities: lending – deposits – insurance – investments – asset management payments – other financial services



OUTPUT

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 1.44 billion euros
0.9 billion euros paid in interest to clients
3% growth in loan volumes

We want to stimulate our employees through training and career development 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 a fair reward, which likewise contributes to the welfare of the countries in which we operate.

2.3 billion euros in salaries, pensions and benefits to employees
Firmly embedded PEARL+ business culture
About 135 000 training days complemented with on-the-job training and knowledge sharing
Internal mobility 22%

Innovative digital artificial intelligence and data-driven approach of the group
Launch of digital assistant Kate
Focus on simplification and straight-through processes
1.4 billion euros in investment in digitalisation in 2021-2023

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
11.9 million euros spent on community involvement
Focus on financial literacy initiatives and promoting entrepreneurship
1.2 billion euros paid to governments in taxes (including non-recoverable VAT)

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 we can have a negative impact on society and the environment through our activities. We therefore aim to limit this impact and strive to increase our positive impact by providing more sustainable financing.

16.8 billion euros in SRI funds
Renewable energy: 61% of lending to energy sector
Loan portfolio of 7.1 billion euros in the senior and healthcare sector
Focus on environmental awareness initiatives and the issue of longevity/healthcare
Direct GHG emissions: 56% reduction on 2015
87% of green electricity use

OUTCOME

8% return on equity
17.6% common equity ratio
60% cost/income ratio and combined ratio of 85%

Employee engagement scores vary around 70% in our different core countries

Flexible and efficient access to financial services at the client's discretion
Digital interaction with clients:
32% and 15% digital sales (banking and insurance)
25% straight-through processing score

Total economic value shared with stakeholders: 7.7 billion euros
Client NPS ranking: top 2 score
78% bank-insurance clients and 22% stable bank-insurance clients
> 2 000 new jobs created as a result of coaching more than 1 000 start-ups since the launch of Start it@KBC

Committed to steering our portfolio towards Paris Agreement climate goals
448 351 tonnes of CO₂ emissions avoided through renewable energy project finance
Important role as a financier and insurer of the healthcare sector

Our values challenge us day in, day out to behave critically and responsibly. Respectful to our clients, colleagues, society and KBC itself, Responsive and Results-driven. This is crucial in supporting our goal to remain the reference in all our core markets.

HOW WE LISTEN

Our stakeholder engagement

We value constructive feedback and engagement with a wide range of stakeholders. We take on board their feedback, information and analysis to assist and to challenge our strategy and our business operations. Our key stakeholders include clients, employees, investors and core shareholders, suppliers, public authorities, non-governmental organisations (NGOs) and the broader community. Lastly, we have external advisory boards in place – consisting of experts from the academic world – that advise KBC on various aspects of our sustainability strategy.

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 promoter 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 a low-carbon business Webinars on ESG-related topics
 Employees	Work-life balance Personal and professional development Health & safety Ethical conduct	Employee surveys Regular consultation with the occupational health & safety committees, health, safety & security advisers and employee representatives Annual meeting of the European Works Council Regular evaluation of all staff StiPPLE, a key digital learning tool for our employees
 Investors Core shareholders	Value creation and profit generation 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 Annual general meeting Review by credit rating agencies Sustainability assessments such as DJSI (Dow Jones Sustainability Index), 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	CSR questionnaire as integral part of the supplier assessment Support suppliers willing to make the adjustments needed to comply with the Code of Conduct for Suppliers Webinars on ESG-related topics
 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 broader community	Local employment Transparency and good communication	Annual stakeholder dialogue Regular (one-on-one) meetings with NGOs Membership of sustainability network organisations Membership of local works councils Research papers and media analysis

HOW WE LISTEN

Our stakeholder engagement

Developments in 2020

In 2020, we once again discussed a variety of issues and challenges with our stakeholders. As in 2019, the focus was on climate-related issues, but the health crisis resulting from the Covid-19 pandemic was obviously an important topic too for many of our stakeholders in 2020. We list below the most important interactions with our stakeholders:

- We engaged in constructive dialogues with NGOs in preparation for tightening our current, already far-reaching [direct coal financing and energy policy](#) and drawing up a new [biodiversity policy](#).
- In collaboration with Sustainalize – a sustainability consultancy firm – we organised the third seminar on The Future of Non-Financial Reporting. Due to Covid-19 measures, the format of the seminar was changed to an informative webinar in which participants were given insight into the current trends and developments in non-financial reporting and a deep dive on how to comply with the Task Force on Climate-related Financial Disclosures (TCFD). You can find a recording of the webinar on the [KBC website](#).
- KBC Securities organised our first two-day Sustainability conference with insights into the EU's recovery policy and the EU Green Deal, including panel discussions with and keynotes from leading sustainability companies.
- Corporate Banking in Belgium organised client webinars and shared how business could benefit from the EU Green Deal and recovery plans. You can find a recording of the webinar on the [KBC website](#).
- We were in frequent contact with many stakeholders concerning the effects of the coronavirus crisis on our economies and societies at large. You can find an overview of some of the social initiatives that we took in the 'Covid-19' part of the ['Our approach'](#) section of this report. You will also read about some of the most significant economic effects and measures in our [annual report](#).
- We continued to play our role in society by focusing on a number of pre-determined domains. See the 'Our sustainable business solutions' section of this report for concrete initiatives.
- We organised various information sessions for our internal stakeholders on topics including our climate approach and our more general sustainability strategies. In Belgium, we organised one of these sessions as a feedback session with our Managerial Staff Consultation Committee.
- KBC Belgium Business Unit set up a major initiative to engage in dialogue with business clients and support them in their transition to a greener economy. Read more in the 'Sustainable finance' section of this report.
- Based on the KBC Asset Management Proxy Voting and Engagement Policy, KBC Asset Management has, in its role of management company of the funds involved, voted on more than 3 950 resolutions at 320 shareholder meetings. In 2020, moreover, KBC Asset Management has joined the collective engagement initiative Climate Action 100+. This is an investor-led initiative to engage systemically

important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. More information on investee engagement can be found in the ['Sustainable finance'](#) section of this report.



HOW WE LISTEN

Materiality assessment

In cooperation with a reputable and specialised third party, we conduct a materiality assessment every two years. 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. By defining the needs and interests of our stakeholders, we can also evolve our strategy to better meet their expectations and focus our reporting on the issues that they care about most. In 2020, we added a further dimension to our materiality assessment: 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. During 2021 and for the coming years, we will set the priorities of our sustainability strategy on the basis of these results.

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) on 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 to 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:

- (i) Long-term resilience of our business model
- (ii) Sustainable and responsible lending, insurance and advisory service offering
- (iii) 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 name and description of the material topics), we see some significant shifts: (i) the long-term resilience of our business model shifted upwards in comparison to 2018;

Phase 1:
Setting
the scope

Phase 2:
Selecting relevant
topics

Phase 3:
Validating topics
and determining
importance

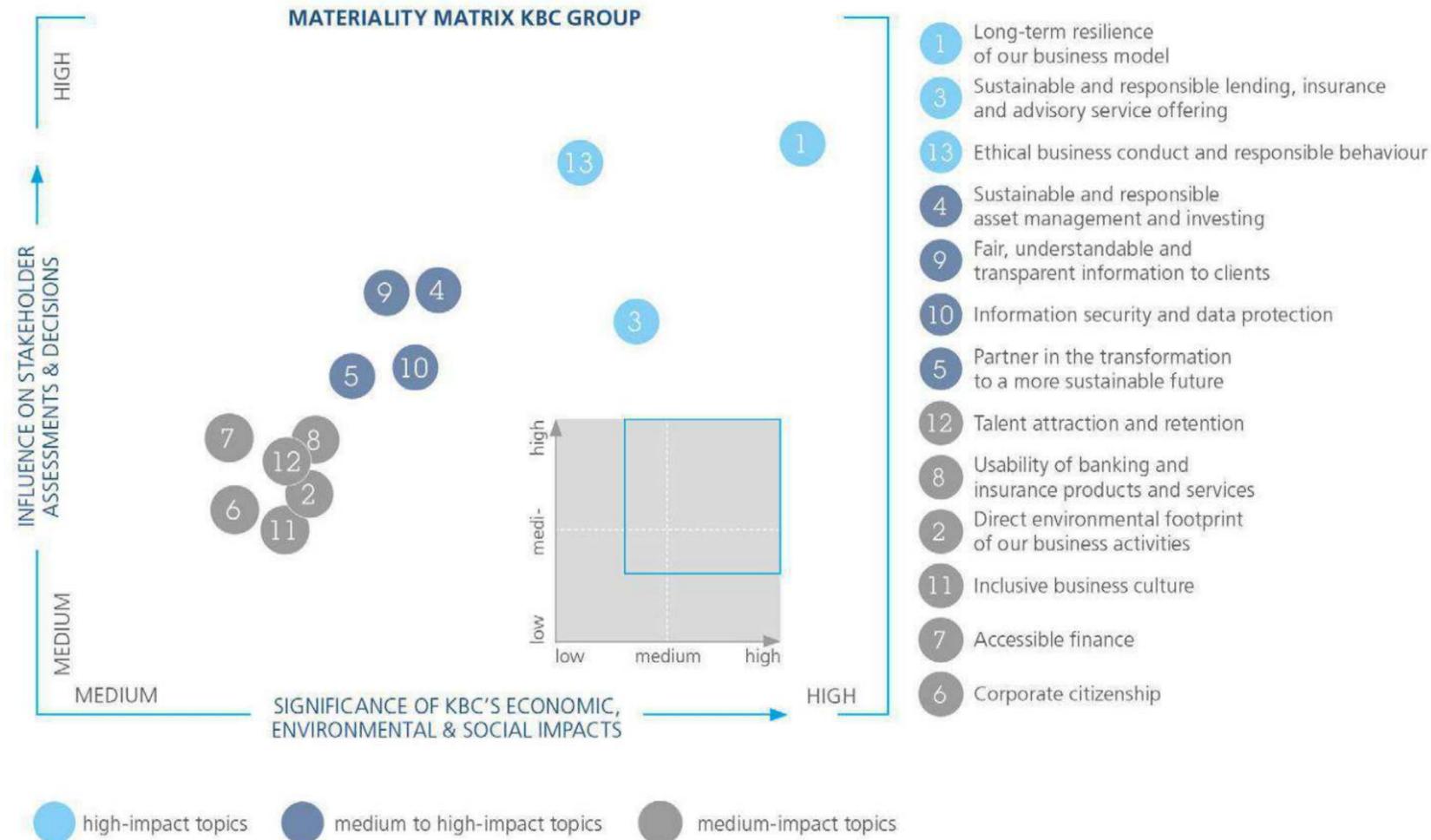
Phase 4:
Concluding on
materiality

HOW WE LISTEN

Materiality assessment

(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 decreased slightly 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 for discussion and gave valuable feedback – each from their field of expertise.



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 above-mentioned maturity and materiality assessment provides further guidance for the development of our strategy, 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.

Phase 5: Determining maturity of the material topics

HOW WE LISTEN

Materiality assessment

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



Relevant material topics:
 The material topics are discussed throughout this report and referred to where relevant.



HOW WE LISTEN

Material topics



Corporate strategy	Material topics	Relevance for our stakeholders				SDG relevance (high impact areas)	References
	1. Long-term resilience of our business model	●	●	●	●		KBC Group Annual report 2020: p. 16-19, p. 28-59, p. 60-66, p. 82-126, p. 127-133; KBC Group Sustainability Report 2020: p. 44-75
	2. Direct environmental footprint of our business activities	●	●	●	●		KBC Group Annual report 2020: p. 16-19, p. 40-55, p. 67-81, p. 121-126; KBC Group Sustainability Report 2020: p. 46
	3. Sustainable and responsible lending, insurance and advisory service offering	●	○	●	●		KBC Group Annual report 2020: p. 8-11, p. 16-19, p. 40-47, p. 48-54, p. 55-56, p. 67-81, p. 121-126; KBC Group Sustainability Report 2020: p. 44-70
	4. Sustainable and responsible asset management and investing	●	○	●	●		KBC Group Annual report 2020: p. 16-19, p. 40-47, p. 48-54, p. 55-56; KBC Group Sustainability Report 2020: p. 59, p.61, p. 71-75
	5. Partner in the transformation to a more sustainable future	●	●	●	●		KBC Group Annual report 2020: p. 37-39, p. 40-47, p. 48-55, p. 67-81; KBC Group Sustainability Report 2020: p. 44-75
	6. Corporate Citizenship	●	●	●	●		KBC Group Annual report 2020: p. 40-57, p. 67-81; KBC Group Sustainability Report 2020: p. 77-86
	7. Accessible Finance	●	●	●	●		KBC Group Annual report 2020: p. 12-15, p. 29-33, p. 67-81; KBC Group Sustainability Report 2020: p. 80-81, p. 85-86
	8. Usability of banking and insurance products and services	●	●	●	●		KBC Group Annual report 2020: p. 16-19, p. 40-47, p. 48-55, p. 57-81, p. 121-126; KBC Group Sustainability Report 2020: p. 78-79, p. 85-86
	9. Fair, understandable and transparent information to clients	●	○	○	○		KBC Group Annual report 2020: p. 29-33, p. 145-150; KBC Group Sustainability Report 2020: p. 36-39
	10. Information security and data protection	●	●	●	●		KBC Group Annual report 2020: p. 16-19, p. 29-33, p. 108-113, p. 145-150; KBC Group Sustainability Report 2020: p. 37-39
	11. Inclusive business culture	○	●	●	●		KBC Group Annual report 2020: p. 12-15, p. 20-27, p. 139-140; KBC Group Sustainability Report 2020: p. 15, p. 29-31
	12. Talent attraction and retention	○	●	○	○		KBC Group Annual report 2020: p. 20-27; KBC Group Sustainability Report 2020: p. 32-33
	13. Ethical business conduct and responsible behaviour	●	●	●	●		KBC Group Annual report 2020: p. 12-15, p. 55-56, p. 145-150; KBC Group Sustainability Report 2020: p. 35-37

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.

- 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

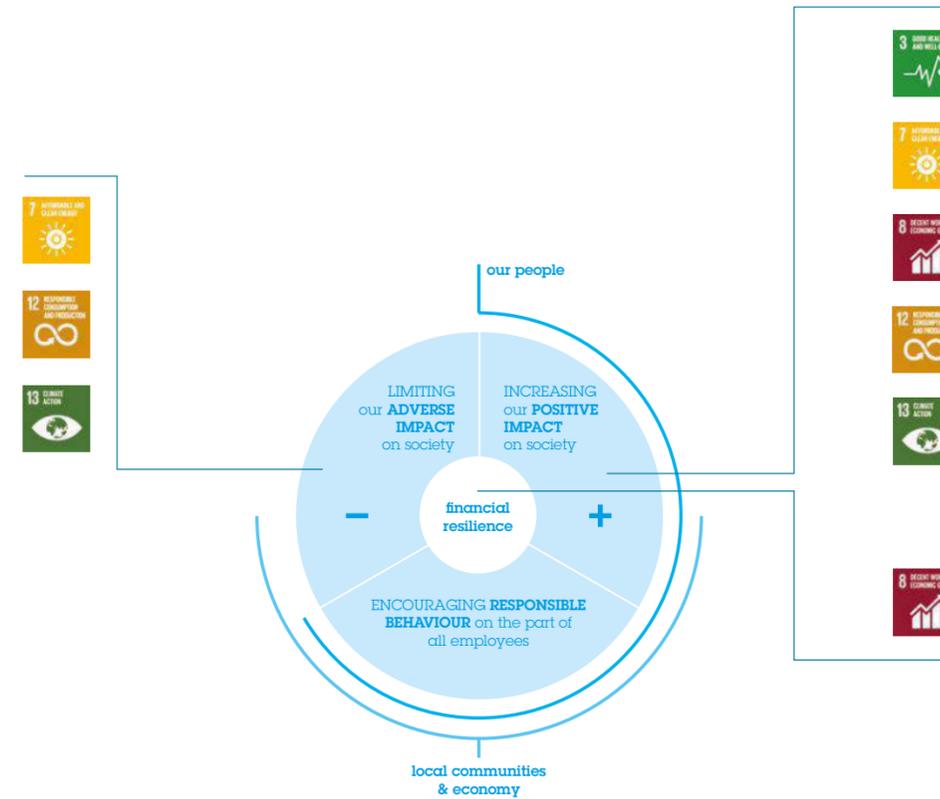
SUSTAINABILITY STRATEGY

The cornerstones of our sustainability strategy

KBC aims to respond to the expectations of all its stakeholders and to create sustainable value, now and into the future. As a financial institution, we are an important driving force for the real economy and as such have an important direct and indirect impact on society. Our group aims to avoid or limit the negative impact of our products and services as much as possible, and strives to provide financial solutions and business opportunities that have a positive impact in a number of pre-determined focus domains: environmental responsibility, financial literacy, entrepreneurship and health and longevity. We focus especially on responsible behaviour as the foundation for sustainability at KBC. Lastly, doing business sustainably also means that we must have the necessary financial resilience and pursue strict risk management. Sustainability is integrated throughout our business operations and in our day-to-day business activities, and is supported by all our employees. Senior management responsibility for sustainability and its governance ensures that our sustainability strategy and goals are integrated into every layer of our organisation and all our core activities.

We substantially raised our climate-related ambitions

Climate change is one of the greatest challenges facing the world in the 21st century, which is why we have committed ourselves to contributing to the transition to a low-carbon society. We recognise that our activities have an impact on the environment, while climate change can also affect our business model. But we are aware at the same time of the influence we can exert for the sustainable development of the planet. For that reason, we will pursue constant progress in our policies and targets. We have set up a dedicated KBC Sustainable Finance Programme to manage climate-related risks and opportunities across the group.



Relevant SDG goals (high-impact areas):

After due analysis of all the UN SDGs and their combined power, we have identified five as high-impact areas for our organisation. Throughout this report you can find the relevant SDGs in each section.

Sustainability integrated into our remuneration policy

Sustainability, including climate and the associated targets, has been integrated into the remuneration systems of our employees and especially our senior management.

- 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. The Board of Directors, through its Remuneration Committee, assesses the criteria for evaluating the members of the Executive Committee in this respect.
- Sustainability is also integrated into management's variable remuneration. 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).

SUSTAINABILITY STRATEGY

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 addressing 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 tackling these goals. While the 17 SDGs are all interconnected and relevant, and we ensure through our sustainability policy that we work on all of them, we have chosen to focus in greater depth on five goals 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. 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.

Climate action

We apply strict environmental policies to our loan, investment and insurance portfolios. A key focus area of our sustainability strategy and climate policy is our focus on sustainable investments. We take account of the climate performance of investees as well as on active engagement with them. We develop business solutions that help clients reduce their greenhouse gas emissions and make the transition to a low-carbon economy. We limit our own environmental impact and communicate on that. We seek to address climate-related risks and focus on related opportunities in that area.

[Strategic objectives and relevant KPIs »](#)

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 sustainable funds towards our clients, which we see 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.

[Strategic objectives and relevant KPIs »](#)



Good health and well-being

We develop banking and insurance products that focus on health, healthcare and improving quality of life. Our social projects also focus on themes like health and road safety, and so we contribute to reducing the number of road fatalities and injuries. We promote a good work-life balance among our employees.

[Strategic objectives and relevant KPIs »](#)

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 drawn up an exit programme for the financing of non-sustainable energy solutions.

[Strategic objectives and relevant KPIs »](#)

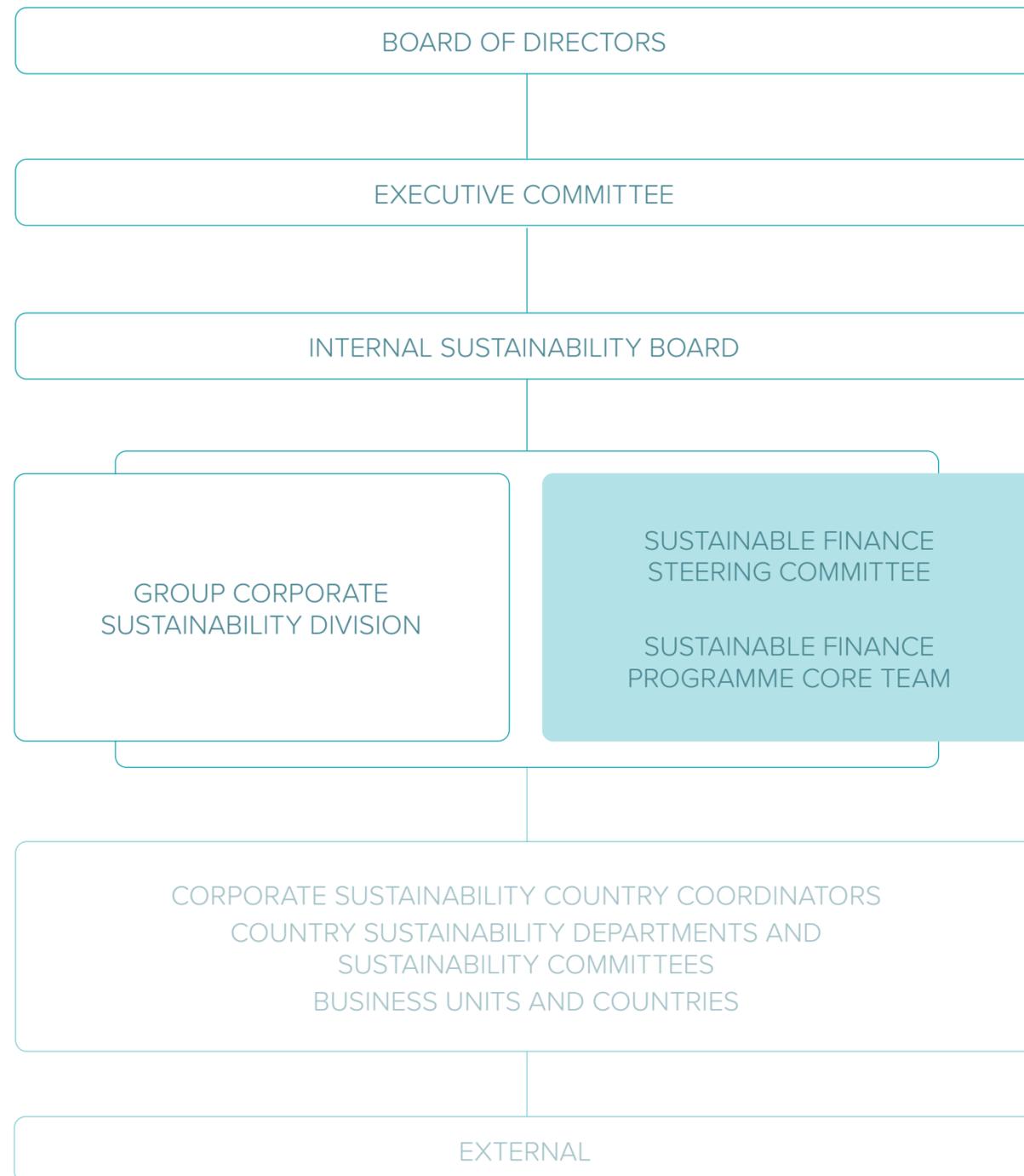
Decent work and economic growth

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). We play an important role in protecting basic labour rights, fair pay, equal opportunities and training and development opportunities for all our employees.

[Strategic objectives and relevant KPIs »](#)

SUSTAINABILITY STRATEGY

Sustainability governance



BOARD OF DIRECTORS

The Executive Committee reports to the Board of Directors on the sustainability strategy, including policy on climate change. As the Board of Directors has determined climate action failure as a top risk for KBC Group (for more information please see our [risk report](#)), the Risk and Compliance Committee follows up the sustainability-related risks very closely. Twice a year the Board of Directors reviews a comprehensive overview of all sustainability-related domains and targets by means of the KBC Sustainability Dashboard. Important changes to sustainability policies as well as sustainability-related reporting are also discussed at board level.

THE EXECUTIVE COMMITTEE is the highest level with direct responsibility for sustainability, including policy on climate change. It has granted decision-making power on sustainability and climate-related issues to the Internal Sustainability Board and the Sustainable Finance Steering Committee. However, ultimate decision-making authority remains with the Executive Committee, which is required to ratify any such decisions.

INTERNAL SUSTAINABILITY BOARD (ISB) is chaired by the Group CEO and comprises the respective representatives of the Executive Committee members (senior managers from all business units and core countries), the Group CFO (as chairman of the Sustainable Finance Steering Committee) and the Group Corporate Sustainability General Manager. 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 the discussion on all sustainability-related issues (including our approach to climate) and 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.

SUSTAINABLE FINANCE STEERING COMMITTEE

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 progress of the Sustainable Finance Programme. Progress is reported to the Executive Committee and the Board of Directors through a status report at least once a year.

SUSTAINABLE FINANCE PROGRAMME CORE TEAM

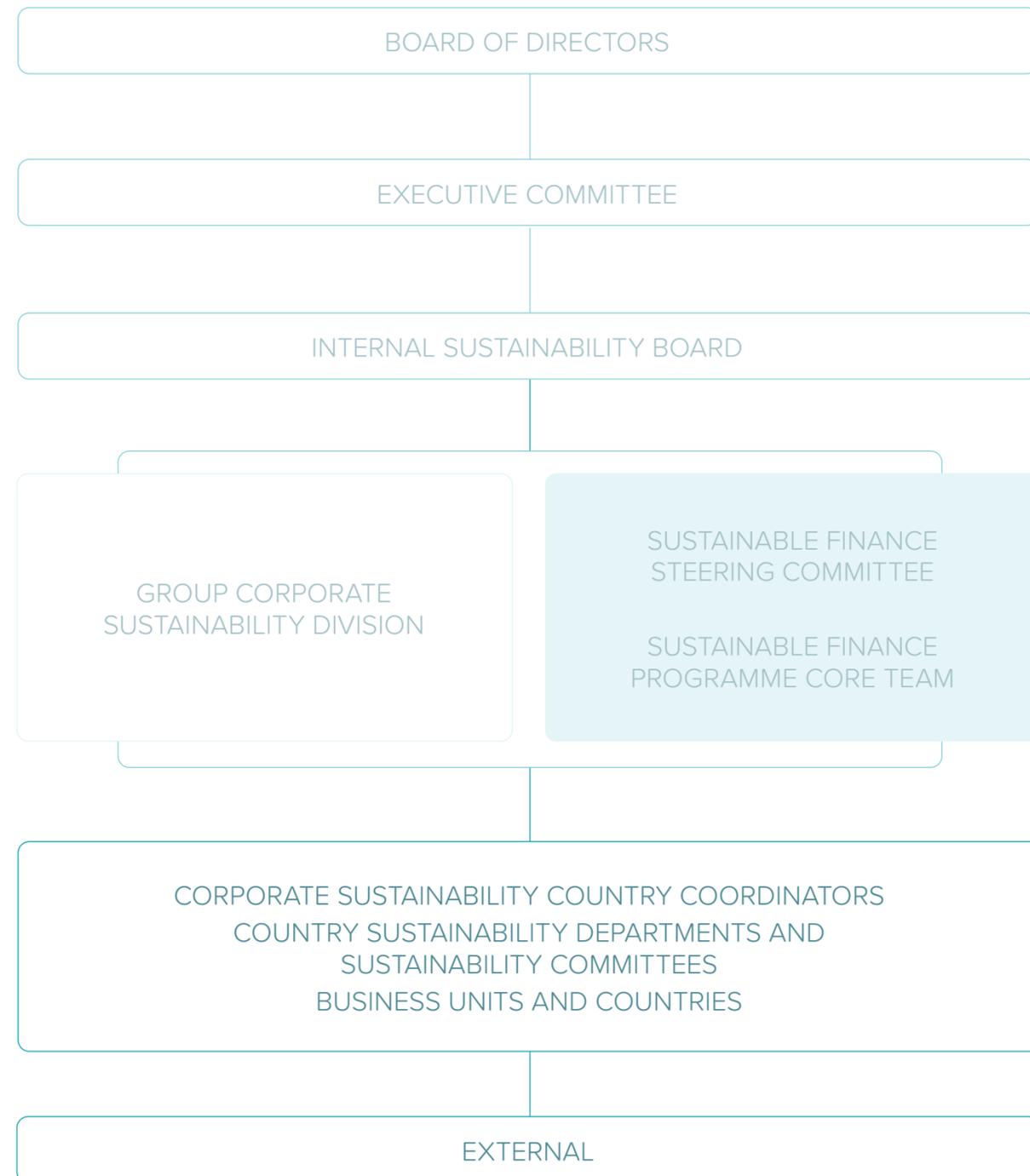
Headed by a programme manager from Group Corporate Sustainability, the Sustainable Finance Core Team comprises specialists from the Finance, Credit Risk, Risk and Data Quality Management functions together with sustainability experts. The core team integrates the policy on climate change within the group and oversees and supports our business departments in developing climate resilience in line with the TCFD recommendations and the EU Action Plan. The programme members meet on a weekly basis to ensure swift action on the programme’s objectives and work in close cooperation with specifically designated staff in the core markets of our group.

GROUP CORPORATE SUSTAINABILITY DIVISION

The Group Corporate Sustainability Division is headed 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 it across the group. The team monitors implementation of the strategy and informs the ISB. The Executive Committee and the Board of Directors are informed on progress twice a year through the KBC Sustainability Dashboard.

SUSTAINABILITY STRATEGY

Sustainability governance



CORPORATE SUSTAINABILITY COUNTRY COORDINATOR

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. They work closely and frequently with the Group Corporate Sustainability General Manager as well as with their country representative in the ISB. As such, all core countries of KBC are adequately involved in both the strategic discussions and the operational implementation of our group-wide sustainability policies and programmes.

COUNTRY SUSTAINABILITY DEPARTMENTS AND SUSTAINABILITY COMMITTEES

In each of our core countries, our sustainability departments and committees are organised in such a way 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.

BUSINESS UNITS AND COUNTRIES

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

EXTERNAL

In addition to our internal organisation, we have set up external advisory boards to advise KBC on various aspects of sustainability. They consist of experts from the academic world: The External Sustainability Board advises the Group Corporate Sustainability Division on KBC sustainability policies and strategy. During 2020, this board was actively involved in drawing up the white papers in the Sustainable Finance Programme as well as in the Materiality Assessment. You can learn more about both topics elsewhere in this report. 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.

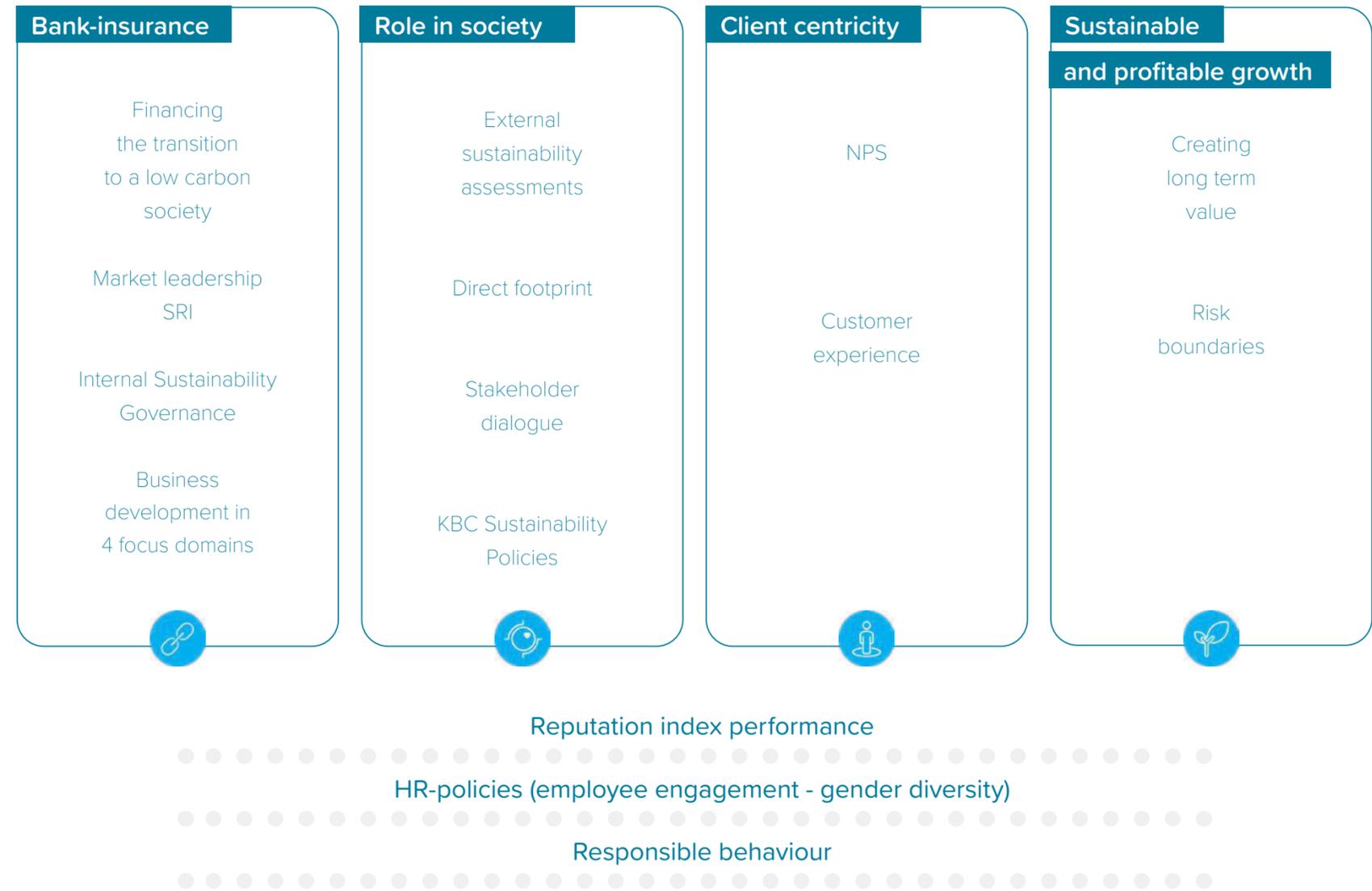
SUSTAINABILITY STRATEGY

KBC Sustainability Dashboard

The Executive Committee and the Board of Directors use the KBC Sustainability Dashboard to evaluate and discuss implementation of our sustainability strategy twice a year. This assessment also impacts the variable remuneration granted to the Executive Committee. For more information, please refer to the [‘The cornerstones of our sustainability strategy’](#) part of this section.

We have drawn up 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 pillars of our group’s corporate strategy. The KBC Sustainability Dashboard was reviewed and updated in 2019 to keep pace with the changing environment, requirements and regulations and to ensure that we are focusing sufficiently on the relevant themes. Some KPIs (key performance indicator) were strengthened and others added. We will review the parameters of the KBC Sustainability Dashboard again in 2021.

The elements of the existing Sustainability Dashboard are shown in the figure on this page. The most important underlying KPIs are discussed throughout this report as well as in our [annual report](#).





OUR PEOPLE



EMPOWERING OUR PEOPLE

Our human resources (HR) policy is based on our PEARL+ corporate culture. The ‘E’ stands for ‘empowerment’ and refers to our commitment to give every employee the space they need to develop their talent and creativity.

In 2020, we further strengthened our PEARL corporate culture, adding an extra dimension – the ‘+’. It means we will focus increasingly on the joint development and smart copying of solutions, initiatives and ideas within the group – also in areas such as HR and sustainability – so that they are easy to use throughout KBC. By doing this, we are taking group-wide cooperation between the various countries and domains to an even higher level. This will make it possible to work more efficiently, to respond more quickly to change and to make maximum use of local talent and skills throughout the group.

Collaboration outside our silos and across our national borders creates new insights, not only because of the increase in scale, but also because of the more diverse view of other colleagues.



KBC earned the right to call itself ‘**Top Employer 2021**’ in Belgium for its outstanding employment conditions. Crucial to the Top Employers Certification is the completion of a stringent international process and meeting the required HR standards. This recognition fits seamlessly with our ambition to be an attractive employer in all areas, from a sustainable work environment to sustainable remuneration.



Diversity and inclusion

At KBC we promote a culture of diversity and inclusion, in which we treat each other with respect. Respect is a core behaviour of the aforementioned PEARL+ corporate culture. We want to create a working environment where we can be ourselves, where we dare to express our own opinion and where we can look at the world with an open mind. This means we should become aware of prejudices that can influence our behaviour and the way we work with our colleagues. We are therefore strongly committed to raising internal awareness about unconscious bias and taking action in this regard. All staff responsible for recruitment in Belgium followed an unconscious bias training already in 2019. Last year in Belgium we additionally introduced the e-learning package ‘Unconscious bias: How to become #Allinclusive’ to boost our employees’ awareness and knowledge of this topic. Through video scenarios, employees can reflect on their own behaviour and learn numerous actions on how to counter bias. This training will become mandatory for all our senior managers and all staff in leadership positions.

Company policy

We recently renewed the [KBC Group Code of Conduct for Employees](#) in order to remain the reference and continue to play our positive role in society. It 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 discrimination, harassment – sexual or otherwise – and all other direct and indirect forms of intimidation are not tolerated.

We have shown that we value diversity and inclusion and have introduced a first [Policy on Diversity and Inclusion](#), but we also recognise that we still have work to do. One specific point of attention is to increase gender diversity in the higher echelons of our organisation, where women are currently insufficiently represented (see box on the following page). To support this, we aim to have one female candidate and one male candidate for each new senior management nomination. Additionally, our core countries set short and long-term objectives, together with a focus



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 stimulating creativity and innovation.
- Detailed people indicators can be found in the ‘[Sustainability facts and figures](#)’ section of this report.



Relevant material topics:

- **11** Inclusive business culture
- **12** Talent attraction and retention

You can find detailed people indicators in the ‘[Sustainability facts and figures](#)’ section of this report.

EMPOWERING OUR PEOPLE

on developing a gender balanced talent pipeline. Progress on the objectives is reported to the Executive Committee every six months. Under this system, each core country is held accountable for raising gender diversity within its specific business environment.

We ensure that vacancies are written in a gender-neutral way and seek to retain talented women in IT positions, while also encouraging them to pursue leadership roles through initiatives such as training courses, workshops and networking groups.

Equal pay

In 2019, KBC Belgium performed a study to investigate the role of gender, in comparison to other factors, in decisions related to pay. Various aspects including exceptional variable remuneration, discretionary pay increases and promotions were analysed. The study found that there was: (1) no gender bias in awarding a raise or promotion; (2) 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; (3) a small gender bias in favour of men when it comes to the amount of discretionary pay increases; and (4) a gender bias in favour of men when it comes to the amount of exceptional variable remuneration.

Inclusive communities

In Belgium the ‘Diversity Rocks’ community promotes diversity and inclusion at every level of KBC. The community works closely with the HR department, sets up discussion forums and organises workshops to raise women’s visibility. In the Czech Republic, a Diversity Leader has been appointed to coordinate all types of diversity and to set up strategies. An informal group of ten top female managers are the sounding board for gender diversity topics. The LGBTQ+ internal Employee and Business Resource group at ČSOB – called Proud – is a good example that inclusive communities are not limited to gender.

In 2019, KBC – and other major financial players in Belgium – signed the Gender Diversity in Finance Charter. In doing so, we have undertaken to measure gender data, develop an action plan with concrete and realistic goals aimed at improving gender balance, communicate on progress and place the topic of diversity and inclusion on the agenda of the Corporate Culture Unit at Corporate HR. The Gender Diversity in Finance Charter is an initiative of Women in Finance, a Febelfin project chaired by our Chief Risk Officer, Christine Van Rijseghem. You can read the most important achievements of Women in Finance from the first year of existence in the Annual Report of Women in Finance available on the website of [Febelfin](#). Once we receive our individual report, we will investigate and take the necessary actions to strive for a gender balance at all levels in our company and to nurture an inclusive culture to sustain it.

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

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



You can find detailed people indicators in the ‘Sustainability facts and figures’ section of this report.

EMPOWERING OUR PEOPLE

Parental leave and family care

Inclusion is a wide-ranging theme that also involves supporting employees returning from maternity or paternity leave and long absences. In some of our core countries – where state facilities for childcare are limited or non-existent – we offer our employees a kindergarten facility. ČSOB Lease in Slovakia, for example, has a special place for mothers and children on each floor in the office. K&H Insurance offers a kindergarten and creche reimbursement service. In the Czech Republic – where parents can take parental leave until their child is three years old – we provide a specific programme for parents incorporating the flexibility of part-time jobs. In 2020, 17% of our Czech colleagues chose to continue to work instead of taking their full three-year parental leave. In cooperation with Ferm Kinderopvang vzw, KBC Belgium organises child care during the summer months.

• 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
- 98% of employees are able to control and/or vary the location where they work

Age diversity

We also focus on age diversity and the issues that may arise from extending employees' working lives in terms of professional development. We all have to work longer and sometimes need to change our priorities. Some people prefer a less demanding job towards the end of their career. 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 old and 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. The outsourcing lasts for up to eight years until the date of retirement and is concluded by way of a service agreement. This programme gives our older employees the opportunity to use their years of experience at KBC in a new environment. When opting for this programme, employees show their interest in gaining new experiences, getting to know new systems and ways of collaboration, discovering a new network and developing beyond their comfort zone. Working for an organisation outside KBC within this programme is a conscious choice that has so far

allowed some 94 colleagues to take their career in a new direction. Of this group, 34 employees have since retired, while the other 60 are active at 42 different organisations, mostly in the social and non-profit sector.

My enthusiasm hasn't cooled, despite the chilly weather. On the contrary!

Quote Marc Wouters, Sales Manager StreetwiZe since October 2020, previously KBC Cluster Manager

I got off to a perfect start at StreetwiZe, which develops high-impact learning products for companies. It's a people-centred organisation with brilliant colleagues. My assignment is challenging, but I really have the feeling that I can add value to StreetwiZe. My decision still feels 100% right, and I can't say I miss my previous job at all!

I would have liked to present some more concrete results, but the entire organisation is really enthusiastic about the commercial drive I brought with me and about my first results. It still looks like a 100% correct match!

Our group also gives young colleagues and new graduates the opportunity to develop their talents. KBC in Belgium has recently increased its efforts in the search for talent. Together with other leading companies, we launched KUBIC – a not-for-profit initiative that brings together companies, students and universities and stimulates knowledge sharing and networking. The initiative allows students to gain insights into real business challenges and receive course credits for it. [KUBIC](#) is an open platform accessible to all companies and to students from all universities. With the number of vacancies expected to grow in Belgium in the coming decade, this innovative platform aims to strengthen our position in the competition for talent by connecting with a potential target audience of approximately 38 800 students.

EMPOWERING OUR PEOPLE

Employee growth and development

Our group's firm ambition is to make our organisation and employees future proof. We are committed to a culture in which learning is an integral part of our daily activities. Our company is in full transformation. In line with changes in society, data, technology, artificial intelligence and machine learning are becoming increasingly important. One illustration of this is the recent introduction of our digital assistant Kate. It is, therefore, crucial that our employees have the skills and flexibility to deal with these changes. To help make that possible, we launched the digital learning platform, StiPPLE – which stands for Skills to improve Performance Progression Learning and Employability – in 2020.

Hot skills

In 2020 – as part of our strategy update 'Differently: the next level' – we defined a set of skills that every employee needs to make our group's business transformation a success. We call them 'hot skills', which we help our employees acquire via tools like our new digital (artificial intelligence (AI) controlled) learning platform, StiPPLE. The platform delivers training for the skills we need to realise our strategy. It is not just a learning platform, however: we also

use it for progression management and as a job-matching place where demand and supply can meet. StiPPLE is set up so that employees are in the driving seat when it comes to developing their own careers and can also learn new skills that might be useful in totally different business environments.

Continuous progression

To prepare for the future, we have rethought and redesigned our existing talent process, which now includes a 'Progression Management' pillar. We took the decision to shift from an annual performance review process to continuous performance management. This, together with progression dialogues, forms the key to knowing how a person is performing. When rolling out this new workflow, we opted for an approach that can be translated and adapted to the different businesses in our core countries rather than a 'one size fits all' format. In Belgium, for example, our continuous performance management has been extended to include a mandatory annual 'wrap-up' in the shape of a progression overview. Various discussions have been held at senior manager level since 2019 to promote the progression management project within their businesses.

We realise that good managers are key to bringing out the best in our employees and implementing our strategy successfully. Our group expects its managers to be open-minded, so that they can respond quickly to changes inside and outside the group. This requires them to have specific skills. To ensure that everyone takes up their role, we provide various training programmes for our current and future leaders. Senior managers from across the group participate in KBC University, an ambitious development programme, which included a two-day module on big data and artificial intelligence in 2020. In 2021, the importance of climate and climate action will be on the agenda. Meanwhile, we have been actively working on a dedicated policy for top talent management, mapping out the careers of future senior managers and preparing them for the challenges of tomorrow. We put focus on a gender-balanced leadership (and therefore also a gender-balanced pipeline). When filling in vacancies at senior management level, we

24+, the customer care centre for KBC Belgium, was awarded the Gold Award for Employee engagement under the motto: No one sees more opportunities for improvement than the employee on the job.

consider equally qualified profiles of both genders.

Employee engagement

2020 was an important year in terms of measuring employee engagement. The previous group-wide survey on employee engagement dated from 2017. In 2020, we measured engagement using three questions that gauged the level of pride in working for KBC, how motivated people were in their job and whether they still saw themselves working for KBC within three years.

The overall employee engagement score varied across countries, with 74% in Belgium, 71% in the Czech Republic, 69% in Ireland, 65% in Slovakia, 70% in Hungary, 61% in Bulgaria and 69% in our group's Shared Service Centre in Brno (Czech Republic) and Varna (Bulgaria).

In Belgium, the response rate was 57%, which is four percentage points higher than for the 'Shape your future' survey conducted in 2019. We proved to be an attractive employer, with 80% of our employees in Belgium stating that they are proud to work for KBC. This was due mainly to

KBC's image, forward-looking vision and innovative approach. 72% of employees still saw themselves working for KBC in three years' time. The content of the job was cited as the most important factor, but employees also saw KBC as a good employer and a strong one going forward. 69% of employees felt motivated in their job and attached particular importance to the content as well as the existence of sufficient challenges.

When we look at the employees of ČSOB in the Czech Republic, we find that 74% stated they were proud to work for ČSOB, 73% felt motivated in their job and 66% saw themselves still working for ČSOB within three years.

Where appropriate to the needs of the different countries, the employee engagement survey was integrated into a broader study. For KBC Belgium, this took the form of a second 'Shape your future' survey. In addition to engagement, we measured the impact of the strategy update. 82% of employees indicated that they have a clear view of KBC's strategic direction. Employees were also asked about the recently launched hot skills training in StiPPLE. Based on their input, we have since added new features to StiPPLE, such as a skills profile and



EMPOWERING OUR PEOPLE

more training courses that focus on the practical application of hot skills.

Safe and healthy working environment

At KBC we keep close track of the well-being of our employees. We strive for a positive working environment where all our employees feel good, recognised, resilient and involved and where the working conditions are adapted to personal needs. After all, healthy employees working in a safe environment feel at ease with themselves and are strong enough to use their own creativity in pursuit of client-focused solutions.

