

KBC Group

# Climate Report

Determining our 2021 baseline and target setting for 2030 and 2050

September 2022





# LEADERSHIP STATEMENT



The climate crisis is unfolding right before our eyes, with extreme weather conditions becoming increasingly more common. The latest climate report issued by the United Nations very clearly shows that the effects of global warming are moving more rapidly than expected.

This implies that we must act now if we are to minimise climate change and its impacts. As an integrated bank-insurance group with own tailored asset management, we can – and want to – play a major part in the transformation that is needed to avoid catastrophic global warming. We started out by making our loan portfolio in our banking business more climate-friendly and by focusing on Responsible Investing in our asset management activities. Currently, we focus on encouraging investments that are aimed at creating and supporting the transition towards a greener society.

Our actions do not stop there. We are strongly committed to helping and supporting our clients on their journey towards more sustainable business operations. As part of these efforts, we aim to provide them with relevant information, practical tools and advice, and will refer them to external partners where appropriate.

Global warming requires concerted global action, involving as many parties as possible. Clearly, KBC can succeed in its endeavours to support climate transition only if governments, industries and our clients alike join forces and take the appropriate action.

Sustainability has been embedded in all our activities for years. Each year, we report on this topic in our Sustainability Report.

This first interim climate report details our commitment, objectives and accomplishments in our role as a signatory of the UN Collective Commitment to Climate Action. For our lending business we communicate concrete targets for the most material carbon-intensive industrial sectors in our business and product lines and we also show how our asset management business is taking concrete steps towards a climate-resilient future. Also our insurance business is preparing internally and focussing on initial actions in the most relevant sectors and products in order to be ready to embark on climate mitigation-related target setting as soon as relevant carbon accounting methodologies become commonly available.

Enjoy your read!

**Johan Thijs**

Chief Executive Officer  
KBC Group

**Koenraad Debackere**

Chairman of the Board of Directors  
KBC Group



Johan Thijs

Koenraad Debackere



## ABOUT THIS REPORT

In September 2019, KBC strengthened its climate commitment by signing the UN initiative Collective Commitment to Climate Action (the 'CCCA'). In doing so, we agreed to align our banking portfolios and business strategy with the Paris Agreement to keep global warming well below 2°C while striving for a target of 1.5°C, and to take tangible action and set targets within three years after signing the commitment. This first interim Climate Report details our commitment, objectives and accomplishments in our role as a CCCA signatory.

### Content

This report outlines our baseline and the first round of targets we have set for the most material carbon-intensive industrial sectors and product lines in our lending business. Based on the calculations as reported in our [2021 Sustainability Report](#), these sectors and product lines represented a combined two thirds of the estimated total financed emissions<sup>1</sup> associated with our lending activity as per year-end 2021. As such we have focused our targets on the most important sectors and products in terms of climate-related impact. Going forward and where and when possible, we will report in greater detail on a more exact scope coverage of our targets. In line with our commitment to the CCCA, we will continuously monitor and report each year on our progress in meeting these targets. Furthermore, this report also details the way in which our asset management business is taking tangible steps towards a climate-resilient future.

### Scope and boundary

This report covers the entire KBC Group organisation and matches the scope of consolidation used for the financial information reported in the consolidated annual report as per year-end 2021, and covers the lending activities in Belgium, the Czech Republic, the Slovak Republic, Hungary, Bulgaria and Ireland. This means that the recently acquired Raiffeisenbank (Bulgaria) EAD (since then renamed as KBC Bank Bulgaria EAD), closed in July 2022, is excluded. An exception is made for KBC Bank Ireland. Although included in the financial consolidation scope as per year-end 2021, KBC Bank Ireland is excluded from our baseline emission intensities and climate target setting for our lending portfolio. This is in view of the pending gradual exit from the Irish market and the associated agreement with the Bank of Ireland for acquiring the majority of KBC Bank Ireland's loan assets and deposits. On the other hand, the exposure and financed emissions included throughout this report do include KBC Bank Ireland as they were calculated for our [2021 Sustainability Report](#).