We have adopted and successfully implemented an Occupational Health and Safety Management System in almost all our core countries with the aim of continuously improving the well-being of employees. The responsibilities and methods associated with the implementation, maintenance and monitoring of the management system is organised at local level. The Occupational Health & Safety Committee (OHSC) is responsible for drawing up and monitoring the general health and safety and protection plan and aspects such as

the protection of workplace health and safety, changes to the workplace and equipment, evaluation of and solutions for psychological risks and problems such as stress.

In 2019, KBC in Belgium received [ISO 45001 certification](#) for its Occupational Health and Safety Management System, which was verified by Vinçotte. It means that KBC Belgium has a formal health and safety management system in place.

We regularly organise health and safety training, provide preventive medical examinations, first aid training, workplace cancer prevention activities (e.g., education about smoking and smoke exposure) and reimburse preventive cancer screening.

The Covid-19 health crisis obviously had a significant effect on our employees in 2020. Some of the important actions we took to counter this impact are summarised in the '[Sustainability highlights](#)' part of the 'Our approach' section of this report. Even before the crisis broke out, we were focusing on the well-being of our employees, including when they are working from home. In Belgium for instance, employees can

order desk chairs at heavily discounted prices to ensure that they can work ergonomically in their home offices.

Optimisation of group-wide governance

In 2019, we embarked on optimising our group-wide governance in order to enhance our operational efficiency and customer service. The exercise will run until 2022 and will make our organisation more agile, with a fast decision-making process and fewer management layers.

In Belgium, this will result in a reduction of 1 400 employees in the period 2019-2022. We will achieve this entirely through internal redeployment and normal staff turnover. At ČSOB in the Czech Republic, it entails a reduction of at least 250 employees on an annual basis. The planning of this group-wide efficiency exercise is on schedule.

Social dialogue

Our group has made a commitment to its employees to comply with the International Labour Organisation conventions (ILO).

Through constructive dialogue and collaboration with our employee representatives, KBC plays a key role in securing the right strategic approach for engaging its people. We are committed to treating our staff with respect and care and aim to help them develop skills that will enable them to change jobs easily within the group.

Our social dialogue is organised primarily on an individual country and company basis in accordance with local laws and practices in the countries in which we operate. The process resulted in collective agreements being concluded in different countries in 2020.

In 2020, KBC Belgium held its four-yearly social (electronic) elections for the distribution of seats and percentages for each union fraction. 66% of our employees voted, a fine turnout that beat the 2016 figure. The results of the social elections were published on our intranet.

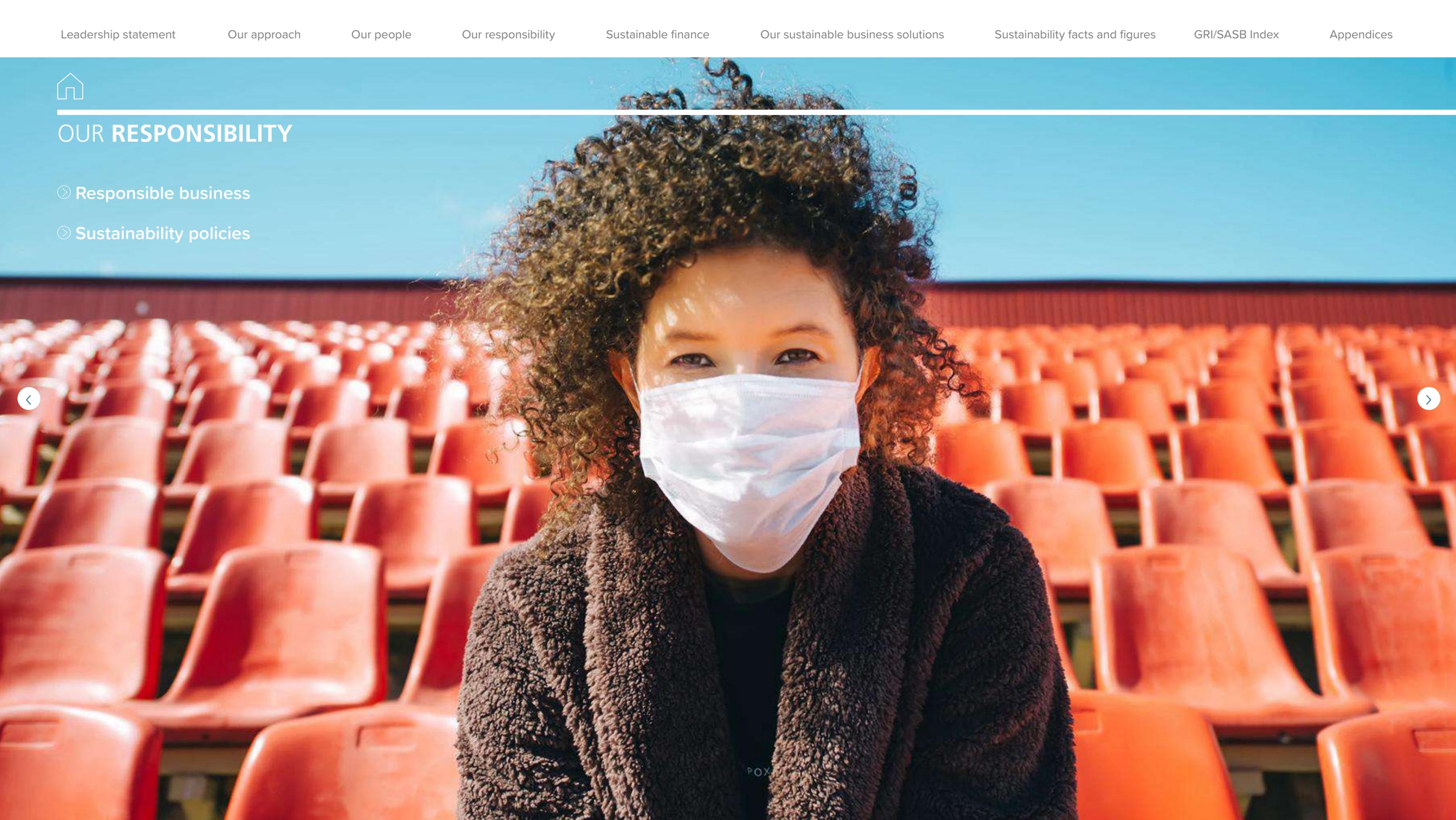
The annual meeting of the European Works Council brings together employee representatives from the various countries, senior management and a broad international HR delegation to deal with topics of cross-border importance. This ensures that there is also a forum at which the impact of decision-making at group level can be discussed. In 2020, 81% of our employees were covered by collective labour agreements.



OUR RESPONSIBILITY

[➤ Responsible business](#)

[➤ Sustainability policies](#)



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, at every layer of the organisation is extremely important to gain and retain the trust of society. Trust is based on competence, open communication and personal integrity. The latter, combined with sound risk awareness, is the foundation stone of responsible behaviour.

KBC views responsible behaviour as crucial to an effective and credible sustainability strategy. The mindset of everyone at KBC 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
- results-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 it, but to set out the underlying principles instead. These are presented for our employees in ‘My Responsible Behaviour Compass’. The guide is not an all-embracing document listing every situation with which employees might be confronted in their everyday 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 have 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 take many forms. We also recognise that the requirements of society are constantly changing and that behaviour that seemed perfectly fine some years ago might now be perceived as totally unacceptable. It is the core responsibility of senior management to set 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 have been expected from 2020 on to share and discuss dilemmas with their staff. When they examine such ‘dilemmas’ together, they notice that often there is no ‘right’ or ‘wrong’ answer and that the challenge is to test one’s own decision against the views of one’s colleagues.



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 towards 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:

- Ethical business conduct and responsible behaviour
- Fair, understandable and transparent information to clients
- Information security and data protection

In September 2020, KBC Ireland reached a settlement with the Central Bank of Ireland following the bank’s involvement in the industry-wide Irish tracker mortgage investigation. At the end of this investigation, the Central Bank of Ireland concluded that KBC’s actions did not adequately protect the interests of the impacted customers, which had serious consequences for these customers, some of whom lost their homes and properties. Following this settlement, KBC Ireland emphasised that it is determined to be a positive force in Irish society and is working constructively with its board and other key stakeholders to drive cultural change at the organisation using the lessons learned by the tracker mortgage examination issue. The bank has embarked on a cultural change programme to embed responsible behaviour and customer centricity across the entire organisation. KBC Ireland now also plays a key role in the Irish Banking Culture Board, an organisation newly established to drive cultural change in the entire sector.

RESPONSIBLE BUSINESS

Human rights

Our approach to human rights is guided by the UN Guiding Principles on Business and Human Rights and is set out in the [KBC Group Policy on Human Rights](#). As a financial institution, we recognise that we may be implicated in practices that harm human rights at different levels and through our various roles.

KBC fulfils its commitment to respect human rights in relation to its core stakeholders – clients, suppliers and employees – through specific policies and human rights due-diligence processes. In doing so, we take into account the severity of the existing and potential adverse impact on human rights. As a financial institution, KBC's highest risk in terms of potential involvement with human rights violations arises through our client relationships, through our credit and insurance portfolio, our asset management activities and our own investments.

Read more on KBC's approach to human rights in the ['Focus on human rights'](#) section of our annual report.

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 respond proactively to an evolving landscape of cyber threats. Like many other financial institutions, we have introduced new technologies and connect with our clients more and more using digital means. This creates greater exposure to cyber attacks at a time when the attackers in question are also better organised and experienced than they used to be.

Protecting our clients' data and our ICT systems remains extremely important for the financial sector and for our group. Breaches in this protection can lead to legal, reputational and financial damage and ultimately to a loss of trust among our clients. That is something we absolutely want to avoid because retaining the trust of all our stakeholders is fundamental to our social licence to operate.

In 2020, we defined information security, including cybercrime-related fraud, as a top risk within the group. Furthermore, there is no indication that cyber threats will decrease in the years to come.

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 twice a year on information security and cyber risks.

Every country has its own operational security teams who 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 annual report. Our information security standards are based on industry standards like ISO27001 and address applicable regulations and directives such as European Banking Authority guidelines.

● [KBC Group Human Rights Policy](#)



● 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.

● [KBC Group UN Global Compact Communication on Progress 2020](#)

In January 2020, KBC and three other major Belgian banks, along with Isabel Group, announced the launch of KUBE ('Know Your Customer Utility for Banks and Enterprises'). This blockchain application is used for sharing corporate data as part of the Know Your Customer process. Under the European Anti-Money Laundering Directive (AML) banks are obliged to verify the identities of the directors and principal shareholders of businesses opening business accounts, and to do so regularly, to prevent money laundering and fraud. While in the past this process was carried out for each bank individually, KUBE participants created a platform for sharing business identity information. Customers need to enter their data on the platform just once, and it is then verified and validated by the bank. After that, the data will be shared securely among all participants. In this sense, KUBE is to be considered as an important instrument in combating fraud, money-laundering, and other illegal financial activities.

RESPONSIBLE BUSINESS

Control monitoring and review

We monitor and review our information risk management through deep dives, such as ethical hacking, and periodic validations, performed at group and local level to ensure that the required controls are effective from an operational perspective. We keep adapting our approach to the changing threat landscape.

Culture and awareness

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

Employees

- We constantly aim to increase the awareness of all our employees of cyber and IT security and risk.
- We perform group-wide phishing simulation tests twice a year to keep employees up to date with the most commonly used attacks. Phishing tests are also carried out locally. If an employee clicks a link in such a test they can be requested to follow additional training, while those who recognise the phishing attempt might receive a reward. In Belgium, the result of phishing tests are a parameter in the reward system for employees.
- 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 and continuous training in secure coding for our software developers.

Clients

- K&H Hungary introduced a second nationwide media campaign, covering cybersecurity topics related to banking products. We want to increase public and client awareness of the 'financial digital environment' and give tips on how to behave in this new digital world in a safe and cybersecure way. The campaign resulted in nearly 270 000 answers to test questions and the games were started 38 000 times.
- ČSOB Czech Republic recently signed a cooperation and partnership agreement with the Czech Police and prepared a number of cybersecurity training courses.
- KBC Belgium is a member of the Belgian Cybersecurity Coalition and takes part in the awareness group which publishes material to enhance cybersecurity among individuals and SMEs (small and medium-sized enterprises).
- It also keeps clients informed about the latest real phishing scenarios through information sessions, social media and our website (www.kbc.be/secure4u) and issues warnings through our internet banking tools. The contact point to report suspicious activities, Secure4u, is well known and frequently used by clients.

- KBC Ireland communicates security and fraud awareness topics through a dedicated section of its main website (www.kbc.ie/security). Examples of topics are phishing, smishing and vishing, protecting your computer, online threats and general security tips.
- ČSOB Slovakia publishes awareness articles on the official ČSOB blog (www.csob.sk/blog) and through official social media accounts. In 2020, it conducted a password security campaign through Facebook and Instagram.
- UBB Bulgaria organises e-mail campaigns to raise awareness about phishing attacks and to encourage clients to follow the necessary security rules in their personal online communication.
- 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.

RESPONSIBLE BUSINESS

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 a bank-insurer like the 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.

Data governance

The Internal Group Compliance rule on data protection sets out a strict privacy framework, which has to be observed and implemented in every KBC Group entity. We have appointed a data protection officer at each entity to inform and advise management and employees on their obligations in the field of privacy and data protection and to monitor compliance with regulations and policies relating to the protection of personal data. We check the status of relevant topics through regular compliance-monitoring programmes and

use awareness campaigns and training to hold people's attention and ensure their knowledge remains up to date. Given the importance of privacy and data protection, we keep our Executive Committee and the Risk and Compliance Committee of the Board of Directors informed through a quarterly 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, can advise them more effectively and can take our bank-insurance services and the experience we create for our clients to an even higher level. With the support of 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 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 it was 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). This last principle goes hand in hand with the carefully thought-out privacy policies we have drawn up 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 is being processed are well informed. The privacy policies for Belgian clients are published on [kbc.be](https://www.kbc.be). We strive to use all feasible means to secure and protect data against unwanted or unauthorised access or loss. 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 that reason, we want to let our clients themselves 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 moment. 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

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 every two years to make sure that they continue to meet the concerns and expectations of society. KBC is assisted in this by a panel of outside, independent experts that form the External Sustainability Board, which advises Group Corporate Sustainability. The expertise of External Sustainability Board members is diverse and covers the various sustainability domains.

Updated and new sustainability policies

We carried out our two-yearly update of the sustainability framework as planned in 2020, with a focus on thermal coal and biodiversity.

Regarding thermal coal, our group now not only abstains from any direct financing or insurance of coal-related projects, but also from general corporate financing and insurance of energy companies, when such companies have any portion of their energy production capacity which is coal-fired (new clients) or have more than 25% of their energy production capacity which is coal-fired (existing clients). From 2030 on, KBC will abstain from all financing or insurance of and advisory services to energy companies which have any coal-fired energy production capacity. We have tightened exceptions for the Czech Republic, including a full exit from direct financing of thermal coal activities by the end of 2021 instead of 2023 (electricity and mining) or 2030 (heating) previously. For more information, please refer to the [‘White papers’](#) part of the ‘Sustainable finance’ section of this report.

Building further on previous specific initiatives, we also introduced our first comprehensive policy on biodiversity. Under this new policy, a number of activities are either excluded for financing and insurance, or are only allowed under strict conditions. Excluded activities are activities that relate to, take place in, or have a serious impact on a wide range of themes such as deforestation, threats to UNESCO World Heritage sites, trade in protected animal and plant species, trade in invasive animal and plant species, fishing practices that cause irreparable damage to aquatic habitats and ecosystems, and unconventional oil and gas extraction such as shale oil and gas or tar sands. For forestry, mining and the cultivation of crops such as palm oil, soy, cocoa, coffee and sugar cane, we introduced restrictions, usually in the form of generally accepted sector principles that must be endorsed by the companies concerned. In addition, these companies must undertake to bring their entire production in line with these principles within five years.

- [KBC Group Energy Credit, Insurance and Advisory Services Policy](#)
- [KBC Group Biodiversity Policy](#)

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.

SUSTAINABILITY POLICIES

Application of KBC's sustainability framework

Main excluded/restricted activities¹

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 that, 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 (Socially responsible investment) funds and — in the case of lending, insurance and advisory services — for activities related to e.g., animal welfare and fur or prostitution. With regard to project finance (lending activities), KBC follows the requirements set by the Equator Principles.

Fundamental exclusions	applicable to all business activities	Core business activities				Supporting activities			
		Lending	Insurance	Advisory Services	SRI funds (first offer)	Conventional funds	Investments (proprietary assets)	Suppliers	
Additional exclusions and restrictions	based on ESG screening of counterparties' activities	Human rights	●	●	●	●	●	●	●
		Controversial weapons (including nuclear and white phosphorous weapons)	●	●	●	●	●	●	●
		Controversial regimes	●	●	●	●	●	●	●
		Biodiversity ³	●	●	●	● ⁴	○	● ^{2,4}	● ⁷
		Soft commodity speculation (structured products)	●	●	●	●	●	●	●
		Arms-related activities with exception of controversial weapons	●	●	●	●	○	● ²	●
		Energy ⁵	●	●	●	●	● ^{2,6}	● ²	● ⁸
		Gambling	●	●	●	●	○	● ²	●
Tobacco	●	●	●	●	●	● ²	●		

- in scope
- partly in scope
- not applicable for this type of activity
- not yet in scope

- For an overview of the KBC policies and guidelines to ensure ethical business, please refer to the 'Responsible business' part of this section.
- As of 2021
- Restrictions on activities such as those involving forests, mining, protected areas, endangered or invasive species, palm oil, soy, sugar cane, cocoa and coffee
- Restrictions on palm oil only
- Restrictions on, for example, thermal coal, oil, gas and nuclear energy
- Restrictions on thermal coal only
- 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.
- Our dependence on natural resources is relatively limited compared to industrial companies, but we nevertheless manage our direct footprint with the goal of steadily reducing it in line with fixed targets. We are moreover committed to source 100% of our own green electricity consumption from renewable sources by 2030, please refer to the '[Sustainable finance](#)' section of this report.

A complete overview of our policies can be found on [our corporate website](#).

For an overview of KBC Asset Management's exclusion policies for sustainable funds, please refer to [KBC Belgium's commercial website](#).

We actively promote sustainable funds towards our clients – which we see as our first offer and preferred investment solutions – yet the final choice remains with the client. This has been translated in our ambition for SRI funds to account for minimum 50% of new production by end 2021. Please refer to the '[Our targets and commitments](#)' part of the 'Our approach' section.

SUSTAINABILITY POLICIES

Due diligence, remedy and mitigation

We have developed a specific due-diligence process for lending, insurance activities and advisory services. This likewise incorporates procedures to deal with any infringements that are detected. Our investment activities (asset management and own investments) are also subject to internal screening. SRI funds, moreover, have to meet additional controls. The criteria are monitored by the SRI Advisory Board, which is fully independent of KBC (please refer to the [‘Socially responsible investment’](#) part of the ‘Sustainable finance’ section 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 on any recent controversies in which they have been involved.

In the event of doubt and for particular activities, the advice is sought of Group Corporate Sustainability. A total of 221 requests for advice on ESG issues were submitted in 2020. Of these, 158 received positive recommendations, 22 received positive recommendations with strict conditions and 41 were given negative recommendations.

Examples of measures in the event that infringements are detected:

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



SUSTAINABLE FINANCE

Sustainable finance

Financial institutions play a crucial role in achieving the UN Sustainable Development Goals (SDGs) and in the fight against climate change thanks to their unique position in directing capital through loans, investments and advisory services. We are committed to contributing to a 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, investment activities and advisory services. To this end, we operate a clear policy regarding which products we sell to which clients and we also apply a restrictive credit and insurance approach to applications from controversial sectors. Conversely, we support sectors or companies that take environmental, social and governance (ESG) considerations into account in their investment decisions and we seek to offer our clients business solutions from within our core operations that support the transition to a sustainable society. More information in this regard can be found in the [‘Our sustainable business solutions’](#) section of this report.

Sustainable finance products channel funds to finance customer transactions in sectors like renewable energy, energy efficiency, waste management and water treatment, as well as access to social goods and services such as education, health and employment. In 2019, we started to map our level of sustainable financing, which takes close account of the upcoming European Commission’s taxonomy on climate change but also of other frameworks that promote transformational and green investments.

The table below breaks down our sustainable finance at year-end 2020. Mapping is an ongoing process, so it is important to note that this analysis is not complete. We will fine-tune and complete it in the years ahead.

Sustainable finance (KBC Group, millions of euros, end-of-year data)	2020	2019
Green finance (granted amount)		
Renewable energy and biofuel sector	1 840	1 768
Green mortgages*	8 817	-
Social finance (granted amount)		
Senior living and healthcare sector	6 085	5 783
Education sector	1 031	975
Socially responsible investment (SRI)		
SRI funds under distribution	16 780	12 016
Total	34 553	20 542

* Includes data as at 30 September 2020 for Belgium, the Czech Republic, Ireland and Slovakia (newly built dwellings with energy label A and B awaiting final decision on the EU taxonomy criteria).



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. This is done through strict environmental policies for our loan, investment and insurance portfolios, by discouraging the financing of unsustainable energy solutions and by promoting renewable energy and energy-efficiency initiatives. Our focus on reducing our own environmental footprint also contributes to SDG 12  and SDG 13.  We contribute to good health and well-being (SDG 3)  through our specific focus on social-profit institutions and local government. KBC’s focus on sustainable investment funds is linked to SDG 3 , SDG 7  and SDG 12 .

Relevant material topics:

- 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 COMMITMENT CONCERNING OUR SOCIAL IMPACT

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. But 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.

In a year that was marked by a severe and worldwide health crisis, we draw particular attention to the important role we have always played as a financier and insurer of the healthcare sector. Healthcare and well-being are obviously at the heart of our activities as an insurer. Through the insurance products we provide, we protect not only our clients' dreams and projects but also our clients themselves from the financial consequences of healthcare risks.

Besides 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 6.1 billion euros at the end of 2020.

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.

In Belgium, we regularly finance hospitals in their various projects.

In 2020, we took part in a bank consortium that financed a programme of 170 million euros for EpiCURA. Split across several sites, EpiCURA provides care in cities where no other hospital is present. The programme will allow EpiCURA to build new extensions, renovate existing buildings and purchase up-to-date medical appliances over the coming five years.

Clinic Saint-Jean is a private hospital located in the heart of Brussels. In 2020, this establishment started a new project of development and improvement of its infrastructure, the total cost of which will amount to 200 million euros. CBC and KBC Brussels, in partnership with other banks, participated in the first phase of this plan for a total of 27 million euros.

In Slovakia and the Czech Republic, we finance AGEL group, which is active in the healthcare sector with a range of activities such as hospitals, polyclinics, ambulances, pharmacies and laboratories. In 2020, we participated in a syndicated loan to finance the group's investment and operating needs, which contribute to the growth and expansion of the group and ensure a higher quality of health care.

- First social bond for the Walloon Region
- KBC – as the only Benelux-based bank – acted as joint lead manager in the successful issuance of a debut social bond for the Walloon Region of Belgium, supporting actions to tackle the Covid-19 pandemic. The net proceeds of this 1-billion-euro social bond will be used to finance and/or refinance, in whole or in part, Covid-19 related expenditures as well as existing social expenditures falling into the following three categories: socio economic advancement and empowerment (e.g., financial assistance and support to vulnerable population groups), affordable housing (e.g., social housing subsidies) and access to essential public services and basic public infrastructure (e.g., health infrastructure development and improvement, improved access and services for people with disabilities).
- In Belgium, CBC has also financed the Walloon and Brussels housing funds. Those funds have a true social purpose. First, they make buying a home more affordable for large families or low income households by granting loans at subsidised interest rates. In addition, they finance energy saving investments and rent out properties that they own at attractive conditions.

OUR COMMITMENT TO THE CLIMATE

Our commitment to the climate

We recognise that the impact of global warming is one of the greatest challenges the world faces and will have a significant and lasting impact on economic growth and prosperity. As a large financial institution, we want to play a leading role and be a significant lever in the process of transition to a more sustainable society and a low carbon economy, by working together with all stakeholders. In 2020, we built further on the major steps we took in 2019, when we signed up to the Collective Commitment to Climate Action, the 'CCCA', and the pursuit of the objectives of the Paris Agreement. We also further rolled out the structural approach we launched in 2019 for the management and reporting of climate-related risks and opportunities through our Sustainable Finance Programme.

Climate aspects in our business model

Our direct environmental impact

As a financial institution, we have an influence on climate change in two ways. The first is directly through our own operations such as our own energy consumption. Our dependence on natural resources is relatively limited compared to industrial companies, but we nevertheless

manage our direct greenhouse gas emissions (GHG) with the goal of steadily reducing them in line with fixed targets.

We have substantially raised our ambitions in relation to our direct environmental footprint and we have committed to achieving climate neutrality in 2021 by offsetting the balance. At the same time we will continue to reduce our actual direct footprint and are aiming for an 80% rather than 65% reduction in our GHG emissions (compared to base year 2015) – including commuter travel – by 2030. By including commuter travel – representing around 30% of our total GHG emissions – in our new target scope we are also clearly committed to greening our employee mobility policy (with the focus on bicycles and public transportation as well as an offering of more electric cars). Lastly, we have undertaken to increase our own green electricity consumption to 100% by 2030 (up from 90% by 2030).

In 2020, we cut total GHG emissions by 23% compared to the previous year. The majority of this reduction is the result of a drop in GHG emissions from transport, with both commuter travel and business travel going down considerably. This does not come as a surprise in a year that was

earmarked by the Covid-19 pandemic, resulting in several lockdowns, a business travel ban and a switch to teleworking in all of our core countries. At the peak of the first coronavirus wave, almost three quarters of our employees from across the group worked from home. Besides that, the reduction in total GHG emissions was mainly thanks to lower electricity consumption and a higher proportion of green and other low carbon electricity. We increased the share of green electricity to 87% in 2020, up from 83% in the previous year, and we are well above track to achieve 100% green electricity by 2030. You can read all the details on our activity data and on our direct footprint in the '[Sustainability facts and figures](#)' section of this report. KBC Group's GHG emissions have been externally verified to a level of reasonable assurance by Vinçotte in accordance with ISO 14064-3. You can find the verification statement [here](#).

The new ČSOB head office in Prague won the Best of Realty 2020 Award.



Own electricity production

In 2020, we generated about 1% of our total electricity consumption ourselves thanks to the installation of photovoltaic panels on buildings we own and operate ourselves. So far, we have reached an installed capacity of 1.5 MWp, resulting in avoided emissions of 245 tonnes of CO₂ in 2020. We expect avoided emissions to increase to 298 tonnes CO₂ in 2021 when the installations have produced over a full year.

New green mobility policy in Belgium

We launched a new green mobility policy for our employees in Belgium in 2020 that will take effect from the beginning of 2021. By working on green mobility, we are taking major steps in our sustainability and environmental responsibility considering that almost 50% of all our group's GHG emissions come from mobility. We want to make a conscious effort to reduce the negative impact by, for example, structurally supporting teleworking and virtual meetings so that fewer trips are necessary. The Covid-19 pandemic could have a positive effect in this regard as we will investigate further the possibilities for teleworking in core countries and entities where it was not yet structurally supported. At the same time, we want to increase our positive impact by providing more incentives towards public transport, cycling and electric cars. In Belgium, we are focusing on a bicycle allowance for all employees and the expansion of the possibilities for public transport. From March 2021 onwards, we will add electric cars to our offering of lease cars. Our ambition is to switch to an electric vehicle fleet in the years ahead, which we will accomplish through an all-in-one package that makes things as easy as possible for our employees. The package consists of an electric vehicle, a home charging point and a charge pass.

Indicator	KBC Target	KBC realisation		Status
		2020	2019	
Total GHG emissions	-80% for the period 2015-2030	-56%	-43%	Above track
Own green electricity consumption	100% green electricity by 2030	87%	78%	Above track

OUR COMMITMENT TO THE CLIMATE

Our indirect environmental impact

Our second and largest environmental impact is indirect, through financing, investing and insuring other parties who could have a direct impact on the climate (whether positive or negative). Climate change also impacts our business as a financial institution, in the shape of both transition and physical risks and opportunities arising from climate change. Examples of physical risks include potential risks due to acutely or chronically changing weather patterns such as severe storms and prolonged droughts. These can lead to higher levels of claims under the insurance we provide or impact our loans or investments when relevant counterparties are affected by the physical impact of climate change. Transition risks and opportunities relate to the influence we experience from possible changes to the relevant legislation, litigation, changes in client behaviour (including the risk of missed opportunities) and technological innovations. Transition risks can affect the creditworthiness of our clients and can prompt direct losses through repayment problems. Read more in the [‘Risk Management’](#) section further in this section.

The topic is important from all these perspectives for our stakeholders too, who expect us to act and to communicate on our actions in a transparent manner. The recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD recommendations) have become the globally accepted standard for climate-related financial disclosures to promote more informed investment, credit, and insurance underwriting decisions and 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. As a TCFD endorser, we describe for the second year our ongoing climate change actions, structured according to the four pillars of the TCFD Framework: governance, strategy, risk management and metrics and targets. We report on what we have achieved so far and how we see our future work in a world that is constantly changing.



Governance

Climate governance forms part of our strong sustainability governance.

In 2020, we took another major step towards optimising our sustainability governance to keep pace with our increased ambitions, our further expanding group-wide work on sustainability and climate matters, and increasing regulatory and reporting requirements regarding sustainability.

A new hybrid organisational structure and governance, with strong central steering and clear local accountabilities in each of our core countries, was approved to ensure that sustainability topics, and especially climate-related decisions and actions as part of our Sustainable Finance Programme, receive the necessary attention and resources in our business operations and strategies going forward. The Internal Sustainability Board (ISB), chaired by our Group CEO, has become the main platform for driving sustainability at group level, including our climate approach. The country representatives at the ISB have been assigned clear country accountabilities for sustainability and climate matters.

The **Governance** pillar of the TCFD Framework

In each core country we appointed a Corporate Sustainability Country Coordinator who has a mandate to steer his or her country’s activities in line with the decisions of the ISB and the objectives of the Sustainable Finance Programme. This must ensure a swift and group-wide implementation of and progress on centrally decided sustainability and climate matters.

You can find an overview of our enhanced sustainability governance in the [‘Sustainability governance’](#) part of the [‘Our approach’](#) section of this report.

The Sustainable Finance Programme was set up in 2019 to focus on integrating KBC’s climate approach across the group, by overseeing and supporting our business departments in developing their climate resilience in line with the TCFD recommendations and the EU Action Plan on Sustainable Finance. The programme is headed by a programme manager belonging to the Group Corporate Sustainability Division, backed up by a Sustainable Finance Core Team. In 2020, this team – with specialists from the Group Corporate Sustainability Division and Risk and Credit Risk functions – was enlarged with experts from Finance and Data Quality Management. The

core team is in contact with all relevant departments, including but not limited to KBC Insurance, KBC Asset Management, KBC Corporate Banking, Treasury, Pensioenfond KBC, Legal, Audit and KBC Securities.

The climate contacts appointed in 2019 in each core country will continue to work closely with the Sustainable Finance Core Team but will also operate under the umbrella of the Corporate Sustainability Country Coordinators who, as indicated, oversee the main country contact persons for all Group Corporate Sustainability colleagues.

The overall progress and technical implementation of the programme (such as the pilot projects, methodologies used, data techniques to be integrated and reporting details) is overseen by a steering committee chaired by the Group CFO and with permanent representatives from the Group Corporate Sustainability Division and Finance, Data Quality Management, Risk and Credit Risk functions. The Group CFO, as chairman of the steering committee, is also a member of the ISB, which decides on all policy-related topics, as well as the climate-related strategy and actions to be taken. The Executive Committee has granted

OUR COMMITMENT TO THE CLIMATE

decision-making power on sustainability and climate-related issues to the ISB and Sustainable Finance Steering Committee, but the ultimate decision-making authority remains with the Executive Committee.

The progress of the programme is also discussed regularly by the Executive Committee and the Board of Directors, including via the KBC Sustainability Dashboard, which is presented twice a year. At least once a year, the Board of Directors has an in-depth discussion on sustainability matters and the status of the Sustainable Finance Programme is presented at that time. The current status is also discussed annually by the supervisory boards of the key entities in our core countries.

The management of climate-related risks is fully embedded in our existing risk management governance (see the [‘Risk management’](#) part of this section). The senior general managers of the Risk and Credit Risk directorates sit on the Sustainable Finance Programme Steering Committee, while the senior general manager of Credit Risk directorate also sits on the ISB.

In addition, the External Sustainability Board advises the Sustainable Finance Programme on policy topics and the drafted sector-based strategy proposals (please refer to the ‘Strategy’ part of this section), integrating all climate-related risk mitigating actions, opportunities and targets for these sectors.

Strategy

We have enshrined climate change in our sustainability strategy and more specifically in our strategy’s key focus area of environmental responsibility (please refer to the [‘The cornerstones of our sustainability strategy’](#) part of the ‘Our approach’ section). Our group wants to play a leading role and be a significant lever in the process of transition to a more sustainable society and a low carbon economy, by working together with all our stakeholders.

Climate change has received a special focus in recent years, to which we responded in 2019 by creating a dedicated Sustainable Finance Programme to streamline and speed up our actions. 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.

We focus on the following through our Sustainable Finance Programme:

- 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.

The **principal elements of our climate and environmental strategy**, including new focus points in 2020, are:

- applying and regularly revising strict policies to limit the negative environmental impact of our activities through such measures as specific policies on energy and other socially and environmentally sensitive sectors (palm oil, soy, mining, deforestation, land acquisition, etc.), abiding by the Equator Principles for project finance and the KBC Blacklist policy;
- focusing on our core business lines to adjust them in line with the Paris Agreement goals, by analysing the

most carbon-intensive sectors of our business portfolios and product lines and establishing related sector policies which integrate climate-related risks, opportunities, metrics and targets;

- engaging and working with clients and other stakeholders to create climate change awareness and environmental responsibility, stimulate climate action, and address the challenge of engaging with our larger midcap clients on climate and other sustainability issues;
- supporting our clients in their transition to a sustainable, low-carbon and climate-resilient society by developing and offering specific banking, insurance and investment products and services from within and beyond our core activities (see the [‘Our sustainable business solutions’](#) section of this report and the [‘Green products’](#) part of this section);
- tracking the TCFD recommendations, by developing methodologies for cataloguing climate risks in our businesses and measuring the financial impact while responding to the opportunities offered by the climate issue, in order to chart the resilience of our business model in the longer term, taking account of different climate scenarios and time horizons;
- reducing our direct GHG emissions;

The **Strategy** pillar of the TCFD Framework

- **Creating awareness through clear internal communication**
- In 2020, we intensified communication efforts regarding the Sustainable Finance Programme and the impact of climate change on our business. In all our core countries, we used various forms of communication to inform all colleagues who are involved in one of the projects or climate-related actions, as well as to keep them up to date with all decisions taken. In addition, we have set up many initiatives in our group’s internal media to create general awareness among all employees. In Belgium, for example, we published various videos, news items and examples of concrete cases under the label ‘ClimateAction@KBC’ in 2020.



- We rolled out external communications on these topics, such as webinars for our clients. You can find more information on our client engagement initiatives in the [‘Engagement strategy’](#) part of this section.

OUR COMMITMENT TO THE CLIMATE

- setting ambitious climate-related long-term non-financial targets;
- reporting transparently on our climate strategy and actions.

We regularly tighten our approach, taking into account scientific and technological developments, social trends and the changing views of our stakeholders. In this way, we are building on previous policies and initiatives that give shape to the sustainable fulfilment of our role in society.

Collective Commitment to Climate Action
In 2019, KBC was one of a small group of banks, signatories of the United Nations Environment Programme Finance Initiative Principles for Responsible Banking (UNEP FI PRB), that publicly endorsed the Collective Commitment to Climate Action (CCCA) and committed – in cooperation with its clients – to align portfolios with the international climate goals of the Paris Agreement. The signatory banks have undertaken to:

- take concrete action to reduce their exposure to carbon-intensive and climate-sensitive sectors;
- translate the 1.5°C target into concrete objectives per sector, based on scientific scenarios, by the end of 2022;
- use their client relationships, products and services to stimulate the economic transition and hence to boost the greening of the economy and society; and
- ensure regular and transparent reporting in these areas.

As such, we engaged to set and publish – within three years of signing – sector-specific, scenario-based targets for portfolio alignment, and – within 12 months of signing – to publish and implement a set of measures to support and accelerate the shift towards low-carbon, climate-resilient technologies, business models and societies.

In 2020, building on previous action, we once again took tangible steps in putting this commitment into practice. In the first year of signing, we reported on the measures taken and the progress made in the CCCA KBC Group Report, published in the ‘Collective Commitment to Climate Action: Year One in Review’ on the [UNEP FI website](#).

Methodological pilot projects

We launched the first methodological pilot projects for loan portfolios in 2018 and reported on the preliminary results in 2019. We continued this methodological work in 2020. For PACTA (Paris Agreement Capital Transition Assessment) and PCAF (Partnership for Carbon Accounting Financials), we publish updated results in this report that entail a further expansion of the scope (more portfolios from all core countries and more sectors assessed). For UNEP FI, we present some preliminary climate-related transition and physical risk results, as calculated during our involvement in UNEP FI’s Phase 2 TCFD Banking Pilot. The full outcome and resulting publications from UNEP FI’s Phase 2 Banking Pilot is available on the [UNEP FI website](#). The contribution we made to the transition-risk methodology during the Banking Pilot is published in the [UNEP FI ‘Pathways to Paris’ report](#) (co-authored with the CICERO Center for International Climate Research) and is briefly outlined in the [UNEP FI appendix](#) of this report too. Also in 2020, KBC Asset Management carried out a first

pilot assessment of the climate impact of its portfolio, using Trucost data and methodology.

All these initiatives contribute to:

- enhancing our ability to identify and measure climate-related risks and establish the basis for our strategy;
- quantifying the indirect impact of our most carbon-intensive sectors and business lines.

You can find more details on our work and findings in the ‘[Metrics and targets](#)’ part of this section and in the [appendices](#).

OUR COMMITMENT TO THE CLIMATE

Green Products

KBC Green Bond

KBC has so far issued two green bonds to finance or 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 successfully issued our second 500-million-euro green bond.

At year-end 2020, the annual emissions avoided through both KBC green bonds amounted to 188 139 tonnes of CO₂.

Both issues comply with the Green Bond Principles, a set of guidelines issued by the International Capital Markets Association (ICMA), under which the proceeds of the bond can only be used to finance or refinance sustainable projects.

Sustainability and green loans and bonds for corporate clients

At KBC we promote sustainable financial solutions amongst our corporate clients, by such means as green bonds and sustainability bonds and green loans and sustainability-linked loans. We structure these bonds and loans in accordance with the ICMA Green Bond Principles and Sustainability-Linked Bond Principles and the Loan Market Association Green Loan Principles and Sustainability Linked Loan Principles.

The market for sustainable finance solutions has gained further traction over 2020, driven by societal as well as regulatory trends and initiatives, including the European Green Deal and EU Taxonomy.

During 2020, we further embedded sustainable finance solutions in our core financing offering for our corporate clients, arranging, amongst others, sustainability-linked loans for Elia, Euronav and Proximus as well as a new sustainability bond for the Flemish Community and a debut social bond for the Walloon Region.

Green renewable finance

Our group is actively involved in renewable energy project finance across all core countries. At the end of 2020, our portfolio of renewable energy project finance stood at 1.1 billion euros (outstanding amount). This portfolio has generated green electricity for around 540 thousand households, and resulted in emissions avoided of 448 351 tonnes of CO₂ (data as at 30 September 2020).

In Belgium, the Project Finance Team at KBC Securities passed the milestone of 1 billion euros' worth of loans outstanding in renewable energy in 2020. The project finance portfolio represents sustainable finance solutions for offshore and onshore wind farms, as well as solar, waste-to-energy and Energy Service Company projects.

The following paragraphs set out some examples of these solutions and projects.

KBC was mandated, in support of its clients TINC and TDP, as lead arranger of the onshore wind project, Kroningswind, in the Netherlands. With a capacity of almost 80 MW, the Kroningswind wind

farm will generate green electricity for the next 25 years, and its annual production of electricity equals the consumption of some 65 000 households.

In closing the deals for Storm wind farms Retie and Pelt 2 (new financing) and Meer 2 (refinancing), we have reached a total of 14 financing deals with Belgian wind farm developer Storm since 2013. The total production of the 14 onshore wind farms amounts to 243 219 MWh annually, providing green energy to the equivalent of 96 500 households.

In 2020, KBC Real Estate in Belgium installed a total of 1 098 solar panels on two sites, amounting to an estimated production of 307.6 MWh of green electricity and avoiding approximately 58 tonnes of CO₂ emissions. Apart from the environmental benefits of these installations for the Court House of Ghent and the DHL site in Vorst (both buildings in the investment portfolio of KBC Bank) they also ensure a cost reduction for the tenants of these buildings. A win-win for all parties involved.

ČSOB and K&H successfully closed financing for the construction of seven new photovoltaic power plants in Hungary with an overall installed output of 28 MWp. The entire project is being developed by a group of Czech investors and represents a nice example of cross-border cooperation between KBC entities in the area of renewable resources financing.

OUR COMMITMENT TO THE CLIMATE

Green Products

Green mortgages

Mortgage loans are a core product for our group in all our core countries, representing 39.7% of our outstanding loan portfolio and 93% of our outstanding loans to private individuals. The climate impact of this portfolio is calculated according to PCAF methodology (see the [‘PCAF’](#) appendix at the end of this report).

The EU’s Energy Performance of Buildings Directive is being implemented in all our core countries, albeit at different speeds. Starting in 2021, all our core countries will start capturing data on the energy performance of newly financed private houses and apartments. In the meantime, we already have some data on green mortgages – defined as mortgages related to houses and apartments with energy labels A and B – in Belgium, Ireland, the Czech Republic and Slovakia. The data cover newly built houses and apartments and represent 9% of our outstanding mortgage loan portfolio.

In the Czech Republic, ČSOB offers green mortgage loans for clients whose property complies with energy labels A or B. The loan is subject to preferential conditions including a discounted interest rate and a free property valuation. By the end of October 2020, ČSOB had granted 523 green mortgages loans totalling 70 million euros.

Green insurance

At KBC Insurance in Belgium, the standard home insurance policy covers all forms of renewable energy, such as solar panels, heat pumps and charging points. In the event of severe damage, the additional costs of rebuilding in accordance with the most recent building regulations are also covered. For similar damage in the case of commercial buildings, limited cover for these additional construction costs is offered with no increase of the premium rate.

KBC clients in Flanders can be insured against damage to crops and fruit caused by extreme and unfavourable weather conditions under the so-called Bredeweersverzekering (broad weather insurance), with subsidy support from the Flemish government.

ČSOB Poist’ovňa is the only insurance company in Slovakia to provide apartment owners with an eco bonus after a natural disaster. It covers up to 10 000 euros for additional investments in ecological renovation including solar panels, rainwater recycling systems and other environmentally friendly equipment. Through this approach, ČSOB Poist’ovňa also stimulates increased environmental responsibility within society.



OUR COMMITMENT TO THE CLIMATE

White papers

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. To this end, we announced in 2019 that we were preparing strategic updates on the most carbon-intensive industrial sectors in our businesses and product lines. We have given further shape to this in 2020.

As a first step, we have begun to analyse our lending book. Analysing our investment and insurance portfolios will occur in a second phase. Based on a materiality assessment, 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. These industries are important from the perspective of GHG emissions and have an impact on climate change.

Our goal is to take a deep dive into these sectors and product lines from a climate perspective, looking at the characteristics, trends, risks, opportunities and so on, in order to define a business strategy with concrete metrics and

targets for these sectors. We use the term ‘white paper’ for this exercise to reflect the open mind with which we embarked on the process.

Our preliminary focus in 2020 was to define a country-specific situation and portfolios in one of our core countries. The next stage was to submit the results (the white papers) to the other countries for review and implementation – where relevant for their portfolio – in their local context and to enable us to take policy decisions for full portfolios for the group as a whole. These decisions will be taken at the ISB and the Executive Committee to ensure groupwide adoption and implementation, as stipulated in our sustainability governance (see the ‘Sustainability governance’ part of the ‘Our approach’ section of this report).

Based on the portfolio analysis described above, we are working on white papers for the energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals industry sectors, as well as for three specific product lines: mortgages, car loans and car leasing.

Please refer to the graph on this page for a schematic overview of the relative importance of these sectors and product lines in the overall loan portfolio of KBC Group. According to high-level calculations (made using tools such as the [Scope 3 Evaluator](#) designed by the GHG Protocol and Quantis), the sectors and product lines assessed represent around two-thirds of the GHG emissions linked to our total loan portfolio.

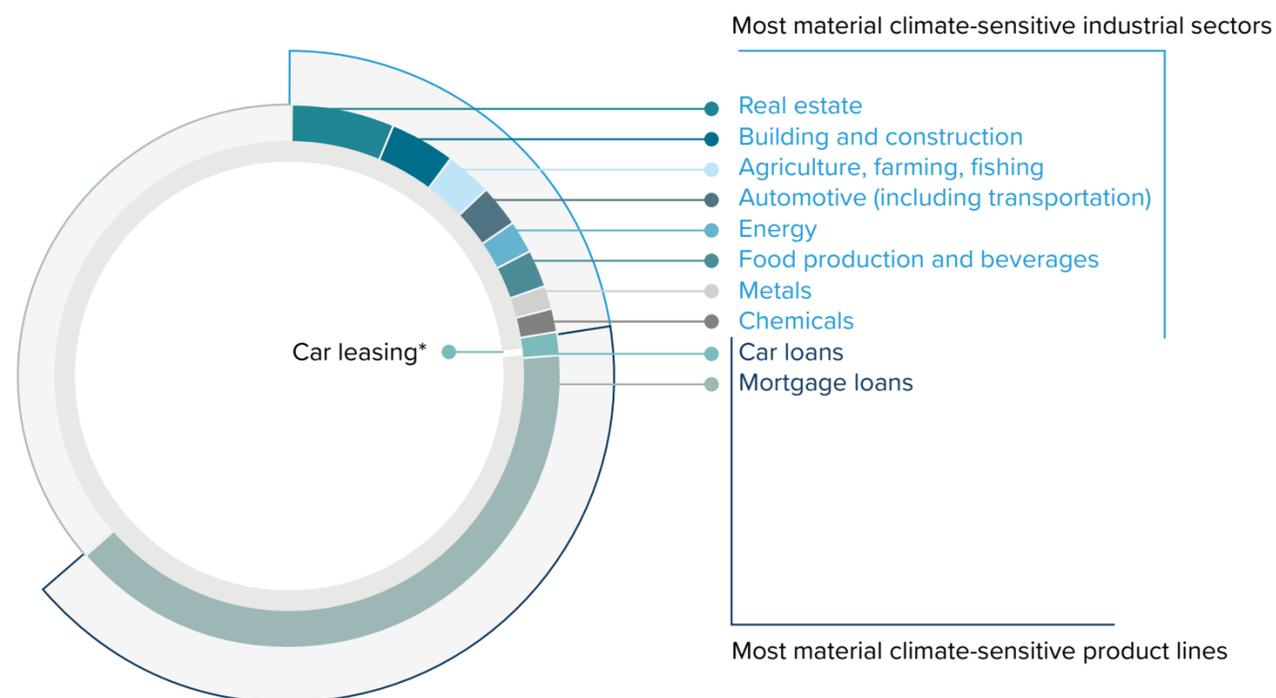
Colleagues from our credit, business and other relevant departments in all our core markets were involved in the preparation of these white papers to take account of differences in the national situation or local government policies. The results of the methodological pilots (PACTA, PCAF and UNEP FI) were also shared with colleagues working on the white papers. We are making every effort to stay within the framework announced

by the European Commission in its 2030 Climate Target Plan and believe that clear EU targets, such as those on renewable energy, offer relevant guidance. We are confident that meeting these specific EU targets shows that we are on track to achieve our commitments to the Paris Agreement.

While the white papers have not yet been finalised, they are an important first step in aligning our strategy with the goals of the Paris Agreement. Collection of relevant data is an indispensable part of the exercise and a prerequisite for defining ambitious strategies and targets that are supported by the data and hence feasible and balanced. We will fine-tune these strategies in the next few years, taking account of the results of various scenarios. We have clearly set the direction we are headed and will define intermediate steps and targets once we have sufficient data to support this analysis.

Most material climate-sensitive industrial sectors and product lines

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



* As a first step, the focus is on operational leasing only, which - in contrary to financial lease - is not included in the total loan portfolio of KBC Group. The car leasing exposure represents the net book value of leased vehicles.

OUR COMMITMENT TO THE CLIMATE

White papers



Energy



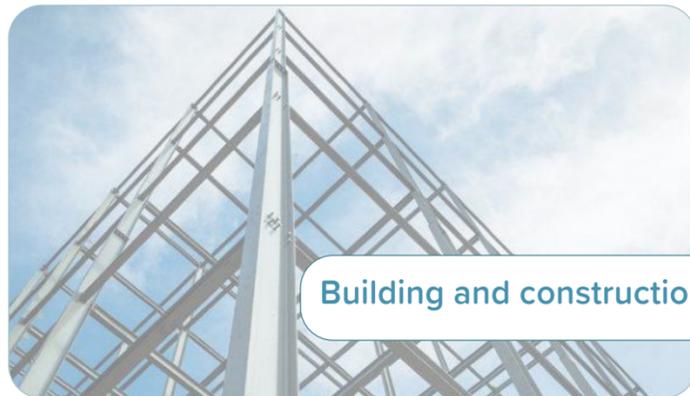
Commercial real estate



Agriculture



Food production



Building and construction



Chemicals



Transportation



Metals



Mortgage loans



Car loans



Car leasing

In 2020, we analysed the energy, commercial real estate and agriculture sectors, and the mortgages and car leasing product lines. You will find the details on the various white papers in the following sections. As from early 2021, we will continue our work for the metals, chemicals, automotive (including transportation), building and construction and food producers sectors and for the car loans product line and we will start the exercise for our insurance business.



OUR COMMITMENT TO THE CLIMATE

Energy

White papers



The energy industry – especially electricity and heat production – is the biggest contributor to GHG emissions in the EU, and decarbonising both energy supply and demand will be key in the transition to carbon neutrality. In its Climate Target Plan, the EU focuses on higher energy efficiency, fewer fossil fuels and more renewable energy, which should reach 38% to 40% of gross final consumption by 2030.

KBC's outstanding credit exposure in the energy sector accounts for 3.8 billion euros or 2.1% of our total outstanding loan portfolio at year-end 2020. The bulk of this portfolio consists of financing for renewable energy production and energy transmission (electricity, oil and

gas). The share of direct coal exposure in our energy loan portfolio is very limited: only 11 million euros relates to coal for electricity or heat production, and we will exit this financing (see further).

Our ambition is 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 might need to be phased out.

Renewable energy and biofuels

The share of renewable energy and biofuels at year-end 2020 came to 61% of our total granted loan portfolio for the energy sector (excluding transmission and distribution). Since that is already above our target of 50% by 2030, we significantly increased our ambition level in 2020 to 65% by 2030.

Please note that we take account only of renewable energy companies or special purpose vehicles for renewable energy loans, and do not yet include financing for such purposes as solar panels for the residential or commercial real estate sectors. KBC will continue to accelerate its financing of renewable energy projects in the future. We also want to support our clients in the transition to a carbon-neutral society by providing advisory services (e.g., related to EU support) and financing.

Oil and gas

We are investigating the adoption of a more cautious stance towards financing activities in the oil and gas industry and will define our position in 2021. We already firmly abstain from financing oil-based electricity generation, exploration and development of unconventional oil and gas (including tar sands, shale oil and gas and deep-water drilling) and specialised companies that are only active in the extraction and development of oil and gas fields.

Nuclear

KBC has no direct loan exposure at present to nuclear power plants. We have adopted a very cautious stance towards the financing of existing and new plants given the physical and other risks and issues associated with nuclear waste, unless it can be shown that the project is part of the energy transition and is supported by the relevant government.

Indicator	KBC Target	KBC realisation		Status
		2020	2019	
Share of renewables in the total energy loan portfolio (excluding transmission and distribution)	Minimum 65% by 2030	61%	57%	Above track

OUR COMMITMENT TO THE CLIMATE

Energy

White papers

Coal

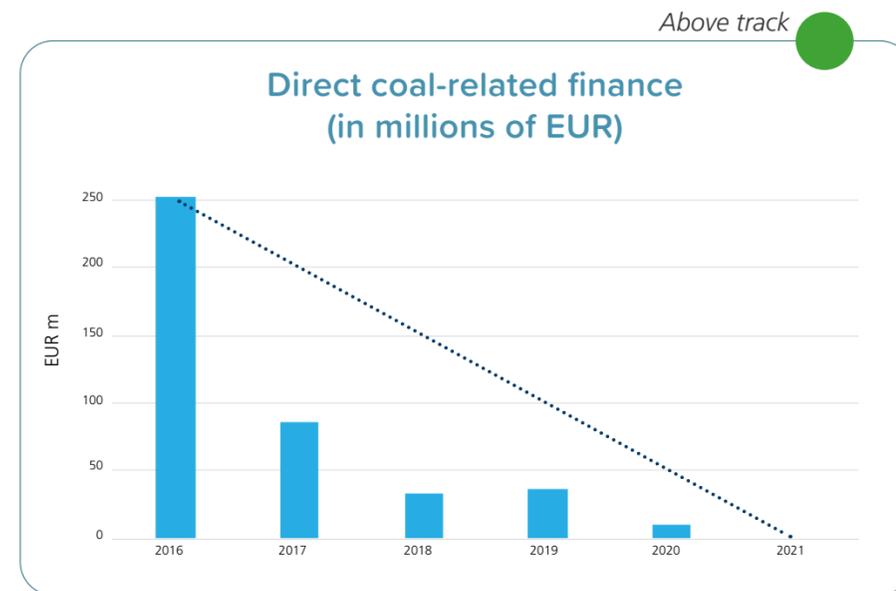
Further restrictions were added to our coal policy on 1 July 2020, since when we will not provide any financing, insurance or advisory services to new clients with any coal capacity. In the case of existing clients, in addition to the ban on financing activities directly related to thermal coal, we will no longer provide any financing as soon as their coal-fired energy production capacity exceeds 25%. Lastly, we will abstain from 2030 onwards from all financing or insurance of and advisory services to energy companies which have any coal-fired energy production capacity.

In order to support the necessary energy transition, the financing and insurance of transitional projects will still be possible for existing clients, even if they derive more than 25% of their energy production capacity from coal. A number of strict conditions will, however, be applied. Our loan exposure to coal-related companies – already very small – is shrinking fast and we plan to exit direct coal-related financing entirely by the end of 2021. The graph on this page illustrates our track record in reducing direct coal financing.

As of April 2021, our coal industry policy will become even more restrictive as, in addition to the threshold of maximum 25% of coal-based capacity, we will require existing counterparties with any coal-related activity to:

- submit and publicly commit to a realistic and detailed plan explaining how coal is to be entirely phased out by 2030 at the latest; such plans should be submitted by the end of 2022 (or 2023 for smaller companies);
- commit not to engage in new coal projects, either by increasing existing coal capacity or acquiring new capacity, even if at the same time other capacity were to be dismantled.

If a counterparty fails to comply with one of those conditions, we will not permit any new transactions (including general corporate transactions) and will terminate the lending, insurance or advisory relationship (following a run-off scenario, which means we will respect existing contractual terms). Regarding the 25% coal capacity threshold, some limited exceptions (only for strict environmental and societal reasons) apply to the Czech Republic.



Indicator	KBC Target	KBC realisation		Status
		2020	2019	
Financing of coal-related activities	Full exit from direct coal-related financing by 2021	11 million euros remaining	36 million euros remaining	Above track ●

OUR COMMITMENT TO THE CLIMATE

Commercial real estate

White papers



11.3 bln euros
6.3%

At year-end 2020, our commercial real-estate (CRE) portfolio represented 6.3% of our total outstanding loan portfolio and amounted to 11.3 billion euros in outstanding loans. Commercial real-estate finance relates to the development of or investment in real-estate assets (or a portfolio of such assets) by a property developer or investor, which are then sold or let to third parties.

In 2020, KBC's core countries delivered white papers presenting their analysis of the local characteristics of the CRE sector together with proposals for steering their CRE portfolios towards green and sustainable finance. Some countries have, moreover, already presented a preliminary assessment of the potential green share of their existing portfolios, based mainly on external quality standard labels that take account of the 'greenness' of the assets financed.

Real estate is one of the most energy consuming sectors in the EU and a major contributor to GHG emissions. In addition to its impact on climate change, the sector is linked closely with other environmental concerns, such as water, waste and mobility. It is therefore crucial to the achievement of the EU's energy and environmental goals. Energy and resource-efficient construction and renovation are key priorities of the European Green Deal and form part of the 2030 Climate Target Plan. An improvement in energy efficiency of at least 32.5% by 2030 has

been set as one of the EU's key climate and energy targets. Embodied and operational carbon emissions from buildings must be significantly reduced in order to minimise their impact over their life cycle. 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 in their existing building stock.

The following key elements were addressed in the CRE white paper:

- Actions related to data collection on energy performance of the buildings financed, and the process changes needed to integrate the energy performance data and to allow for periodic reporting and follow-up: collection of relevant data for the CRE portfolio is our basis for determining the next steps and we will take or complete actions in 2021.
- Client-engagement approach and action plan: our goal is to encourage and engage with our clients to create awareness of the sustainable management of their CRE and the need to renovate older energy-intensive buildings. We want to support them in this journey by offering appropriate financing for energy-efficient and climate-friendly investments. We will also address the collection of the required data in this approach.
- Addressing climate-related risks and opportunities and proposals for policy actions: proposals are being assessed for restricting the worst

energy-intensive buildings, stimulating the best energy-performing buildings and analysing climate-related physical risks in CRE portfolios. The next steps in 2021 and beyond will be to take action to steer and manage these risks and opportunities.

OUR COMMITMENT TO THE CLIMATE

Mortgage loans

White papers



71.8 bln euros
39.7%

Buildings are among the largest energy consumers and GHG emitters in Europe. About 75% of the building stock is energy-inefficient, so the potential savings are huge. The renewal rate is low, however, and with the pace of energy-efficient renovation standing at just 1% a year, the potential has barely been tapped. The EU is therefore moving up a gear to encourage member states and the financial sector to boost renovation, so that a highly energy-efficient and decarbonised building stock can be achieved by 2050.

Mortgage loans, representing 39.7% of our total outstanding loan portfolio at year-end 2020 or 71.8 billion euros, are a core product for KBC in all our core

countries, in many of which we enjoy a significant share of this market. We want to use our potential leverage to improve the energy efficiency of the housing stock in our core countries, in line with our commitment to the CCCA and with EU ambitions and the goals of the Paris Agreement. Strict energy efficiency standards have already been imposed by law for new build houses and apartments, with control mechanisms incorporated in the planning process. For that reason, we will focus initially on the older building stock.

At the same time, we want to reduce the climate-related financial risks associated with our portfolio of mortgages. Floods and drought, for example, can damage buildings, while the risk of flooding and drought or poor energy performance impacts the value of the affected properties. We need to take this into account too when assessing loan applications.

In 2020, all KBC core countries delivered a white paper presenting their analysis of local building stock and the physical risks related to each country's portfolio, relevant local regulations and support mechanisms, and public awareness. Each white paper also includes proposed actions to actively steer the local portfolio of mortgages towards greater climate resilience in terms of energy performance and risk.

The white paper addressed the following key elements:

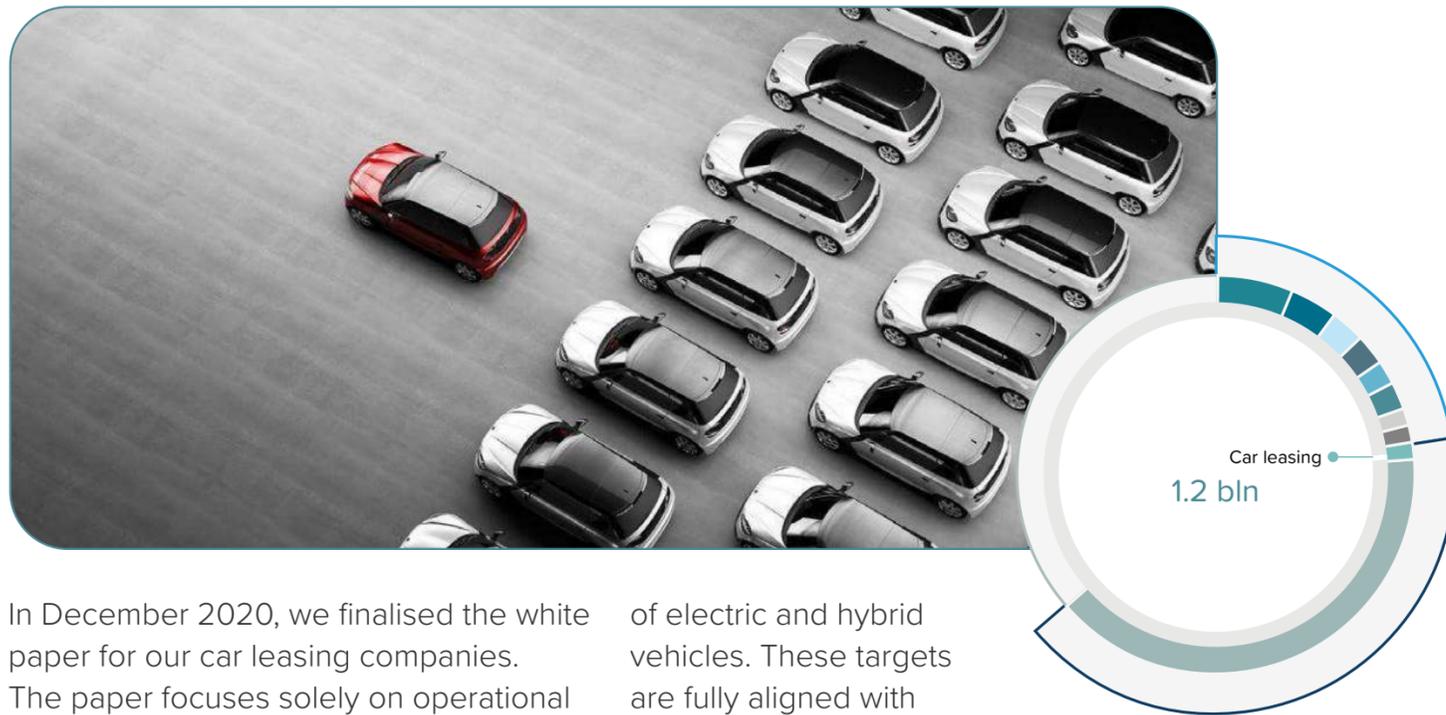
- Collecting data on the energy performance of the financed buildings and the collateral. This is needed to measure our impact, to report on it, to set targets, to evaluate the impact of our actions and for integration in the collateral valuation process.
- The main challenges to be tackled in 2021 are:
 - the availability and – even more so – the accessibility of data on energy labels or the energy performance of houses and apartments in our existing portfolio. This will improve the quality of our calculations using the PCAF methodology (for further information see the [‘PCAF’](#) appendix of this report).
 - investigating how to capture energy labels or energy-performance data for new mortgage loans in our loan processes.
- Client engagement approach and action plan. The approach is tailored to the local situation due to the major differences that exist between our core countries regarding regulation, public awareness, support mechanisms and the composition and quality of the building stock. The main elements of the approach are:

- creating awareness amongst clients;
- possibly providing a tool or support to scan the energy performance and detect opportunities for improvement;
- offering appropriate financing and developing new products to boost local enthusiasm for renovation.
- Addressing climate-related risks and opportunities and proposals for policy actions. We are currently taking the following actions or will potentially develop them in the course of 2021:
 - mapping the forward-looking flood and drought risks related to our portfolio, including collateral, and incorporating these risks in the valuation of assets. Inspired by the Phase 2 UNEP FI TCFD Banking pilot (for further information see the [‘UNEP FI’](#) appendix of this report), we conducted an initial forward-looking flood risk analysis in 2020 for the Flemish mortgage loan portfolio.
 - developing measures to mitigate these risks.
 - increasing the average energy performance of our portfolio, especially by stimulating renovation of poorly performing houses and apartments (existing portfolio as well as new production).

OUR COMMITMENT TO THE CLIMATE

Car leasing

White papers



As a first step, the focus is on operational leasing only, which - in contrary to financial lease - is not included in the total loan portfolio of KBC Group. The car leasing exposure represents the net book value of leased vehicles.

In December 2020, we finalised the white paper for our car leasing companies. The paper focuses solely on operational leasing, which provides financing as well as maintenance, repairs, insurance, etc. Decisions will be taken in 2021 regarding our car loans and financial leasing portfolio. The context in which our car leasing companies operate differs for each core country, depending on their base situation and current and planned local government incentives and tax schemes. Although battery technology is still evolving, our group clearly wants to contribute to the greening of the car leasing fleets in its portfolio. We have therefore set ambitious targets to reduce the emissions of the cars in our leasing fleets and to increase the share

of electric and hybrid vehicles. These targets are fully aligned with those set by the EU for car manufacturers (OEM):

Indicator	KBC Target	KBC realisation 2020*
Average CO ₂ emissions for new cars in KBC Group's car leasing portfolio (gCO ₂ /km)	81 gCO ₂ /km by 2025 58 gCO ₂ /km by 2030	132
Share of electric vehicles, plug-in hybrid and full hybrid vehicles in KBC Group's car leasing portfolio	Existing cars in portfolio: - 27% by 2025 - 45% by 2030	9%
	New cars in portfolio: - 34% by 2025 - 90% by 2030	20%

* Belgium Business Unit only (data as of end October 2020)

To achieve these targets, we have already developed numerous green product offerings. Examples include:

- in Belgium, KBC provides charging solutions, including full installation of a charging point at home (in partnership with NewMotion);
- in the Czech Republic, ČSOB promotes a 'green car of the month' to its clients;
- UBB Interlease Bulgaria has just launched a new product called COSME Green, which offers the opportunity to finance electric and hybrid cars and/or equipment related to renewable energy for the needs of small and medium-sized enterprises (SME).

We plan to launch many more green solutions related to the introduction of electric vehicles (EV) in our corporate clients' fleets, the green financing of EV fleets, the installation of charging points, etc. in our different countries in the coming months.

Furthermore, we are convinced that we can make a positive contribution by also offering our clients solutions that encourage a modal shift in mobility. We have developed a solution that allows clients to opt for the convenience of public transport, for lease bicycles or for a combination of travel options.

- In Belgium, we launched a bicycle-leasing offering as a new business line. It enables SME/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 both positive social and environmental outcomes, as cycling is healthier and more eco-friendly than driving. Since launching this solution, we had built up a fleet of 20 000 bicycles, primarily consisting of electric and speed e-bicycle models, ideal for commuters. We calculate that the CO₂ emissions avoided because of this bicycle fleet amount to 6 555 tonnes/year (representing 60 117 634 kilometres/year).
- We have launched other low-carbon transport initiatives too, supporting easy access to public transport and car sharing, for example, through our KBC Mobile app in Belgium. The latter was used in 2020 to pay for 427 500 bus tickets, 395 000 train tickets and 11 800 shared bicycle sessions.

OUR COMMITMENT TO THE CLIMATE

Agriculture



At year-end 2020, the agricultural sector represented 2.7% of our total outstanding loan portfolio or 5 billion euros. Our market share in the agricultural sector is largest in Belgium and Hungary.

KBC's core countries delivered a white paper in 2020 presenting both their analysis of the local characteristics of the agricultural sector and their proposals to analyse the local portfolio on its climate impact and risks, to engage and support clients and to improve the climate resilience of our portfolio.

Further analysis and data collection for this sector is planned in 2021. KBC's banking and insurance divisions will collaborate to monitor the physical risks (weather-related) and we will establish partnerships with third parties to offer sustainability and energy consultancy services.

On the other hand, agriculture can also act to a certain extent as a carbon sink, thus providing part of the solution to the climate problem through 'carbon farming'. We will start engagement dialogues with our agriculture clients to define possible environmental improvement measures. This will occur in collaboration with sector organisations and other partners.

Within the EU, agriculture has a material climate impact comparable to the combined effect of residential and commercial real estate. Rather than CO₂ emissions, the main greenhouse gases related to the sector are methane and nitrous oxide, both originating from biological processes. Besides impacting climate change itself, agriculture is also experiencing the consequences of that change, such as severe weather conditions, drought, rising temperatures and floods.

White papers

The **Strategy** pillar of the TCFD Framework

- Updated sustainable investment principles for Group Treasury and Pensioenfond KBC
- We have updated the **KBC Group Investment Policy** to reflect the increased level of KBC's ambitions in terms of sustainability and more particularly environment and climate-related topics.
- Besides existing exclusion policies, such as KBC's blacklists of specific companies, human rights offenders and controversial regimes, which have been in place for several years, new investments made by KBC entities for their own account must now comply with part of the restrictive criteria defined by KBC Asset Management for their SRI funds.
- As a consequence, additional exclusions will apply to the group's own investments, such as exclusions for activities related to fossil fuels (and thermal coal-related activities in particular). Through this alignment with KBC Asset Management, KBC's own investments will also benefit from the solid expertise and governance structure already applicable to our SRI funds.
- The relevant investment and sustainability committees decided on this new policy in December 2020. It was then formally ratified by the Executive Committee early in 2021 for immediate implementation. The

new policy applies to future investments (e.g., bonds as well as equities) made by KBC for its own account through our group insurance companies or any other group entity. In the case of existing investments, we have provided a grandfathering period (until the end of 2022 for equities and the maturity date for bonds). However, bonds not meeting these new criteria generally have a short maturity profile (less than five years).

Sustainable investment is not only gaining importance as an investment theme but is also becoming a cornerstone of the investment strategy of the pension fund industry across Europe. The need for a long-term ESG (Environment Social Governance) investment strategy has also been acknowledged by the Board of Directors at **Pensioenfond KBC**, which manages the supplementary pensions of our Belgium-based staff. As a result, an explicit ESG policy has been embedded in the Statement of Investment Principles. The most important elements of the ESG investment policy include zero tolerance towards 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), a focus on best-in-class investment funds and the long-term goal of a climate-neutral investment portfolio.

OUR COMMITMENT TO THE CLIMATE

Engagement strategy

Client engagement

As mentioned earlier in this section, an explicit part of the Sustainable Finance Programme agenda is our engagement strategy. We believe that the transition of our existing clients to a greener economy is key and see it as our role to support them and act as a partner in their transformation to a more sustainable future.

In 2020, KBC Corporate Banking Belgium set up a major initiative to engage in dialogue with business clients and support them in their transition to a greener economy. As a first step we provided all relationship managers at KBC Corporate Banking with training on sustainability themes in general and climate-related topics in particular. The training included a climate game developed in-house, which helped them to better understand and assess the risks and opportunities – for both our corporate clients and the bank itself – arising from different forward-looking scenarios.

With 377 sustainability dialogues held in 2020, KBC Corporate Banking Belgium far exceeded the initial objective of 250.

Clients gave very positive evaluations, which have resulted in an action plan for the coming years. The plan contains a continued effort to enhance the total number of dialogues, but also to develop even more specific solutions, supporting the needs of clients identified in this first wave. Moreover, we will further strengthen the partnership set up with Encon (an independent agency that supports businesses in their transition to become more sustainable) with the aim

of performing energy scans for our clients and implementing any optimisation those scans identify.

Several successful webinars and (virtual) round-table discussions on sustainability-linked topics were also organised. In October 2020, KBC Securities held its first online Sustainability Conference, in close cooperation with different departments of KBC Group. The conference allowed corporates and

‘Sustainability and corporate social responsibility is nowadays an integrated part of companies activities. It has become a priority for large companies, investors and governments’

Lode Verstraeten – Senior Banker, KBC Corporate Banking Belgium

‘Sustainability was not really a topic in our discussions with clients in the past. Not because it wasn’t important, but nobody thought that it’s the role of a bank to speak about this with clients. I’m convinced it’s the right thing to do and it is really appreciated by our clients as well.’

Gregory Theissen – Relationship Manager, KBC Corporate Banking Belgium

‘From my experience as a banker, corporate social responsibility is more than energy-saving measures. We can inspire companies in cooperation with preferred partners such as Encon.’

Peter Marynissen – Relationship Manager, KBC Corporate Banking Belgium

The **Strategy** pillar of the TCFD Framework

Let’s play a climate game

Society’s transition towards a low-carbon economy is gaining pace. Navigating the associated risks and opportunities requires insight into the broad spectrum of aspects which are at play. The novelty of the topic and the serious implications of a low-carbon transition called for an alternative approach to educate the staff involved. A number of creative employees were inspired to develop a climate game for educational purposes, in order to create a very hands-on and forward-looking experience of how climate-related aspects can change traditional banking.

Players of the game are asked to manage and decide on a number of hypothetical corporate credit files in different industry sectors. The game sketches a plausible transition roadmap and lets players experience the impact of climate-related risks and opportunities on loan portfolio management. The long-sighted nature of the game encourages players to think beyond traditional banking time horizons and confronts them with the importance of forward-looking assessments. Small groups of players discuss the risks and opportunities before deciding on each case. The approach creates a safe and enjoyable environment in which our employees can explore a variety of transition and climate-related aspects and learn from the different views that other groups might have.

The game was used within a broader training programme for our relationship managers. It has been played by over 250 colleagues to date, with the goal being to attract many more in 2021.

OUR COMMITMENT TO THE CLIMATE

institutional investors to discuss ESG reporting and performance. Internal and external experts provided a webinar and online panel discussions on offshore wind power, the pivotal role ESG plays in successful financial management, and how the European Green Deal serves as an investment engine. The conference generated a record attendance and wide international interest.

In collaboration with Sustainalize, meanwhile, we organised the third edition of The Future of Non-Financial Reporting, in which participants were

offered an insight into current trends and developments in non-financial reporting and a deep dive on how to comply with the TCFD recommendations. You can find a recording of the webinar on the [KBC website](#).

All other corporate banking units in our core countries launched clients engagement projects based on the approach of KBC Corporate Banking Belgium and sector-specific strategic projects (i.e., the aforementioned white papers). The approach in each instance reflected the approach followed at

KBC Belgium. The first step consists of focused training for relationship managers to highlight the importance of forward-looking analysis to a better understanding of climate-related risks and opportunities. In the next phase, scheduled for early 2021, the project will be rolled out further, with more dialogues planned. These will consist of both strategic dialogues, positioning KBC as a partner in our clients' sustainable transition, and attention to specific themes, such as the impact of the non-financial reporting directive, the EU Taxonomy and green lending. The dialogues will also deliver insights and data on how our clients are progressing in the sustainable or green agenda. Once the first dialogues have been held, an evaluation is planned in order to enhance our proposition and our green solutions.

In addition to this, the action plans for most of the white papers include engagement on these topics with certain other client segments, such as SMEs.

Investee 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 them. We actively engage companies ourselves in the interests of driving long-term value, with the aim of raising awareness of sustainability and to stimulate action in the event of ESG issues. In 2020, KBC Asset Management selected three topics to focus on during their engagement dialogues: (1) overboarded directors (2) utility companies that produce electricity based on coal and (3) severe controversies.

In addition, KBC Asset Management signed Climate Action 100+. This is an investor-led initiative to engage systemically important 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.

Proxy voting

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,

recognising that business, corporate governance and sustainability issues all determine the value of a company in the medium and long term.

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 Guidelines 2020' and 'Retrospect Proxy Voting – overview' available on the [KBC website](#).

Supplier engagement

Our suppliers, lastly, are also important stakeholders and we want them to integrate social, ethical and environmental criteria in their operations. 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. Read more about our supplier assessment on our [corporate website](#).

'We see sustainability as part of corporate social responsibility. KBC supports us in this as a partner.'

Clara-Matthée Van Puijenbroek – All Sport, European distributor of sports equipment

'The goodwill is there, but we are looking at how to approach it. KBC was the first to brainstorm about this with us and in that sense KBC is certainly a trendsetter.'

Kurt Crollet - Steelforce, Belgian based international steeltrader

'For Pertinea, sustainability is one of the cornerstones for the management and development of its real estate portfolio. We are delighted to be able to count on the proactive support and expertise of KBC and its partners.'

Philip De Greve - Pertinea Property Partners

The **Strategy** pillar of the TCFD Framework



OUR COMMITMENT TO THE CLIMATE

The **Risk management** pillar of the TCFD Framework

Risk management

The KBC Enterprise Risk Management Framework defines our overall approach to risk management and sets our group-wide standards in this area. It covers all risks that KBC is exposed to, including ESG risks which are gradually being embedded in existing risk management processes. ESG risks, including climate risk, are identified and defined in our risk taxonomy, but not as a separate risk type. They are a key driver of the external environment which will manifest itself through all other risk areas, such as credit risk, liquidity risk and technical insurance risk.

Over the last year, our main focus at KBC was on climate-related risks. Following the recommendations of the TCFD, we differentiate between:

- transition risks: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-

resilient or environmentally sustainable economy. These include policy changes, legal changes, technological changes/progress and behavioural changes. Risks of this kind can affect the creditworthiness of our clients and the stability of our portfolios on a short to medium-term horizon.

- physical risks: risks related to the potential financial implications of physical phenomena associated with climate trends (chronic) such as changing weather patterns, rising sea levels, increasing temperatures and chronic heat waves, as well as extreme weather events (acute) including storms, floods, fires, heatwaves or droughts that may disrupt operations or value chains or damage property. These risks can impact KBC's insured losses and may also impact the creditworthiness of our clients, as well as the value of our assets or collateral in the medium to long term.

There are strong parallels between the Covid-19 pandemic and climate change. Both events have global effects (though driven and influenced by individual actions), have the potential to impact our social and economic fabric and can be very disruptive in nature. As such, we believe that the current pandemic may accelerate the path towards a more sustainable society.

Governance

KBC's risk management approach is supported by solid risk governance:

- The management of climate-related risks is fully embedded in our existing risk management governance.
- Group Risk is part of the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group.
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee and one of them also has a seat on the ISB.

The Board of Directors, Risk and Compliance Committee (RCC) and Executive Committee are the prime recipients of the various outputs of the main risk management processes (e.g., the Internal Capital and Liquidity Adequacy Assessment Process (ICAAP/ILAAP), the Own Risk and Solvency Assessment (ORSA), Integrated Risk Reporting and Risk Appetite). Given that climate-related risk has been identified as a top risk, it features in all these existing risk management processes and reports.

Risk identification and classification

At KBC, we use a variety of approaches and processes to identify new, emerging and changing risks, including climate-related risks. We continuously scan the internal and external environment for new and emerging risks we are exposed to in the short term (horizon of one to three years), in the medium term (horizon of four to ten years) and in the long term (horizon beyond ten years), hence also taking a forward-looking perspective. This group-wide process involves all necessary stakeholders, including entities from the business side, corporate sustainability and asset management.

To ensure pro-active climate-related risk identification in an integrated environment, we:

- organise internal communication and training for (risk) staff and management;
- follow up new and changing regulations (e.g., the related ECB and EBA publications) through the Sustainable Finance Legal Working Group;
- take into account sustainability and climate-related policies when deciding on new products or services;
- have developed an environmental and social sectoral heat map, which will serve as an important input for identifying, defining and assessing

ESG risks are the risks of (current or prospective) environmental, social or (corporate) governance (ESG) factors impacting KBC, directly or through its counterparties and exposures.

- Environmental risks are the risks arising from climate change (climate risk) or from other environmental degradation.
- Social risks are the risks arising from changing expectations concerning relationships with employees, suppliers, clients and society in general.
- Governance risks are the risks arising from changing expectations concerning corporate governance (corporate policies, code of conducts).

OUR COMMITMENT TO THE CLIMATE

the environmental and social risks of borrowers during credit risk acceptance, and regularly report on climate-related risk signals to senior management.

This continuous risk identification process is supplemented with a strategic 'risk scan' exercise aimed at highlighting the top risks that can undermine our strategy, financial stability and long-term sustainability but also carry a high degree of uncertainty. The identified risks are used as input for several other risk management exercises and tools, such as setting risk appetite, stress testing, scenario analysis and the aligned planning cycle. Climate risk has been identified as such a top risk for several years now.

Cascading and setting risk appetite

We have a well-developed risk appetite statement and process, starting from clear risk appetite objectives. Our risk appetite objectives support our group in defining and realising its strategic sustainability goals. These include promoting a strong corporate culture that encourages responsible environmental and social behaviour, achieving long-term sustainable growth, ensuring stable earnings and sound financials (capital and liquidity), supported by an adequate

promotion and remuneration policy. To be less vulnerable to changes in the external environment – including climate change – we pursue diversity and flexibility in our business mix, client segments, distribution channels and geographies where we refrain from focusing on short-term gains at the expense of long-term stability. We manage volatility of net results by defining a solid risk management framework and risk appetite to ensure financial and operational resilience in the short, medium and long term.

First steps in integrating sustainability more deeply into credit processes

When we provide credit facilities to our clients, a key element in our process is evaluating their probability of default (PD). The PD model we currently use for this purpose consists of the following general building blocks on the input side (i) the financials of the clients and (ii) a number of qualitative elements (e.g., quality of risk management, which answers the question of whether the company is sufficiently equipped to identify and mitigate risks).

The integration of sustainability into traditional risk management is key and reinforces a company's ability to transform its business model sustainably and navigate the very rapid changes society will undergo in the decades ahead. As part of an overall exercise to strengthen the assessment of the management quality of our corporate counterparties, 'sustainability' has been explicitly integrated within Corporate Banking Belgium as one of the topics to be considered when evaluating risk management quality. Our relationship managers will continue to be trained to engage in more in-depth conversations with clients on sustainability and how it affects their business, including from a forward-looking perspective.

Our high-level risk appetite objectives are further specified for a number of risk types in line with our climate-related policies and will be gradually improved based on new insights:

- A group-wide zero tolerance policy is in place for new business with a company on the KBC Blacklist. This policy is fully embedded in the organisation as part of the operational risk management framework.
- Controversial activities identified in our standards for sustainable and responsible lending are managed through sound lending and insurance

processes, acceptance policies and product characteristics, and are actively screened by the business side, with quality controls performed by the second and third lines of defence. They also define the playing field for credit and insurance risks.

- We have the ambition to keep all our operational, compliance and conduct risks low and aim to be well prepared for a variety of crises (avoiding disruption in services), including ESG and climate-related risks.

Risk measurement

We are working together with external parties on a series of tools and methodologies to strengthen our ability to measure and analyse climate-related risks. For more information please see the '[Metrics and targets](#)' part in this section.

As stress testing and sensitivity analysis are a very important tool in our risk management toolkit, we are increasingly incorporating climate-related risks more actively into these analyses, also considering other ESG drivers, such as failure of data protection or operational risk losses from possible cyber hacks.

In addition to a number of more risk-type

specific stresses, such as more extreme natural catastrophe events or the impact of greenwashing on our liquidity and funding risk, we considered a number of holistic scenarios at group level to assess the impact on capital adequacy and profitability (see our [risk report](#)).

Risk analysis, monitoring and reporting

We have integrated indicators for climate-related risks and opportunities into the KBC Sustainability Dashboard, which allow us to monitor progress in the implementation of our sustainability strategy and to make adjustments when necessary. We will further integrate climate-related risks into our internal risk reports, ICAAP/ORSA and external reports (annual report, risk report), with particular focus on stress testing.

We have already incorporated the impact of more extreme weather conditions into our insurance activities, as we use a number of internal and external measures, along with stress tests, to analyse the potential impact of (acute) natural catastrophe events on our non-life (property) portfolio. When modelling natural catastrophe events, we use external broker and vendor models in all KBC insurance entities. We actively engage and enforce dialogue on the

OUR COMMITMENT TO THE CLIMATE

consideration of climate change in the scenario analysis of these providers. We monitor forward-looking trends, such as changes in storm and precipitation patterns and changes in the frequency of floods as part of our Insurance Risk Management Framework and related processes. In addition, we closely monitor physical risks in other regions around the world as they can have an impact on the global reinsurance market on which KBC relies. Climate change does not represent a significant technical insurance risk for KBC in the short to medium term, due mainly to the well-diversified nature of KBC Insurance's life and non-life activities, the focus on our core markets in Belgium and Central Europe, and the annual renewal of policies and related reinsurance contracts. We analyse the medium to long-term effects of changing weather patterns by means of stress tests and deep dives. In 2020, we analysed the flood risk for our property portfolio in Flanders (see the '[UNEP FI](#)' appendix at the end of this report).

We have launched a number of initiatives to improve our understanding of how to measure the ESG and climate-related risks of our loan portfolio. We started by making a qualitative assessment of ESG

and climate-related risks (see example in the box on the previous page), by, for instance, developing an environmental and social sectoral heat map. This is to trigger business, risk and decision takers to explicitly consider environmental and social risks in their assessments (credit acceptance, new and active product process (NAPP), stress testing, etc.). We also made significant efforts in the development of quantitative assessments and climate-related valuation methods. The insights gained are part of our exploration to further integrate these risks into our credit assessment processes and modelling (including expected credit losses) and to adapt our policies, where necessary. Moreover, management has the ability to overrule the expected credit losses and to capture events that are not part of the financial assessment, such as the growing insights into ESG and climate-related risks. In the future we will apply this approach more prominently in risk assessment.

Metrics and targets

To support the transition to a low-carbon society and help achieve the Paris Agreement targets, we have defined a number of targets in the area of sustainability and climate. They relate to

our indirect impact (volume of SRI funds, share of loans for renewable energy and the run-down of direct coal-related lending) and limiting our own direct environmental impact (reducing our own GHG emissions and increasing our use of green electricity).

We have been closely tracking our environmental impact performance for several years now. As we want our group to play a leading role, we substantially raised our climate-related ambitions in 2020, with updated non-financial targets for both our direct and indirect impact (please refer to the '[Our direct environmental impact](#)' part of this section

The Metrics and targets pillar of the TCFD Framework

for the non-financial targets related to our direct impact).

- We increased our target for the share of renewable energy in total lending to the energy sector from 50% by 2030 to 65% by 2030.
- We already have a proven track record in reducing our direct loan exposure to the coal industry. We committed to fully exit from direct coal-related financing by 2021, thereby dropping the last remaining exception in the Czech Republic for funding coal-fired power stations for communal heating systems.

- We will substantially increase the volume of SRI funds by 2025, targeting 30 billion euros, with SRI funds accounting for 50% or more of new production by 2021.

For a complete overview of our main non-financial targets, please refer to the '[Our targets and commitments](#)' part of the 'Our approach' section.

Most climate-sensitive industrial sectors¹ – outstanding loan amounts at year-end (in billions of EUR), KBC Group

	2020	2019
Real estate	11.3	11.2
Building and construction	7.0	6.8
Agriculture, farming, fishing	5.0	4.7
Automotive	4.5	4.6
Food production and beverages	3.9	3.7
Energy ²	3.8	3.9
Metals	2.5	2.5
Chemicals	2.5	2.2
Total ³	40.4	39.6

¹ Reporting limited to sectors representing over 5% of industrial loans designated as climate-sensitive at year-end 2020. 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.

² Scope broadened compared to last year's report; 2019 figures have been adjusted accordingly.

³ The total deviates from the sum of all categories due to rounding up.

OUR COMMITMENT TO THE CLIMATE

Need for advanced measuring and reporting instruments

To deliver on our ambitions and commitments, it is crucial that the right measuring instruments and definitions are available and that they are applied consistently across the financial sector. Only then will accurate, overall progress reporting be possible. Many of these methods and methodologies have yet to be perfected. In some instances, broader-based or deeper academic or scientific underpinning is required, not every approach is equally suitable for all (sub)sectors, production methods or technologies, and some client segments lack the resources or opportunities to deliver all the requested data consistently and systematically.

Our group is therefore participating in pilot projects to implement new measuring instruments like PACTA, UNEP FI, PCAF and Trucost. We have already tested PCAF intensively on our loan portfolio (mortgage loans and car loans – together covering 94% of our loan portfolio for private individuals and 39.7% of KBC Group's total outstanding loan portfolio – and vehicle leasing), and now covering all of our core countries. We also use PACTA as a more effective methodology for

analysing the climate impact of particular sectors and the transition process. While the relevance of this methodology to our portfolio is rather limited, the knowledge we derive from it helps us to offer guidance to our clients in their transition to a lower-carbon economy. New data will also be needed to identify green assets (other than renewable energy) based on technical environmental criteria, including the forthcoming EU Taxonomy. This represents a major challenge, and we are starting out in this regard too with a more structured approach.

To be able to make the right decisions going forward, we believe that it is very important to collect relevant environmental data first, then to translate this into appropriate and clear metrics and lastly to set long-term as well as intermediate science-based targets. The final target obviously remains alignment with the Paris Agreement but all the intermediate steps as described above are necessary and important pieces of the complex climate puzzle.

Pilot projects

To better understand the potential financial impact of climate-related transition risks on our lending and investment activities, we continued to follow and apply different methodological tracks, covering several of our key exposures:

- The **Paris Agreement Capital Transition Assessment (PACTA)**, which allows us to measure the alignment of our corporate industrial loan portfolio with the Paris Agreement goals. It gives an insight into the potential transition risks of climate change by measuring credit exposures to transition technologies in some of the most carbon-intensive sectors, such as steel, automotive, shipping, aviation, power, oil and gas, coal and cement. This sustainability report contains the second publication of our PACTA results, which confirm that we have only limited exposure to the carbon-intensive activities that are in scope of the methodology. Read more about the methodology and results of the PACTA pilot in the '[PACTA](#)' appendix of this report.
- In the second half of 2020, KBC Asset Management performed a first assessment of the climate impact of its funds, using data from and the methodology of **Trucost**. Results and

more detailed information can be found in the '[Trucost](#)' appendix of this report.

- In cooperation with **UNEP FI**, we piloted analytical tools and indicators to assess credit risks in our corporate loan portfolio that are associated with the transition to a low-carbon economy. During 2019 and 2020 we learned more about the methodology, initially developed by UNEP FI and Oliver Wyman in 2018 and subsequently published in the '[Extending our horizons](#)' report, which translates the impact of forward-looking climate scenarios into changes in traditional credit risk indicators, such as expected loss, loan-to-value or PD. As part of our active contribution in the second phase of the UNEP FI Banking Pilot, we tested this initial methodology on our metals portfolio and further adapted it to improve applicability within our organisation. Please refer to the '[UNEP FI](#)' appendix of this report for more insights on this work.
- We joined the **Partnership for Carbon Accounting Financials (PCAF)**. PCAF offers a useful tool for identifying, measuring and tracking the GHG emissions of our loan and investment portfolios. We have already tested the PCAF methodology intensively on our loan portfolio (home loans, car loans

and car leasing), first in Flanders but recently also in the other regions and countries where we operate. Read more about the results of the PCAF pilot in the '[PCAF](#)' appendix of this report.

Besides the transitional risks, we are also in the process of gradually assessing climate-related physical risks inspired by the second phase work of UNEP FI. As part of this process, we analysed our Flemish residential mortgage loan portfolio using the methodology developed by UNEP FI and Acclimatise in 2018 (resulting in the publication of the '[Navigating a new climate](#)' report), the results of which are described and discussed in the '[UNEP FI](#)' appendix of this report. This is the first step towards better understanding the possible impact of climate-related, acute or chronic flood events on our mortgage loan-to-value ratios.

OUR COMMITMENT TO THE CLIMATE

The four pillars of the TCFD Framework: overview and future work

Overview and future work

We will continue our work in the field of sustainability, with a view to achieving continuous progress in our priority areas and towards our ambition of making sustainable finance work. The table on the following pages shows the progress we have made under our Sustainable Finance Programme towards meeting the TCFD recommendations as of year-end 2020, together with the focus points for 2021.

Pillar	Recommendations	Progress made as of year-end 2020	Focus points in 2021
Governance	a. Describe the board’s oversight of climate-related risks and opportunities b. Describe management’s role in assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> Climate governance included in KBC’s overall strengthened sustainability governance: <ul style="list-style-type: none"> The Sustainable Finance Core Team integrates our climate approach throughout the group. The progress and methodological approach of the Sustainable Finance Programme is overseen by a steering committee chaired by the Group CFO. Known as the Sustainable Finance Steering Committee, this committee is a sub-committee of the ISB. The Sustainable Finance Steering Committee, which steers the progress of our climate approach and of the Sustainable Finance Programme, has been expanded to include colleagues from Data Quality Management, with the objective of ensuring well-structured data management and reporting on climate-related topics. The Executive Committee grants decision-making power on sustainability and climate-related issues to the ISB and the Sustainable Finance Steering Committee but the ultimate decision-making authority remains with the Executive Committee. All core countries are represented and all Executive Committee members have at least one delegate. The ISB is chaired by the Group CEO. The Group CFO, as chairman of the Sustainable Finance Steering Committee, is also a member of the ISB. We have set up a new hybrid organisational structure and governance with strong central steering and clear local accountability in each of our core countries. Sustainability items, including the Sustainable Finance Programme, are a fixed agenda item on all relevant business management committees within our group. All core countries have nominated a Corporate Sustainability Country Coordinator to coordinate all sustainability matters within each core country. Management of climate-related risks is fully embedded in our existing risk management governance. Indicators associated with climate-related risks and opportunities and the progress of the Sustainable Finance Programme in the implementation of our climate strategy are integrated in the KBC Sustainability Dashboard, which is submitted twice a year to the Executive Committee and the Board of Directors to measure progress. An annual in-depth discussion is held on progress in the Sustainable Finance Programme by the Board of Directors. A sustainability KPI is included in the variable remuneration of Executive Committee members and senior managers. Sustainability KPIs are set for all senior managers and include – for the relevant positions – a clear link with the Sustainable Finance Programme. The External Sustainability Board advises the Sustainable Finance Programme on policy topics and the drafted sector-based strategy proposals (see white papers under ‘Strategy Pillar’ in this table), integrating all climate-related risk mitigating actions, opportunities and targets for these sectors. 	<ul style="list-style-type: none"> The Sustainable Finance Steering Committee and the ISB will decide on all ongoing sectoral strategy projects (white papers), will decide on policy actions and will monitor effective implementation of these decisions in all countries. Final approval of the policy decisions will be given by the Executive Committee. All sustainable finance projects will be implemented in collaboration with our Corporate Sustainability Country Coordinators and the local contact person for the Sustainable Finance Programme. Moreover, projects will be extended to all core activities (lending, insurance, advisory business and asset management). Strong support will be provided by all decision-making bodies (country supervisory boards, KBC Group Corporate Banking Committee, KBC Group Retail Banking Committee, KBC Group Insurance Committee, etc.). Reporting to the Executive Committee and Board of Directors will continue. Further discussions on the white paper proposals will be held with external advisers through the External Sustainability Board whilst ensuring members of this board also have the relevant expertise and/or background.