Moreover, the report focuses on our lending and asset management business. For our insurance business, we will embark on climate mitigation-related target setting as soon as methodologies become commonly available. In this regard, we closely keep track of the latest developments.

A full list of included entities is published on our [website](#), but please note that not necessarily all KBC entities in scope have outstanding loans to the sectors in scope of the target setting.

### Data gathering and reporting period

Climate-related data are gathered as part of the data and metrics project set up as part of the KBC Sustainable Finance Programme. Generally, the reporting period of data reported in this report is aligned with our [2021 Sustainability Report](#).

The baseline emission intensities<sup>1</sup> however are the result of updated estimates and calculations based on more accurate data where available and therefore may diverge from the initial PCAF-based or PCAF-inspired financed emissions as reported in our [2021 Sustainability Report](#). Also note that the reported 2021 emission intensity in this report covers Scope 1 and 2 emissions of the clients in our lending portfolio, while in some cases the reported financed emissions in the [2021 Sustainability Report](#) additionally covered Scope 3 emissions of such clients. This difference in emission scope coverage follows from the fact that the accuracy of Scope 3 emissions is often of poor quality and that the current suite of scenarios and methodologies not always provides clear possibilities to calculate targets for Scope 3 emissions.

<sup>1</sup> Throughout this report the term 'financed emissions' reflects the Scope 1, 2 and 3 greenhouse gas (GHG) emissions associated with our lending to the sector, as based on or inspired by the PCAF Global Standard and as reported in the [2021 Sustainability Report](#) (unless otherwise specified, as is the case for the cement, steel and aluminium sectors). The poor data availability in many sectors and on many of our assets leads to the low data quality level scores reported in the 2021 Sustainability Report and should make it clear that the financed emissions are currently only an approximation of the GHG emissions associated with our lending activity and provide a first indication of the weightiness of the different sectors' financed GHG emissions in terms of total financed GHG emissions. **The baseline emission intensities of our targets reflect the Scope 1 and 2 GHG emissions associated with our lending to the sector and are the result of updated estimates and calculations.** Due to still limited non-financial data availability across various sectors, clients and assets, the financed emissions for these baselines deviate from the strictu-sensu definition of the GHG Protocol (for all sectors except for the cement and steel sectors as well as the electricity sub-sector) which requires us to measure the share of the emissions from an asset, or a company's activities which is financed by KBC's loans. While the loan value was known and leveraged in our calculations, the asset value could not always be retrieved and was therefore not taken into account in such cases.



# CONTENT

Nevertheless, in order to ensure maximum consistency between both reports, in our global sector overview we have chosen to retain the financed emissions and the relative weight of each of the White Paper sectors as reported in the [2021 Sustainability Report](#).

## Methodology and data constraints

It is important to note that KBC sets these climate targets within a context of constrained non-financial data availability and quality as well as continued methodological developments that lead to a high degree of uncertainty. Despite this uncertainty, the climate crisis forces us to take swift and bold action. No matter how uncertain the basis on which the targets are sometimes defined, we consider this sectoral target setting a necessary and crucial catalyst to foster our climate action strategy. The aim of the [technical appendix](#) is to provide maximum transparency regarding our target-setting approach (including the calculation of the target baseline) and the underlying assumptions.

## Governance

We have drawn up this climate report using input from business and sustainability experts in all core countries as part of the [White Papers](#) assessments and target-setting approach. It has been reviewed by senior managers, and discussed and approved by the Internal Sustainability Board and the Group Executive Committee. Final approval was given by the Board of Directors on 15 September 2022.

## External assurance

The baseline data and underlying calculations of KBC Group's lending portfolio included in this report have been independently verified by PwC (limited assurance) and are expressly earmarked with the adjoining symbol . The assurance report is available in the ['assurance' statement](#) of this publication.