OUR COMMITMENT TO THE CLIMATE

The four pillars of the TCFD Framework: overview and future work

Strategy	<p>a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term</p> <p>b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning</p> <p>c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario</p>	<ul style="list-style-type: none"> • Climate is included in our overall sustainability strategy, confirmed by signing the CCCA in 2019. Progress, one year after signing the CCCA, reported to UNEP FI. • Identification of climate-sensitive corporate industrial sectors (loan portfolio) has been updated. • Methodological pilots: <ul style="list-style-type: none"> - Updated results and further expansion (more portfolios of all core countries and more sectors involved) of the three pilot projects (PACTA, PCAF and UNEP FI) using a series of tools and methodologies to: <ul style="list-style-type: none"> - enhance our ability to identify and measure climate-related risks and guide our strategy; and - quantify the indirect impact of our most carbon-intensive sectors and business lines. - First assessment of KBC Asset Management funds, using Trucost data and methodology. • The Board of Directors confirms that climate risk remains a top risk for KBC; this has been fully integrated into other risk management exercises and tools, such as risk-appetite setting, stress testing and the aligned planning cycle and hence frequently discussed in the Risk and Compliance Committee. • Updated and tightened climate-related targets have been decided and rolled out to all business units. • Strategic sectoral projects (creating the so-called 'white papers'): <ul style="list-style-type: none"> - Projects are in place for the eight most impacted sectors and three product lines. These projects integrate all climate-related risks and opportunities, propose how our group will respond to them and define sector-specific targets. The first focus in 2020 was on our lending business. - In 2020, we initially concentrated on a country-specific situation and portfolio, for the first set of sectors and product lines (energy, agriculture, commercial real estate, mortgages, and car leasing). In the next phase the delivered results (in the form of white papers) were handed over to the other countries for review and implementation – where relevant for their portfolio – in their local context and to allow global policy decisions to be taken for the full portfolio of our group. - All white papers also include the next actions to be taken in these domains: data collection, process changes, integration in IT systems, etc. • Client engagement: <ul style="list-style-type: none"> - All relationship managers of KBC Corporate Banking Belgium have been trained and have engaged with some of their clients on their sustainability and climate-related agendas. In total, despite the Covid-19 crisis, 377 dialogues on this theme have been held with corporate clients. - All other core countries have prepared a similar approach, and some of them have already started training their relationship managers and dialogues with clients. - Several webinars and round-table discussions around sustainability-related themes, climate change and non-financial reporting have been organised. • New 'green' products and solutions implemented or under development in different core countries. • Updated sustainable investment principles for KBC Group Treasury and Pensioenfonds KBC. 	<ul style="list-style-type: none"> • We will continue with the strategic projects delivering the white papers for the remaining sectors and product lines (building and construction, food producers, automotive (including transportation), chemicals, metals and car loans) and projects will be set up for our insurance, advisory, investment and other businesses. • We will continue implementing the policy proposals, mitigating the identified climate-related risks, developing the opportunities, adapting processes, collecting data, determining metrics and, lastly, setting specific targets for the most carbon-intensive sectors (on a group level and where relevant per business unit). • We will continue to develop the methodologies used in this respect. • We will start collecting additional environmental data for our core activities and gradually integrate this into all relevant processes, mapping our portfolio in line with the EU Taxonomy and other frameworks that promote transformational and green investments. • We will work further on client engagement, expanding the initiative to all core countries, to the SME segments and to more corporate clients. We will further develop the solutions needed to partner our clients in their sustainability agenda. • We will update the strategic white papers on an annual or two-yearly basis depending on the speed of climate adjustments in the underlying sectors.
----------	---	--	--

OUR COMMITMENT TO THE CLIMATE

The four pillars of the TCFD Framework: overview and future work

Risk	<p>a. Describe the organisation's processes for identifying and assessing climate-related risks</p> <p>b. Describe the organisation's processes for managing climate-related risks</p> <p>c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated in the organisation's overall risk management</p>	<ul style="list-style-type: none"> • We conducted our first climate-related (reverse) stress test to test KBC's capital adequacy, as part of the KBC Group ICAAP/ORSA report. • We included a mild, medium and severe long-term orderly transition scenario to assess the long-term financial stability of our business model in our earnings assessment (important input for our aligned planning cycle). • We established a first environmental and social sectoral heat map. • We continued the gradual integration of climate-related risks in existing risk management processes, through the KBC Enterprise Risk Management Framework, defining the group-wide standards for risk management. 	<ul style="list-style-type: none"> • We will further enhance climate-related stress tests for banking and insurance based on insights gained from methodological projects. These will serve as input for the ICAAP/ORSA report (brought to the Risk and Compliance Committee and Executive Committee and finally approved by the Board of Directors). • We will monitor and gradually implement ECB and EBA guidelines. • We will take the next steps towards further integration of climate related risks in the existing risk management processes. • We will integrate the environmental and social sectoral heat map as an important input for identifying, defining and assessing environmental and social risks of borrowers during the credit risk acceptance process.
Metrics and targets	<p>a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process</p> <p>b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse (GHG) emissions</p> <p>c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets</p>	<ul style="list-style-type: none"> • We cooperated further with other banks and stakeholders in the development of the methodologies to assess climate related risks, to quantify the indirect impact of our most carbon-intensive sectors and business lines and to report on these topics (UNEP FI, PACTA, PCAF). • We updated the results of and further expanded three methodological projects (PACTA, PCAF and UNEP FI) as published in this sustainability report. • We conducted a first assessment of the climate impact of KBC Asset Management funds, using Trucost data and methodology. • Scope 1, 2 and 3 (energy, business and commuter travel, paper and water consumption and waste generation) GHG emissions reported and externally verified in accordance with ISO 14064-3. • We reported against targets set (both internally and externally in our annual reporting). • We carried out various initiatives to collect internal and external data (connected to the strategic projects, as well as specific ad hoc projects). Data availability for SME and private individuals remains a challenge that we need to address in different ways. We proactively and responsibly consulted, engaged and partnered with relevant stakeholders such as governments and sector organisations to enhance the availability of such data. 	<ul style="list-style-type: none"> • We will continue the development of the methodological projects (PACTA, UNEP FI, PCAF, Trucost), in cooperation with other banks and stakeholders. • We will continue to monitor and evaluate alternative and potential methodologies. • We will assess the climate impact of the investment portfolios of Pensioenfondsen KBC and KBC Insurance, using Trucost data and methodology. • We will continue our efforts to collect climate-related data on our clients, assets, portfolios, etc. • We will further investigate how we can subscribe to the Science Based Target initiative given that the guidance for the financial sector has now been published.

 EQUATOR PRINCIPLES

Equator Principles

The Equator Principles (EP) are a voluntary set of guidelines developed by commercial banks and the International Financial Corporation (IFC), a subsidiary of the World Bank, for assessing and managing the environmental and social risks and impacts related to project financing. They were launched in June 2003. We adopted the EP in January 2004 and they have been updated four times since. The latest update came into effect on 1 July 2020. It widened the scope of application of the EP and includes new commitments in relation to climate change, biodiversity, human rights and indigenous peoples. New commitments in relation to climate change include a specific reference to the Paris Agreement and the introduction of a climate change risk assessment by an independent consultant as a requirement for certain projects.

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 2020, we had 22 transactions under the EP, of which no category A projects (projects with potential significant adverse environmental and social risks and/or severe impact), 7 category B projects (projects with potential limited adverse environmental and social risks and/or impact that are less severe) and 15 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.

UNITED NATIONS ENVIRONMENT PROGRAMME FINANCE INITIATIVE (UNEP FI)

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI Principles for Sustainable Insurance

In 2018, KBC became a signatory to the UNEP FI Principles for Sustainable Insurance (PSI). UNEP FI PSI 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. You can find the template in the [‘Principles for Sustainable Insurance’](#) appendix of this report.

UNEP FI Principles for Responsible Banking

That same year KBC also became an early endorser of the UNEP FI Principles for Responsible Banking (PRB), the first in the Belgian financial market, and it goes without saying that we signed up as a founding signatory in September 2019. The principles provide 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 UNEP FI PRBs are structured around six main drivers: (1) alignment of business strategy with the goals set out in the UN Sustainable Development Goals, the Paris Agreement and other relevant frameworks; (2) increasing the company’s

positive impact on society while reducing its negative impact and managing risks to people and environment; (3) responsible behaviour towards customers to create shared prosperity for future generations; (4) stakeholder consultation and engagement to achieve society’s goals; (5) implementation of the principles through governance, targets and a culture of responsible banking; (6) transparency and accountability. For some considerable time now, our group has developed a tradition of open and transparent sustainability communication towards all our stakeholders. This year we disclose our second self-assessment, the details of which you can find in the [‘Principles for Responsible Banking’](#) appendix of this report.

UN Principles for Responsible Investment

As a long-standing signatory to the Principles for Responsible Investment (PRI) since 2016, we continue to report the actions taken each year in relation to the six principles for responsible investment. You can find the report on the [UN PRI website](#).



SOCIALLY RESPONSIBLE INVESTMENT

Socially responsible investment

A key focus area of our sustainability strategy and climate policy is our focus on sustainable investments. KBC has been a pioneer in the field of socially responsible investing for nearly 30 years. We consider SRI to be another powerful tool that helps us achieve a more sustainable society. We want to give our clients the opportunity to invest in sustainable companies and countries that recognise their social and environmental responsibility. This allows us to contribute together towards a more sustainable society and to help limit the adverse impact that businesses can have on society.

By the end of 2020, we had increased the volume that is invested in these SRI funds to 16.8 billion euros. At the same time, we have substantially raised our ambition for SRI funds from 20 billion euros to 30 billion euros by the end of 2025, with SRI funds accounting for 50% or more of new production as of 2021.

We already offer SRI funds in Belgium, Ireland and Hungary, and, at the end of 2020, we successfully launched SRI funds in Slovakia too. Our ambition in our remaining core countries is to gradually introduce SRI funds over the next two years.

KBC clients in Belgium already had access to a sustainable pension savings fund and to sustainable investments with advisory services through KBC Mobile, our award-winning banking app. Since November 2020, they can also start a sustainable investment plan and make sustainable investments using their spare change. By offering this feature, we are resolutely opting for sustainable investment offerings in KBC Mobile.

In Belgium, we introduced 'spare change' investing as an accessible form of investment in 2018. The principle is simple: when clients pay their daily expenses and make other payments, we automatically round up these amounts to the next full euro. The difference is then invested in a dynamic KBC investment solution. Since November 2020, this easy-to-use investment opportunity has been linked to an SRI fund, ensuring the advancement of this type of socially responsible investing to a wider clientele.

In Hungary, we further expanded our range of SRI funds. In April 2020, we introduced an SRI fund for defensive clients, so that they are able to invest their portfolio sustainably just as dynamic investors could already.

In 2020, KBC Ireland made the commitment to move to 100% SRI funds in 2021 (new production, according to the 2020 definition). The move further cements our commitment to a more sustainable future. KBC Ireland currently offers two SRI funds to the Irish market which, in value terms, accounted for 18% of all the bank's SRI investment trades in 2020. Over one in five (21%) investment transactions are now SRI-related.



KBC's socially responsible investments have been granted the 'Towards Sustainability' label, an initiative of Febelfin:

- A clear sustainability strategy is in place
- Very harmful companies or activities are excluded
- A transparent policy is pursued in relation to socially questionable practices
- The label provides investors with clear and comparable information across different financial institutions.
- KBC's exclusion criteria are fully in line with those required by the Towards Sustainability quality standard and even surpass it, as KBC applies criteria that are even stricter for many sectors.
- Febelfin is the business federation for the Belgian financial sector. It represents the interests of its members together with those of policymakers, supervisors, professional federations and interest groups at national and European level.

Beginning of March 2021, the phase-in implementation of the EU Sustainable Finance Disclosure Regulation (SFDR) started. The aim of this regulation is to inform investors adequately on various sustainability aspects of their investments. KBC is analysing the impact of this regulation on its SRI funds.

SOCIALLY RESPONSIBLE INVESTMENT

Awareness

Our employees offer sustainable investment products alongside conventional ones, thereby raising awareness amongst our clients and enabling them to make properly founded choices. Our branch staff receive regular training and information to increase their awareness and knowledge of SRI funds.

Exclusion criteria

For conventional funds, KBC Asset Management applies the exclusion policies related to the KBC Group Policy on Blacklisted Companies and the policies described in the KBC Group Investment Policy. For sustainable funds, we go further and apply some additional exclusion policies, such as for gambling, weapons, fur and specialty leather, adult entertainment and fossil fuels. In 2020, we introduced a new policy on palm oil companies for our sustainable funds. Palm oil that is not produced in a sustainable way leads to extensive deforestation and loss of biodiversity, in addition to humanitarian issues such as child labour and loss of small farmers' land rights. That is why KBC Asset Management will only invest our sustainable funds in palm oil companies that are a member of the Roundtable on Sustainable Palm Oil and at the very

most have an average controversy score. Since the beginning of 2021, KBC Asset Management excludes, from all its actively managed funds, utility companies using thermal coal to produce electricity with a 25% threshold and all companies extracting thermal coal.

Positive criteria

In addition to the exclusion criteria as set out above, we want to have a positive impact through our SRI funds by investing in companies and countries that score well on sustainability.

There are three types of sustainable investment fund, each with its own approach.

- Best-in-class investment funds invest in businesses or countries that excel at sustainability compared to their sector peers and offer the best performance in terms of corporate governance, the environment and social issues.
- Theme funds invest in companies that make a sustainable contribution to solving a specific societal problem like climate change, the threat of water shortages and the quest for alternative energy.
- Impact investing funds invest in companies whose goods and/or services have a direct positive

impact on society. We look for businesses whose core activity is not only to pursue financial returns but which also contribute positively to 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 every quarter, challenging one another and taking on board the different expert opinions. In this way, KBC Asset Management ensures that we meet the highest possible standards for sustainable investments.

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, therefore, we have updated our best-in-class methodology for companies. The new methodology retains the concept of ESG, but selects the most relevant ESG indicators for each subsector to determine which companies are best in class. Which indicators are ultimately selected, but also their number and weight vary per subsector. The new methodology will also take all controversies into account. In this way, companies' sustainability principles are immediately tested in practice.

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 them. For more information on our investee engagement, please refer to the ['Engagement strategy'](#) part in this section.

Indicator	KBC Target	KBC realisation		Status
		2020	2019	
Volume of SRI funds at KBC Asset Management	10 billion euros by year-end 2020 (new) 30 billion euros by year-end 2025	16.8 billion euros	12 billion euros	On track
% of new production	SRI funds accounting for more than 50% of new production by 2021	40%	30%	On track

* During 2021 KBC will re-evaluate this target and its definition of SRI funds in line with the new EU Sustainable Finance Disclosure Regulation (SFDR).

IMPACT INVESTING

Impact investing

Through its unique partnership with BRS, KBC is actively involved in microfinance and microinsurance. This gives local entrepreneurs and farmers in Africa, Latin America and Asia concrete opportunities to build a future for their families. The microfinance institutions with which KBC and BRS cooperate are local organisations that not only offer financial services such as microcredit and microinsurance, but also organise access to education or healthcare for their clients.

Flexible finance

Flexibility and solidarity were needed more than ever in 2020 to cope with the consequences of the coronavirus pandemic. Most microfinance clients are active in the informal sector and so can rarely count on formal government support. For artisans, vendors or farmers who depend on daily income and have little buffer, it is important to be able to repay their microloans in a flexible way. Through BRS Microfinance Coop, KBC together with Cera and 1 770 private individuals invests in ten microfinance institutions, which together reach 3.1 million entrepreneurs. Thanks to BRS Microfinance Coop, they have been able to count on adjusted repayment schedules for their credit lines in order to meet the needs of their clients.

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 microcredit to local 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 and 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.

Solidarity and coaching

Cooperation in the Global South goes beyond investing. Above all, BRS wants to provide advice and maintain a dialogue with partners that are involved, based on its unique practical experience and knowledge of cooperative banking and insurance. 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, following their active careers at KBC, assist BRS' partners. Active KBC staff also volunteer for BRS through KBC4BRS, the employee involvement program of KBC.

On-site visits for colleague-to-colleague knowledge exchange could not take place in 2020 due to the coronavirus pandemic, and so were replaced by online sessions for 13 projects in 11 countries. BRS also launched a tool to help managers of microfinance institutions to adapt their business plan flexibly in response to crisis situations. In addition, each organisation received a solidarity contribution of 5 000 euros to cover the costs of prevention in the wake of the coronavirus pandemic. More details of how BRS has coped with the pandemic can be found in the 'Covid-19' part of the 'Our approach' section of this

report. The [BRS website](#) also contains testimonials of how microfinance and microinsurance institutions are dealing with the virus.

Microinsurance can really make a difference in the Global South. An insurance policy, for instance, can prevent people falling 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. You take out insurance in case you suffer a setback.

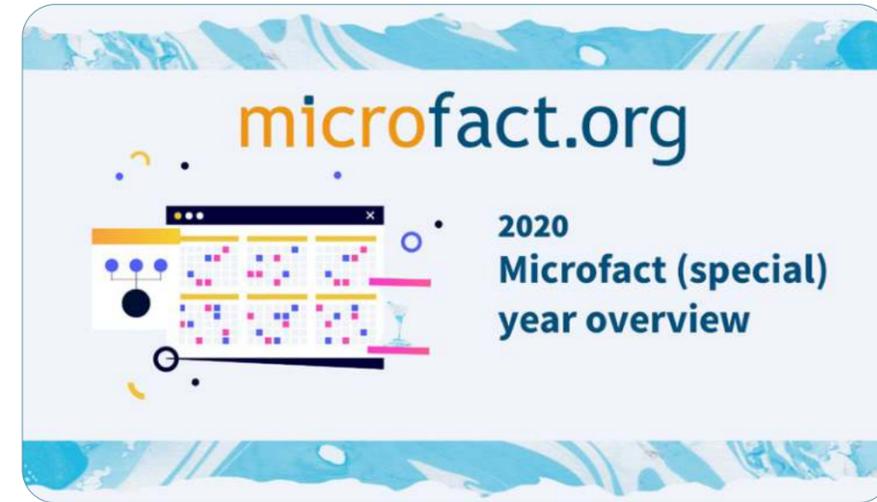
Hopefully that won't happen and you won't need to call on your policy. For people on a low income, investing to cover a risk that might never materialise does not always come naturally.

- Cera, together investing in prosperity and well-being
- Together with around 400 000 members, Cera invests in society and builds a strong cooperative movement. By joining forces, Cera and its members create economic and social added value in three ways:
 - acting as a core shareholder to ensure strong foundations for KBC Group;
 - having a positive impact on society;
 - providing its members with unique benefits.
- 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, from which CERA Bank would later grow. In June 1998, CERA Bank merged with Kredietbank and ABB Insurance into KBC. The Cera cooperative has not been a bank for a long time now. Instead, it groups together the shares of former CERA Bank members and of new members who have joined, thereby rebuilding the 'old' cooperative values.
- **Cera. Deep roots, broad presence**
- Read more about Cera's mission and roots on the [Cera website](#) (available in Dutch, French and German).

IMPACT INVESTING



Microfact



'Let your figures talk' is the slogan of Microfact, which is a joint initiative of BRS and ADA, a Luxembourg NGO. Microfinance institutions can turn to Microfact for expertise on how to evaluate their financial and social figures and communicate about them transparently with everyone involved. Via the website www.microfact.org, 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 2020, Microfact launched its e-learning platform.

Watch the video in which Microfact looks back on a creative 2020.

IMPACT INVESTING

BRS Microfinance Coop

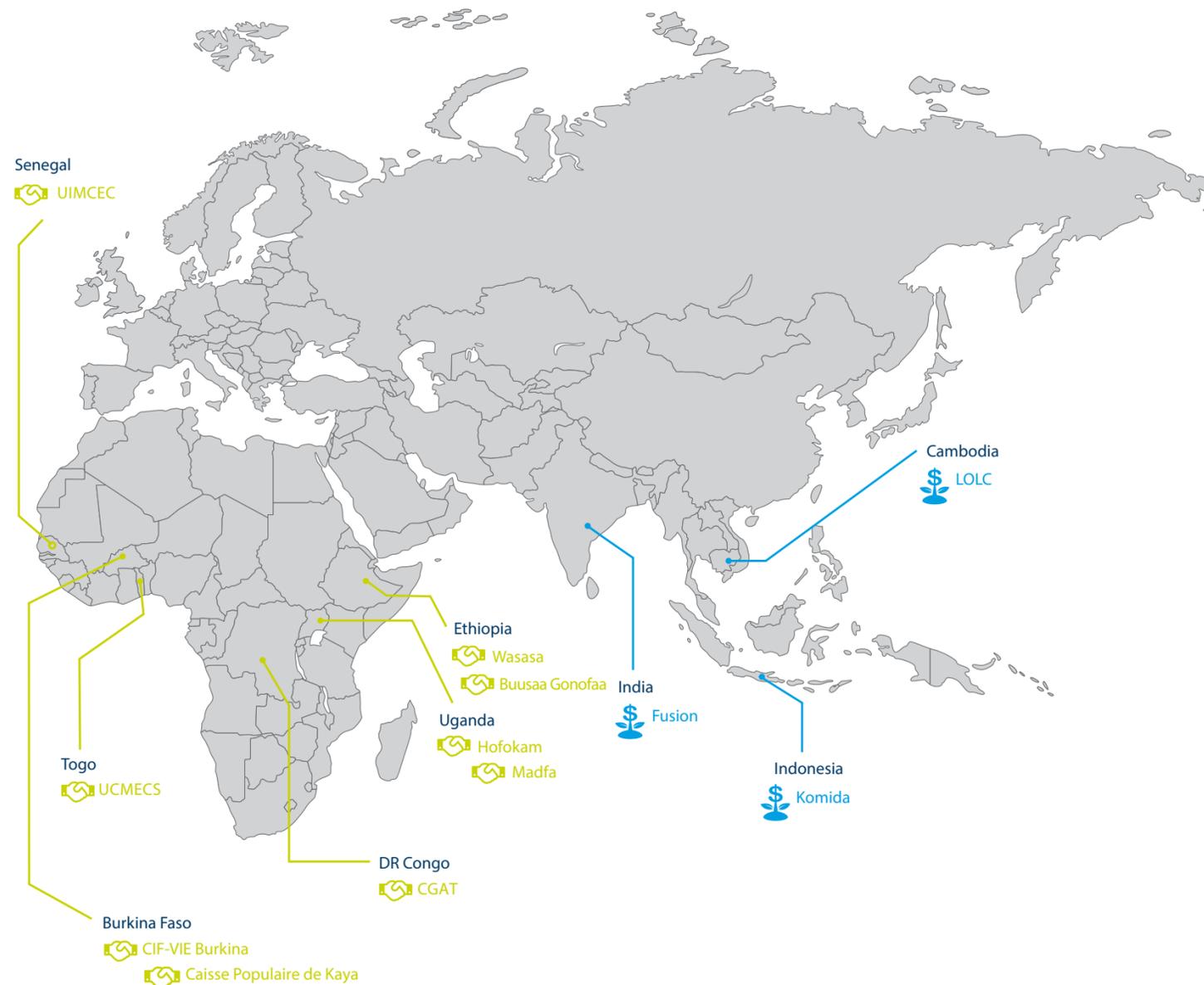
At the end of 2020, BRS Microfinance Coop had 11.5 million euros in outstanding loans (loans to microfinance institutions and investment in microfinance funds). These microfinance institutions together reach 3.1 million customers.

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](#)



OUR SUSTAINABLE BUSINESS SOLUTIONS

Our sustainable business solutions

In order to strengthen our positive impact on society, we defined four focus areas for our group in 2016: financial literacy, environmental responsibility, entrepreneurship, longevity and health. We chose these four because they are areas in which we, as a bank-insurer, can create added value and meet the real needs of society.

Community involvement

- KBC promotes projects and activities
- which contribute to the needs of the local
- communities in which we operate. We
- stimulate volunteer work, sponsorship
- activities, initiatives and campaigns that
- have a direct link with our strategy. We
- do all of this in collaboration with local
- companies and institutions in order to
- have a positive (social) impact. At KBC,
- community involvement is not centralised
- in one department but decided at the
- appropriate level according to the actions
- undertaken.



FINANCIAL LITERACY

A financially literate society is necessary, not only to understand banking and insurance products, but also to manage a family’s budget and consumption in a healthy and sensible way. For KBC, financial literacy means in the first place communicating clearly and transparently about our products and services and giving financial advice.

We also aim to contribute to improving the general public’s knowledge of financial concepts and products. Lastly, we collect and analyse data in order to understand and better respond to our clients’ behaviour, and we do this in an open, honest and transparent way.

Financial advice and clear communication

As a bank-insurer we help our clients to make responsible decisions across a wide range of financial products and services. We want to close the conversation gap with our clients and provide them with clear and transparent advice so that they understand the details of a product or service and the consequences of their choice. That’s not always straightforward, given, amongst other things, the duties imposed on us by the legislator. In addition, we ensure that our commercial employees receive continuous training so that they pay sufficient attention to such things as the risk assessment of various products and services. One example is our mandatory training on responsible behaviour, as we believe that this is the basis for building a trustworthy relationship with

our clients. You will find more information on responsible behaviour in the [‘Our responsibility’](#) section.

KBC Belgium continued its strategic programme in 2020 of steadily improving our focus on personal and individual communication. Over the past three years, we have screened and simplified the relevance of all our written transactional communication with our clients by asking questions such as ‘is this communication still necessary?’ and ‘can we make this communication clearer and more understandable?’. In 2020, we focused mainly on digitalisation (‘can we restrict this communication to digital channels?’). As this is an ongoing effort, we also discussed further potential progress with outside organisations active in the areas of poverty and the involvement of minorities.

Financial behaviour

We put our clients first and continue to invest in our digital applications. With the support of artificial intelligence and data analysis we can be solution-driven and proactively make life easier for our clients. But not every client is comfortable with this. The customised information approach we offer our clients gives them the opportunity to take control over their privacy and decide whether they want to remain informed about tailored solutions and advice. Clients can withdraw their consent at any time, as easily as they granted it. You will find more information on privacy and data management in the [‘Our responsibility’](#) section of this report.

Financial education

We have launched several programmes – including lessons given by employees and digital campaigns – to combat financial illiteracy and improve the knowledge, skills and behaviour needed to manage money effectively, make appropriate financial decisions and reach financial wealth.

Hoedoekda?!

KBC Belgium developed the Hoedoekda?! (‘Howdoyoudo that?!’) platform to teach young people between the age of 16 and 24 how to manage their money. The platform enables us to address themes like payments, security, work, home, mobility and travel. For each theme, we publish articles in which we answer questions such as ‘How do I buy my own house?’ and ‘How do I make sure I’m properly insured?’.



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 focus area ‘financial literacy’.

Relevant material topics:

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

FINANCIAL LITERACY

ČSOB ambassadors teaching financial literacy

ČSOB Czech Republic has run a programme for teaching financial literacy since 2016, in which employees can volunteer to visit Czech schools and offer children lessons on managing their money. To ensure the quality of this teaching, ČSOB has been accredited by the Ministry of Education to train its volunteers. Since the programme was launched, our ambassadors have taught more than 36 000 children.

Get-a-Teacher

The Get-a-Teacher initiative in Belgium offers free teaching packs that help young people between 12 and 25 years to learn how to use money practically and reflect critically about loans, phishing, insurance, etc. These packs are taught by a KBC employee who is passionate about education and his/her job at the bank or insurer. In January 2020, we had already received more than 1 000 applications, but because of Covid-19, the lessons were cancelled from 16 March until such time as it's safe to offer them again. In the first quarter of 2020, we reached more than 12 000 pupils and gave around 750 lessons.

Ready Steady Home

At KBC Ireland, a virtual home series event 'Ready Steady Home' educated prospective home buyers as they navigated buying a new home in the 'new normal'. A thousand people registered for this information event. To support those clients who were less familiar with digital solutions we developed a mobile banking guide on how to use the KBC app. We continued with the KBCs of Banking, a digital book of answers to commonly asked financial questions, through the eyes of our clients. This information is available on the KBC Ireland website and is a quick and easy financial jargon buster.

Community involvement

Olga Havel Foundation

- ČSOB Czech Republic set up its Education Fund in 1995 with the Committee of Good Will – Olga Havel Foundation. Talented secondary education and university students who can't afford to study, or who are prevented from doing so by ill health, can apply to the fund for financial assistance.
- The total number of scholarships provided by the fund was 89 in 2020, while the number of students receiving a one-off contribution towards college fees or education and study materials rose to 601. In total, we have spent more than 36.8 million Czech koruna (1.3 million koruna of which in 2020) on educational assistance.

'I am Izzy' and 'All the Money' board game

- In the spring of 2020, a collaboration between UBB and NetInfo led to the creation of a brand-new project – the web series 'I am Izzy'. This teen drama focuses on relevant and appealing topics to teenagers, such as different emotional states and relationships. The cast includes actors, singers and influencers, allowing us to speak to the audience in one language. We established UBB's

overall presence in the series through an optimal mix of formats and association with key characters and financial situations raised in the plot line. The 'All the Money' board game also featured in the series. The scenes in which leading characters play the game highlight UBB as the bank that helps young people acquire financial knowledge and skills, make informed decisions about their personal finances and thus cope better in life. The series generated more than 900 000 views.

YAR – Youth at Risk

KBC Belgium has been a partner since 2017 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. YAR's community-based programme offers these youngsters the opportunity to get their lives back on track. There are two central strands: YAR Living and YAR Coaching, which help make young people aware that they themselves are responsible for their choices and that making those choices consciously is the first step towards taking back control over their lives.

The YAR approach is underpinned by a wide network of volunteers, partners and professional social workers. Together

they make these programmes possible. As a partner, KBC Belgium provides information sessions during working hours to employees who are interested in getting involved. The YAR Coaching programme has, moreover, been incorporated in our training offering. This gives employees the opportunity to contribute to society while simultaneously developing their coaching skills. Interest in YAR amongst KBC staff grew enormously in 2020, with 43% more participants attending info sessions compared to 2019. However, due to Covid-19 and uncertainty as to whether the residential training week would go ahead, there was a decrease in the number of new colleagues registering from 37 in 2019 to 30 in 2020.

ENTREPRENEURSHIP

At KBC, we acknowledge that entrepreneurs make a real difference in the community. They have the drive to make great ideas reality. Through hard work and innovative thinking they bring new services and products to the market, creating jobs, wealth and ultimately wellbeing. We support, encourage and inspire entrepreneurs and sectors that do business in a socially responsible manner.

Start it

Our acceleration programme for start-ups – named Start it – provides accommodation for start-ups, and above all support and advice so that they can grow sustainably. Start it @KBC was launched in Belgium in 2013 and has since been copied in Hungary and the Czech Republic (Start it @K&H and Start it @ČSOB).

In 2020, Start it @ČSOB entered its third year and launched an extra wave in which we supported our start-ups – digitally and remotely – in their search for solutions such as bringing a contactless tool online.

Start it @KBC continued to focus on diversity. The research of Start it @KBC shows that many women entrepreneurs still face barriers to setting up and expanding their business. In their view, role models are crucial to inspire other female entrepreneurs, which is why Start it @KBC – together with Netwerk Ondernemen and VLAIO – launched the ‘Women in Tech’ coaching programme.

The initiative consists of a series of webinars in which women who have founded their own businesses share their experiences and talk about how they overcame barriers along the way. Female role models act as mentors and coaches. From 2021 onwards, an intensive coaching programme will be offered to female business founders. Start it @KBC has made considerable efforts in recent years to attract more women entrepreneurs, with the share of female founders going up by 20% since 2017.



KBC Intrapreneurs

KBC Intrapreneurs is an incubation programme in which we give our employees three months to develop their own innovative idea with the guidance of Start It X. Participants develop their idea, expand their network and take their first steps as a real entrepreneur. For more information on our ongoing collaboration with our employees, see the ‘Our people’ section of this report.

K&H Family Business Knowledge Centre

Family businesses have an important economic impact, not least their contribution to gross domestic product and employment. They can also prove especially resilient in difficult economic times. K&H launched ‘The Family Business Knowledge Centre’ website to assist Hungarian family-business owners with relevant topics such as succession planning and strategy. The centre is now fully up and running and offers over 70 articles from several partners and video interviews with both external and internal professionals.



Relevant SDG goals (high-impact areas):

- Our focus on ‘entrepreneurship’ as one of the focus areas is specifically linked to **SDG 8** and **SDG 12**.

Relevant material topics:

- 6 Corporate citizenship
- 7 Accessible finance

ENTREPRENEURSHIP

Partnership between UBB and ABLE

The successful partnership between UBB and The Association of Bulgarian Leaders and Entrepreneurs (ABLE) was expanded in 2020 to include ABLE Activator. This programme provides unique and intensive experiential training in entrepreneurship for 30 students and young professionals under 35 years of age. The project that scored most highly at the end of the course offers solar dehydrators, which enable small farms to increase their profits by extending the life of harvested fruits, vegetables and herbs.

Business Expectation Index

ČSOB Slovakia plays an important role as an advisory and financial expert for Slovak entrepreneurs setting up new businesses. In cooperation with the Datank research agency, ČSOB conducts the Business Expectations Index (BEI) twice a year. The BEI surveys Slovak entrepreneurs about the potential for expanding their businesses and planning their investments, as well as expectations of their customers' 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 that used in the Czech Republic, which allowed us to compare the results from these two markets. In 2020, the index confirmed that entrepreneurs are extremely concerned about how the current situation will develop.

Community involvement

- **K&H Family Business Excellence Award**
- K&H aims to strengthen family businesses within society and the economy. To this end, we honour six companies each year for their family values, long-term approach and social responsibility by awarding them the K&H Family Business Excellence Award. Goodwill Pharma Ltd received the 2020 award in the category 'Successful long-term strategy'. The company engages with new technologies with the potential to produce excellent quality products worldwide, while paying special attention to protecting the environment.
- **ČSOB Start!t Social**
- Our grant programme ČSOB Start!t Social helps develop social enterprises by providing financial and consultancy support. Since its launch in 2013, the NGO 'P3 – People, Planet, Profit, o.p.s.' has been the programme's partner and expert guarantor. In 2020, we supported another five social projects and donated 150 000 Czech koruna, bringing the respective totals to 43 projects and 7.1 million koruna to date.

ENVIRONMENTAL RESPONSIBILITY

In the area of environmental responsibility, we take initiatives to promote energy efficiency in homes, buildings, industrial processes and mobility and we support the financing of renewable energy. We have also incorporated circular procurement practices in our supply chain.

EIB loan for SMEs

Together, KBC, CBC and the European Investment Bank (EIB) have made 300 million euros available to Belgian SMEs (small and medium-sized enterprises) for sustainable loans, with a focus on climate-improving investments, agricultural lending and region-specific investments (via CBC). Entrepreneurs taking out a sustainable loan benefit from a significant interest rate discount thanks to EIB support. To date, we have signed 103 contracts for loans of this type.

Energy

ČSOB Green Grants

Through its Green Grants programme, ČSOB helps entrepreneurs to prepare energy audits and technical documentation. In the past two years, ČSOB supported 30 energy-saving projects totalling 1 billion Czech koruna.

'Economical Family House' e-book

In the Czech Republic, ČSOB Group published the e-book 'Economical Family House' in cooperation with Hypoteční banka. This e-book discusses sustainability and a responsible approach to the environment. It is based on our efforts to help our clients with specific actions, in this case mainly by sharing information, but also by developing services that will help them in their efforts while rewarding them for their responsible approach.

Loans for renewable energy

K&H Bank is one of the main local financing institutions in Hungary that provide loans for renewable energy and more specifically for solar energy. In 2020, we financed about 300 MW of solar energy installations in Hungary, representing about 20% of the total capacity developed in the country. The share of renewable electricity generation in K&H Bank's total electricity portfolio increased from 42% at the end of 2019 to 52% at the end of 2020.

Investments in sustainability

KBC Belgium recently entered a partnership with Encon, an independent agency that supports businesses in their transition to become more sustainable.

With their creative and innovative solutions, Encon helps medium and large companies become future proof by integrating their sustainability strategy into every layer of their organisation, while we finance and insure their green investments.

Mobility

Green car lease and loan products

UBB Interlease launched a specific 'Green Lease' product that provides financing for electric and hybrid vehicles and for equipment related to renewable energy. ČSOB Czech Republic, meanwhile, offers a green car loan with a preferential fixed interest rate for financing electric vehicles (EVs), hybrids, plug-in hybrids, mild hybrids and CNG (compressed natural gas) and hydrogen cell-powered vehicles.

Co-creation on redefining energy and mobility

It is widely accepted that EVs are the future. Together with the Belgian electricity transmission service operator, Elia, and the charging station provider Newmotion, KBC Autolease has been exploring the potential for an all-inclusive leasing service for EVs. An optimal customer experience would include the

ability to charge vehicles wherever the customer wishes, in the best possible way for the planet, at the lowest cost and without any administrative hassle. Fully enabling energy-as-a-service for EV drivers would mean that any commercial third party could supply electricity for an electric vehicle, regardless of location or the EV owner's power contract. The project partners aim to demonstrate how new market rules might facilitate the development of all-inclusive mobility contracts, such as leasing agreements that cover the electricity needed to charge EVs. The first phase of the experiment ran from September 2020 to January 2021.

Mobility services through our mobile apps

The Covid-19 crisis is encouraging businesses to adjust their future mobility policy. Increased working from home has changed patterns of transport use and thinking about mobility. To address these evolving trends more efficiently, KBC Autolease has developed the MoveSmart app, which offers practical support to users from the moment they order a lease vehicle. Beginning in 2021, it will also be possible to pay for shared cars, shared bikes and public transport via MoveSmart, thus allowing users to



Relevant SDG goals (high-impact areas):

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

Relevant material topics:

- 3 Sustainable and responsible lending, insurance and advisory services offering
- 5 Partner in the transformation to a more sustainable future
- 6 Corporate citizenship

ENVIRONMENTAL RESPONSIBILITY

become multi-mobile at any time of day. KBC Belgium offers handy solutions in the KBC Mobile app for users travelling by car or public transport. Together with our partner Olympus Mobility, we offer our clients a number of highly user-friendly and convenient mobility solutions, such as car sharing via the Cambio organisation, buying multi-journey train and bus tickets and paying for parking. In addition, KBC Insurance clients can now also access their insurance certificate within the KBC Mobile app.

Bicycle leasing

The multi-mobility model that KBC Belgium offers companies enables them to provide their employees with various forms of mobility, including bicycles. A total fleet of 20 000 bicycles – primarily consisting of electric and highspeed e-bicycle models – has been built up since we launched the offering in 2016. We cooperate with more than 500 local dealers, ensuring maximum convenience and specialised advice and helping our group meet its goal of supporting the local economy. In addition to this local cooperation, we also take account of social and economic factors by collaborating, for instance, with charity organisations to take care of bicycle maintenance.

Sustainable urban development

Sustainable urban development will be a major global issue for the decades and generations to come, as more and more people are living in ever-expanding cities. Ensuring that these cities remain liveable is an ever-increasing challenge.

TRES: smart use of technology in cities

Smart use of technology is one of the solutions, including equipping urban infrastructure with a large number of sensors (Internet of Things) to provide data on traffic, air quality, water, information flows, security, and so on. This data can then be processed into useful information to assist decision-makers responsible for enlarging and managing the urban infrastructure. TRES is one of the players giving tangible shape to ideas like this. KBC Belgium is supporting the organisation's initiative to supply cities, municipalities and business parks in the public domain with digital masts linked to power and fibre-optic networks. These offer an integrated solution for charging electric vehicles and for 5G applications with additional services.

Sustainable Cities Fund

UBB plays an active role in sustainable urban development and is part of the consortium operating the Sustainable Cities Fund, a financial instrument with a budget of 350 million lev. The programme allows the active financing of public and private entities pursuing sustainable development projects in Sofia and in cities across southern Bulgaria. UBB has already provided a total of almost 100 million lev to finance over 30 projects in different areas of sustainable development, including energy efficiency, urban development and cultural heritage.

Circular procurement

Eco-friendly ČSOB card

ČSOB, in cooperation with IDEMIA, launched the new eco-friendly ČSOB card in 2020 to reduce the amount of first-use plastic discarded as waste. Opting for IDEMIA's eco-friendly product makes ČSOB the first bank in the Czech Republic to take a significant step towards addressing this ecological burden. The move will save non-renewable resources, reduce ČSOB's carbon footprint, and recycle plastic waste for the issue of new cards.

Green Deal for Circular Procurement

In 2017, KBC Belgium committed to setting up two circular purchasing projects. The first is an ICT project focusing on mobile phones in which our employees get to lease a smartphone for 24 months, following which KBC guarantees that the device will enjoy a further life within Europe. The second is a facilities project with the Belgian biotech company BioOrg, in which our buildings are cleaned according to the BioOrg concept (a cleaning spray containing 100% natural organisms).

ENVIRONMENTAL RESPONSIBILITY

Food waste converted to green energy

A more recent example of circular procurement is the collaborative project with the catering companies Eurest and Belgocatering and the recycling firm Renewi to facilitate the collection of food waste. Recognising the potential for converting this waste into green energy, we have arranged for it to be separated at our company restaurants in Belgium. Renewi collects the food waste from our sites for processing at their facility. The waste is used for bio-fermentation, turning it into green electricity and the residues from the process are used to make high quality compost. In the first quarter of 2020, a total of 12 317 kg of food waste was collected at our company restaurants in Brussels, Leuven, Ghent and Mechelen and transformed into 4 110 kWh of green electricity.

Repurposing surplus office furniture

At KBC Belgium, we deal with our furniture in an environmentally conscious way, making maximum use and reuse of our cabinets, chairs, tables, whiteboards, coat racks, and so on. All the same, we sometimes have too much furniture or certain items no longer fit new layouts. Rather than discarding furniture like this, we hand it over to our partner, Nearly New Office Facilities (NNOF). NNOF converts some of the old furniture into new pieces and gives the rest a second life by donating it to non-profit organisations and schools. In 2020, we delivered 444 pieces of furniture to some 20 non-profit organisations and schools.

Community involvement

- **Attention! Zebra crossing programme**
- In 2020, the ČSOB Foundation continued its successful 'Attention! Zebra Crossing' programme in cooperation with Slovak cities and municipalities. The programme contributed to the reconstruction and modification of 20 pedestrian crossings in nine municipalities throughout Slovakia, at a total cost of almost 38 500 euros.



LONGEVITY AND HEALTH

At KBC, we want to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core business. Belgium and the Czech Republic focus on longevity while our other core countries develop products and services geared towards improving quality of life, healthcare and health in general.

Ageing and digitalisation

Project Silver

In 2019, KBC Belgium launched Project Silver. One of the project's three tracks is digitalisation, which focuses on people aged 65 and over. At the beginning of 2020, the Digiboost Team started work to help close the digital gap. The team initially set out to use physical interactions with older clients not yet using digital tools in order to familiarise them with our digital applications. The idea is to enable them to do their daily banking independently without having to go to a branch, while also making full use of our digital services. However, Covid-19 put a stop to all such physical interaction, requiring the team to switch to remote working. They have been contacting clients by phone and offering them one-on-one assistance in installing KBC apps and explaining how they work. The

result has been a boost in digitality within this age group. We also worked with the digital marketing experts Horizn to draw up step-by-step plans on installing and using KBC apps and making them available on our website.

Don't get lost in old age

At ČSOB Czech Republic we focus firmly on our elderly clients and their specific needs. We have created a special microsite dedicated to seniors and run a helpline for clients aged 70 and over. In 2020, we handled almost 50 000 calls. In addition, in collaboration with the non-profit organisation Sue Ryder Home, we developed and provide advice on the www.neztratitsevestari.cz (don't get lost in old age) portal. This offers a single location where seniors, people caring for the elderly and anyone else with questions on how to solve age-related problems can find practical and verified answers in areas such as legal, social, health, financial, family and psychological matters.

Accessible finance for everyone

At KBC, we aim to provide accessible finance in all our core countries by offering customised solutions for people with special requirements.

Solutions for people who are less advantaged

For clients who are disadvantaged, we offer special accounts with free banking services in almost all our core countries. ČSOB Czech Republic has a special account for people aged 58 and over. The service includes free cash withdrawals at branches and cash delivery to a specified address. KBC Ireland has a dedicated team within its Arrears Support Unit who help clients with serious illness or other severe hardship issues. It also works with the relevant state and other agencies in relation to the Mortgage to Rent Scheme for distressed clients who qualify for social housing.

Solutions for disabled people

To help disabled people, K&H has formulated a clear action plan. Nearly all ATMs (automated teller machines) are accessible to visually or hearing-impaired clients and nearly 80% of our branches in Hungary are accessible to disabled

people. The K&H website and e-bank are readable for visually impaired people and each adviser takes a compulsory e-learning course on how to help disabled clients.

In Slovakia, ČSOB Leasing has implemented HandiCar Opel – a special programme for disabled people in cooperation with the car maker Opel. ČSOB Bank has added voice control to its ATMs and provides a special service for hearing-impaired clients in the form of automated transcription on its main website.

In Belgium, KBC Mobile and KBC Touch are currently undergoing an overall accessibility review in collaboration with digital accessibility experts DiAX. Visually impaired clients can receive their account statements in braille on demand, card readers are available with large buttons and a read-aloud function and a shortcut for cash withdrawal is available.



Relevant SDG goals (high-impact areas):

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

Relevant material topics:

- 6 Corporate citizenship
- 7 Accessible finance
- 8 Usability of banking and insurance products and services

LONGEVITY AND HEALTH

Community involvement

Kom op tegen kanker

- KBC has been a partner of 'Kom op tegen Kanker' – the main anti-cancer organisation in Flanders – since 1989.
- Kom op tegen Kanker campaigns for the right of patients to the best care and treatment and the right to a healthy living environment. It seeks to achieve this by setting up and supporting care projects, funding scientific research, influencing policy, providing information and prevention. Like many charities, Kom op tegen Kanker has been affected by the Covid crisis, including the widespread cancellation of fund-raising initiatives.
- We responded by making it possible to donate to Kom op tegen Kanker via KBC Mobile using a dedicated payment button in the 'Additional services' feature. During the month of December, 4 800 donations were made this way for a total amount of 261 000 euros.

Solidarity campaigns

Every year we organise a solidarity campaign in Belgium. Fifty employees who commit themselves to small-scale organisations with a social purpose (e.g., migrant integration, combatting poverty, neighbourhood development and initiatives for the Global South) can apply for 1 300 euros to promote their good causes.

CAP48

CBC continues to support its partner CAP48, a non-profit organisation that promotes the inclusion and well-being of people with disabilities and young people in difficulty. In 2020, clients and prospects were able to make donations to CAP48 via CBC Mobile and KBC Brussels Mobile.