## Feedback

We welcome comments and questions on this first climate report. Please feel free to send us your feedback at [csr.feedback@kbc.be](mailto:csr.feedback@kbc.be).

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

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

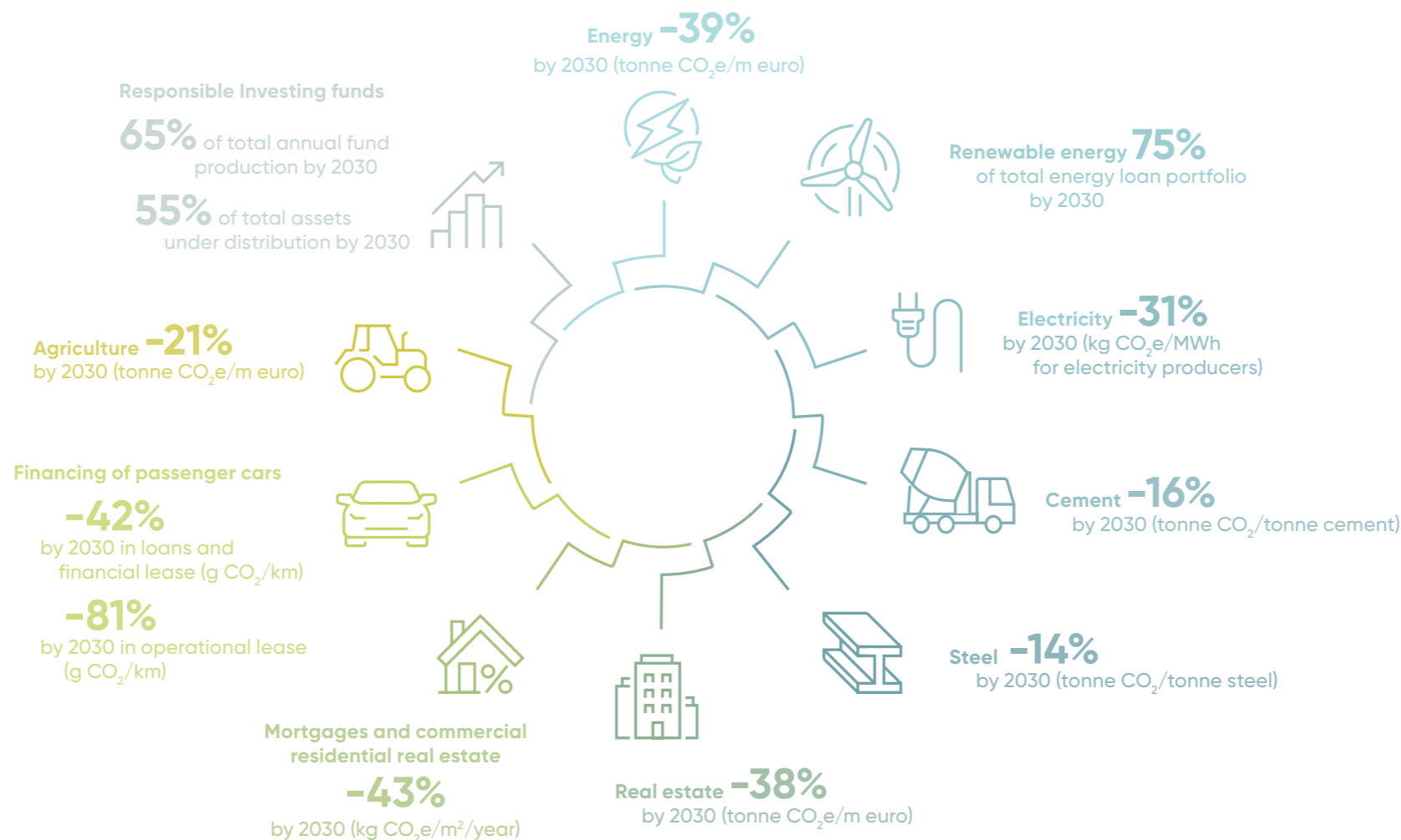
Glossary: a list of the most widely used terms and abbreviations, with accompanying definitions where necessary, can be found at the end of this report.

- Our climate approach
- Our target setting in our lending business
- Energy
- Real estate
- Transport
- Agriculture
- Cement Steel Aluminium
- Our target setting in our asset management
- Technical appendix
- Glossary



# IN THE SPOTLIGHT

## Our 2030 targets<sup>2</sup> for our lending business and our asset management activities



<sup>2</sup> Percentage reduction compared to 2021 levels. A detailed overview of all targets and metrics used is provided elsewhere in this report. This section highlights only part of the targets set.



## OUR CLIMATE APPROACH

### Our commitment to climate action

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

In 2019, KBC strengthened its climate commitment by signing the UN initiative [Collective Commitment to Climate Action](#) (the CCCA), agreeing to work closely with all relevant stakeholders in order to address climate change, to develop new methodologies and to disclose the environmental impact of KBC's lending activities. This commitment complements other commitments also shouldered by KBC, such as the Principles for Responsible Banking, the Principles for Responsible Investing and the Principles for Sustainable Insurance.

All of these commitments led to the establishment of our [Sustainable Finance Programme](#), which gathers all relevant climate-related expertise within our group to address this challenge.

### Lending activities

#### Sustainable Finance Programme

As part of KBC's Sustainable Finance Programme, we approach climate change from the perspective of the so-called [double materiality impact](#):

- Climate change has an [impact on our business](#), which entails risks as well as opportunities. We identify and manage these risks and opportunities in order to secure our future.
- [Given our activities, our business also impacts the climate.](#)

As an integrated bank-insurer and as part of our social role, we aim to manage these activities so as to reduce our impact.

### White Papers

We have prepared strategic assessments of sectors with the largest climate impact because of the nature of the activities (carbon-intensive industrial sectors) and based on the size of our exposure to that sector.

All of these assessments were compiled in a so-called 'White Paper'. This was done for eight industry sectors (energy, commercial real estate, agriculture, food production, building and construction, chemicals, transport and metals), and the three most impactful product lines (mortgages, car loans and car leasing) in our portfolios. The White Papers include all climate-relevant information for the sector or product line concerned:

- What trends do we see in the sector?
- What risks do we expect?
- What technological changes are on the way?
- Which opportunities does the sector offer for our clients to benefit from?
- How should we adapt our policies for this sector?
- What targets should we set to align our portfolios with relevant climate scenarios?

More details on each of the White Papers are available in our [2021 Sustainability Report](#). Some sectors are discussed jointly, as they have strong overlapping characteristics.

For these industrial sectors and product lines, we have identified the parts of our loan portfolio for which we defined climate-related targets taking account of the composition of our loan portfolio and the requirements and expectations following our commitment under the CCCA. We report in detail on the scope and the targets set in the ['Our target setting in our lending business'](#) part of this report.

### Asset management activities

#### Responsible Investing funds on behalf of our clients

An important part of our sustainable finance strategy is our focus on Responsible Investing funds. We see [Responsible Investing funds, which alongside environmental items also focus on important social and governance-related items, as our first offer and preferred investment solutions.](#) For several years now, this has been translated into clear targets for the volume of Responsible Investing funds. In 2020, we introduced a new target related to the share of Responsible Investing funds in total annual fund production.

Seeing that we have already surpassed these ambitions, we have reviewed and tightened our targets on the share of Responsible Investing funds in total annual fund production and introduced a new target on the share of Responsible Investing in total assets under distribution (replacing the former volume target). On top of that, we have also set a new target to lower the carbon intensity (Scope 1 + 2) of the corporate investees in Responsible funds by 50% compared to the end of 2019 reference values, by 2030. We report on these targets in the ['Our target setting in our asset management'](#) part of this report.