ČSOB Help Fund

The ČSOB Help Fund provides subsidies to employees in the Czech Republic to cover the increased costs of caring for a child or an adult with a disability, whether within their family or not, and provides donations for people in difficult

life situations. In 2020, 58 employees used the fund. The bank contributed more than 1.6 million Czech koruna to fund the purchase of special equipment, rehabilitation, personal assistants, children's education and support for families of deceased colleagues. Since the fund's launch, we have helped 542 people and provided funding of more than 12 million Czech koruna.

KBC Dublin Marathon and Race Series

The 2020 KBC Dublin Marathon and Race Series was cancelled due to Covid-19 restrictions. We decided instead to sponsor the official KBC Virtual Dublin Marathon, in which over 13 000 people took to their local streets around Ireland on the October Bank Holiday weekend.

K&H MediMagic initiative

Started back in 2004, the K&H MediMagic programme supports Hungarian child healthcare institutions that rely on the country's social security system for their funding by providing innovative medical equipment and devices. Since its launch,

the K&H MediMagic initiative has helped a total of 490 institutions obtain equipment for a total value of more than 700 million forints.

K&H MediMagic Story Doctors programme

Children's psychological well-being needs just as much attention as their physical recovery. In 2013, we complemented our financial support by creating the K&H MediMagic Story Doctors programme. The programme, in which volunteers read stories to the children, has become one of the largest volunteer initiatives in Hungary.

Good Will debit payment card

Clients of ČSOB Private Banking engage in charitable and philanthropic projects. One unique project is the Good Will debit payment card, which came into existence through cooperation with Mastercard in 2014. ČSOB dedicates 0.6% of each transaction to improving the life of disabled people. Since 2017, clients have been able to contribute to community

projects from their own funds, too. Since the Good Will card was launched, more than 15 million Czech koruna has been donated to people in need.

Avoiding the debt trap

ČSOB Czech Republic works with senior citizens through their associations. We collaborate with Člověk v tísní (People in Need) to support prevention work aimed at avoiding the debt trap, donating 1.5 million Czech koruna to this end in 2020. We also co-finance free debt advice and responsible debt resolution through Poradna při finanční tísní (Financial Distress Advisory Centre), to which we gave 0.5 million Czech koruna last year.

SUSTAINABILITY FACTS AND FIGURES



SUSTAINABILITY FACTS AND FIGURES

We have collected our non-financial data through a group-wide process that includes strict hierarchical validation. All KBC entities in our core countries report on all the various non-financial areas (sustainable finance, human capital, environment, customers and community involvement). In addition, we gather human capital data for the entities located outside our core countries. The reporting period is 1 October of the previous year until 30 September of the current year, unless otherwise stated.

RESPONSIBLE BUSINESS

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED¹

Suppliers

Operating costs	2	m EUR	Target	2020	2019	2018
-----------------	---	-------	--------	------	------	------

Employees

Staff expenses	3	m EUR	Target	2020	2019	2018
----------------	---	-------	--------	------	------	------

Shareholders

Net result	4	m EUR	Target	2020	2019	2018
------------	---	-------	--------	------	------	------

Gross dividend per share	5	EUR	Target	2020	2019	2018
--------------------------	---	-----	--------	------	------	------

Clients

Interest paid to clients (interest expense)	6	m EUR	Target	2020	2019	2018
---	---	-------	--------	------	------	------

Governments

Total taxes paid (income tax, non-recoverable VAT and other taxes, bank levy and deposit protection fund)		m EUR	Target	2020	2019	2018
---	--	-------	--------	------	------	------

Belgium		m EUR	Target	2020	2019	2018
---------	--	-------	--------	------	------	------

Bulgaria		m EUR	Target	2020	2019	2018
----------	--	-------	--------	------	------	------

Czech Republic		m EUR	Target	2020	2019	2018
----------------	--	-------	--------	------	------	------

Hungary		m EUR	Target	2020	2019	2018
---------	--	-------	--------	------	------	------

Ireland		m EUR	Target	2020	2019	2018
---------	--	-------	--------	------	------	------

Slovakia		m EUR	Target	2020	2019	2018
----------	--	-------	--------	------	------	------

Community

Total corporate community investment	7	m EUR	Target	2020	2019	2018
--------------------------------------	---	-------	--------	------	------	------

POLICY INFLUENCE

Annual total monetary contributions to trade associations, industry associations and business associations	1	m EUR	Target	2020	2019	2018
--	---	-------	--------	------	------	------

SOCIALLY RESPONSIBLE INVESTMENT (SRI)

Total assets under distribution in sustainable funds (at year end)	8,9	bn EUR	Target	2020	2019	2018
--	-----	--------	--------	------	------	------

Of which sustainable pension savings fund (SRI Pricos)		m EUR	Target	2020	2019	2018
--	--	-------	--------	------	------	------

SRI funds in % of new fund production (average)	9	%	Target	2020	2019	2018
---	---	---	--------	------	------	------

SUSTAINABILITY FACTS AND FIGURES

SUSTAINABLE FINANCING	Note	Unit	Target	2020	2019	2018
Loan portfolio in renewable energy and biofuel sector (granted amount at year-end)	1, 10	bn EUR		1.84	1.77	1.24
Of which renewable energy project finance (granted amount at year-end)		bn EUR		1.48	1.59	-
Avoided CO ₂ emissions		Tonnes CO ₂ e		448 351	473 012	-
Loan portfolio in renewable energy and biofuel sector, share in total energy portfolio (excluding transmission and distribution)	1, 10	%	65 (2030)	61	57	44
Loan portfolio in education and healthcare sector (granted amount at year-end)	1, 10	bn EUR		7.1	6.8	6.6
Green mortgage portfolio (granted amount)	11	bn EUR		8.8	-	-
Exposure to coal-related activities: remaining direct coal-related financing (granted amount at year-end)	1	m EUR	0 (2021)	11	36	34
Green bond	1					
Current year						
Total amount of green bond issued		m EUR		500	0	500
Aggregated						
Total amount of green bond issued		m EUR		1 000	500	500
Total annual avoided emissions	12	Tonnes CO ₂ e		188 139	44 942	44 775
Total renewable energy produced	12	MWh		775 162	296 783	296 783
Total energy saved	12	MWh		38 827	25 933	24 617
Equator Principles	1					
Project finance, number of transactions		Number		9	11	11
of which Category A transactions		Number		0	0	0
of which Category B transactions		Number		7	4	8
of which Category C transactions		Number		2	7	3
Project-related corporate loans, number of transactions		Number		13	6	0
of which Category A transactions		Number		0	1	0
of which Category B transactions		Number		0	1	0
of which Category C transactions		Number		13	4	0
Project finance advisory		Number		0	0	0
Project finance and project-related corporate loans, by sector						
Real estate	13	Number		11	0	0
Infrastructure		Number		3	1	4
Power		Number		6	10	6
Other		Number		2	6	1

The totals can deviate from the sum of all categories due to rounding up

SUSTAINABILITY FACTS AND FIGURES

Project finance and project-related corporate loans, by region						
Europe, Middle East and Africa		Number		22	17	11
Project finance and project-related corporate loans, designated country						
Yes		Number		14	11	10
No		Number		8	6	1
Project finance and project-related corporate loans, independent review						
Yes		Number		6	6	11
No		Number		16	11	0
BRS VZW	Note	Unit	Target	2020	2019	2018
Number of projects in the Global South	1, 14	Number		14	12	13
Number of countries	1, 14	Number		11	10	11
Financial support for projects	1	EUR		252 765	171 162	208 616
Number of days of coaching and training (mainly by KBC staff volunteering for BRS)	1	Number		267	821	842
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		257	295	190
Budget spent on coaching and training	1	EUR		57 038	143 480	171 339
BRS MICROFINANCE COOP	Note	Unit	Target	2020	2019	2018
Cooperative share capital	1	m EUR		22.38	22.16	21.46
Outstanding balance (loans to microfinance institutions and investment in microfinance funds)	1, 14	m EUR		11.5	14	10.7
Number of microfinance institutions financed	1	Number		10	12	11
PROCUREMENT	Note	Unit	Target	2020	2019	2018
Number of suppliers that signed the Code of Conduct for suppliers	15	Number		2745	2 289	2 932



SUSTAINABILITY FACTS AND FIGURES

Notes

1 FY data

2 See [note 3.8](#) of the KBC Group Annual Report 2020. Includes: general administrative expenses such as repair and maintenance expenses, advertising costs, rent, professional fees, utilities and other such expenses

3 See [note 3.8](#) of the KBC Group Annual Report 2020

4 See '[Consolidated income statement](#)' in the KBC Group Annual Report 2020

5 See '[Our employees, capital, network and relationships](#)' in the KBC Group Annual Report 2020

6 See [note 3.1](#) of the KBC Group Annual Report 2020

7 Based on the B4SI (Business for Societal Impact) Framework (<https://b4si.net/framework/community-investment/>).

8 Excluding 1 billion euros in Pensioenfond KBC.

9 During 2021 KBC will re-evaluate this target and its definition of SRI funds in line with the new EU Sustainable Finance Disclosure Regulation (SFDR).

10 Figures exclude UBB in Bulgaria.

11 Includes data for Belgium, Czech Republic, Ireland and Slovakia (newly built dwellings with energy label A and B awaiting final decision on the EU taxonomy criteria).

12 Data differ from the data reported in previous sustainability reports due to difference in reporting period (end-of-year data in this report).

13 From 2020 onwards our Equator Principles reporting also include large real estate development and real estate re-development projects, however, limited to projects with investment costs exceeding 30 million euros.

14 The 2018 figures were restated in the final version of the BRS vzw Annual Report. The figures in the KBC Group Sustainability Report have been corrected accordingly.

15 The decrease in the number of suppliers that signed the Code of Conduct for suppliers between 2018 and 2019 is due to the raising of the threshold (over 25 000 euros spend, up from over 12 500 euros spend the previous year), resulting in a smaller share of suppliers that signed the Code of Conduct.

SUSTAINABILITY FACTS AND FIGURES

ANTI-MONEY LAUNDERING, ANTI-CORRUPTION AND DATA PROTECTION

Employees that have completed training in:	Note	Unit	Target	2020	2019	2018
Anti-money laundering (in % of target audience)	1	%		97	98	-
General Data Protection Regulation (GDPR) (in % of target audience)	1	%		97	97	-

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

PEOPLE^{1,2}

EMPLOYEE INFORMATION	Note	Unit	Target	2020	2019	2018
Full-time equivalents (FTE)	3	Number		37 354	37 908	38 546
Headcount	3	Number		40 401	41 131	41 896
Full-time equivalents (FTE) excluding flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia		Number		37 218	37 763	38 375
Headcount excluding flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia		Number		39 255	39 929	40 493
Employees by country						
Belgium		%		41.4	41.9	41.5
Bulgaria		%		10.1	10.0	10.1
Czech Republic		%		26.4	26.1	26.4
Hungary		%		9.9	10.1	10.0
Ireland		%		3.4	3.4	3.5
Slovakia		%		7.9	7.4	7.4
Rest of the world		%		1	1.1	1.1
Employees by age group						
Total employees						
< 30 years		%		15	15	16
30-50 years		%		57	58	58
> 50 years		%		28	27	26

The totals can deviate from the sum of all categories due to rounding up

SUSTAINABILITY FACTS AND FIGURES

Board of Directors (at year end)

< 30 years	%	0	0	0
30-50 years	%	13	6	13
> 50 years	%	87	94	87

Executive Committee (at year end)

< 30 years	%	0	0	0
30-50 years	%	0	0	0
> 50 years	%	100	100	100

Employees by employment type

Permanent	%	95	94	93
Temporary	%	5	6	7
Full-time	%	83	83	83
Part-time	%	17	17	17

Employees by employment type, by gender (male/female)

Full-time	%	48/52	48/52	47/53
Part-time	%	24/76	24/76	23/77

Employees by employment type, by country

Belgium				
Permanent	%	98.5	98.1	97.8
Temporary	%	1.5	1.9	2.2
Bulgaria				
Permanent	%	96.3	96.3	96.4
Temporary	%	3.7	3.7	3.6
Czech Republic				
Permanent	%	89.5	88.1	86.0
Temporary	%	10.5	11.9	14.0
Hungary				
Permanent	%	99.5	99.3	99.1
Temporary	%	0.5	0.7	0.9

The totals can deviate from the sum of all categories due to rounding up

SUSTAINABILITY FACTS AND FIGURES

Ireland						
Permanent		%		96.5	93.2	87.8
Temporary		%		3.5	6.8	12.2
Slovakia						
Permanent		%		86.2	85.1	83.2
Temporary		%		13.8	14.9	16.8
Rest of the world						
Permanent		%		93.3	92.5	93.0
Temporary		%		6.7	7.5	7.0
Employees by function classification						
Senior management (Top 300)		%		0.6	0.7	0.7
Middle and junior management		%		45.5	44.6	44.2
White and blue collar		%		53.9	54.7	55.1
NEW EMPLOYEES AND EMPLOYEE TURNOVER						
		Note	Unit	Target	2020	2019
New employee hires, total headcount			Number		3 590	4 184
New employee hires, by country						
Belgium			Number		483	780
Bulgaria			Number		817	834
Czech Republic			Number		1 192	1 208
Hungary			Number		482	605
Ireland			Number		113	282
Slovakia			Number		480	447
Rest of the world			Number		23	28
New employee hires, by gender						
Male			%		39.7	39.8
Female			%		60.3	60.2
New employee hires, by age						
< 30 years			%		45.5	42.9
30-50 years			%		47.5	49.6
> 50 years			%		7.0	7.5
Employee turnover, total headcount		4	%		11.9	13.1

The totals can deviate from the sum of all categories due to rounding up

SUSTAINABILITY FACTS AND FIGURES

Employee turnover, by country						
Belgium		%		9.5	6.6	7.5
Bulgaria		%		17.9	24.6	29.1
Czech Republic		%		12.3	15.6	14.6
Hungary		%		15.5	16.7	16.6
Ireland		%		13.5	21.3	16.8
Slovakia		%		12.3	16.8	13.5
Rest of the world		%		10.7	10.9	8.4
Proportion of voluntary leavers						
		%		79.1	80.0	82.4
Internal mobility						
	5	%		22.0	23.0	22.5
Average seniority						
		Years		13	13	13
GENDER DIVERSITY						
	Note	Unit	Target	2020	2019	2018
Employees by gender						
Male		%		44	43	43
Female		%		56	57	57
Management type, by gender (male/female)						
Board of Directors		%		62/38	69/31	69/31
Group Executive Committee		%		86/14	86/14	86/14
Senior management		%		78/22	79/21	80/20
Middle and junior management		%		57/43	57/43	58/42
White and blue collar		%		32/68	32/68	31/69
Women promoted in % of total promotions						
		%		58.7	-	-
HEALTH AND WORKPLACE						
	Note	Unit	Target	2020	2019	2018
Sick leave (days)						
		Number		7.5	8.6	8.6
Sick-leave rate (share of working days)						
		%		3.5	3.8	3.7
Lost-time injury frequency rate (LTIFR) (per million hours worked)						
	6	Number		5.0	-	-
Employees entitled to workplace flexibility options (in % of total headcount)						
		%		80	-	-
Employees able to control and/or vary the start or end times of the workday or workweek (in % of total headcount)						
		%		99	-	-
Employees able to control and/or vary the location where they work (in % of total headcount)						
		%		98	-	-

The totals can deviate from the sum of all categories due to rounding up

SUSTAINABILITY FACTS AND FIGURES

	Note	Unit	Target	2020	2019	2018
LABOUR RELATIONS						
Employees covered by collective bargaining agreements	7	%		81	81	81
Employees covered by employee representation structures		%		77	-	-
COMPETENCE, LEARNING AND DEVELOPMENT AND ENGAGEMENT						
Highest educational level achieved						
Master's degree and higher		%		35.6	37.8	34.7
Bachelor's degree		%		35.6	33.5	35.9
Secondary education certificate		%		28.6	28.5	29.2
Primary education certificate		%		0.3	0.2	0.2
Total time spent on learning and development per FTE	8,9	Days		3.6	4.3	4.4
Money invested in learning and development		m EUR		12.9	29.7	30.1
Employees participating in (top) talent development programmes (end of year data)		Number		392	315	349
Male		Number		265	211	248
Female		Number		127	104	101
KBC University Programme						
Total time spent by top management and top talents on KBC University training programmes and events	10	Days		602	528	1188
Group Employee Survey (every 2 years) (response rate/engagement score)						
Belgium		%		57/74	-	-
Bulgaria	12	%		64/61	-	-
Czech Republic	12	%		37/71	-	-
Hungary		%		70/70	-	-
Ireland		%		72/69	-	-
Slovakia		%		55/65	-	-
Shared service centres		%		77/64	-	-

The totals can deviate from the sum of all categories due to rounding up

SUSTAINABILITY FACTS AND FIGURES

- 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.
- 2 Basic people data alone has 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 not therefore been included in the people indicators (except for headcount, FTE, gender and employee categories).
- 3 FTE and headcount figures differ from the figures reported in the 2020 [KBC Group Annual Report](#) and on [p.15](#) of this report due to a difference in reporting period. See the '[About this report](#)' section of this report. Consequently, the recently acquired OTP Banka Slovensko (630 FTEs) is also not included in the figures in the table above.
- 4 Employee turnover: total leavers (excluding internal mobility) divided by total population at the end of the reporting period (headcount)
- 5 Internal mobility: internal mobility divided by the total population at the end of the reporting period (headcount)
- 6 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
- 7 The 2018 and 2019 figures are restated in the KBC Group Sustainability Report 2020 to include some smaller group entities, which were not in the scope of previous reports.
- 8 This excludes KBC University training programmes completed by top management and top talents as these are reported separately.
- 9 Learning and development data only includes trainings 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 trainings thus only concern 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.
- 10 The decrease in total time spent on KBC University training programmes and events between 2018 and 2019 reflects the fact that the majority of top managers had completed the KBC University training programme in 2018. The focus going forward will be on current and top-of mind topics such as cyber security, responsible behaviour, big data and artificial intelligence.
- 11 Although the Group Employee Survey is usually executed every two years, we focused on short, action-oriented interviews in 2019, which was an important transitional year with numerous changes. Because of this, the group-wide engagement survey – in the same format across all countries – was postponed to 2020.
- 12 Excluding KBC's own shared service centres in the Czech Republic and Bulgaria, which are reported separately.

COMMUNITY INVOLVEMENT

Total corporate community investment

By country:

	Note	Unit	Target	2020	2019	2018
Total corporate community investment	1	m EUR		11.9	12.7	9.2
Belgium		m EUR		7.0	7.5	4.7
Bulgaria		m EUR		0.3	0.2	0.4
Czech Republic		m EUR		3.0	3.2	2.4
Hungary		m EUR		0.7	0.5	0.5
Ireland		m EUR		0.6	0.9	0.8
Slovakia		m EUR		0.3	0.4	0.4

By motivation for contribution:

Charitable donations		m EUR		2.0	2.3	1.8
Community Investments		m EUR		7.1	7.7	5.2
Commercial activities		m EUR		2.8	2.7	2.2
Employee volunteering hours (estimated number)		Number		12 000	26 300	19 762

1 B4SI (Business for Societal Impact) Framework (<https://b4si.net/framework/community-investment/>)

SUSTAINABILITY FACTS AND FIGURES

DIRECT FOOTPRINT¹

COVERAGE	Note	Unit	Target	2020	2019	2018
Full-time equivalents (FTE) covered	2	Number		36 323	36 948	37 750
		%		100	100	100
ENERGY CONSUMPTION	Note	Unit	Target		2019	2018
Total energy consumption	3	GJ		868 606	943 267	1 020 654
Total electricity consumption		GJ		507 284	548 352	595 197
of which purchased electricity		GJ		501 877	542 980	589 934
of which renewable electricity		GJ		443 375	455 515	461 180
(% of total electricity consumption)		%	100% (2030)	87	83	78
of which low-carbon electricity		GJ		453 054	467 799	478 070
(% of total electricity consumption)		%		89	85	80
Fuel consumption (natural gas and heating oil)		GJ		264 269	294 904	314 231
District heating, cooling and steam consumption		GJ		88 758	90 278	99 685
Other types of energy consumption		GJ		9 367	11 088	13 045
Total energy consumption per FTE	3	GJ/FTE		24	26	27
BUSINESS TRAVEL	Note	Unit	Target	2020	2019	2018
Total business travel		Million km		77.86	120.58	139.82
Business travel by road		Million km		69.34	98.90	113.16
Business travel by public transport		Million km		2.63	6.60	6.35
Business travel by air		Million km		5.89	15.08	20.31
Total business travel per FTE		km/FTE		2 144	3 264	3 704
COMMUTER TRAVEL	Note	Unit	Target	2020	2019	2018
Total commuter travel		Million km		188.66	250.91	249.90
Commuter travel on foot/by bicycle		Million km		8.28	12.19	12.42
Commuter travel by road		Million km		118.55	155.76	153.33
Commuter travel by public transport		Million km		61.83	82.96	84.15
Total commuter travel per FTE		km/FTE		5 194	6 791	6 291
PAPER	Note	Unit	Target	2020	2019	2018
Total paper consumption		Tonnes		2 234	2 821	3 391
Recycled paper consumption		Tonnes		64	230	165
Other paper consumption		Tonnes		2 170	2 591	3 226
Total paper consumption per FTE		Tonnes/FTE		0.06	0.08	0.09

The totals can deviate from the sum of all categories due to rounding up

SUSTAINABILITY FACTS AND FIGURES

	Note	Unit	Target	2020	2019	2018
WASTE						
Total waste generation		Tonnes		4 443	4 918	6 009
Recycled waste generation		Tonnes		2 130	2 761	3 539
Incinerated waste generation		Tonnes		720	569	659
Landfilled waste generation		Tonnes		1 593	1 588	1 811
Total waste generation per FTE		Tonnes/FTE		0.12	0.13	0.16
WATER						
Total drinking water consumption	Note	m ³	Target	2020	2019	2018
Total drinking water consumption per FTE		m ³		8.81	9.91	9.88
GREENHOUSE GAS (GHG) EMISSIONS						
Total GHG emissions	Note	Unit	Target	2020	2019	2018
Total scope 1 GHG emissions	4, 5, 6, 7	Tonnes CO ₂ e		55 850.25	72 768.65	85 588.29
Total scope 2 GHG emissions	8	Tonnes CO ₂ e		25 199.52	34 739.11	37 629.05
Total scope 3 GHG emissions	9	Tonnes CO ₂ e		11 748.08	17 005.93	22 955.06
Total GHG emissions/FTE	10	Tonnes CO ₂ e		18 902.66	21 023.61	25 004.19
Total GHG emissions/FTE		Tonnes CO ₂ e/FTE		1.54	1.97	2.27
Total GHG emissions excluding commuter travel (old target scope)		Tonnes CO ₂ e			51 207.15	64 101.35
% change compared to base year (2015)	11	%		-62.58	-50.14	-37.59
Total GHG emissions (new target scope)		Tonnes CO ₂ e			1.39	1.70
% change compared to base year (2015)	11	%	-80% (2030)	-55.86	-42.49	-32.36

1 As the reporting period is from 1 October of the previous year until 30 September of the current year, the 2020 data only partly includes the impact of Covid-19 on our direct footprint, i.e. two quarters impacted by Covid-19.

2 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 not therefore been included in the environmental data while they are included in employee information. Please note that data is for the reporting period 1 October 2019 – 30 September 2020 and thus exclude the recently acquired OTP Banka Slovensko.

3 Total energy consumption differs from the sum of the different energy sources, as the consumption of self-generated electricity from non-renewable fuel has been excluded to avoid double counting and counted under fuel consumption.

4 The GHG inventory was prepared according to the requirements of the WRI/WBCSD Greenhouse Gas protocol. 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: CO₂, N₂O, CH₄ and refrigerant gases.

5 The total GHG emissions figure reported here has been calculated using the market-based calculation method described in the GHG Protocol, Scope 2 Guidance. This calculation method takes account of low-carbon electricity use (from renewable and nuclear sources) at a low-carbon emission factor (0g CO₂e/GJ). Using the location-based calculation method described in the GHG Protocol, our Scope 2 GHG emissions amounted to 42 844.88 tonnes CO₂e in 2020, 50 556.62 tonnes CO₂e in 2019 and 52 878.56 tonnes CO₂e in 2018.

6 The data and information for the GHG inventory were mainly historical in nature. Extrapolations were performed for missing data. Because not all entities can deliver 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 based on historical per-FTE activity data and per-FTE CO₂e emissions respectively, so as to reflect our total GHG emissions. The GHG emissions calculated by extrapolation account for 4.66% of total GHG emissions in 2020. Hypothetical approaches were only used for limited activities

7 KBC Group's GHG emissions have been externally verified in accordance with ISO 14064-3. Vinçotte has verified KBC Group's GHG assertion of 55 850.25 of CO₂e to a level of reasonable assurance and concluded that KBC Group's reported GHG emissions for 2020 are reliable and fairly stated. View the verification statement [here](#).

8 Scope 1 emissions comprise emissions from fuel combustion, emissions from refrigerant gases and emissions from business travel and commuter travel by our company car fleet

9 Scope 2 emissions comprise emissions from our use of electricity and district heating, cooling and steam consumption

10 Scope 3 emissions comprise emissions from business travel and commuter travel (except emissions from our company car fleet which are included in Scope 1 emissions), emissions from paper and water consumption and emissions from waste generation

11 We have set 2015 as our base year, as reliable data has been available since that year for the whole group

The totals can deviate from the sum of all categories due to rounding up

 **GRI/SASB index**



GRI/SASB index

This sustainability report has been prepared in accordance with the [Global Reporting Initiative \(GRI\) Standards: 'Core' option and has not been externally audited](#). Since 2019, we are mapping our material topics to relevant [Sustainability Accounting Standards Board \(SASB\) standards](#) within the Financials 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 [annual report 2020 \(AR 2020\)](#), our [Sustainability Report 2020 \(SR 2020\)](#), 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/SASB index

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 2020 p. 2; SR 2020 p. 3
102-2	Activities, brands, products, and services	AR 2020 Inside cover, p. 8, p. 14, p. 17; SR 2020 p. 15
102-3	Location of headquarters	AR 2020 p. 251
102-4	Location of operations	AR 2020 p. 17, p. 67; SR 2020 p. 15
102-5	Ownership and legal form	AR 2020 p. 251
102-6	Markets served	AR 2020 p. 17, p. 67; SR 2020 p. 15
102-7	Scale of the organisation	AR 2020 Inside cover, p. 1, p. 17, p. 20-24; SR 2020: p. 15-16
102-8	Information on employees and other workers	SR 2020 p. 2, p. 92-96
102-9	Supply chain	SR 2020 p. 17, p. 61, p. 90
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 2020 p. 40-58, p. 123-126; SR 2020 p. 40-42, p. 46-72
102-12	External initiatives	SR 2020 p. 10
102-13	Members of associations	SR 2020 p. 10, p. 17, p. 41

STRATEGY:

102-14	Statement from senior decision maker	AR 2020 p. 6-7; SR 2020 p. 4-5
--------	--------------------------------------	--------------------------------

ETHICS AND INTEGRITY:

102-16	Values, principles, standards, and norms of behaviour	AR 2020 p. 12, p. 41, p. 145-148; SR 2020 p. 15, p. 35-39
--------	---	---

GOVERNANCE:

102-18	Governance structure	AR 2020 p. 46-47, p. 134-138; SR 2020 p. 25-26, p. 47-48
--------	----------------------	--

STAKEHOLDER ENGAGEMENT:

102-40	List of stakeholder groups	SR 2020 p. 17
102-41	Collective bargaining agreements	AR 2020 p. 23, p. 55-56; SR 2020 p. 33, p. 95
102-42	Identifying and selecting stakeholders	SR 2020 p. 17
102-43	Approach to stakeholder engagement	SR 2020 p. 17-22
102-44	Key topics and concerns raised	AR 2020 p. 17-19; SR 2020 p. 17-22

REPORTING PRACTICE:

102-45	Entities included in the consolidated financial statements	AR 2020 p. 246-248; SR 2020 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 2020 p. 2, p. 19-22
102-47	List of Material topics	SR 2020 p. 21-22
102-48	Restatements of information	No substantial restatements of information given in previous year's Sustainability Report 2019
102-49	Changes in reporting	SR 2020 p. 2
102-50	Reporting period	SR 2020 p. 2
102-51	Date of most recent report	SR 2020 p. 2
102-52	Reporting cycle	SR 2020 p. 2
102-53	Contact point for questions regarding the report	SR 2020 p. 2
102-54	Claims of reporting in accordance with the GRI standards	SR 2020 p. 2
102-55	GRI content index	SR 2020 p. 101-105
102-56	External assurance	SR 2020 p. 2

GRI/SASB index

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 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 37-39, p. 40-42, p. 48-55, p. 57-59, p. 145-149
103-3	Evaluation of the management approach	AR 2020 p. 37-39, p. 40-42, p. 48-55, p. 57-59, p. 145-149; SR 2020 p. 10, p. 17-22, p. 27

GRI 201: ECONOMIC PERFORMANCE 2016

201-1	Direct economic value generated and distributed	AR 2020 Inside cover, p. 8-11; SR 2020 p. 16, p. 88
201-2	Financial implications and other risks and opportunities due to climate change	AR 2020 p. 48-55, p. 62-66, p. 123-126; SR 2020 p. 46-68 KBC Group CDP Report 2020 KBC Group environmental Policy
201-4	Financial assistance received from government	KBC did not receive financial assistance from any government during 2020.

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 2020 p. 123-126, p. 127-128; SR 2020 p. 62-64, p. 66-68 KBC Group CDP Report 2020

DIRECT ENVIRONMENTAL FOOTPRINT OF OUR BUSINESS ACTIVITIES

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 41-42, p. 48-55, p. 123-126, p. 145-149; SR 2020 p. 23-27, p. 46, p. 48-49
103-3	Evaluation of the management approach	AR 2020 p. 41-42, p. 48-55, p. 123-126, p. 145-149; SR 2020 p. 10, p. 17-22, p. 23-27, p. 46, p. 48-49

GRI 302: ENERGY 2016

302-1	Energy consumption within the organisation	SR 2020 p. 97-99
302-3	Energy intensity	SR 2020 p. 97-99
302-4	Reduction of energy consumption	SR 2020 p. 97-99

GRI 305: EMISSIONS 2016

305-1	Direct (Scope 1) GHG emissions	AR 2020 p. 55; SR 2020 p. 97-99
305-2	Energy indirect (Scope 2) GHG emissions	AR 2020 p. 55; SR 2020 p. 97-99
305-3	Other indirect (Scope 3) GHG emissions	AR 2020 p. 55; SR 2020 p. 97-99
305-4	GHG emission intensity	AR 2020 p. 55; SR 2020 p. 97-99
305-5	Reduction of GHG emissions	AR 2020 p. 55; SR 2020 p. 97-99

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 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 41-42, p. 45-56, p. 123-126, p. 145-149; SR 2020 p. 23-27 p. 40-42, p. 44-70
103-3	Evaluation of the management approach	AR 2020 p. 41-42, p. 45-56, p. 123-126, p. 145-149; SR 2020 p. 10, p. 17-22, p. 23-27, p. 40-42, p. 44-70

GRI 203: INDIRECT ECONOMIC IMPACTS 2016

203-2	Significant indirect economic impacts	AR 2020 p. 8-11, p. 40-42, p. 49-51; SR 2020 p. 6, p. 23-24, p. 44-45, p. 48-51, p. 73-75, p.76-86, p. 88-90
-------	---------------------------------------	--

GRI 412: HUMAN RIGHTS ASSESSMENT 2016

412-1	Operations that have been subject to human rights reviews or impact assessments	AR 2020 p. 55-56; SR 2020 p. 37, p. 40-42 See KBC Group Human Rights Policy See KBC Group UN Global Compact Communication on Progress 2020
-------	---	--

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 2020 p. 88-98
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR 2020 p. 44, p. 77-86, p. 88-90
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	SR 2020 p. 44, p. p. 50-51, p. 77-86, p. 88-90

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 2020 p. 54, p. 91-94; SR 2020 p. 52, p. 64
FN-CB-410A.2.	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	AR 2020 p. 45-46, p. 49-56, p. 123-126; SR 2020 p. 40-42, p. 44-69 KBC Group Sustainability Framework

GRI/SASB index

SUSTAINABLE AND RESPONSIBLE ASSET MANAGEMENT AND INVESTING

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 41-42, p. 45-56, p. 123-126, p. 145-149; SR 2020 p. 23-27 p. 40-42, p. 44-75
103-3	Evaluation of the management approach	AR 2020 p. 41-42, p. 45-56, p. 123-126, p. 145-149; SR 2020 p. 10, p. 17-22, p. 23-27, p. 40-42, p. 44-75

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 2020 p. 88-98
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR 2020 p. 44, p. 71-75, p. 88-90
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	SR 2020 p. 44, p. 71-75, p. 88-90

GRI 203: INDIRECT ECONOMIC IMPACTS 2016

203-2	Significant indirect economic impacts	AR 2020 p. 8-11, p. 40-42, p. 49-51; SR 2020 p. 6, p. 23-24, p. 44-45, p. 48-51, p. 71-75, p.76-86, p. 88-90
-------	---------------------------------------	--

GRI 412: HUMAN RIGHTS ASSESSMENT 2016

412-1	Operations that have been subject to human rights reviews or impact assessments	AR 2020 p. 55-56; SR 2020 p. 37, p. 40-42 See KBC Group Human Rights Policy See KBC Group UN Global Compact Communication on Progress 2020
-------	---	--

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 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 41-42, p. 45-56, p. 123-126, p. 145-149; SR 2020 p. 23-27 p. 40-42, p. 44-70
103-3	Evaluation of the management approach	AR 2020 p. 41-42, p. 45-56, p. 123-126, p. 145-149; SR 2020 p. 10, p. 17-22, p. 23-27, p. 40-42, p. 44-70

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 customers to be more sustainable. AR 2020 p. 43-44, p. 49-52; SR 2020 p. 44-45, p. 48-61, p. 77-86
-------	---------------------------------------	--

CORPORATE CITIZENSHIP

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 40-57, p. 67-81; SR 2020 p. 10, p. 11-14, p. 23-24, p. 77-87
103-3	Evaluation of the management approach	AR 2020 p. 40-57; SR 2020 p. 10, p. 11-14, p. 17-22, p. 23-24, p. 27

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 2020 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 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 12-15, 29-33, 67-81; SR 2020 p. 11-14, p. 23-24, p. 73-75, p. 81-82, p. 86-87
103-3	Evaluation of the management approach	AR 2020 p. 40-57; SR 2020 p. 10, p. 11-14, p. 17-22, p. 23-24, p. 27, p. 73-75

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 2020 p. 12-13, p. 40-57; SR 2020 p. 16, p. 81-82, p. 86-87
-------	---------------------------------------	--

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 2020 p. 32, p. 44; SR 2020 p. 73-75, p. 80-81, p. 85-86
--------------	--	--

USABILITY OF BANKING AND INSURANCE PRODUCTS AND SERVICES

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 29-33, p. 145-149; SR 2020 p. 11-14, p. 23-24, p. 86-87
103-3	Evaluation of the management approach	AR 2020 p. 29-33, p. 145-149; SR 2020 p. 10, p. 17-22, p. 27

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 2020 p. 12-13, p. 29-33; SR 2020 p. 16, p. 86-87
-------	---------------------------------------	--

G4: PRODUCT PORTFOLIO (AWAITING NEW GRI SECTOR STANDARDS)

FS14	Initiatives to improve access to financial services for disadvantaged people	AR 2020 p. 44; SR 2020 p. 86-87
------	--	---------------------------------

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 2020 p. 79-80, p. 86-87
--------------	--	----------------------------

GRI/SASB index

FAIR, UNDERSTANDABLE AND TRANSPARENT INFORMATION TO CLIENTS

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 29-33, p. 34-36, p. 43-44, p. 145-149; SR 2020: p. 23-24, 35-39, p. 78-79
103-3	Evaluation of the management approach	AR 2020 p. 29-33, p. 34-36, p. 43-44, p. 145-149; SR 2020 p. 10, p. 17-22, p. 27, p. 35-39

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 communication 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 2020 p. 29-33, p. 34-36; SR 2020: p. 23-24, 35-39
-------	--	--

INFORMATION SECURITY AND DATA PROTECTION

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 19, p. 32-33, p. 82-85, p. 108-110, p. 145-149; SR 2020: p. 37-39
103-3	Evaluation of the management approach	AR 2020 p. 19, p. 32-33, p. 82-85, p. 108-110, p. 145-149; SR 2020: p. 10, p. 17-22, p. 27, p. 37-39

GRI 418: CUSTOMER PRIVACY 2016

418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2020, one privacy-related complaint was pending with the Belgian Data Protection Authority, on which we expect a ruling in 2021. We have received about 51 complaints from customers regarding a potential data breach. Twelve of these complaints were actually qualified as data breaches and seven were reported to the Belgian DPA.
-------	--	--

SASB COMMERCIAL BANK SECTOR DISCLOSURE: DATA SECURITY

FN-CB-230A.2	Description of approach to identifying and addressing data security risks	AR 2020 p. 19, p. 82-85, p. 108-110, p. 145-149; SR 2020: p. 37-39
--------------	---	--

INCLUSIVE BUSINESS CULTURE

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 8-12, p. 21-24, p. 139-140, p. 145-149; SR 2020 p. 15-16, p. 23-24, p. 29-33
103-3	Evaluation of the management approach	AR 2020 p. 8-12, p. 21-24, p. 139-140, p. 145-149; SR 2020 p. 10, 15-16, p. 17-22, p. 27, p. 29-33

GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016

405-1	Diversity of governance bodies and employees	AR 2020 p. 15, p. 22-23, p. 139-140; SR 2020 p. 29-31, p. 92-96
-------	--	---

KBC 2: CORPORATE CULTURE

KBC 2	'Team Blue' spirit	AR 2020 p. 10-12, p. 21; SR 2020 p. 15, p. 23-24, p. 29-33
-------	--------------------	--

TALENT ATTRACTION AND RETENTION

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p. 8-12, p. 21-24, p. 145-149; SR 2020 p. 15-16, p. 23-24, p. 29-33
103-3	Evaluation of the management approach	AR 2020 p. 8-12, p. 21-24, p. 145-149; SR 2020 p. 10, p. 15-24, p. 27, p. 29-33

GRI 401: EMPLOYMENT 2016

401-1	New employee hires and employee turnover	AR 2020 p. 21-23; SR 2020 p. 32-33, p. 94-95
-------	--	--

GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2018

403-1	Occupational health and safety management system	AR 2020 p. 21-23; SR p. 33
403-9	Work-related injuries	SR p. 95

GRI 404: TRAINING AND EDUCATION 2016

404-1	Average hours of training per year per employee	SR 2020 p. 16, p. 32, p. 95-96; AR 2020 p. 21-23
404-2	Programmes for upgrading employee skills and transition assistance programmes	AR 2020 p. 21-22; SR 2020 p. 16, p. 29-33, p. 95-96

ETHICAL BUSINESS CONDUCT AND RESPONSIBLE BEHAVIOUR

GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its boundary	SR 2020 p. 22
103-2	The management approach and its components	AR 2020 p.40-41, p. 145-149; SR 2020 p. 23-24, p. 34-39 KBC Group Code of Conduct
103-3	Evaluation of the management approach	AR 2020 p. 40-41, p. 145-149; SR 2020 p. 10, p. 17-24, p. 27, p. 34-39 KBC Group Code of Conduct

GRI 205: ANTI-CORRUPTION 2016

205-1	Operations assessed for risks related to corruption	AR 2020 p. 55-56, p. 145-148; SR 2020 p. 34-39
205-2	Communication and training about anti-corruption policies and procedures	AR 2020 p. 145-148; SR 2020 p. 34-39, p. 92 KBC Group Code of Conduct

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 2020 p. 204, p. 236 Net provisions for taxes and pending legal disputes were 6m euros in 2020.
FN-CB-510A.2	Description of whistleblower policies and procedures	AR 2020 p. 145-149 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) corporate	AR 2020 p. 91
-------------	--	---------------



APPENDICES

- ⌵ Principles for Responsible Banking
- ⌵ Principles for Sustainable Insurance
- ⌵ PACTA
- ⌵ PCAF
- ⌵ UNEP FI
- ⌵ Trucost



APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

KBC was the first endorser and signatory in the Belgian market of the Principles for Responsible Banking (PRBs) launched in September 2019. The Principles clearly reflect the key elements of our vision on sustainability and reinforce our commitment to the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).



KBC and more than 30 other banks have also gone a step further with the Collective Commitment to Climate Action (CCCA). You can read more about this specific commitment in the [‘Our commitment to the climate’](#) part of the ‘Sustainable finance’ section of this report. We have adopted the United Nations Environment Programme Finance Initiative (UNEP FI) reporting and self-assessment template to communicate on our progress on the PRBs. Assurance of alignment to the PRBs is not yet mandatory and 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
<p>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.</p>		
<p>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.</p>	<p>KBC is an integrated bank-insurance group (banking, insurance and asset management), active 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. 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, SMEs (small and medium-sized enterprises) 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. 64% of our total loan portfolio is allocated to our customers in the Belgium Business Unit, 17.6% in the Czech Republic Business Unit and 18.4% in our other core countries. Our corporate lending portfolio constitutes 46.1% and private lending portfolio 43% of our total loan portfolio.</p> <p>The main sectors in our corporate lending portfolio (as a percentage of the outstanding portfolio) are (1) services 10.8%, (2) distribution 6.9%, (3) real estate 6.3%, (4) building and construction 3.9%, (5) agriculture, fishing, farming 2.7%, (6) automotive 2.5%, (7) food production and beverages (food producers 1.8% and beverages 0.4%), (8) energy (1.6% electricity and 0.5% oil, gas & other fuels), (9) metals 1.4% and (10) chemicals 1.4%. 93% of our lending to private individuals consists of mortgages which provide many households in our core markets with the opportunity to buy their own property.</p>	<p>KBC Group Sustainability Report 2020: p. 23-24, p. 51 KBC Group Annual Report 2020 p. 8, p. 91</p>

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

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/longevity) and encouraging responsible behaviour among our employees. Our strategy is aligned with the SDGs.
We support the Paris Agreement and signed the CCCA. Our Sustainable Finance Programme has been set up as part of our sustainability strategy.

Given the EU's focus on its climate ambitions via the EU Green Deal, we firmly believe that KBC's priority across our core countries is climate change, including climate adaption and climate mitigation. 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
<p>Principle 2. Impact and target setting We will 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 for those areas in which we can have the most significant impact.</p>		
<p>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:</p> <p>a) Scope: The bank's core business areas and products/services across the main geographies in which it that the bank operates, in have been as described under 1.1, are considered in the scope of the analysis.</p> <p>b) Scale of exposure: In identifying its areas of most significant impact your bank has considered where its core business/major activities lie in terms of industries, technologies and geographies.</p> <p>c) Context and & 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.</p> <p>d) Scale and intensity/salience of impact: In identifying its areas of most significant impact, your 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.</p> <p>(Your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d)).</p> <p>Show that, building on this analysis, the bank has:</p> <ul style="list-style-type: none"> • 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 	<p>Given the evidence from sources such as UNEP FI, EU Green Deal, TCFD (Task Force on Climate-related Financial Disclosures), the SDGs and others, we have determined it correct to focus on climate action. In 2021, we will take preliminary steps for a more thorough impact assessment and identification of impact areas.</p> <p>To determine the impact of climate change on our lending portfolio we followed a sector approach (on the basis of a number of factors, including the TCFD recommendations). The most-material 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 6.3%, (2) building and construction 3.9%, (3) agriculture, farming, fishing 2.7%, (4) automotive 2.5%, (5) food production and beverages 2.2%, (6) energy 2.1%, (7) metals 1.4% and (8) chemicals 1.4%. 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 car loans, together representing 94% of that portfolio.</p> <p>According to our calculations (made using tools such as the Scope 3 Evaluator designed by the GHG (greenhouse gas) Protocol and Quantis), the sectors and product lines assessed represent around two-thirds of the GHG emissions linked to our loan portfolio. Operational leasing, which involves full service car lease, amounted to 1.2 billion euros.</p> <p>Climate adaptation and climate mitigation as impact areas To determine the scale and intensity of climate adaptation and climate mitigation as impact areas – further in this self-assessment also referred to as climate change impact area – we took a deep dive into the climate-sensitive sectors and product lines from a climate perspective in order to define a business strategy with concrete metrics and targets for these sectors. We analysed the (1) energy, (2) commercial real estate and (3) agriculture sector and the (4) mortgage and (5) car leasing product lines. Beginning in 2021, our work will continue for the metals, chemicals, automotive, building & construction and food producers sectors and for the car loans product line, and we will start the exercise for our insurance business.</p>	<p>KBC Group Sustainability Report 2020: p. 23-24, p. 43-59 KBC Group Annual Report 2020: p. 8, p. 91</p>

APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

- (1) Our total energy sector exposure is 2.1% of our total outstanding loan portfolio at year-end 2020. To assess the greenhouse gas (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. 61% of our energy credit portfolio consists of renewable energy loans. At the end of 2020, our portfolio of renewable energy project finance stood at 1.1 billion euros (outstanding amount), which resulted in avoided emissions of 448 351 tonnes CO₂.
- (2) The commercial real estate (CRE) portfolio represents 6.3% of our total outstanding loan portfolio. To measure the energy efficiency of the CRE buildings that we finance, we have asked our core countries to collect relevant data. Some have already presented an initial stock-take of the potential green share of their existing portfolios based mainly on external quality standard labels (BREAAM, LEED, etc.) that take account of the greenness of the assets financed. We will continue to take action and collect data to measure, manage and steer the climate-related risks and opportunities of our CRE portfolio.
- (3) Our total agriculture sector exposure is 2.7% of our total outstanding loan portfolio at year-end 2020. Besides CO₂, the GHG emissions related to this sector include methane and nitrous oxide. We have not yet gathered data to determine the climate impact of our agriculture portfolio and plan to perform further analysis and data collection on this sector in 2021.
- (4) Mortgage loans are a core product for KBC in all our core countries and represent 39.7% of our total outstanding loan portfolio. We have not yet gathered data on the energy performance of all the buildings financed and of the collateral. This will be needed to measure impact, set targets and determine the GHG emissions associated with our mortgage loans. We have however made some calculations based on a preliminary data set using the PCAF (Partnership for Carbon Accounting Financials) methodology on which you can find more information in the [‘PCAF’](#) appendix of this report.
- (5) KBC is also active in operational leasing and has set ambitious targets to decrease the emissions of the cars in our car leasing fleets and to increase the share of electric and hybrid vehicles. We have set clear targets to decrease the GHG emissions of the cars, have increased the share of electric and hybrid vehicles and offer bicycle leasing. CO₂ emissions avoided through the latter solutions is 6 555 tonnes/year (representing 60 117 634 kilometres/year). In this case too, we have made some calculations based on a preliminary data set using the PCAF methodology, on which you can find more information in the [‘PCAF’](#) appendix of this report

Please provide your bank's conclusion/statement as to whether it has fulfilled the requirements regarding Impact Analysis

We have identified significant impacts of climate change – both climate adaptation and climate mitigation – on our lending portfolio (climate-sensitive sectors and product lines). As a next step, we will continue our strategic exercise and work on other climate-sensitive sectors and will broaden the scope of our exercise to include our insurance business.

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
<p>2.2 Target-setting</p> <p>Show that the bank has set and published a minimum of two Specific Measurable (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.</p> <p>Show that these targets are linked to and drive alignment with and a 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.</p> <p>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 these as far as feasible to maximise the net positive impact of the set targets.</p>	<p>KBC focuses strongly on climate change and the environmental impact of our 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 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).</p> <p>Climate adaptation Target: Ambition to increase the share of renewables in the total energy credit portfolio from 50% by 2030 to 65% by 2030</p> <p>Climate mitigation Target: Ambition to exit direct coal-related financing by 2021</p>	<p>KBC Group Sustainability Report 2020: p. 9, p. 23-24</p>
<p>Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.</p> <p>We have brought our target on direct-coal related financing and renewable energy financing in line with our energy policy - which has recently been adjusted and tightened. We will continue to bring our targets in line with the expectations of our stakeholders.</p>		

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
<p>2.3 Plans for target implementation and monitoring Show that your bank has defined actions and milestones to meet the set targets.</p> <p>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.</p>	<p>We have taken measures and actions to meet the targets as specified above: we tightened our policy on the financing and insurance of coal-related industries and introduced a comprehensive policy on biodiversity in 2020, we engaged with companies and collaborated in their transition to a low-carbon business by offering them green financial products, we got in contact with partner organisations (e.g. Encon) to help our clients carry out energy-saving initiatives and we developed specific banking, insurance and investment products and services to support a sustainable, low-carbon and climate resilient society. We refer to the 'Green products' part of the 'Sustainable finance' section and the 'Environmental responsibility' part of the 'Our sustainable business solutions' section of this report for examples of green products and business solutions.</p>	<p>KBC Group Sustainability Report 2020: p. 60, p. 77-86</p>
<p>Please provide your bank's conclusion/statement as to whether it has fulfilled the requirements regarding plans for target implementation and monitoring.</p> <p>We have introduced measures to achieve our target for 'share of renewables in the total energy credit portfolio'. We will continue to engage and collaborate with companies in their transition to a low-carbon business. We will continue to offer green financial products.</p>		

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
<p>2.4 Progress on implementing targets</p> <p>For each target separately:</p> <ul style="list-style-type: none"> • 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 has had (where feasible and appropriate, banks should include quantitative disclosures) 	<p>In 2020, we raised our sustainability targets related to our renewable energy loans and committed to exiting the coal sector in 2021.</p> <p>Climate adaptation Target: Target for share of renewable energy in total lending to the energy sector increased from 50% by 2030 to 65% by 2030.</p> <p>Climate mitigation Target: Full exit from direct coal-related financing by 2021, thereby dropping the last remaining exception in Czech Republic for the funding of coal-fired power stations for communal heating systems.</p> <p>In addition, we have decided on a first-ever comprehensive policy aimed at protecting biodiversity via a set of exclusions and requirements for clients active in sensitive sectors.</p>	<p>KBC Group Sustainability Report 2020: p. 9, p. 40-42</p>
<p>Please provide your bank's conclusion/statement as to whether it has fulfilled the requirements regarding progress on implementing targets.</p> <p>We report transparently on our progress on implementing targets and will continue to do so in our sustainability report and elsewhere.</p>		

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
<p>Principle 3. Clients and customers We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create and share prosperity for current and future generations.</p>		
<p>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 achieved.</p>	<p>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-raising campaign aimed at all employees. KBC views responsible behaviour as crucial to 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 it, but to set out the underlying principles in 'My Responsible Behaviour Compass'. The KBC University provides our management with dilemma training so that they can share and discuss dilemmas with their staff. In Belgium, we launched an online training course in 2020 to raise awareness of responsible behaviour. The training achieved a very high participation rate (> 85 %) and attracted a 4.5 out of 5 quality rating based on feedback from more than 3 000 participants. It will be rolled out in the other core countries in 2021. 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.</p>	<p>KBC Group Sustainability Report 2020: p. 35-39, p. 50-51, p. 60</p>
<p>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.</p>	<p>KBC Corporate Banking performed 377 sustainability dialogues with corporate clients in 2020. Clients gave these a very positive evaluation, resulting in an action plan with an increased number of dialogues and the development of more specific solutions. Several webinars and round-tables on sustainability-linked topics were also organised. The corporate banking units in our core countries have embarked on a similar client engagement approach, which started with focused training for relationship managers on forward-looking analysis to better understand climate related risks and opportunities.</p> <p>We have developed green products and solutions in our core countries: (1) a multi-mobility model offered to companies in Belgium, enabling them to offer their employees different forms of mobility (including bicycles); (2) ČSOB's green grants programme in the Czech Republic, which helps entrepreneurs prepare energy audits and technical documentation. More examples can be found in the 'Green products' part of the 'Sustainable finance' section and the 'Environmental responsibility' part of the 'Our sustainable business solutions' section of this report.</p>	

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
<p>Principle 4. Stakeholders We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals</p>		
<p>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.</p>	<p>We set up a Sustainable Finance Programme in 2019 to focus on integrating KBC's climate approach across the group, including our impact as a financial institution. The programme is headed by a programme manager belonging to the Group Corporate Sustainability Division, backed up by a Sustainable Finance Core Team. This team consists of specialists from Group Corporate Sustainability, Risk, Credit Risk, Group Finance and Data Quality Management and is in regular contact with relevant departments and external stakeholders. In 2020, we performed a stakeholder mapping exercise and identified several stakeholder groups (e.g. clients, academics and public authorities) with whom we discuss a variety of issues and challenges. We also engage with stakeholders with relevant expertise in measuring instruments like PACTA (Paris Agreement Capital Transition Assessment), PCAF and UNEP FI.</p>	<p>KBC Group Sustainability Report 2020: p. 17-18, p. 46-49</p>



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
<p>Principle 5. Governance and culture We implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>		
<p>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.</p>	<p>Our Group Corporate Sustainability Division is headed by the Group Corporate Sustainability General Manager, who reports directly to our Group CEO and informs the Board of Directors and the Executive Committee twice a year on the progress of the implementation of our strategy through the KBC Sustainability Dashboard. This division develops the sustainability strategy and implements it across the group. The team monitors the implementation of the strategy and updates the sustainability framework with its guiding principles on a regular base. The team pays particular attention to ensure 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.</p> <p>We have established a governance structure within our group that guarantees 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 climate adaptation and climate mitigation) 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.</p> <p>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.</p> <p>Our External Sustainability Board advises our Group Corporate Sustainability Division on KBC sustainability policies and strategy.</p>	<p>KBC Group Sustainability Report 2020: p. 25-26, p. 46</p>



APPENDIX: PRINCIPLES FOR RESPONSIBLE BANKING

<p>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.</p> <p>This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.</p>	<p>Sustainability, including climate and the associated targets, has been integrated into the remuneration systems of our employees and especially our senior management. 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 that contains numerous parameters, such as the share of renewable energy loans in the loan portfolio and reducing financing of the coal sector. The Board of Directors, through its Remuneration Committee, assesses the criteria for evaluating the members of the Executive Committee in this respect. Sustainability has also been integrated into management's variable remuneration. 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.</p> <p>We regularly address our employees on the topic of responsible behaviour. We have recently launched an online training course in Belgium to raise awareness of this topic. The training will be rolled out to the other core countries in 2021.</p>	
<p>5.3 Governance structure for implementing the Principles.</p> <p>Show that your bank has a governance structure in place for the implementation of the PRB, including:</p> <p>a) Target-setting and actions to achieve those targets.</p> <p>b) Remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.</p>	<p>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 actions if necessary to ensure achievement of the targets.</p> <p>Remedial and other actions to ensure progress towards the targets are also provided by the existing governance bodies described in 5.1 and 5.2.</p>	
<p>Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.</p> <p>We have substantially updated our sustainability governance structure to ensure, amongst other things, that the Principles for Responsible Banking are implemented in our organisation groupwide.</p>		

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
<p>Principle 6. Transparency and accountability We will periodically review our individual and collective implementation of the Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society’s goals.</p>		
<p>6.1 Progress on implementing the Principles for Responsible Banking Show that your bank has made progress in implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) as well as setting and implementing targets in at least two areas (see 2.1–2.4).</p> <p>Show that your bank has considered existing and emerging international/regional good practices relevant to the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.</p> <p>Show that your bank has implemented/is working on implementing changes to 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.</p>	<p>In 2019, we started to report on our climate strategy in line with the TCFD recommendations in order to understand our climate risks and take the necessary actions going forward. In 2020, we tightened our policy on the financing and insurance of thermal coal-related activities and as such accelerated our planned exit from existing coal-related financing and introduced a comprehensive policy on biodiversity. One year after signing the UN’s CCCA, 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 will continue our white paper exercise in 2021. We have also recently developed a policy on diversity and inclusion, which sets out to increase diversity at all levels of our organisation. The policy owner has developed a programme for implementing the policy across our business and will report periodically to our Executive Committee.</p>	<p>KBC Group Sustainability Report 2020: p. 29-33, p. 43-75</p>
<p>Please provide your bank’s conclusion/statement as to whether it has fulfilled the requirements regarding progress on implementing the Principles for Responsible Banking We have made good progress on the implementation of the PRBs since endorsing them in 2018 and officially signing them in 2019. We have challenged our climate strategy and will continue to do so, and we have developed a policy on diversity and inclusion, which will be made public in the first part of 2021.</p>		

APPENDIX: PRINCIPLES FOR SUSTAINABLE INSURANCE

In 2018, KBC Insurance became a signatory to the Principles for Sustainable Insurance (PSIs), 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. This reporting and self-assessment template outlines the activities KBC Insurance has undertaken to demonstrate its commitment to the PSIs.



Reporting and self-assessment template	High-level summary of KBC's response	References and more information
<p>Principle 1</p> <p>Principle 1: We will embed in our decision-making environmental, social, and governance issues relevant to our insurance business.</p>	<p>At KBC Group, sustainability is an integral part of the overall corporate strategy and is embedded in the strategic pillars: we put the client first, we offer them a unique bank-insurance experience, we focus on our long-term development and strive for sustainable and profitable growth, and we take our responsibility for society and local economies seriously.</p> <p>Our sustainability policies and restrictions are also fully applicable for insurance underwriting. Insurance underwriting and investments are also fully covered by our sustainability governance. The Internal Sustainability Board, chaired by the Group CEO, hence also decides on all insurance-related sustainability topics. Our Sustainable Finance Program also covers the insurance business.</p> <p>As indicated throughout this report, the focus of our sustainable activities today is very much on climate change mitigation, but also on climate change adaptation. Without ignoring other important societal issues, climate action is a top priority for KBC Insurance too.</p> <p>KBC Insurance already covers environmental and climate-related physical risks in most of its insurance solutions. E.g., flood cover is available as a standard cover for residential property (except for buildings in known flood-prone areas).</p> <p>At KBC Insurance in Belgium, moreover, the standard home insurance policy covers all forms of renewable energy, such as solar panels, heat pumps and charging points. In the event of severe damage, the additional costs of rebuilding in accordance with the most recent building regulations are also covered. For similar damage in the case of commercial buildings, limited cover for these additional construction costs is offered with no increase of the premium rate.</p> <p>In 2021, KBC Insurance will further elaborate on its policies and on client engagement in the field of sustainability, as part of the Sustainable Finance Programme. In its property underwriting, KBC Insurance:</p> <ul style="list-style-type: none"> - Will still actively take into account flood risk. - Will also work on data collection with respect to energy performance of residential and non-residential real estate. - Intends to include energy performance as an additional measure for the quality of a property risk. <p>Lastly, KBC Insurance has also included more ESG-linked criteria in its investment policy.</p>	<p>KBC Annual Report 2020: p. 40-56 KBC Sustainability Report 2020: p. 23-24, p. 40-42, p. 43-68</p>

APPENDIX: PRINCIPLES FOR SUSTAINABLE INSURANCE

Reporting and self-assessment template	High-level summary of KBC's response	References and more information
Principle 2		
<p>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.</p>	<p>The sustainability approach prescribes additional client engagement efforts, especially regarding renewable energy, energy efficiency and flood risk for all property clients. An approach for other lines of business is currently being investigated. Internal training will be organised for employees and the sales network to raise awareness of sustainability (in the first instance climate change). Developing solutions as an answer to sustainability risks and opportunities, is an integral part of our product management.</p> <p>KBC Insurance in Belgium has already launched a pilot project to unburden clients in the agricultural business, by removing asbestos roofs and installing solar panels on the new roofs.</p> <p>KBC Insurance will further elaborate its client engagement (both internal and external) in the years to come, working together in the already ongoing initiatives of KBC Bank.</p>	<p>KBC Sustainability Report 2020: p. 17, p. 60</p>
Principle 3		
<p>We will work together with governments, regulators, and other key stakeholders to promote widespread action across society on environmental, social, and governance issues.</p>	<p>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. Our most recent materiality assessment dates from 2020.</p> <p>Initiatives on the part of the EU, government and/or national regulators are also addressed in cooperation with the local insurance associations.</p> <p>Beginning in 2020, for instance, KBC Insurance offers multi-peril climate insurance for farmers in Flanders as the Flemish Regional Government is phasing out the existing calamity fund.</p>	<p>KBC Sustainability Report 2020: p. 17-22</p>
Principle 4		
<p>We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles</p>	<p>KBC Insurance published its third progress report in 2020 through this sustainability report and will continue to publicly disclose its progress in implementing the PSIs.</p>	

APPENDIX: PACTA

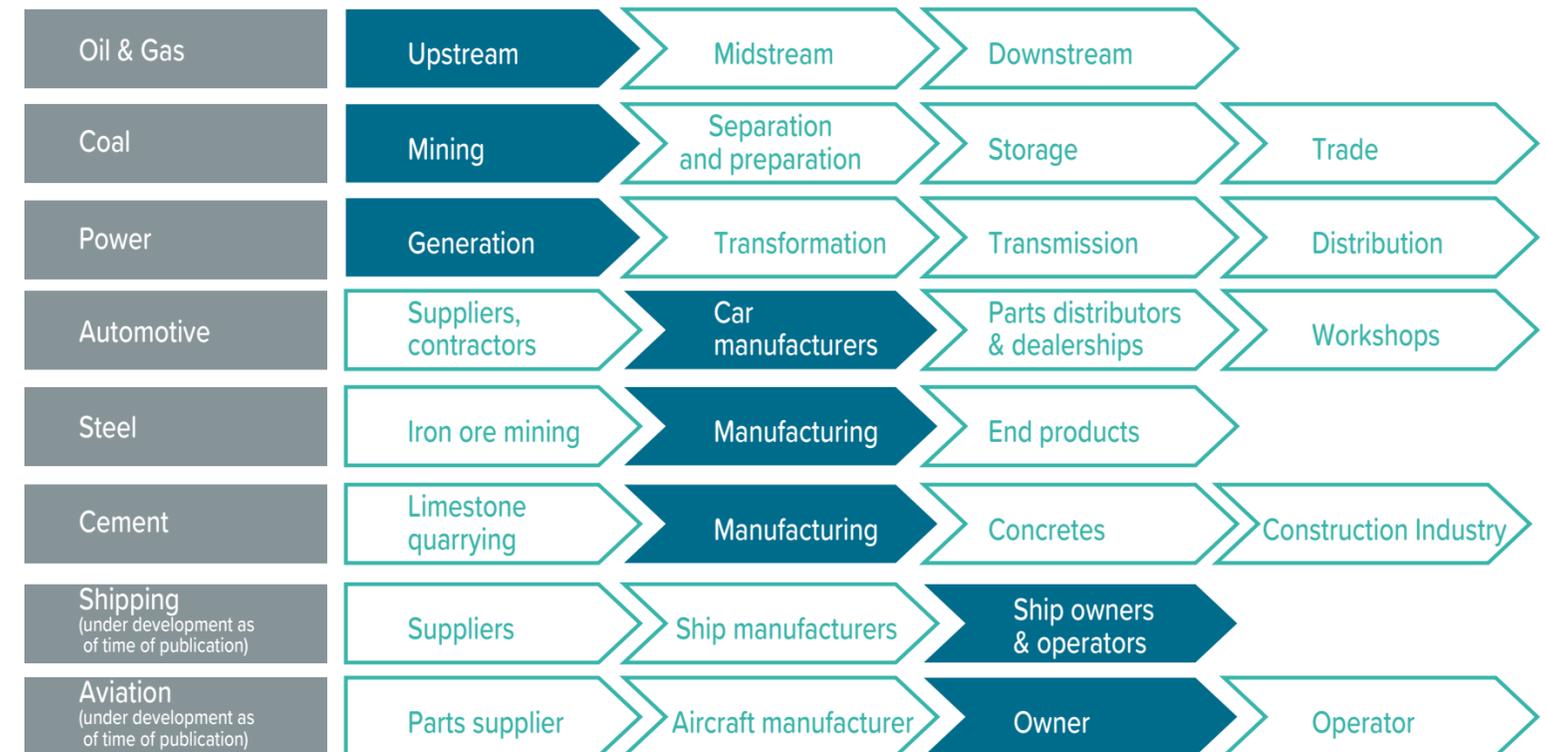
In September 2019, KBC committed to addressing its indirect impact on the climate. As a first step to map out climate-impactful activities in its loan portfolio, KBC partnered that same year with the NGO 2Degrees Investing Initiative (2DII) to participate in the road-test of their PACTA (Paris Agreement Capital Transition Assessment) methodology by mapping 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's 2018 corporate industrial loan portfolio, which excludes loans to SMEs (small and medium-sized enterprises), private persons, finance and insurance and authorities. The preliminary results of this test were presented in the [KBC Sustainability Report in 2019](#).

Based on the road-test results and reviews from academic institutions, 2DII launched the 'PACTA for Banks' toolkit free of charge in September 2020 as a public service. The toolkit and full methodological documentation are available on the [PACTA for Banks webpage](#).¹ This section provides a second publication of the PACTA results based on the newly released PACTA toolkit.

About PACTA

PACTA is a forward-looking scenario-based methodology, developed by 2DII, which measures climate-related transition risks in loan portfolios for the most climate-relevant sectors and activities: fossil fuels (oil, gas and coal), power, automotive (currently only light-duty/passenger car production), cement, steel, shipping and aviation (the latter two still under development). Together, these represent around 75% of global CO₂ emissions². Only the main contributory activities across these sectors' supply chain are in scope of this methodology (see blue boxes in Figure 1). Based on reference climate scenarios provided by the International Energy Agency (IEA) and taking into account the current and planned capacity of the underlying companies being financed, PACTA helps determine whether these companies are following a transition path in line with targets set by the climate scenarios. In this way, the analysis helps to assess whether corporate loan portfolios in these sectors are aligned with Paris Agreement goals to hold the global temperature increase at (well) below 2 degrees. Since the activities falling within the scope of PACTA belong to some of the sectors for which white papers have been prepared³ (see the 'White papers' part of the 'Sustainable finance' section of this report), PACTA was – and will remain – an important source of information for certain of the working group discussions, in terms of both understanding the current overview of technology distribution within subject loan portfolios and of gaining insights into the transition over the next five years.

Figure 1: Technologies and activities in scope of PACTA (source: 2DII)



¹ See <https://www.transitionmonitor.com/pacta-for-banks-2020/>

² 2DII, referring to CO₂ sources database on http://www.onlyzerocarbon.org/sources_co2.html

³ Power and fossil fuels falling under the 'energy' strategic project, car manufacturing falling under 'automotive', steel production under 'metals' and cement production under 'building and construction'.

APPENDIX: PACTA

About this second PACTA report

KBC performed a second analysis in pilot mode this year, based on the recently launched 'PACTA for Banks' toolkit. This second report represents the next step in KBC's ambition to improve climate-related transparency towards its stakeholders. Like every other financial institution, KBC is still very much on a journey in terms of using and applying the PACTA method, making it equally important to inform readers about the context of this learning process. The elements mentioned below reflect some of the improvements KBC has made compared to last year but also certain limitations and challenges faced during this year's exercise.

- **The sectoral scope of the PACTA toolkit differs from the road-tested toolkit** as 2DII discontinued the analysis methodology for the shipping sector pending the development of a more appropriate approach. No analysis is available this year, therefore, for the shipping portfolio. 'PACTA for Banks' will continue to evolve and 2DII plans to add new sectors, such as heavy-duty vehicles in the automotive sector, and shipping and aviation.
- **KBC has published the first results** for the fossil fuel, steel and cement sectors, but it should be noted that the number of companies that could be matched to physical assets in the 2DII database was rather limited (see further). For the power and automotive sectors, additional climate-relevant metrics are reported to those from last year.
- **The company-matching approach has been refined.** For instance:
 - as outlined in [KBC's 2019 Sustainability Report](#), the road-test results for last year showed that some counterparties in the power sector were matched to their ultimate parent at physical asset-level data, which distorted the distribution of exposure to certain power technologies. The source of this is to be found in the PACTA model, where matching counterparties to ultimate parent companies is an automatic fallback approach in the absence of physical asset-level data. The effect is particularly significant for counterparties with 100% renewable installed electric capacity, which – due to a lack of physical asset-level data – were matched to their ultimate parent-level technology profile, thereby underestimating the exposure to renewable power production capacity and overestimating the exposure to other, less clean, power technologies. These incorrect matching cases have been corrected in this second analysis.
 - while PACTA only analyses the climate-relevant sectors and activities (see Figure 1), significant manual verification is merited to capture counterparties whose logged

sector classification only partly reflect their overall activity profile.

- To ensure that all material exposures were covered, the scope of potentially PACTA-relevant sectors and activities was set as broadly as possible during the first exercise in 2019. Further investigation during the second exercise showed that some of the exposures included in last year's exercise did not relate to any contributing activities that are in the scope of the PACTA method (e.g., car leasing company owned by a car manufacturer). To remain as true as possible to the scope definition outlined under Figure 1, such exposures have now been excluded from the PACTA scope to improve the accuracy and scope of the results.
- **Matching loans to the PACTA database is challenging for two main reasons.** On the one hand it is difficult to capture loans of, for instance, counterparties that have various activities and where logged sector classifications do not fully reflect the counterparty's activity profile. On the other hand, automatic matching requires an extensive additional manual matching and verification exercise, as about 40% of the counterparties found in the scope of PACTA had to be matched manually and incorrect matches had to be corrected.
- Project-finance-related exposure could not be matched to the updated 2DII physical asset-level dataset in this year's exercise, which resulted in a relatively sizeable drop in the number of companies matched for the power sector and a consequently underestimated exposure to renewable electricity production in this year's calculation.
- The loan book data from UBB – KBC's banking activity in Bulgaria – was excluded from last year's road-test exercise. UBB loan book data has now been included in the dataset for this year's exercise.

With this second analysis, the KBC-granted exposure found in the scope of PACTA amounted to 4.0% of the total industrial loan book (see Figure 2 on the following page) compared to 3.5% reported last year.

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. Around half of this exposure could be matched to physical asset-level data. Figure 2 (right-hand graph) outlines the distribution of this granted exposure across the key PACTA sectors. It is important to mention that this higher percentage cannot be specifically attributed to changes in lending activity towards the activities in the scope of Figure 1, but is the result of a more refined approach to detect the PACTA exposure scope in

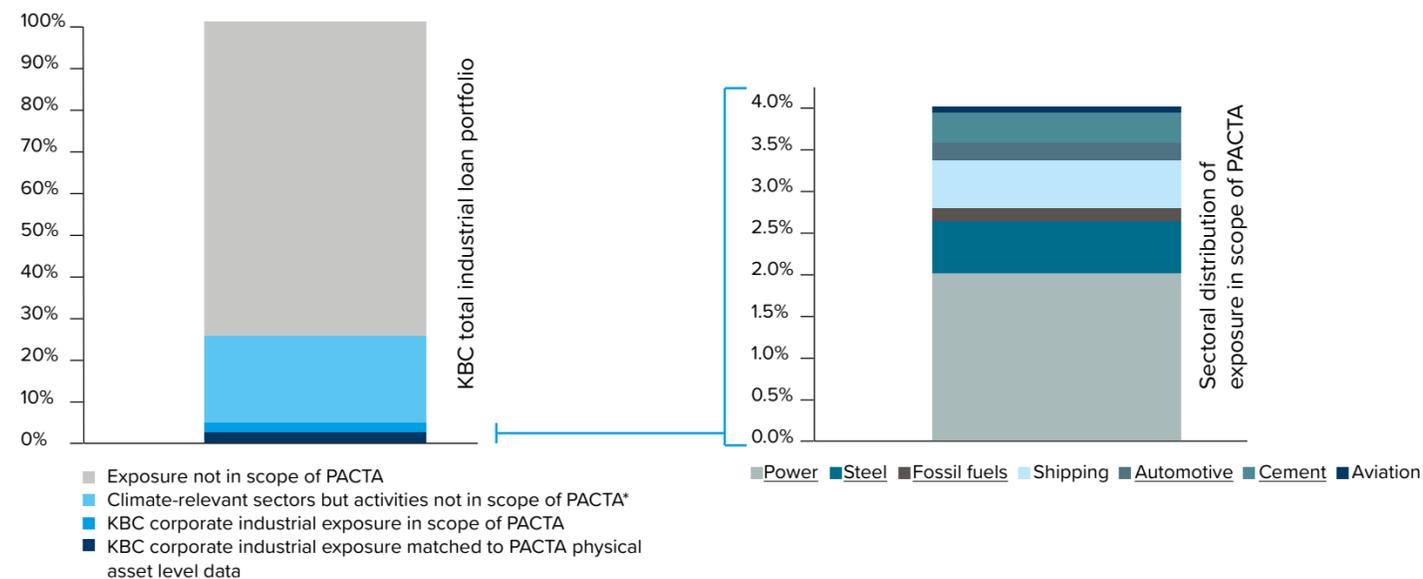
APPENDIX: PACTA

our portfolio.⁴ Notwithstanding this higher percentage, the results of the exercise confirm that **KBC Group's total 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 defined in Figure 1.** This finding is commensurate with the general risk appetite of KBC Group, as its loan book do not include large, single-name exposures to upstream activities in the scope of PACTA (as defined in Figure 1).

Figure 2:

Left-hand graph: Share of total industrial loans, granted exposure (including loans to SMEs but excluding loans to private persons, finance and 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 granted⁵ exposure in scope of PACTA (cf. the scope defined in Figure 1). Sectors for which details are provided in the sections below are underlined.



* This includes oil and gas (excl. upstream), power sector (excl. generation), automotive (excl. passenger car producers), shipping (other than ship operators/owners), building and construction (excl. cement producers), metals sector (excl. pure steel production) and aviation (excl. airlines)

The PACTA results⁶

Results from piloting the PACTA tool for corporate industrial loans – which excludes SMEs – are outlined below for the power, automotive, fossil fuels, steel and cement sectors. For each of the considered technologies and activities, credit exposure is mapped to the current and projected relevant physical production levels using data provided by Asset Resolution.⁷ The figures below reflect the granted loan exposure as per end June 2020 and asset level data as per year-end 2019, with these data used to project for 2020.

Sector approach

The PACTA model distinguishes climate alignment calculations depending on whether clearly identified technology decarbonization pathways exist for these sectors:

- **sectors with technology roadmaps** (power, fossil fuels and automotive). The technology roadmaps in the IEA World Energy Outlook 2019 are used as a reference for the power and fossil fuels sector. For the automotive sector, the reference comprises the scenarios from the IEA Energy Technology Perspectives 2017.
- **sectors without technology roadmaps** (cement and steel) where emission-intensity metrics are calculated and used to measure alignment. 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 to be used as a reference.

The KBC-granted exposure found in the scope of PACTA amounted to 4.0% of the total industrial loan book confirming that KBC Group's total industrial loan portfolio (including loans to SMEs but excluding loans to private persons, finance & insurance and authorities) is exposed to a limited degree to companies that contribute the most to global CO₂ emissions.

⁴ The PACTA model defines the scope based on the sector classifications and this input has been enhanced using manual expert judgement and input on counterparty sectors.

⁵ I.e. drawn + undrawn loan exposure.

⁶ Sources: 'PACTA for Banks Methodology Document', available at <https://www.transitionmonitor.com/wp-content/uploads/2020/09/PACTA-for-Banks-Methodology-Document.pdf>; 'PACTA for Banks Scenarios', available at <https://www.transitionmonitor.com/wp-content/uploads/2020/09/Scenario-Supporting-document-1.pdf>

⁷ <https://asset-resolution.com/> Data made available through <https://www.transitionmonitor.com/pacta-for-banks-2020/data/>

APPENDIX: PACTA

The following scenarios are used in the analysis to assess the climate alignment of the subject loan portfolios. Scenarios aligned with the Paris Agreement⁸ are highlighted:

Model	Scenario	PACTA Sectors applied to
IEA World Energy Outlook (WEO) 2019	IEA Sustainable Development Scenario (SDS) ⁹	Power and fossil fuels
	IEA Current Policies Scenario (CPS) ¹⁰	
	IEA Stated Policies Scenario (STEPS) ¹¹	
IEA Energy Technology Perspectives (ETP) 2017	2 Degrees Scenario (2DS) ¹²	Automotive, cement and steel
	The Beyond 2 Degrees Scenarios (B2DS) ¹³	
	Reference Technology Scenario (RTS) ¹³	

⁸ 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'.

⁹ Source: IEA World Energy Outlook 2019. This scenario holds the temperature rise to below 1.8°C with a 66% probability without reliance on global net-negative CO₂ emissions; this is equivalent to limiting the temperature rise to 1.65°C with a 50% probability. Global CO₂ emissions from the energy sector and industrial processes fall from 35.8 billion tonnes in 2019 to less than 10 billion tonnes by 2050 and are on track to net zero emissions by 2070. See <https://www.iea.org/weo/weomodel/sds/>

¹⁰ A baseline picture of how global markets would evolve if no changes were made to existing government policies. More information available in the IEA World Energy Outlook 2019 report available on <https://www.iea.org/reports/world-energy-outlook-2019>.

¹¹ This scenario incorporates government policies declared today. For more details about this scenario, kindly refer to the following IEA webpage: <https://www.iea.org/weo/weomodel/steps/>

¹² This scenario sets out a rapid decarbonization pathway in line with the Paris Agreement. If all the targets are achieved as set out by this scenario there would be at least a 50% chance of limiting global temperature to 2°C by 2100. This scenario is most similar to the SDS from the IEA WEO 2019 (2DII 'Pacta for Banks Scenarios' document available at <https://www.transitionmonitor.com/wp-content/uploads/2020/09/Scenario-Supporting-document-1.pdf>)

¹³ The RTS is the baseline scenario under the IEA 2017 ETP which takes into account existing energy and climate-related commitments by countries, including Nationally Determined Contributions pledged under the Paris Agreement. The B2DS scenario is the second rapid decarbonization scenario under the IEA ETP which assumes carbon neutrality of the energy sector by 2060 to limit future temperature increases to 1.75°C by 2100, the midpoint of the Paris Agreement's ambition range. See relevant IEA webpages <https://www.iea.org/reports/energy-technology-perspectives-2017> and <https://www.iea.org/reports/etp-model-2017/framework-assumptions> for more information.

PACTA metrics

The PACTA model for the assets mapped to physical production uses the following indicators:

- For the power sector: 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).
- For the fossil fuel sector: 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.
- For the automotive sector: current production capacity as well as new production capacity up to 2025 of light-duty/passenger cars expressed in annual volume by technology (electric, hybrid or ICE¹⁴ vehicles).
- For the cement sector: emission intensity per ton of cement produced up to 2025 calculated by combining information on tonnes of cement produced per year combined with applicable emission factors of the cement plants operated.
- For the steel sector: emission intensity per ton of steel produced up to 2025 calculated by combining information on tonnes of steel produced per year combined with applicable emission factors of the steel plants operated.

The PACTA model allows the generation of three different types of metrics, which are described below. Last year, KBC only reported the preliminary results of the first metric and then only for the power, automotive and shipping sectors. No results could be calculated for the shipping sector this year as 2DII has dropped the methodology tested during last year's pilot phase and is currently reviewing its shipping methodology.

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 representativity of the results, the 'Sector results' part of this appendix also provides information on the level of exposure that could actually be mapped to physical asset-level data. Note also that the results assume that loan portfolio compositions do not change over the five-year projection period.

1) Technology/fuel mix metric

This metric focuses on technology shifts within the power, fossil fuels and automotive sectors and compares the shifts identified in the loan book with those required by the different climate scenarios described above and those seen in the broader industry. The aforementioned physical asset-level data has been mapped to the immediate owners and parent companies to calculate an aggregated current and projected capacity/production profile for each technology. To reflect the bank's relative credit exposure to these technologies,

¹⁴ internal combustion engine.

APPENDIX: PACTA

these capacity/production profiles are weighted by the borrower's loan shares in the total amount of capital loaned to companies in the sector. All individual company production profiles have been aggregated into single current and planned portfolio production profiles, which are illustrated in columns (1) and (2) respectively of the technology/fuel mix figures on the following pages (Figures 3, 5 and 7). These show the loan portfolio's relative financial exposure to low-carbon and high-carbon power technologies.

The data set out below also provides relevant forward-looking information. For the **power and fossil fuels sectors**, the rates of change required under the **IEA WEO 2019 scenarios** have been used to calculate forward-looking production and capacity profiles ('target profiles') and are available in separate columns for IEA SDS, CPS and STEPS respectively in the technology/fuel mix figures on the following pages. For the **automotive sector**, the rates of change required under the IEA ETP 2017 scenarios have been used to calculate forward-looking target profiles and are available in separate columns **for ETP 2DS, B2DS and RTS respectively** in the figures on the following pages.

The results for last year are not included in this year's report as comparison would be difficult due to a combination of factors. These include a further refinement of the company-matching process compared to last year's pilot test and the absence of certain physical assets in the updated dataset compared to the one used during the previous pilot test (see further in the 'Sector results' part of this appendix). It is important to highlight that these dynamics in and restatement of results may remain for years to come, as KBC is in a continuous process of learning while keeping track of the changing methodological landscape. Over time, climate-related reporting will reach a more developed and stable phase as risk and other toolkits and methodologies expand and improve.

2) Production volume trajectories

This metric is available for the power, fossil fuels and automotive sectors and measures the alignment of a portfolio's projected change in production volumes against those given in climate scenarios. The loan-weighted projected production volumes of individual companies per technology at a five-year forward-looking horizon in the portfolio have been aggregated to calculate the charts in the figures on the following pages. The resulting volume trajectories are thus compared with the trends set as targets in the aforementioned climate scenarios.

3) Emission intensities

In contrast to the power, fossil fuels and automotive sectors, no technology pathways are available for the steel and cement sectors. For these sectors, the production and absolute carbon emission targets set out in the IEA ETP 2017 B2DS scenario are used to define the sector emission-intensity targets to which companies should converge. This metric allows the current lending portfolio's emission intensity to be compared with the sector emission intensity. It also helps us assess the transition risk to which the lending portfolio is exposed, as it follows that carbon-inefficient production operations are more likely to experience 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 in the ETP 2017 B2DS scenario.

APPENDIX: PACTA

Sector results

Power sector

(granted exposure in the scope of PACTA € 2 339m of which € 1 375m matched to physical asset-level data)

- 59 corporates (84 last year) in KBC’s loan portfolio could be matched to Asset Resolutions’ available physical asset-level data (59% of KBC’s power sector exposure found in scope of PACTA).
- The lower number of corporates compared to last year is explained by two main elements. First, several assets and corporates could no longer be matched to the updated physical asset-level data during this year’s exercise. Second, the power companies active in 100% renewable power generation that could only be matched to ultimate parent companies with mainly traditional power-generating assets have now been left out of scope so as not to distort the outcome of the exercise – a distortion in results that was observed in last year’s preliminary results. This approach, recommended by 2DII, nevertheless underestimates KBC’s exposure to renewable power generation companies and assets (€366.1m of granted exposure in scope to renewables could not be matched to physical assets) and might require alternative measures or data sources to retrieve capacity data.
- The technology mix analysis (Figure 3) outlines the portfolio’s relative financial exposure to low-carbon¹⁶ and high-carbon¹⁷ power technologies. Figure 3 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.

According to the IEA the power sector was responsible for 41% of global energy-related CO₂ emissions in 2019, making it one of the most material sectors in the shift to a low-carbon economy. While power sector emissions declined by 1.3% in 2019, this was not sufficient to meet the Paris Agreement goals.¹⁵

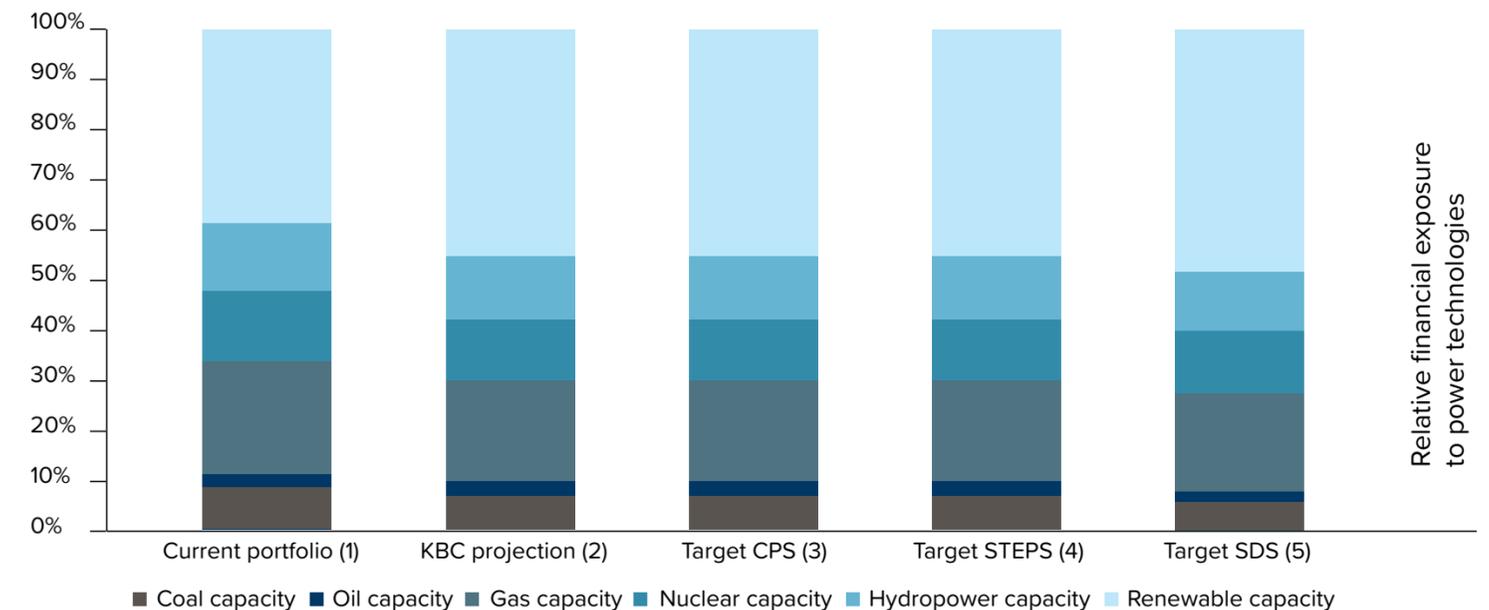
¹⁵ See <https://www.iea.org/reports/tracking-power-2020>

¹⁶ Renewable, nuclear and hydraulic power generation.

¹⁷ In descending order of carbon intensity: coal, oil and gas-fired power generation.

TECHNOLOGY MIX RESULTS

Figure 3: Power sector technology mix results; current (1), projected (2), IEA CPS (3), IEA STEPS (4) and IEA SDS (5) targets, capacity profile weighted by loan size (source: KBC and 2DII) – global geographic scope – IEA WEO 2019



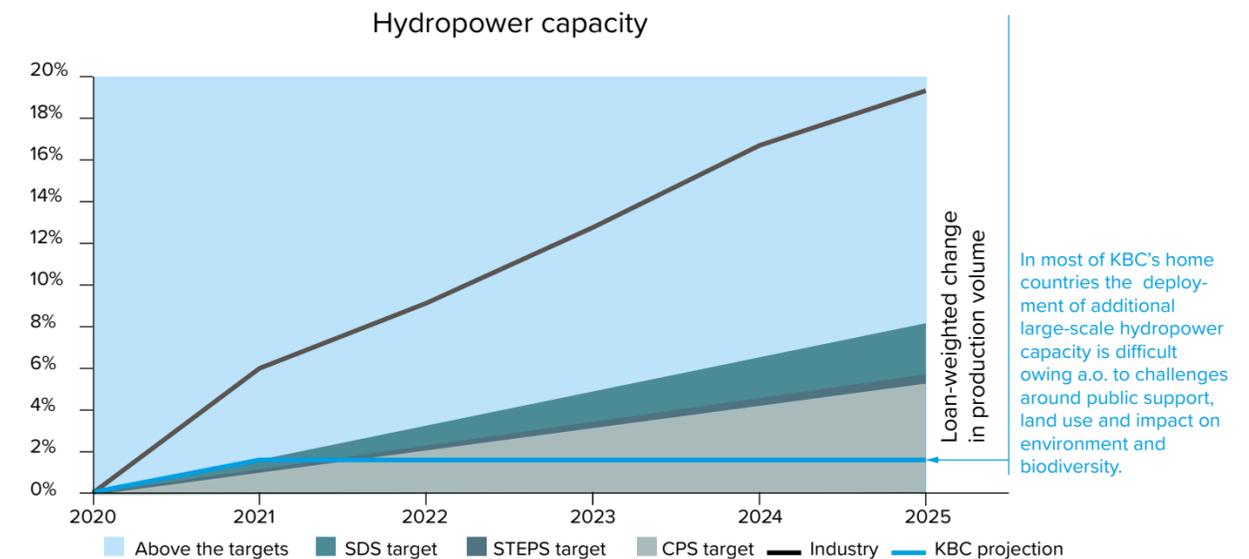
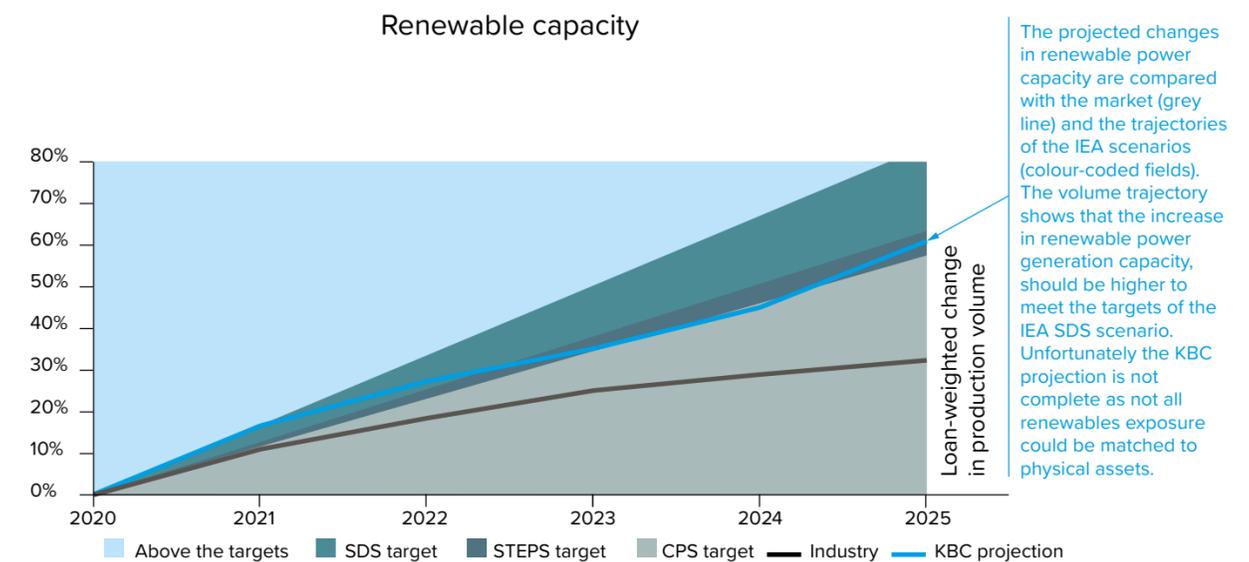
APPENDIX: PACTA

- The volume trajectories for each individual power generation technology are outlined in Figure 4. It may be observed, based on these, that:
 - Changes in volume production of renewables capacity are increasing, but not sufficiently strongly to be in line with the targets set out in the IEA SDS scenario. Our clearly stated renewed ambitions and the target share of renewables in the total energy loan portfolio (see the box on this page) will have a positive impact on financial allocation to volume production of renewables capacity (see further and see the [‘White papers’](#) part of the ‘Sustainable finance’ section).
 - Apart from coal-fired electricity production, where the decline is very clear and driven by KBC restricting the financing of coal-related activities, the reduction in other fossil fuel-based electricity production remains stubbornly 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 (see the [‘White papers’](#) part of the ‘Sustainable finance’ section). We will evaluate, for instance, how governments in our home markets are positioning gas as an intermediate transitional and back-up energy source in their efforts to contribute to the EU’s objective of becoming climate-neutral by 2050.

On 12 November 2020, KBC publicly announced it would increase the share of renewable energy loans in the total energy-sector loan portfolio to 65% by 2030. At the same time, it firmly committed to exit the coal industry while supporting clients in their transition. By year-end 2021, KBC will have exited all direct coal financing. From 2030, moreover, KBC will abstain from all financing or insurance of and advisory services to energy companies which have any coal-fired energy production capacity. The aim of these measures is to further enhance KBC’s positive impact and reduce its negative impact, while facilitating the necessary transition in the power sector.