# OUR TARGET SETTING IN OUR LENDING BUSINESS

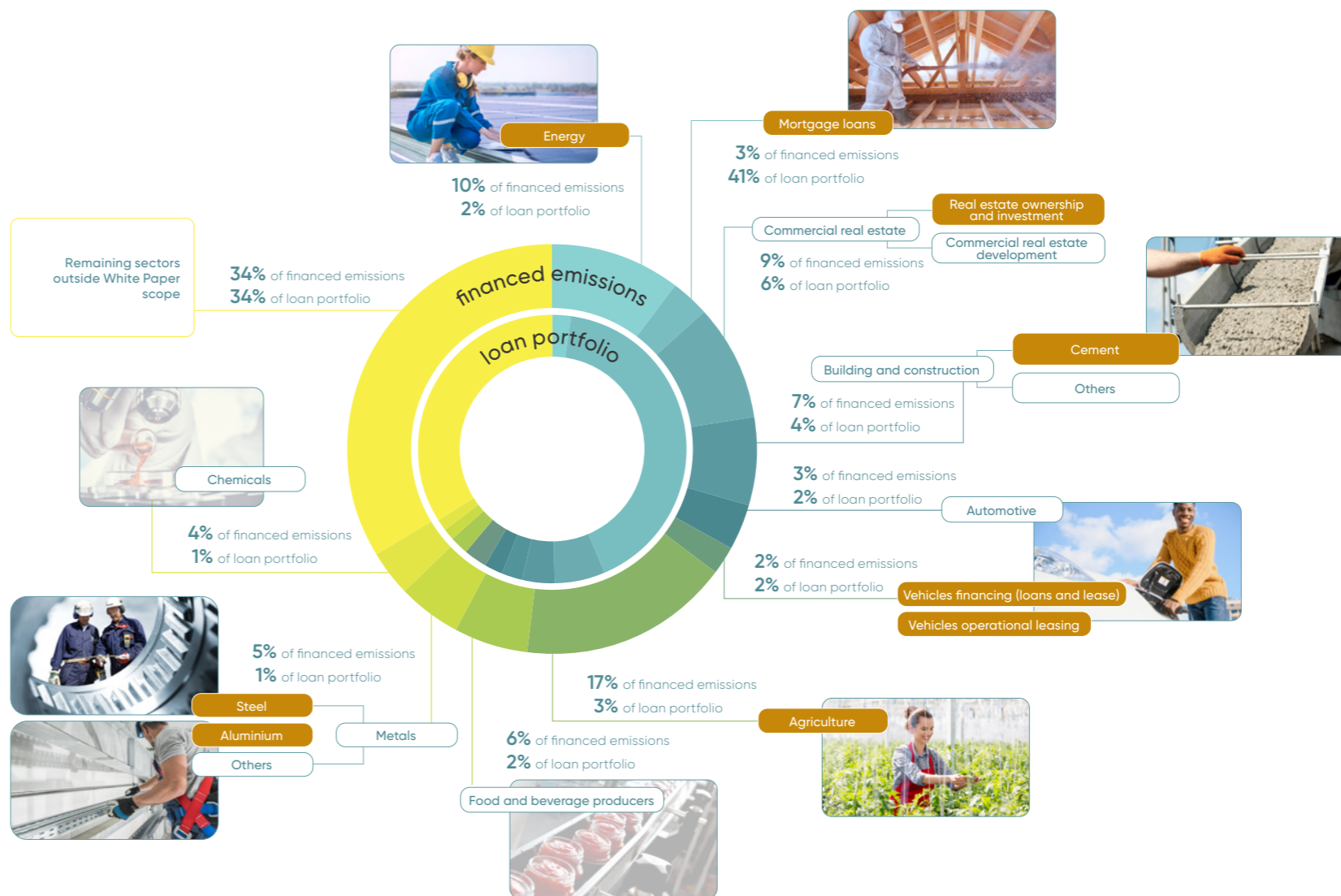
## Climate exposure

Measuring our indirect environmental footprint, our so-called financed greenhouse gas (GHG) emissions for our portfolios, is a crucial first step in enabling us to define strategies to reduce this impact. For our 2021 Sustainability Report, we calculated the financed (Scope 3) emissions from our loan and lease portfolio for the first time based on or inspired by the PCAF (Partnership for Carbon Accounting Financials) methodology. These financed GHG emissions are based on our financial exposure to the estimated GHG emissions of our clients and form the basis for target setting.