PRODUCTION VOLUME TRAJECTORIES RESULTS

Figure 4: Power sector results in production volume trajectories, weighted by loan size (source: KBC and 2DII); Projected industry evolution, KBC projection, IEA CPS, IEA STEPS and IEA SDS targets, (source: KBC and 2DII) – IEA WEO 2019

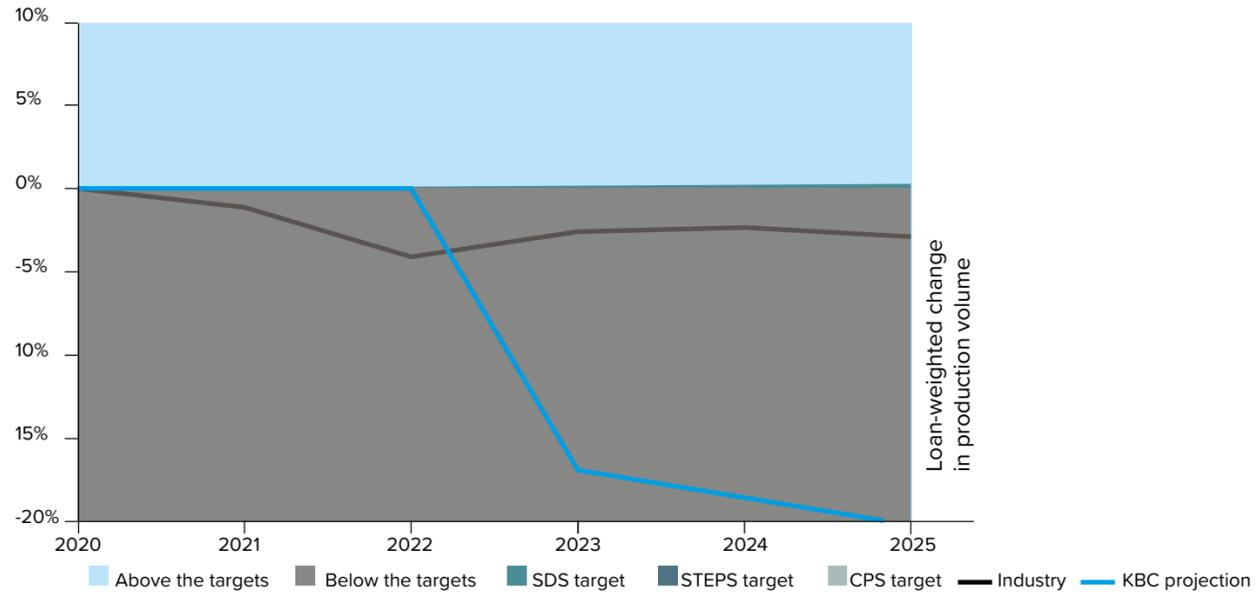


Climate target alignment

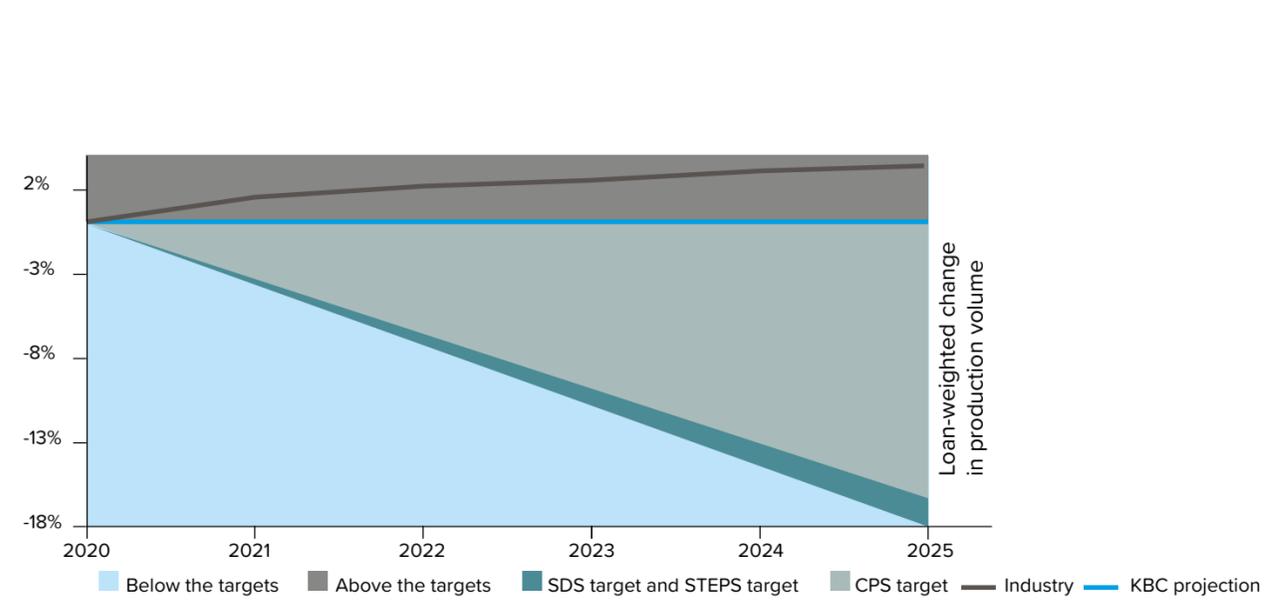
- Fully aligned with climate targets
- Misaligned with climate targets

APPENDIX: PACTA

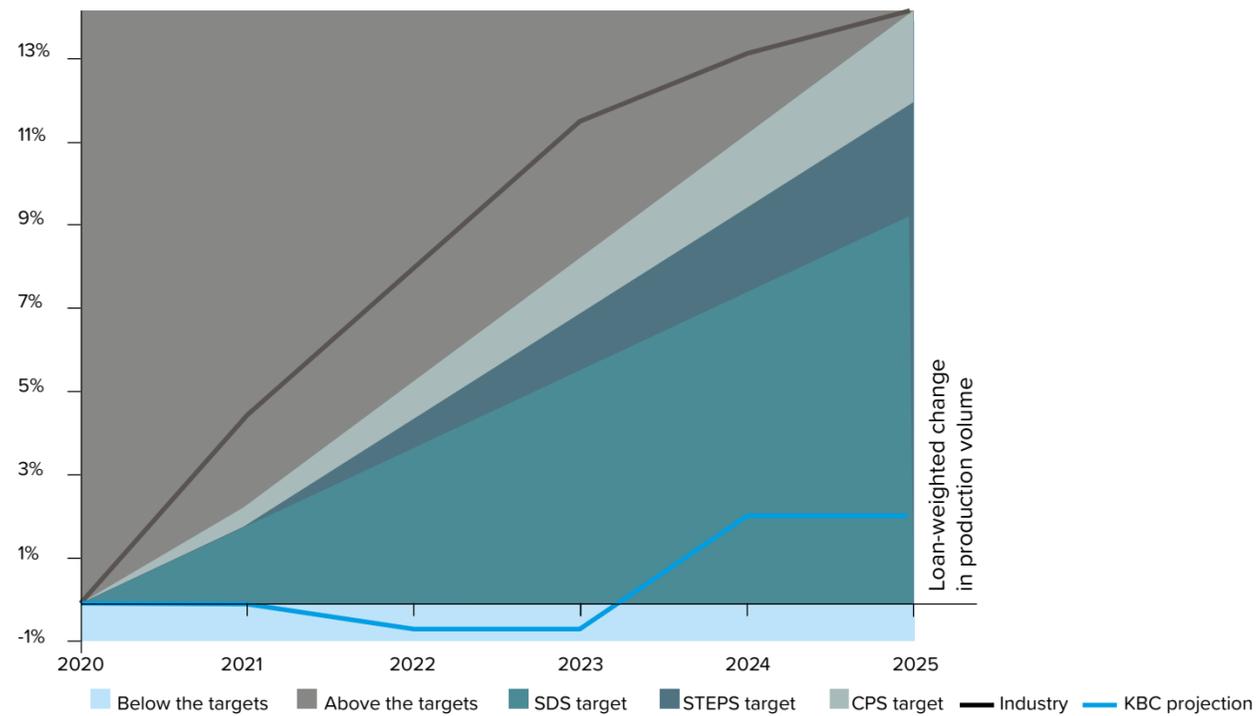
Nuclear capacity



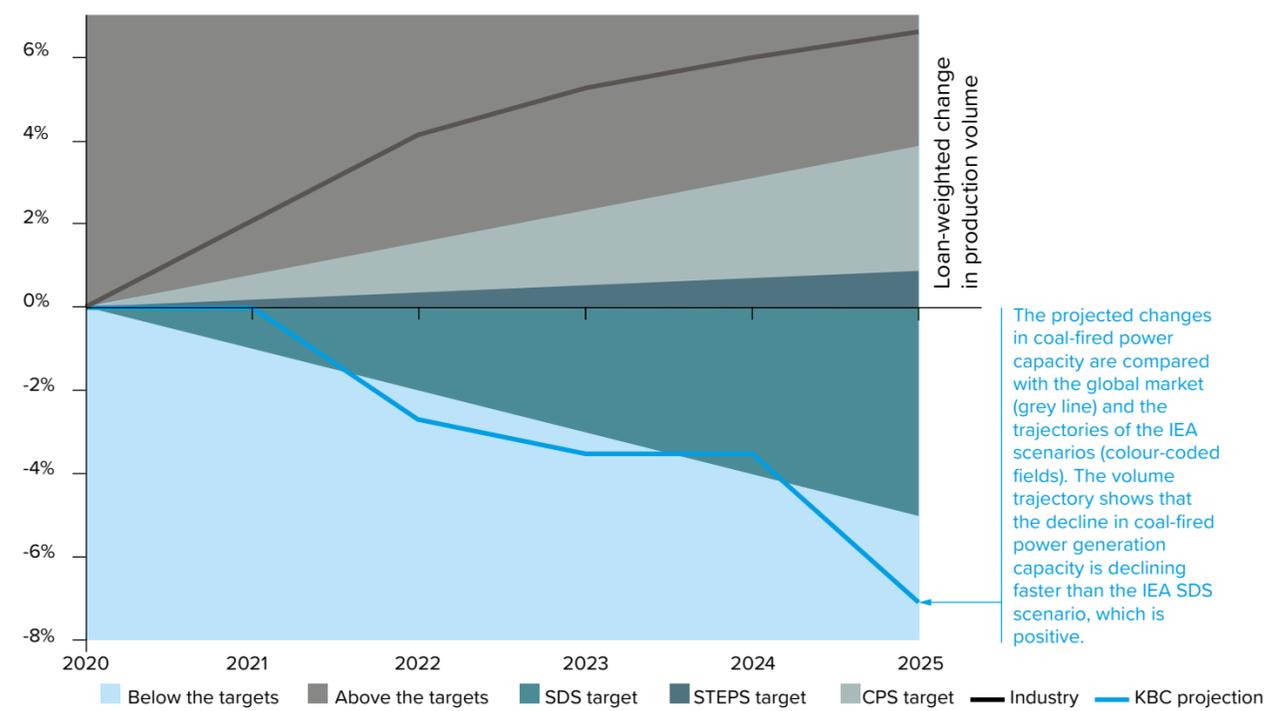
Oil capacity



Gas capacity



Coal capacity



The projected changes in coal-fired power capacity are compared with the global market (grey line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the decline in coal-fired power generation capacity is declining faster than the IEA SDS scenario, which is positive.

Climate target alignment

- Fully aligned with climate targets
- Misaligned with climate targets

APPENDIX: PACTA

Fossil fuel sector

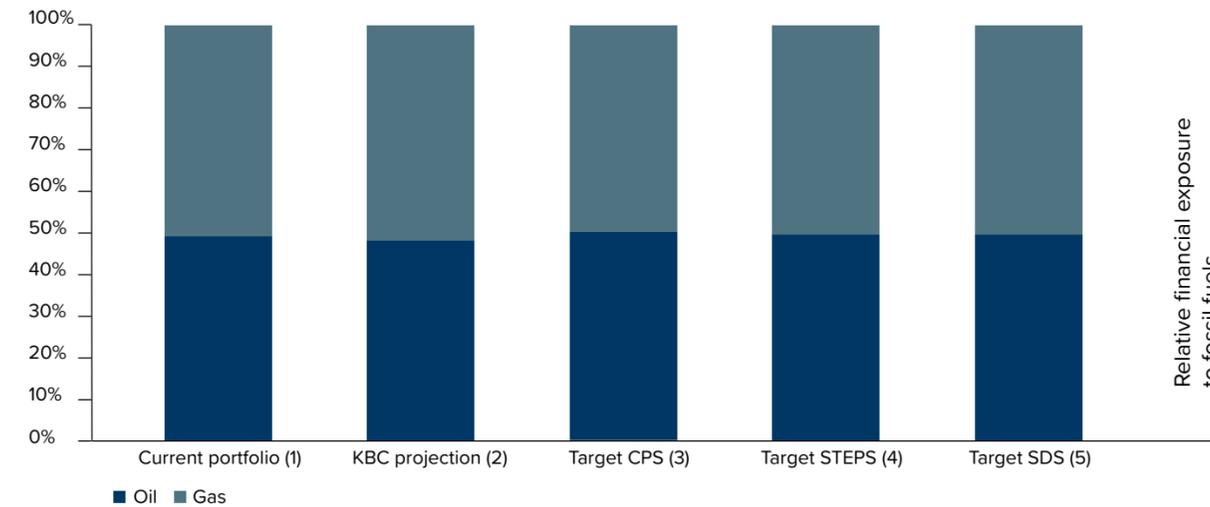
(granted exposure in the scope of PACTA € 174m of which € 154m matched to physical asset-level data)

- Three companies have been matched to Asset Resolution’s available physical asset-level data (89% of KBC’s fossil fuel sector exposure found in scope of PACTA).
- A predominant part of the exposure in scope is concentrated within a single diversified company group, which means that the results below are particularly influenced by that group’s investment plans. The volume analysis trajectories on the following pages (Figure 6) show that these plans are better than the IEA SDS targets. In line with our strategy (see the ‘Engagement strategy’ part of the ‘Sustainable finance’ section of this report), we will actively engage with this company group in 2021.
- When comparing the overall fossil fuel sector exposure found in scope of PACTA to KBC’s overall corporate loan book, it may be concluded that KBC is only minimally exposed to upstream fossil fuel activity. Please note that the exposure to fossil fuels is in line with KBC’s oil and gas sector policy. For more information, please refer to the KBC Group Energy Credit, Insurance and Advisory Services Policy available on [our corporate website](#).

TECHNOLOGY MIX RESULTS

Figure 5: Fossil fuel sector fuel mix results; current (1), projected (2), IEA CPS (3), IEA STEPS (4) and IEA SDS (5) targets, capacity profile weighted by loan size (source: KBC and 2DII) – global geographic scope – IEA WEO 2019

Figure 5



Fossil fuels (oil, gas and coal) continue to play a dominant role in global energy systems and are widely used as a feedstock for other products. Fossil fuels account for approximately 84% of global primary energy demand.¹⁸

The PACTA exercise confirms that KBC is only minimally exposed to upstream fossil fuel activity.

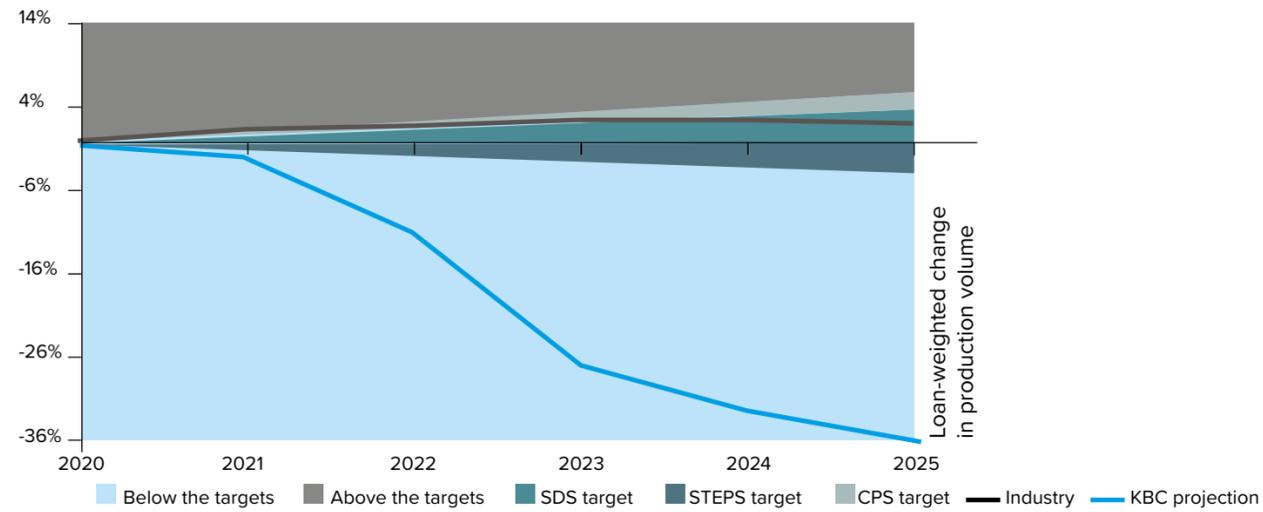
¹⁸ Data from the BP Statistical Review published on ‘Our World in Data’. See <https://ourworldindata.org/energy>

APPENDIX: PACTA

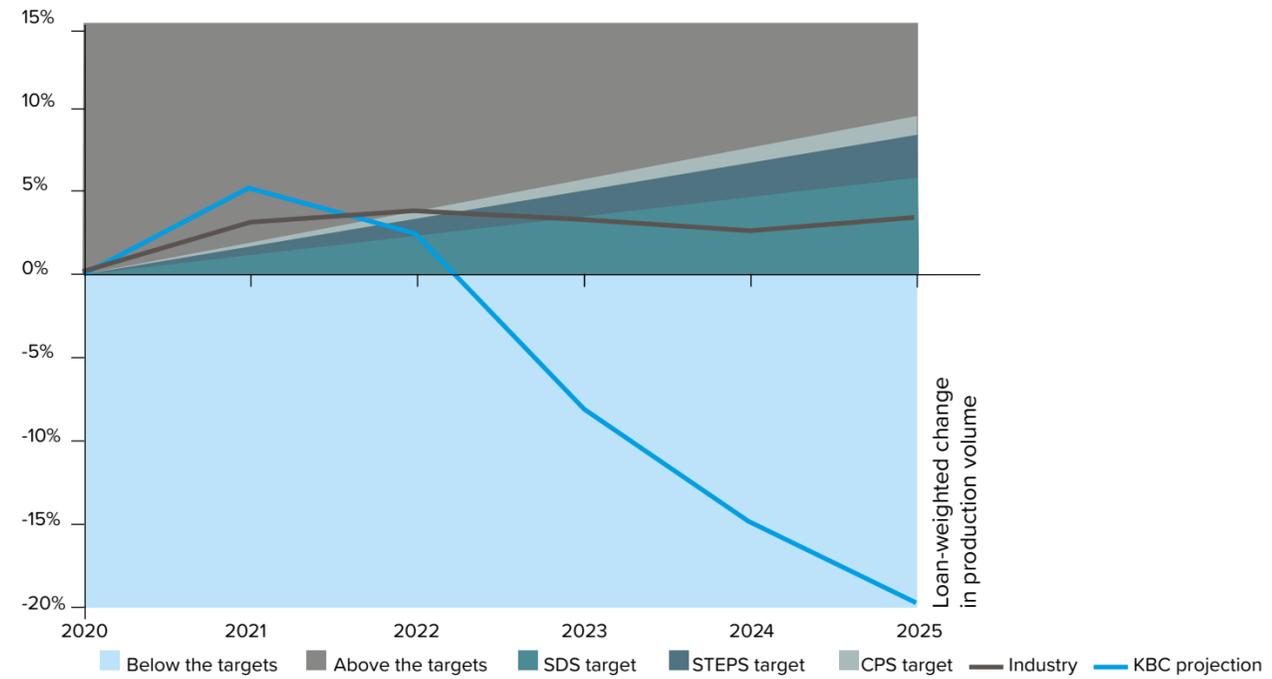
PRODUCTION VOLUME TRAJECTORIES RESULTS

Figure 6: Fossil Fuel sector results in production volume trajectories, weighted by loan size (source: KBC and 2DII); Projected industry evolution, KBC projection, IEA CPS, IEA SDS and IEA STEPS (5) targets (source: KBC and 2DII) – IEA WEO 2019

Oil production



Gas production



Climate target alignment

- Fully aligned with climate targets
- Misaligned with climate targets

APPENDIX: PACTA

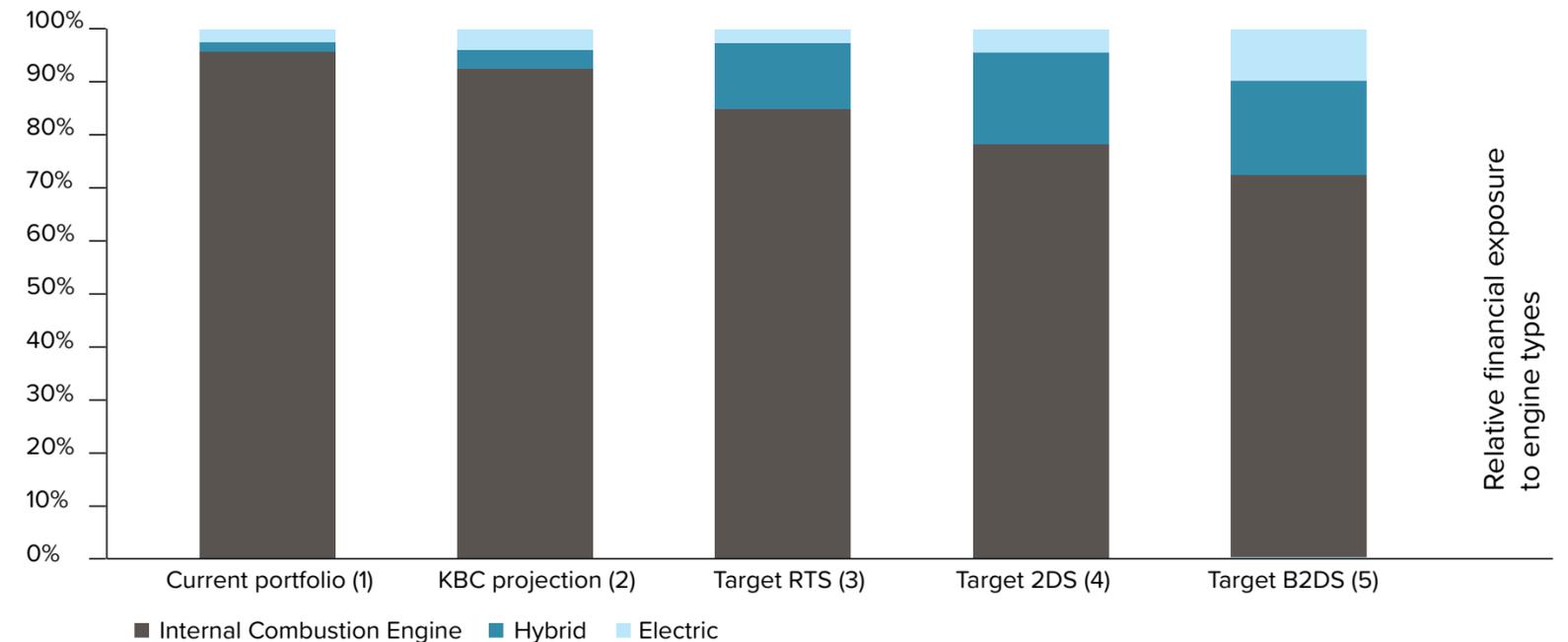
Automotive sector

(granted exposure in the scope of PACTA € 254m of which € 111m matched to physical asset-level data)

- It was possible to match 12 companies (15 last year) of the 32 companies found within the scope of Asset Resolution’s available physical asset-level data (43% of KBC’s automotive sector found in scope of PACTA).
- The lower number of companies and the lower percentage of assets matched reflects the fact that compared to last year’s exercise non-car producing subsidiaries (e.g., car importers, car leasing companies and consumer finance companies) have been left out of the scope of this year’s analysis to improve alignment with the PACTA scope (see Figure 1), which clearly focuses on car manufacturers only. When comparing the combined automotive sector exposure found in scope of PACTA to KBC’s overall corporate loan book, it may be concluded that a relatively limited proportion of corporate loans are allocated to this important, climate-relevant activity.
- The results show that growth in electric passenger car production is in line with the IEA 2DS but that the reduction in internal combustion engine (ICE) car production needed to meet the IEA 2DS is lacking (see Figure 8). Figure 7 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.

TECHNOLOGY MIX RESULTS

Figure 7: Automotive sector TECHNOLOGY MIX results; current (1), projected (2), IEA RTS (3), IEA 2DS (4) and IEA B2DS (5) targets, capacity profile weighted by loan size (source: KBC and 2DII) – global geographic scope – IEA ETP 2017



Road transport accounts for just under 17% of global emissions.¹⁹

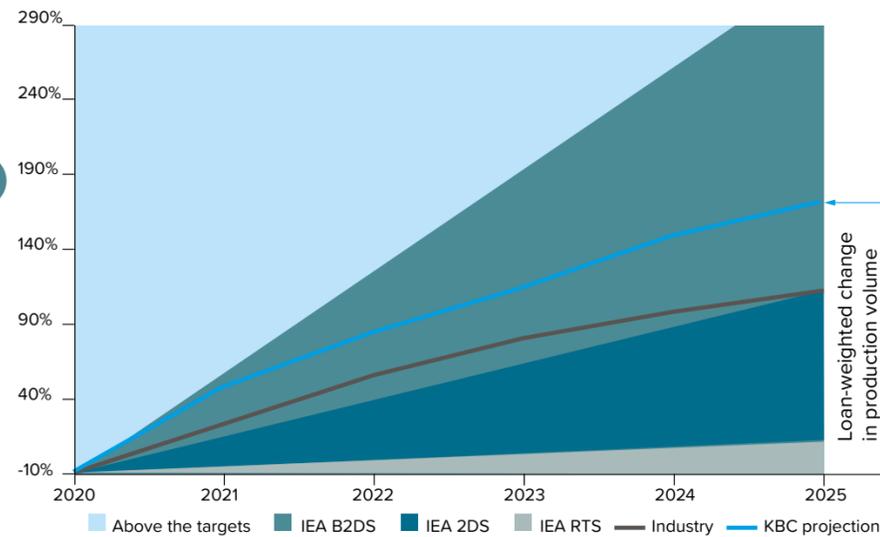
¹⁹ See Chapter 8 of IPCC’s fifth assessment report, available at https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter8.pdf

APPENDIX: PACTA

PRODUCTION VOLUME TRAJECTORIES RESULTS

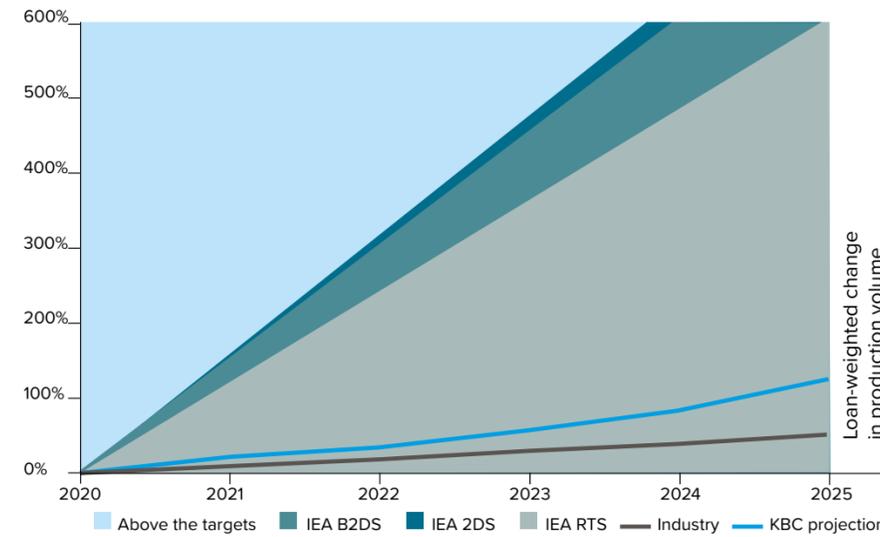
Figure 8: Automotive sector results in production volume trajectories, weighted by loan size (source: KBC and 2DII); Industry evolution, KBC projection, IEA 2DS, IEA B2DS and IEA RTS (5) targets (source: KBC and 2DII) – IEA WEO 2019

Electric cars

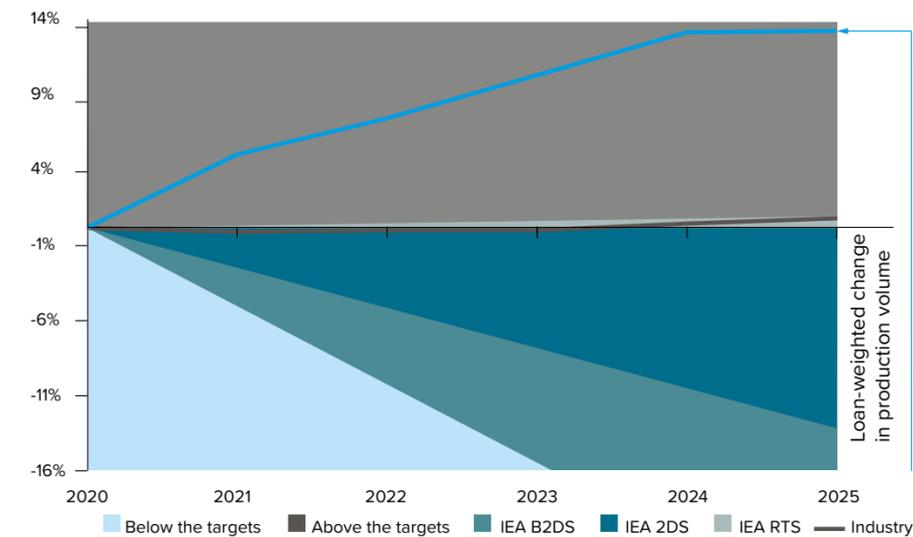


The projected changes in electric car production volumes are compared with the market (grey line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the increase in electric car production volumes is in line with the targets of the IEA 2DS scenario. As ICE car production volumes also continue to rise, the 2025 projected technology mix distribution (Figure 7) continues to show a high exposure to ICE technologies.

Hybrid cars



ICE cars



The projected changes in ICE car production volumes are compared with the market (grey line) and the trajectories of the IEA scenarios (colour-coded fields). The volume trajectory shows that the decrease in ICE car production volumes should be higher in order to meet the targets of the IEA 2DS scenario.

As indicated before, KBC only has a limited amount of credits granted directly to car manufacturers in its portfolio. All the same, we believe that through our car loan and car leasing portfolios, as well as our loans to the road transport sector, we can help make the transportation sector greener. We have therefore explicitly included policy proposals for these product lines and sectors in our white papers (see the [‘White papers’](#) part of the ‘Sustainable finance’ section).



APPENDIX: PACTA

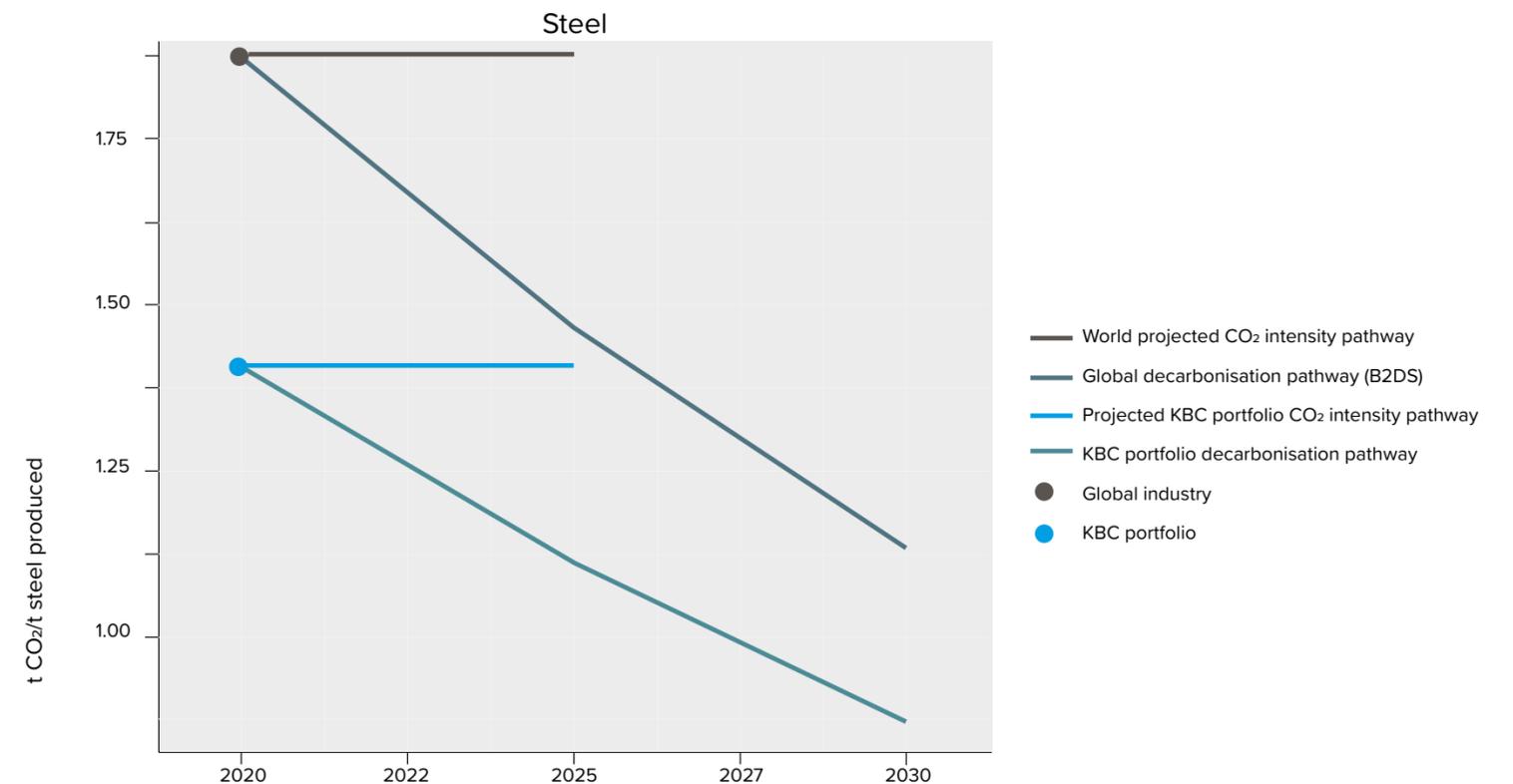
Steel sector

(granted exposure in the scope of PACTA € 747m of which € 478m matched to physical asset-level data)

- 18 companies have been matched to Asset Resolution’s available physical asset-level data (64% of KBC’s steel sector exposure found in scope of PACTA).
- A large part of the exposure in scope is concentrated in one company group, which means that the results below are particularly influenced by that group’s investment plans. We are actively engaging with it in line with our engagement strategy (see the ‘Engagement strategy’ part of the ‘Sustainable finance’ section of this report).
- The steel production sector largely depends on the development of breakthrough technologies to reduce CO₂ emissions drastically. Examples of such technologies include Carbon Capture and Storage (CCS), Carbon Capture and Utilisation, and hydrogen as a reducing agent.²⁰ The deployment of each of these technologies will have to play a role in cutting CO₂ emissions. KBC will keep abreast of technological developments in the sector via regular updates of its Metals white paper and through ongoing dialogue on these topics with its biggest clients. This will enable us to help reduce CO₂ emissions further through the targeted financing of such technologies once they are proven and stable.

According to the World Steel Association,²¹ the CO₂ emissions caused by the production of steel account for between 7% and 9% of total global CO₂ emissions.

Figure 9: Steel sector results²² – emission intensities (weighted by loan size for KBC projections). (Source: KBC and 2DII)



²⁰ See <https://www.worldsteel.org/steel-by-topic/environment-climate-change.html>

²¹ See <https://www.worldsteel.org/en/dam/jcr:ee94a0b6-48d7-4110-b16e-e78db2769d8c/Sustainability%2520Indicators%25202018.pdf>

²² Please note that changes in production at companies do not influence the emission intensity results. What’s more, since companies in the industry are currently likely to implement the same technology, the ‘World Projected Industry’ and ‘Projected KBC portfolio’ CO₂ intensity pathways are not projected to change over the next five years.

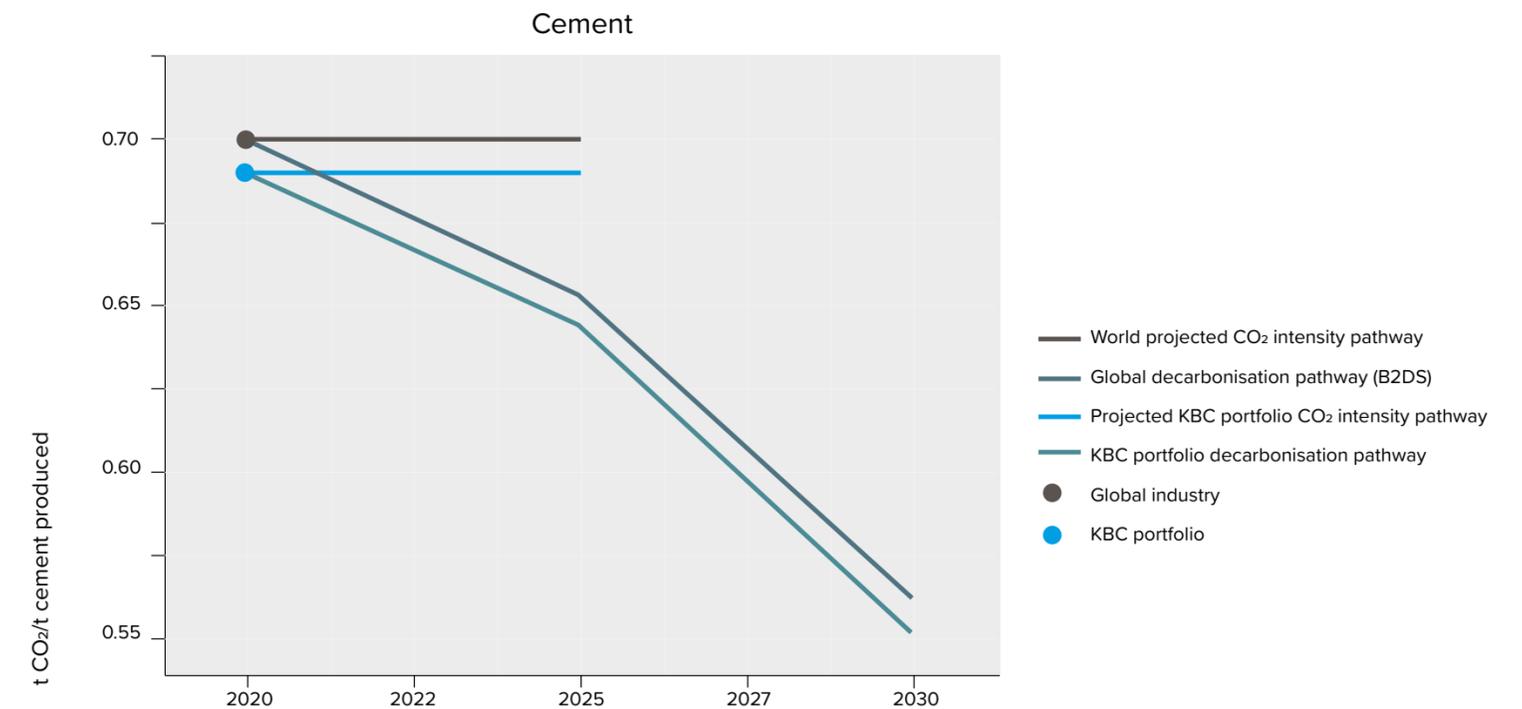
APPENDIX: PACTA

Cement sector

(granted exposure in the scope of PACTA € 420m of which € 134m matched to physical asset-level data)

- 11 companies have been matched to Asset Resolution’s available physical asset-level data (32% of KBC’s cement sector exposure found in scope of PACTA).
- A large part 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. Going forward, we intend to discuss the sustainability plans and targets of the largest companies active in the cement-producing sector.
- Reducing CO₂ 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.²³ KBC will keep abreast of technological developments in this sector through regular updates of its building and construction white paper, so that we can help reduce CO₂ emissions via the targeted financing of such technologies once they are proven and stable. Developments of this kind should also positively impact the embodied carbon footprint of the cement represented in the total carbon footprint of buildings over their full life cycle.

Figure 10: CEMENT sector results²⁵ – emission intensities (weighted by loan size for KBC projections). (Source: KBC and 2DII)



Cement is the key ingredient of concrete and is thus widely used in building and construction. According to IEA estimates, CO₂ emissions attributable to cement production account for 7% of global emissions, making this the second-largest industrial emitter of CO₂. Global cement production is set to rise by between 12% and 23% by 2050 as the global population rises and urbanisation increases.²⁴

²³ See IEA webpage: <https://www.iea.org/reports/cement#tracking-progress>

²⁴ See IEA webpage: <https://www.iea.org/news/cement-technology-roadmap-plots-path-to-cutting-co2-emissions-24-by-2050>

²⁵ Please note that changes in production at companies do not influence the emission intensity results. What’s more, since companies in the industry are currently likely to implement the same technology, the ‘World Projected Industry’ and ‘Projected KBC portfolio’ CO₂ intensity pathways are not projected to change over the next five years.

APPENDIX: PCAF

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 financed GHG emissions – a starting point when managing risks and identifying opportunities associated with the climate impact of our portfolio. Last year we piloted the PCAF methodology for our car lease and car loan portfolio in Belgium and our mortgage loan portfolio in Flanders. This year we broadened the scope to all our core countries. The reporting period is 1 October 2019–30 September 2020.

Car leasing

The KBC operational car lease fleet

This portfolio consists of the KBC Group’s operational lease fleet. For the time being, operational leasing is only offered in Belgium, the Czech Republic, Slovakia and, to a very limited extent, Bulgaria.

There were 84 634 active contracts on 30 September 2020. The share of this total, accounted for by passenger cars and light commercial vehicles (LCV) on the one hand and of bicycles on the other, is shown in Figure 1.

Belgium represents the largest share of the operational lease portfolio for vehicles, with 86% of the number of vehicles and 88% of the portfolio value (see Figure 2).

In Belgium, we are seeing a clear shift away from diesel cars (-8%), primarily in favour of petrol models (+28%) for the time being. The share of hybrids and electric vehicles (EVs) in the Belgian lease car fleet remains relatively low, although there was a 27% increase last year for hybrids and 120% for EVs. Bicycle leasing is only available in Belgium. The number of leased bicycles increased by 42%, while their share of the Belgian portfolio rose from 19 to 25%. See Figure 3.

Figure 1 - KBC lease fleet per type of vehicle

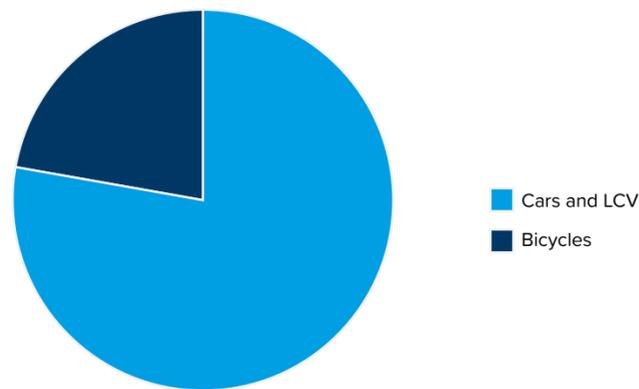


Figure 2 - Share in portfolio value

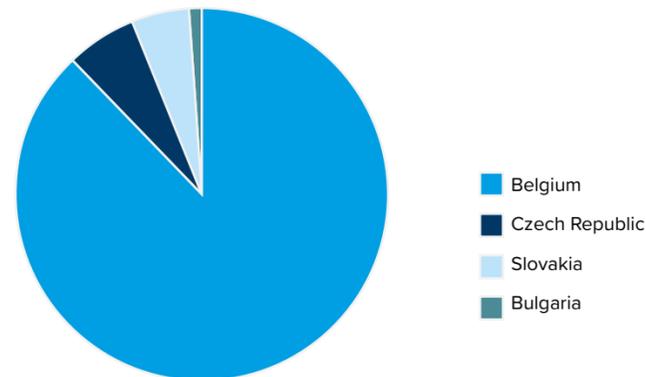
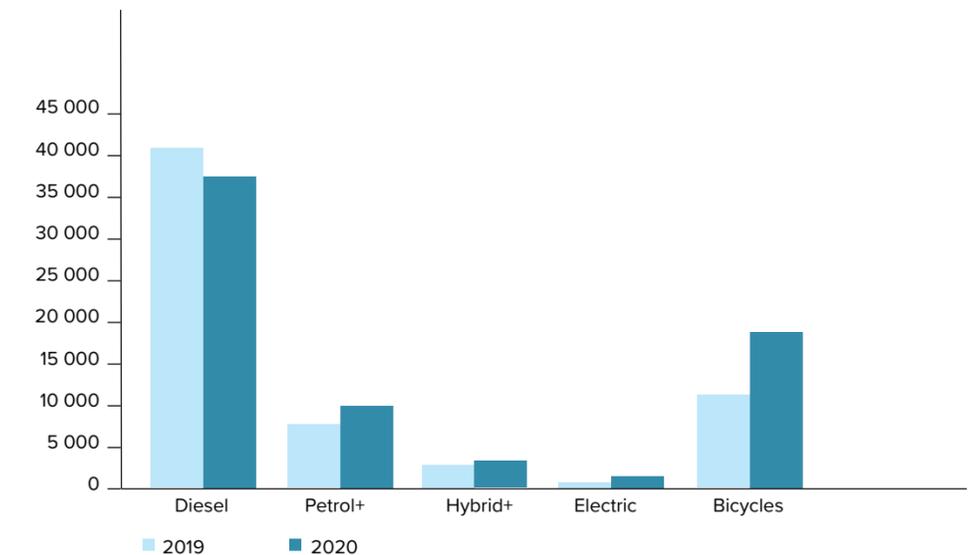


Figure 3 - Evolution of fuel use Belgian fleet



APPENDIX: PCAF

Calculation of GHG emissions – scope and methodology

The calculations apply to KBC's operational lease fleet in Belgium and Luxembourg, the Czech Republic, Bulgaria and Slovakia.

- For **non-electric vehicles** (non-EV), the Scope 1 calculations are based on tank-to-wheel CO₂ emission data per individual asset as provided by the manufacturers;
- For **electric vehicles** (EV), we used the average Scope 2 emissions per EV as calculated last year based on US Environmental Protection Agency (EPA) data (see [KBC Group Sustainability Report 2019](#)) but with the adapted conversion factor for total supplier mix published by the Association of Issuing Bodies (European Residual Mixes 2019);
- For **plug-in hybrid electric vehicles** (PHEV) we lack reliable data on average electricity consumption over a one-year period. We therefore use the tank-to-wheel CO₂ emission data for PHEV, which significantly underestimates real emissions and does not take account of Scope 2 emissions. The impact on total emissions is however negligible, given the low share of PHEV in the total fleet.

The calculation is based on consumption per kilometre. Kilometre data is determined contractually (Belgium, Bulgaria and the Czech Republic). This data could not be delivered for Slovakia and so we used the average distance driven per vehicle in the Czech Republic.

The number of vehicles corresponds with the active contracts during the reporting period. The financial exposure corresponds with the accounting value of the vehicles for the contracts active as of 30 September 2020. We treat this exposure as a proxy for 'full time' contracts during the reporting period.

Type of vehicle	Number of vehicles	Effective km/y	Total CO ₂ emissions (tonnes/y)	Average CO ₂ emissions (g/km)	Average CO ₂ emissions (tonnes/unit)	Average CO ₂ emissions (tonnes/EURm)	Avoided CO ₂ emissions (tonnes/y)
Passenger cars and LCV	66 426	1 536 369 151	179 335	117	2.70		
Bicycles	18 208	60 117 634	106	2	0.01		6 555
Total	84 634	1 596 486 785	179 441	112	2.12	141	6 555

In the case of bicycles, we calculated avoided emissions based on the following assumptions:

- The distance travelled per year per bicycle based on the average modal shift in the Belgian KBC lease fleet in 2019.¹
- Share of distance travelled per year by bicycle type:²
 - Non-electric: 1/6
 - Electric (25 km/h): 1/3
 - Speed pedelec (45 km/h): 1/2
- Avoided emissions are calculated on the average CO₂ emissions of the passenger car fleet in Belgium.
- Emissions from electric bicycles and speed pedelecs are taken into account. Calculations are based on the highest electricity consumption per 100 kilometres that we could find for models on the Belgian market and CO₂ emissions for the average electricity grid mix in Belgium.