The graph on this page is a schematic representation of our outstanding loan portfolio in the White Paper sectors and an overview of the total estimated financed Scope 3 GHG emissions of KBC Group. These show that the White Paper sectors and product lines assessed represent around two thirds of the Scope 3 GHG emissions associated with our loan portfolio, as well as approximately two thirds of KBC Group's total loan portfolio. We report in detail on the methodologies used and the outcomes of these calculations in the [2021 Sustainability Report](#).

We have set targets for a subset of our White Paper (sub-) sectors. The (sub-)sectors for which we have done so are highlighted in the graphs. Based on the financed emissions reported in our [2021 Sustainability Report](#), we have set targets for the most material sectors and product lines. Going forward, and where and when possible, we will report in greater detail on a more exact scope coverage of our targets. It is important to note that there are limitations to our target-setting approach, which are explained in greater detail in the [technical appendix](#).

Financed GHG emissions in % of total financed GHG emissions of KBC Group and outstanding loan portfolio of KBC Group, 2021. Sectors for which targets are set are highlighted in brown. Most material climate-sensitive sectors and product lines (White Papers) and scope of target setting. Overview of the financed emissions distribution as reported in the [2021 Sustainability Report](#), including our clients Scope 1, 2 and 3 emissions. Loan book data per year-end 2021 data except for vehicle financing as per end of September 2021 data. Operational vehicle leasing is not included in the total loan portfolio of KBC Group (financed emissions are based on the net book value of leased vehicles). The totals can deviate from the sum of all categories due to rounding up.





# OUR TARGET SETTING IN OUR LENDING BUSINESS

Physical GHG intensity metrics (CO<sub>2</sub>e per physical metric)Financial GHG intensity metric (CO<sub>2</sub>e per one million (m) euros of outstanding exposure)

## Overview climate targets

White Paper	(Sub)sector in scope of target setting	Emission scope of climate target <sup>1</sup>		Scope of climate target	Climate target metric	2021 baseline <sup>2,3</sup>	Climate target expressed <sup>3</sup>	
		Scope 1	Scope 2				2030	2050
Energy	<b>Energy</b>	●	●	Whole sector	tonne CO <sub>2</sub> e/m euro outstanding	495	300 -39%	82 -83%
	Electricity	●	-	Electricity generation	kg CO <sub>2</sub> e/MWh	185	127 -31%	49 -74%
Real estate	<b>Commercial real estate and mortgages</b>	●	●	Whole sector excluding pure commercial real estate development	tonne CO <sub>2</sub> e/m euro outstanding	27	17 -38%	8 -72%
	Mortgages and commercial residential real estate	●	●	Mortgages and commercial residential real estate excluding pure development	kg CO <sub>2</sub> e/m <sup>2</sup> /year	50	29 -43%	7 -85%
Transport	Vehicle loans and financial lease	●	-	Passenger cars	g CO <sub>2</sub> /km	139	81 -42%	0 -100%
				Light commercial vehicles		208	145 -30%	33 -84%
	Vehicle operational lease	●	-	Passenger cars	g CO <sub>2</sub> /km	133	25 -81%	0 -100%
				Light commercial vehicles		196	132 -33%	19 -90%
Agriculture	<b>Agriculture</b>	●	●	Whole sector	tonne CO <sub>2</sub> e/m euro outstanding	1 405	-21% <sup>4</sup>	-34% <sup>4</sup>
Building and construction	<b>Cement</b>	●	●	Cement producers	tonne CO <sub>2</sub> /tonne cement	0.69	0.58 -16%	0.22 -68%
Metals	<b>Steel</b>	●	●	Iron and steel producers	tonne CO <sub>2</sub> /tonne steel	1.34	1.15 -14%	0.59 -56%
	<b>Aluminium</b>	●	●	Aluminium producers	tonne CO <sub>2</sub> e/tonne aluminium	0.65	Stay well below the global sectoral intensity climate benchmark	

<sup>1</sup> The calculation of our financed (Scope 3) GHG emissions for the purpose of our target setting include our clients' Scope 1 and Scope 2 emissions. As for vehicle loans and lease, Scope 2 emissions of the electric fleet are not taken into account, which is justifiable given the still limited share of electric vehicles at the end of the reporting period. Also for the electricity sector, Scope 2 emissions are out of scope since these are immaterial for primary electricity and heat production assets and/or companies.

<sup>2</sup> The baseline emission intensities are the result of updated calculations based on more accurate data where available and therefore may diverge from the initial PCAF-based or PCAF-inspired financed emissions as reported in our [2021 Sustainability Report](#). Also note that the reported 2021 emission intensity covers Scope 1 and 2 emissions, whereas the reported financed emissions in the [2021 Sustainability Report](#) in some cases additionally covered Scope 3 emissions.

<sup>3</sup> The baseline emission intensities and climate targets for our lending portfolio exclude KBC Ireland in view of the pending gradual exit from the Irish market and the associated agreement with the Bank of Ireland set to acquire the majority of KBC Bank Ireland's loan assets and deposits. They also exclude the recently acquired Raiffeisenbank (Bulgaria) EAD (acquisition closed in July 2022 and since then renamed as KBC Bank Bulgaria EAD).

<sup>4</sup> Target expressed as a reduction rate as we expect improvements in our baseline calculation.





# OUR TARGET SETTING IN OUR LENDING BUSINESS

## Overall climate target-setting approach

### Scenarios

We use several science-based scenarios to inform us of potential emission reduction pathways in line with the Paris Agreement goals. The targets derived from these science-based scenarios help us to deliver on our commitment to align our activities with the Paris Agreement.

For each sector, climate scenarios were selected based on various criteria, including the presence of relevant sectoral transition pathways data and geographic relevance. The scenarios selected meet the scenario criteria set out in the [UNEP FI Guidelines for Climate Target Setting for Banks](#). Please refer to the [technical appendix](#) for more information.

### Process

Our approach to target setting is based on climate science aligned with the Paris Agreement goals, which was the basis for our sector-specific portfolio alignment calculations (see [technical appendix](#) for more information). *Based on this scientific basis and taking into account their local context, all KBC entities put forward forecasts to estimate and assess the projected portfolio- and sector-specific decarbonisation evolution, ultimately culminating in business targets. All of the business targets are aggregated into one KBC Group level projection, which is set off against climate benchmarks that are derived from 'below 2°C'-aligned climate scenarios, i.e. pathways that are in line with our CCCA commitment.*

In line with the aforesaid UNEP FI Guidelines on Climate Target Setting, we are primarily focusing on emission-based targets. Where data and methodologies allow, we defined climate targets on *sector-relevant physical GHG intensity metrics*, which are expressed in CO<sub>2</sub>e per physical metric. A *financial GHG intensity metric* (CO<sub>2</sub>e per one million (m) euros of outstanding exposure) is used in cases where methodological or data constraints arose that kept us from defining a physical GHG intensity.



Physical GHG intensity metrics  
(CO<sub>2</sub>e per physical metric)



Financial GHG intensity metric  
(CO<sub>2</sub>e per one million (m) euros of outstanding exposure)

Each of the different baseline climate target metrics is a representation of the average GHG intensity of the portfolios and is established by the best available calculation standards and methods based on the data available to us. Our ['technical appendix'](#) describes this in greater detail.

### Next steps

By continuously measuring our progress, we should be able to assess if we are on the right track to achieve our predefined climate objectives. We will include the result of this monitoring exercise in our external annual reporting, in line with our commitment to the CCCA.