GHG emissions

Scope 1 and 2 emissions for the period 4Q19–3Q20 amounted to 179 441 tonnes of CO₂, of which 179 335 tonnes related to passenger cars and LCV and 106 tonnes to bicycles. The carbon-intensity of the lease portfolio is 141 tonnes of CO₂ per million euros financial exposure and 2.12 tonnes of CO₂ per unit. Please see the table on this page.

Average emissions per unit per year were lower than the average emissions for new cars mentioned in the white paper for car leasing (see the ['White papers'](#) part of the 'Sustainable finance' section of this report). The reason is threefold: because of tax regulations, new cars in Belgium are predominantly petrol vehicles with higher CO₂ emissions than diesel cars, which still account for the largest share of the total fleet. The share of less fuel-efficient SUVs in the total figure for newly leased cars in Belgium is also growing. New car emissions are all determined, moreover, by the new WLTP (World harmonized Light-duty vehicles Test Procedure) methodology, which results in higher emissions than the earlier NEDC (New European Driving Cycle) methodology that is still linked to part of the portfolio. Please note, however, that we have set ambitious targets for greening our operational lease fleet (please refer to the ['White papers'](#) part the 'Sustainable finance' section of this report).

¹ In 2019 KBC Autolease recorded a modal shift of 5% of which 48% shifted to cycling.

² The share is based on the average commuter distance for each type of bicycle as shown by a study by the traffic and mobility consultant Traject.

APPENDIX: PCAF

Strategic choices to reduce climate impact

Operational car leasing is one of the business lines for which KBC has developed strategies to reduce its climate impact. We refer to the ‘White papers’ (see the ‘White papers’ part of the ‘Sustainable finance’ section of this report), which gives an insight into the initiatives and targets set to reduce the climate impact of the operational car leasing portfolio.

KBC Autolease in Belgium has already launched various initiatives to reduce its GHG emissions. Bicycle leasing for business and private clients, for example, has grown substantially, partly due to the Covid-19 crisis. And the multi-mobility offered through the Olympus app – a mobility platform developed by KBC Autolease in collaboration with KBC and the roadside assistance service VAB – is promoting sustainable alternatives for getting around. Together, these initiatives further reduced the carbon footprint of the KBC Autolease portfolio (see Figure 4).

Car loans

This portfolio consists of loans (Belgium and Ireland) and financial leasing (all core countries except Ireland) for vehicles. KBC Ireland only provides car loans. For the Central European countries 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. The portfolio covers 189 705 cars (all core countries), 21 076 LCV’s (Belgium, Czech Republic, Hungary), 7 979 motorcycles (Belgium, Czech Republic, Slovakia) and 5 723 bicycles (Belgium).

The share accounted for by the different vehicle types in numbers and in outstanding amount is shown in Figures 5 and 6. The vast majority of vehicles in the portfolio are cars of which almost 80% are new vehicles.

Figure 4 - Evolution of Belgian lease fleet 2017 - 2020

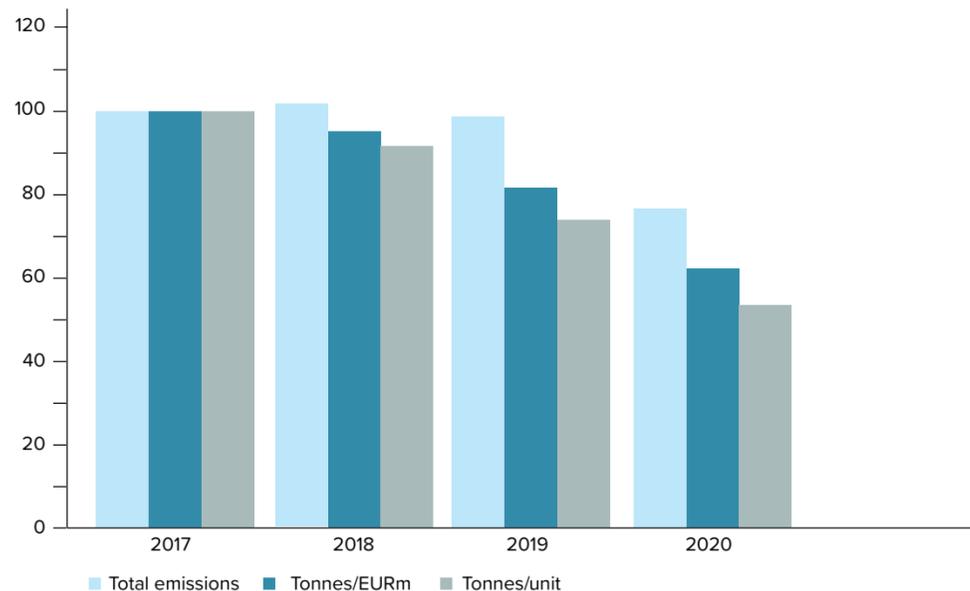


Figure 5 - Number per vehicle type

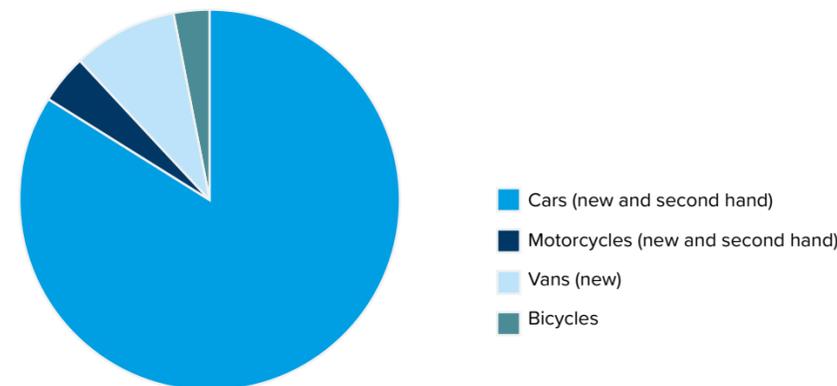
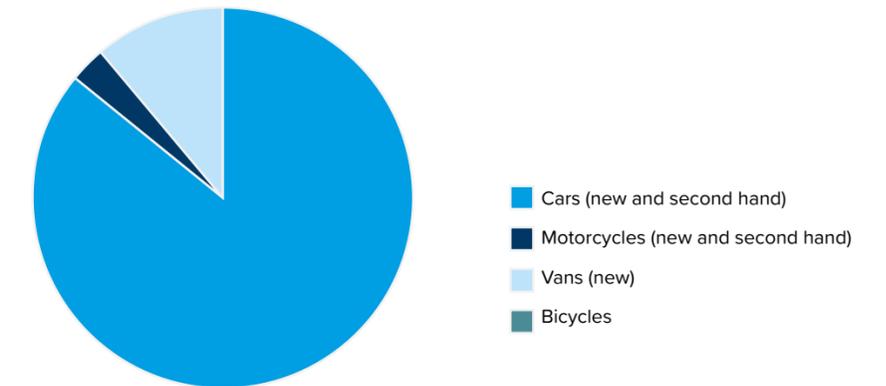


Figure 6 - Outstanding amount per vehicle type



APPENDIX: PCAF

Calculation of GHG emissions – scope and methodology

The calculations were performed for the KBC Group’s portfolio of car and other vehicle loans and financial leasing as of 30 September 2020.³

For the time being, the proportion of battery electric cars (between 0% in the Czech Republic and 0.4% in Ireland) and LCV (between 0% in the Czech Republic and Slovakia and 0.2% in Belgium and Ireland) in the fleets in our core countries remains negligible.⁴ We can assume a similarly low share of EV-related loans in our portfolio. Therefore we have only calculated Scope 1 emissions.

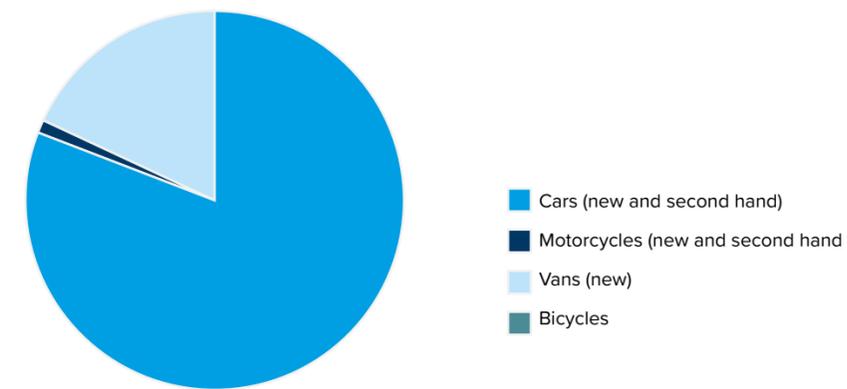
The calculations for Belgium and Ireland are based on average data for tank-to-wheel CO₂ emissions per kilometre, vehicle age and distances driven per year.⁵ Where possible, a distinction was made between new and second-hand vehicles. Bulgaria, the Czech Republic and Slovakia have asset-linked data on tank-to-wheel CO₂ emissions per kilometre as provided by the manufacturers and on vehicle age and use contracted kilometres as a proxy for distances driven per year. In Hungary we currently only have data on the number of cars and vans, so we use weighted averages from the other Central European core countries to calculate the impact.

In Belgium, a special loan is offered to finance bicycles. As of 30 September 2020 the number of bicycle loans was 5 732. We have no information at present as to whether a bicycle is electric. We assume a comparable share of non-electric bicycles, electric bicycles and speed pedelecs, as well as similar distances travelled per year, as in our bicycle leasing portfolio in Belgium (see the ‘Car leasing’ part of this appendix) to calculate emissions and avoided emissions.

GHG emissions

Emissions for the reporting period amount to 478 004 tonnes of CO₂, of which 387 823 tonnes relate to cars (see Figure 7). The carbon-intensity of the loan portfolio is 180 tonnes of CO₂ per million euros in outstanding loans and 2.12 tonnes of CO₂ per unit. The portfolio of bicycle loans in Belgium results in 2 109 tonnes of avoided emissions of CO₂. Please see the table on this page.

Figure 7 - CO₂ emissions per type of vehicle



Type of vehicle	Number of vehicles	Effective km/y	Total CO ₂ emissions (tonnes/y)	Average CO ₂ emissions (g/km)	Average CO ₂ emissions (tonnes/unit)	Average CO ₂ emissions (tonnes/EURm)	Avoided CO ₂ emissions (tonnes/y)
Passenger cars, LCV and motorcycles	218 760	3 498 570 752	477 975	137	2.7		
Bicycles	5 732	16 525 029	29	2	0.01		2 109
Total	224 492	3 515 095 781	478 004	136	2.12	180	2 109

³ The data for Ireland correspond to 1Q-4Q 2019

⁴ Source: <https://www.acea.be/uploads/publications/report-vehicles-in-use-europe-january-2021.pdf>

⁵ Sources for average emissions per km:

- Belgium cars: Febiac; Belgium motorcycles: the Belgian Automobile and Cycle Federation and the UK Department for Environment, Food & Rural Affairs (DEFRA).

- Ireland: SEAI

Source for average vehicle age – European Environment Agency (EEA).

Source for average distances – Belgian Federal Government and Irish government statistics.

APPENDIX: PCAF

Strategic choices to reduce climate impact

KBC Belgium already has a specific loan for green cars and promotes more sustainable solutions through its specific loans for bicycles and by enabling the purchase of public transport tickets and shared transport services via its popular digital channels. In 2021, all core countries – where relevant for their portfolio – will deliver a white paper describing the locally embedded strategy to reduce the climate impact of the portfolio of loans and financial leasing for vehicles. Gathering more portfolio-related data (Belgium and Ireland) and data on private loans for cars (Central European core countries) is an important focus, as is the development of initiatives to encourage clients to choose other, more environmentally-friendly transportation options and lower-emission vehicles.

The aim is to reduce the KBC Group’s Scope 3 emissions relating to this portfolio. Explicit metrics and targets will therefore be set to align the portfolio with the targets specified under the Paris Agreement.

Mortgage loans

The calculations cover the KBC Group’s mortgage loan portfolio, which includes houses and apartments and also land and non-heated buildings, such as garages and parking buildings (the latter are not taken into account in the calculations).

The portfolio amounted to 863 966 loans last year. The proportion of the different asset types is shown in Figures 8 (number) and 9 (outstanding amounts).

Within our mortgage portfolio, 74% numerically and 80% of the outstanding amount relate to single family homes. 26% of the number and 20% of the outstanding amount were used to buy, build or renovate an apartment.

Figure 8: Number of mortgage loans by purpose

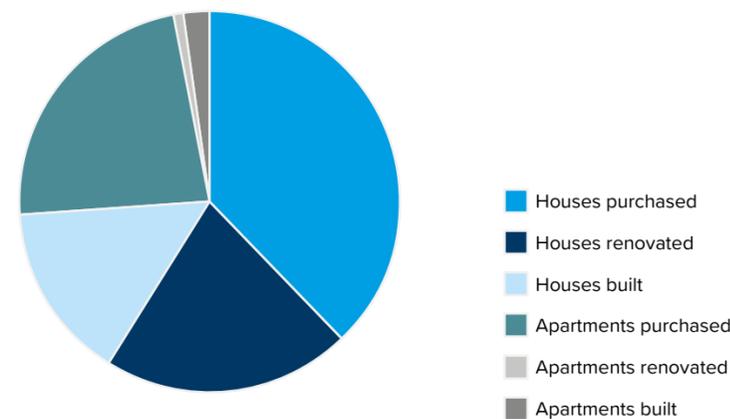
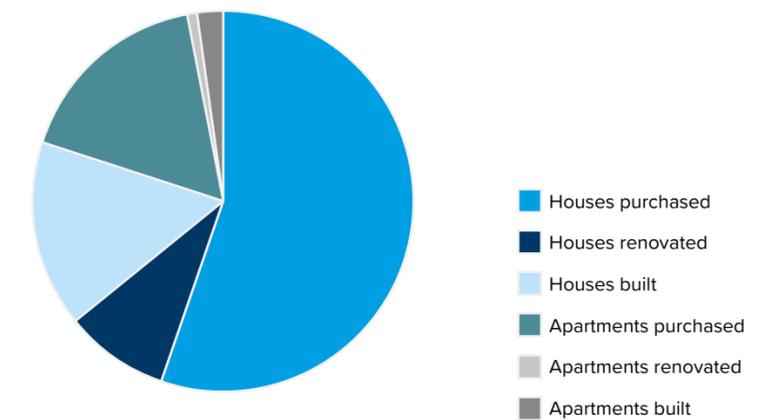


Figure 9: Outstanding amount of mortgages by purpose



APPENDIX: PCAF

Calculation of GHG emissions – scope and methodology

The calculation of the carbon footprint of our mortgage portfolio is based on the energy performance of the properties in the portfolio.

The methodology used to calculate emissions linked to mortgage loans in Belgium and Ireland is based on country-specific statistical data on energy performance and the surface area of newly built and existing houses and apartments. It is derived from the internal methodology we developed to calculate emissions avoided through the KBC Green Bond and has been externally verified by Vinçotte. We calculate the emissions per period/year in three stages:

1. Determine the energy performance of the houses/apartments
2. Calculate average use of Scope 1 and 2 energy sources per dwelling
3. Convert energy consumption per source into CO₂ emissions

For the other core countries, averages for energy by households use are calculated by household.

Based on an analysis of the Belgian portfolio, we assume that mortgage loans for the renovation of houses and apartments in the Belgian portfolio are linked to properties already included in the portfolio of built and purchased dwellings. We do not, therefore, include them in the calculations of GHG emissions. Nor do we take into account any positive impact of renovation on the energy performance of renovated dwellings concerned, as this data has not yet been registered. This approach might require revision and further fine-tuning in the future based on a more detailed analysis of the portfolio in all core countries.

GHG emissions

Scope 1 and 2 emissions amount to 2 284 777 tonnes of CO₂. 1 696 184 tonnes or 74% of this relate to single family houses and 588 594 tonnes or 26% to apartments (see the table on this page).

Average intensity per million euros outstanding is 29.32 tonnes CO₂. The per-unit figure is 2.64 tonnes CO₂. The number of renovation-only mortgages has not been included in the calculation of carbon intensity per unit as we assume that mortgage loans for the renovation of houses and apartments are linked to properties already included in the portfolio.

Property type	Number	Emissions (tonnes CO ₂ e)	Intensity (tonnes CO ₂ /EURm outstanding)	Intensity (tonnes CO ₂ e/unit)
Single family houses				
Purchased	327 169	1 280 328	29.51	3.91
Renovation	183 398	88366	12.26	0.48
Built	126 783	327 490	27.10	2.58
Apartments				
Purchased	197 099	528 368	39.59	2.68
Renovation	11 049	17 822	44.57	1.61
Built	18 468	42 403	28.19	2.30
Total	863 966	2 284 777	29.32	2.64

Strategic choices to reduce climate impact

Each core country has drawn up a white paper setting out the locally embedded strategy to align the portfolio with the Paris Agreement, to which we have committed as a signatory of the CCCA (Collective Commitment to Climate Action), see the [‘White papers’](#) part of the ‘Sustainable finance’ section of this report. Items we will focus on in 2021 include gathering data on asset-linked energy performance and the impact of renovation, defining metrics, target-setting and the further development of initiatives to encourage clients to commit to this journey. Where relevant, we will also work with local governments to exchange energy-related data on houses, obviously taking into account all privacy-related regulations.

Some initiatives have already been taken to raise our clients’ awareness and to support them in buying energy-efficient homes or investing in measures to improve energy efficiency. In 2018, KBC Belgium launched ‘Renovation Check’, a tool offering an overview of possible measures to improve the energy efficiency of private real estate, including a cost indication. KBC Belgium also offers a Green Renovation Loan, 50% of which must be used to finance energy-efficiency measures. A green mortgage was launched in the Czech Republic that offers attractive interest rates to clients who purchase a house or apartment with energy label A or B. We will investigate the possibility of supporting renovation initiatives taken by the various governments, with which we share a recognition that increasing the energy efficiency of the existing housing stock in many of our core countries will play an important role in society’s efforts to reduce greenhouse gas (GHG) emissions.

APPENDIX: UNEP FI

UNEP FI methodology on climate-related transition and physical risks

After the new TCFD (Task Force on Climate-related Financial Disclosures) recommendations were published in 2017, the UNEP FI (United Nations Environment Programme Finance Initiative) convened a consortium of banks to pilot them. This cooperation resulted in 2018 in two important publications in the field of forward-looking climate-related credit risk assessments. The 'Extending our Horizons' report¹, 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'², 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.

The UNEP FI subsequently decided in 2019 to convene a second-phase TCFD programme for banks, building on the initial methodological work. The second programme was specifically designed to help financial institutions to expand their toolkit for forward-looking climate risk assessments and disclosure. We participated in and contributed to this second phase of the UNEP FI TCFD programme.

As a first step we familiarised ourselves with the initial methodologies by applying them to two climate-relevant loan portfolios: the metals segment 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 work of the sectoral white papers, the application of the UNEP FI methodology was a valuable source of information for working group discussions (e.g., Commercial Real Estate). Following this learning stage, our relevant modelling department investigated how the initial transition risk methodology could be adapted to improve applicability within our organisation. The adapted transition risk methodology that resulted was shared with and contributed to the UNEP FI second phase programme.

Although the field of climate-related risk assessment is continuously evolving and our understanding of interactions between climate risks and credit risks is still at an early stage, we do not want to refrain from publishing some of the **preliminary** results obtained during this assessment process. We will continue to develop and finetune these methodologies as well as extending them to other relevant loan portfolios.

¹ <https://www.unepfi.org/publications/banking-publications/extending-our-horizons/>

² <https://www.unepfi.org/publications/banking-publications/navigating-a-new-climate-assessing-credit-risk-and-opportunity-in-a-changing-climate/>

Transition risk measurement

In this section, we elaborate further on the transition risk measurement applied to our Metals sector corporate loan portfolio. We are currently extending this methodology to other climate sensitive sectors too.

The methodology is composed of three building blocks:

Analysis of the sector's climate-risk sensitivity

In line with the UNEP FI methodology, we analysed the variety of activities covered by our portfolio and identified three borrower segments that display similar characteristics in terms of carbon-emission intensity and are consequently impacted in a similar way by a transition to a low carbon economy. The three segments are:

- Primary processing (highly carbon-intensive activities like iron, steel or aluminium production)
- Secondary processing (carbon-intensive activities like the production of semi-finished goods)
- Manufacturing (less carbon-intensive activities like the production of end-user products)

The UNEP FI methodology is forward-looking by nature as it translates a given transition scenario into four 'Risk Factor Pathways' (RFPs). RFP's 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 two decades. Each segment can have a different sensitivity to these RFPs and the results of our sensitivity assessment is provided in the table below.

SEGMENTS	RISK FACTOR PATHWAYS			
	Direct emissions costs	Indirect emissions costs	Low-carbon capex ¹	Revenues ²
Primary processing	High	High	High	Moderate
Secondary processing	Moderately high	High	Moderate	High
Manufacturing	Low	Moderately high	Low	High

¹ This RFP is an indication of the financial pressure a given sector segment is likely to experience due to additional investment needs to transition to a low carbon economy.

² This RFP is an indication of the financial pressure a given sector segment is likely to experience during low carbon transition as a result of changes in prices and consequent changes in consumer demand for products and services.

APPENDIX: UNEP FI

Impact estimation of the transition scenario's severity

In this building block we deviated from the UNEPF FI proposed methodology in order to make it sufficiently scalable towards other portfolios. Our approach was inspired by the Basel framework in which the Vasiček model is used to transform a through-the-cycle (TTC) probability of default (PD) into a stressed PD. PD is a risk scoring that provides an estimate of the likelihood that a counterparty is unable to repay its loan obligations. The severity of the stress is reflected by the systematic risk driver, obtained from the projected evolution of net income (the joint impact of the four 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 scenario.

The above approach was applied to four transition scenarios generated by the REMIND model:³

- 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;
- 1.5°C – Immediate: collective action is taken now to reduce emissions towards a 1.5°C target (orderly transition), updated version of the previous scenario;
- 1.5°C – Delayed: aggressive collective action only begins after 2030 to align with a 1.5°C target (disorderly transition);
- 1.5°C – Low CDR:⁴ aggressive collective action begins now on a 1.5°C pathway, but with limited use of negative emissions (disorderly transition).

The projected difference in the sector's net income compared to the 4°C Baseline scenario is illustrated for each of these scenarios in the figure on this page.

We note that the 'Low CDR 1.5°C' scenario is an outlier compared to the other three analysed scenarios. The significantly higher negative change in net income is the result of the industry's high direct emissions costs, which are forecast to rise further, in the absence of collective, broadly-based carbon dioxide removal actions.

The table on this page sets out the transition-adjusted ratings for selected PD ratings, together with the estimated severity under the various scenarios. The latter was obtained from the computed systemic risk driver in our Vasiček framework.

³ <https://www.pik-potsdam.de/en/institute/departments/transformation-pathways/models/remind>

⁴ Carbon Dioxide Removal

Figure 1: Change in sector net income (USD bn) compared to Baseline scenario

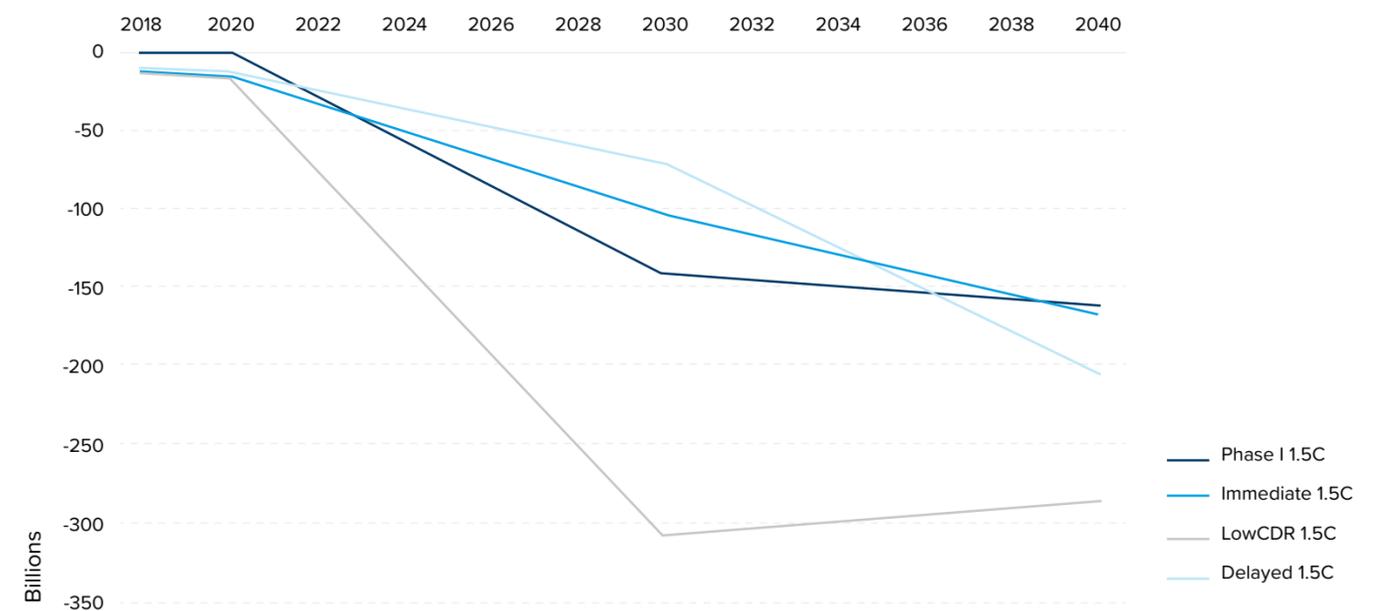


Table 1: Scenario severity and transition-adjusted PD ratings*

Segment	Initial PD rating	Primary processing		Secondary processing		Manufacturing	
		Phase I	Low CDR	Phase I	Low CDR	Phase I	Low CDR
Scenario		Delayed	Immediate	Delayed	Immediate	Delayed	Immediate
Severity		1 in 4	1 in 67	1 in 3	1 in 11	1 in 2 to 3	1 in 4
	BBB	BB+	B+	BBB-	BB	BBB/BBB-	BB+
	BB	BB-	B	BB	B+	BB	BB-

* PD's in the table are expressed in the typical ('AAA' to 'CC') letter grade rating scale format. The letter grades indicate the risk and range from 'A' (lowest risk) to 'C' (highest risk) and are further differentiated by doubling or tripling letters – the more the lower the risk – and by adding a '+' (better) or '-' (worse).

APPENDIX: UNEP FI

Computation of portfolio Expected Loss with corresponding stressed PD ratings

Having obtained these stressed PD ratings, we can estimate how the portfolio's expected loss (EL) could potentially change if these transition scenarios were to materialise. It is clear from the graph and table above that the EL impact will be high for the 'Low CDR 1.5°C' scenario and rather mild for the other scenarios.

The measurement as described above allows us to identify those transition scenarios that might exert stress on companies within a sector or segment. Transition risk is, of course, only one aspect in a full credit risk assessment and further integration within existing (credit) risk modelling frameworks as in further stress testing exercises will be considered going forward.

Physical risk measurement

In this section we elaborate further on the physical risk measurement applied to our Flemish home loan portfolio, which is composed of two building blocks:

Identification of residential properties susceptible to flood risk

The Flemish Environmental Agency (Vlaamse Milieumaatschappij, VMM) recently updated flood hazard maps for three flood types:

- pluvial floods, caused by very intense rainfall within a short period of time;
- fluvial floods, caused by intense rainfall over a longer period of time during which water accumulates within rivers;
- coastal floods, caused by failure of coastal protection infrastructure such as dikes.

Each of these maps displays the area within Flanders that is susceptible to flood-related hazards with a certain return period expressed in years (once in 10 years, once in 100 years and once in 1 000 years). As part of the update, the VMM also adjusted these hazard maps to take account of projected climate conditions in 2050 assuming a high temperature scenario.⁵

The identified home loan exposure at risk of flooding (i.e., those residential properties within our Flemish home loan portfolio located in one of the abovementioned flood zones) is summarised in the following table.

Flood type	Number of properties 2020 climate	Number of properties 2050 climate
Pluvial	15 280	23 311
Fluvial	2 110	3 709
Coastal	3 199	5 725

⁵ 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, kindly refer to the Flood Risk and Hazard Map Methodology document published by the Coordination Committee on Integrated Water Policy and available at <https://www.waterinfo.be/download/8e41c72b-027c-4d5f-8860-042e69b3d2f2?dl=0>.

APPENDIX: UNEP FI

Computation of flood-risk-adjusted Loan-to-Value ratios

Having identified the residential properties at flood risk, the UNEP FI methodology provides a way to adjust the Loan-to-Value (LTV) ratio such that flood risk is accounted for:

$$\text{Flood Risk adjusted LTV} = \frac{\text{Value Loan}}{\text{Value collateral} \cdot (+/\Delta\text{value} \times \text{risk prob})}$$

Where risk prob is the probability that a flood event will happen during the remainder of the home loan lifetime and Δvalue represents an expected decrease in property value in case of a flood event. The fall in property values observed after the 2002 Central European floods led us to define a rather severe $\Delta\text{value} = -30\%$ for this analysis.

Computing the risk-adjusted LTV for those properties at risk under both the 2020 and 2050 climate conditions shows that the flood risk embedded within the Flemish home loan portfolio is limited. The proportion of high LTVs (>0.75) does not change significantly. We can illustrate this with the following charts, which reflect the LTV distribution of properties at risk of flooding. Figure 2 shows the LTV distribution of the existing portfolio with the associated flood risk under 2020 climate conditions. Figure 3 presents a forward-looking view and reflects the LTV distribution of the existing portfolio under the projected 2050 climate conditions.

Given the limited impact shown above, we will not immediately change our credit underwriting policies, which are fully in line with governmental policies in Flanders (e.g., building permits). However, these types of analysis will remain important in the future and will potentially influence our decision making going forward. Having so far performed the analysis for Flanders, given the availability of forward-looking flood maps, KBC will now investigate whether the same kind of analysis can – subject to availability of flood hazard maps – also be expanded to other geographies.

Figure 2: LTV distribution of Flemish home loans with associated flood risk under current climate conditions

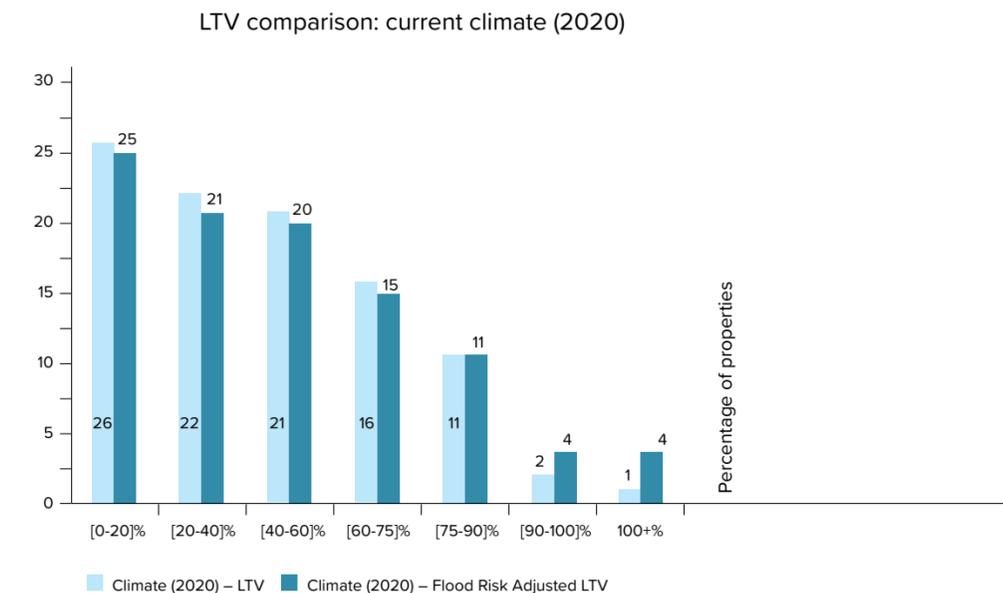
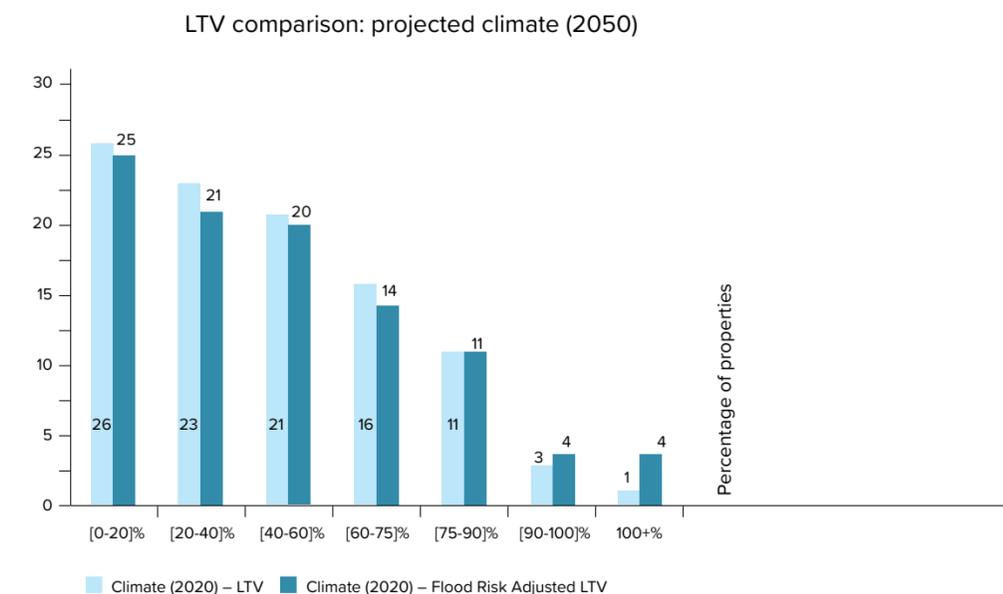


Figure 3: Forward-looking view: LTV distribution of Flemish home loans with associated flood risk under projected 2050 climate conditions



APPENDIX: TRUCOST

Climate impact assessment of KBC Asset Management's investments

This methodological pilot looks at the carbon footprint and climate-change alignment of aggregated investment products offered by KBC Asset Management. It is the first time that KBC Asset Management has used Trucost's methodology and dataset to map the current and forward-looking impact of its portfolio on global warming. The pilot is a first step towards greater transparency about our climate impact and should thus be treated with the necessary caution and nuance, as the methodology, datasets and our experience with these instruments are all under development.

Carbon footprint

The first step in KBC Asset Management's pilot project is to map the aggregated greenhouse gas (GHG) emissions of the investment products we offer our clients and to translate them into a carbon footprint.

The pilot focused solely on the open investment products managed by KBC Asset Management in Belgium and Ireland, including investment products for both retail and institutional clients and representing around 85% of invested assets at KBC Asset Management. Portfolios managed in Central Europe and structured products are not currently in scope.

For the purposes of the 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. Indirect equity investments via third-party funds are not taken into account. We calculate a weighted average of the carbon intensities of the companies in which we invest, weighted according to our investment exposures. Carbon intensities express how many tonnes of GHG a company is emitting per million US dollars of revenues.

Trucost data is used to map carbon emissions to companies in our portfolio. The solutions provided by Trucost, a subsidiary of S&P, covers the best-known global equity investment benchmarks almost completely, with coverage rates of more than 95% of companies in these indices. Data gathering at Trucost follows a four-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 engagement and data verification

In addition to CO₂, other GHG emissions are taken into account using an appropriate conversion factor. The total under Scope 1, 2 and 3 has been used for the pilot (i.e., covering not only direct emissions and emissions from purchased electricity, heat or steam, but also indirect emissions from both the supply chain and the use of products produced by the company). Using Scope 1 and 2 alone would drastically underestimate total GHG emissions generated by investments made. The downside of this approach is that it can lead to double counting (e.g., if we invest in both a company and its supplier). All the same, it remains a good starting point for measuring the carbon footprint of our investments.

The weighted average carbon intensity of all our equity investments amounted to 266 tonnes of CO₂e emissions per million US dollars of revenues (source: S&P Trucost Limited, © Trucost 2020), based on a data coverage of over 95% of all equity investments in scope of this pilot. Investments in companies for which no data was found, were excluded from the calculation. The reported number is larger than, for instance, the figures reported by the index provider MSCI for its major indices. MSCI reported a carbon intensity of 178.5 tonnes CO₂e per million USD of revenues for its broad global equity benchmark in April 2020. The difference can mainly be explained by the fact that MSCI did not take account of Scope 3 emissions. We also note that the weighted average carbon intensity of our SRI funds' equity investments was lower, at 250 tonnes CO₂e per million USD invested. The difference is attributable to the fact that in 2020 the extraction of fossil fuels and electricity production by burning fossil fuels are excluded from our SRI investment policies, thereby avoiding investments in companies with a high carbon intensity.

APPENDIX: TRUCOST

Climate change alignment

While it is important to measure the carbon footprint of our investments as described above, the drawback is that this only looks at current emissions. To achieve the goals set out in the Paris Agreement, companies also need to reduce their future emissions. This means that two companies with identical emissions in 2020 can still differ substantially in terms of announced reduction targets.

To take account of this, we also use data provided by Trucost, which tracks company emissions and activity levels and incorporates forward-looking indicators over a medium-term horizon. The transition pathway approach used by our data provider has been adapted based on two methodologies highlighted by the Science Based Targets Initiative (SBTI), the Sectoral Decarbonisation Approach (SDA) and Greenhouse gas Emissions per unit of Value Added (GEVA). The SDA is applied to companies with high-emitting, homogeneous business activities, using a 2°C scenario developed by the International Energy Agency. GEVA is applied to companies with lower-emitting or heterogeneous business activities, using a Representative Concentration Pathway (RCP) scenario from the IPCC's (Intergovernmental Panel on Climate Change) fifth Assessment Report. Scope 1 and Scope 2 emissions are taken into account.

Trucost incorporates forward-looking data based on an established data hierarchy made up of the following sources:

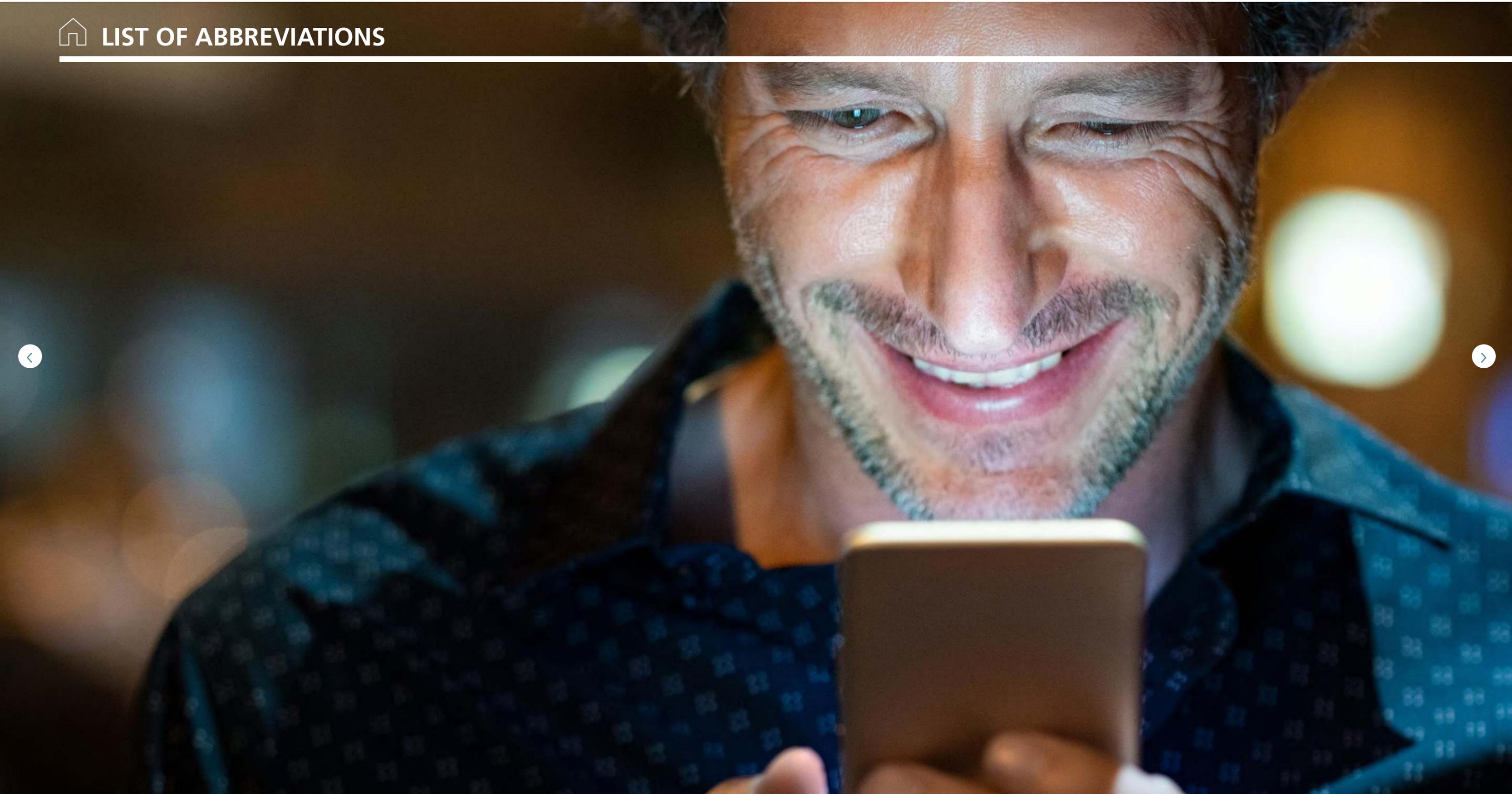
1. Disclosed emissions reduction targets
2. Asset-level data sources that provide signals of potential future changes in production from high-emitting sources
3. Company-specific historical emissions trends for companies assessed on the basis of homogeneous business activities
4. GICS (Global Industry Classification Standard) sub-industry average historical emissions trends
5. No change in emissions intensity.

Companies that do not disclose GHG emissions and require modelling instead are not included in the analysis, as the modelling error might exceed the relatively narrow difference in transition pathways needed to achieve different temperature outcomes.

Assessing our equity investments and applying the same scope as described above, we find that these are not aligned with a 2°C scenario as estimated by this methodology (source: S&P Trucost Limited, © Trucost 2020). This statement also holds true for broad market indices.

It is clear that companies will have to reduce their GHG emissions in the years and decades ahead to keep global warming below 2°C. KBC Asset Management encourages companies to do so through engagement – interacting with investee companies to discuss specific concerns – and by applying exclusion criteria to all funds (see the [‘Engagement strategy’](#) part of the ‘Sustainable finance’ section of this report). In 2020, KBC Asset Management joined Climate Action 100+, with a view to leveraging its engagement efforts towards companies. This investor-led initiative seeks to ensure the world’s largest corporate GHG emitters take the necessary action on climate change. It represents over 500 investors managing assets of over 50 trillion US dollars and collectively engages with 167 companies, responsible for more than 80% of global GHG emissions. Since the beginning of 2021, KBC Asset Management implemented its revised thermal coal policy, excluding companies that extract coal of this kind or burn it to produce electricity, where this represents more than 25% of their revenues or power generation capacity. The exclusion policy is now applicable to all our actively managed funds and reflects the fact that thermal coal has the worst GHG emissions intensity ranges while alternative power technologies are available.

LIST OF ABBREVIATIONS





List of most commonly used abbreviations

2DI: 2Degrees Investing Initiative

2DS: 2 Degrees Scenario

AI: artificial intelligence

AML: anti-money laundering

ATM: automated teller machine

B2DS: Beyond 2 Degrees Scenarios

CCCA: Collective Commitment to Climate Action

CCS: Carbon Capture and Storage

CDP: Carbon Disclosure Project

CEO: Chief Executive Officer

CFO: Chief Financial Officer

CNG: compressed natural gas

CPS: IEA Current Policies Scenario

CRE: commercial real-estate

DJSI: Dow Jones Sustainability Index

EBA: European Banking Authority

ECB: European Central Bank

EIB: European Investment Bank

EL: expected loss

EP: Equator Principles

ESG: environmental social and governance

ETP: IEA Energy Technology Perspectives

EU: European Union

EV: electric vehicle

Fintechs: financial technology companies

FTE: full time equivalent

GDPR: General Data Protection Regulation

GEVA: Greenhouse gas Emissions per unit of Value Added

GHG: greenhouse gas

GRI: Global Reporting Initiative

HR: human resources

ICAAP/ ILAAP: Internal Capital and Liquidity Adequacy Assessment Process

ICE: internal combustion engine

ICT: information and communication technology

IEA: International Energy Agency

IRM: information risk management

ISB: Internal Sustainability Board

IT: information technology

KPI: key performance indicator

LCV: light commercial vehicle

LTV: loan to value

NGOs: non-governmental organisations

NPS: net promoter score

ORSA: Own Risk and Solvency Assessment

PACTA: Paris Agreement Capital Transition Assessment

PCAF: Partnership for Carbon Accounting Financials

PD: probability of default

PEARL+: Performance Empowerment Accountability Responsiveness Local embeddedness Plus

PHEV: plug-in hybrid electric vehicles

PRB: Principles for Responsible Banking

PRI: Principles for Responsible Investments

PSI: Principles for Sustainable Insurance

RFP: Risk Factor Pathways

RTS: Reference Technology Scenario

SASB: Sustainable Accounting Standards Board

SBTI: Science Based Targets Initiative

SDA: Sectoral Decarbonisation Approach

SDGs: Sustainable Development Goals

SDS: IEA Sustainable Development Scenario

SFRD: Sustainable Finance Disclosure Regulation

SMEs: small and medium-sized enterprises

SRI: socially responsible investment

STEPS: IEA Stated Policies Scenario

StIPPLE: Skills to improve Performance Progression Learning and Employability

TCFD: Task Force on Climate-related Financial Disclosures

TTC: through-the-cycle

UN: United Nations

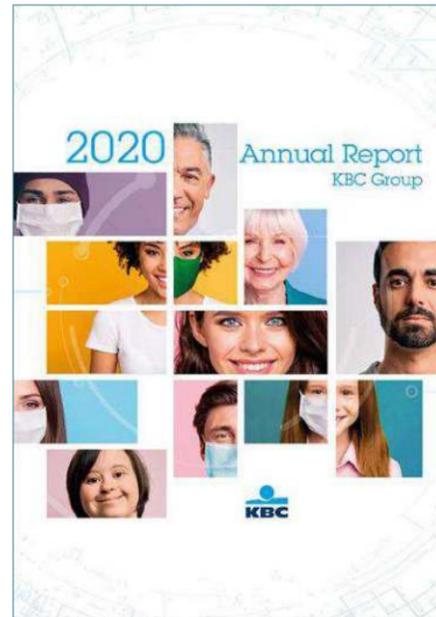
UNEP FI: United Nations Environment Programme Finance Initiative

VMM: Vlaamse Milieumaatschappij

WEO: World Energy Outlook



Read our other reports:



www.kbc.com

Editor-in-chief: KBC Group Corporate Sustainability, Havenlaan 2, 1080 Brussels, Belgium
Publisher: KBC Group NV, Havenlaan 2, 1080 Brussels, Belgium

Feedback

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