While we also closely monitor the ongoing Net Zero initiatives, we have chosen to focus on the diligent implementation of the targets presented in this report in all our lending business activities and in all of our core countries before taking on any new commitments. The insights in the White Papers and the current target process provide valuable input for adopting a future position on this topic.



# ENERGY

*Energy production, oil and gas, transmission and distribution*



The energy sector is a major contributor to the climate impact of the EU, accounting for 28% of total greenhouse gas (GHG) emissions<sup>3</sup>. The greening and electrification of the energy mix are expected to have an immediate and direct positive effect on emissions and to create positive leverage for the decarbonisation of end-use energy consumers such as industry, buildings and transport.

According to an initial estimate, the energy sector accounted for 10% of the total emissions financed through KBC's loan portfolio at the end of 2021. The energy sector is therefore one of the priority sectors for KBC group. The sector is in need of major climate mitigation measures and investments over the next decade.

<sup>3</sup> 2019 data European Environmental Agency (EEA): [EEA greenhouse gases data viewer](#)



# OUR TARGET SETTING IN OUR LENDING BUSINESS – ENERGY



## Energy

*Energy production, oil and gas, transmission and distribution*

## Context

The EU energy sector is facing multiple challenges. The EU Green Deal clearly shows that the EU is seeking to become the first climate-neutral continent. The EU aims to achieve this goal through the implementation of the 'Fit for 55' package.

On the eve of this large-scale transformation of the energy system, the Ukraine war is putting additional pressure on energy security and affordability. This event has increased the need to further accelerate the transition towards a more independent and cleaner energy system, and at the same time prompted some countries to reconsider their fossil fuel supply chains in the short term.

It should be noted that the energy sector finds itself at different stages of transition across Europe. In Belgium for instance, thermal coal is no longer part of the power supply, whereas the Central European region still greatly relies on thermal coal for a substantial portion of its power and heat supply. This has become apparent during our White Paper exercise and has influenced KBC's target setting work across its core countries.

## KBC portfolio

### Loan exposure

At year-end 2021, KBC's outstanding loan volume to the energy sector was 4.1 billion euros, which represented 2% of KBC's lending portfolio. The bulk of this portfolio relates to the financing of renewable energy production, transmission and distribution.

## Financed emissions

According to the [2021 Sustainability Report](#) financed emissions calculations, the energy sector accounts for around 10% of the GHG emissions financed by KBC (5.9 Megatonnes of CO<sub>2</sub>e).

## Objectives

### Policy choices

KBC actively contributes to the decarbonisation of the energy sector. The direct coal exposure in our loan portfolio was already reduced to zero in 2021. Our aim is to also encourage all clients to transition away from coal, even when we would finance those activities only indirectly. KBC also stopped financing the exploration and extraction of all new oil and gas fields in 2021. In addition vertically integrated energy companies that operate in the field of the extraction of oil and gas are subjected to additional requirements.

### Tightened renewable energy target<sup>4</sup>

In 2022, KBC has set a raised and ambitious renewable energy target to further support the transition towards a low emission energy system. By 2030, the proportion of financed renewable energy should be at least 75% of the energy sector (excluding transmission and distribution). As per the end of June 2022, 66% of KBC's total granted loan portfolio to the energy sector (excluding transmission and distribution) is invested in renewable energy.

Renewable energy	2020	2021	2Q 2022	2030 Target
Share of renewables in the total energy loan portfolio (excluding transmission and distribution)	61%	63%	66%	minimum 75%

<sup>4</sup> Please note that the scope for the calculation of this target is the result of a sector-based portfolio calculation and hence not fully comparable with the more focused asset- and activity-based selection used for the other energy-related targets mentioned in this chapter.



# OUR TARGET SETTING IN OUR LENDING BUSINESS - ENERGY

## Targets

KBC has defined reduction targets for the financial GHG intensity of the energy sector as a whole and for the physical GHG intensity of the electricity generation sector in specific.

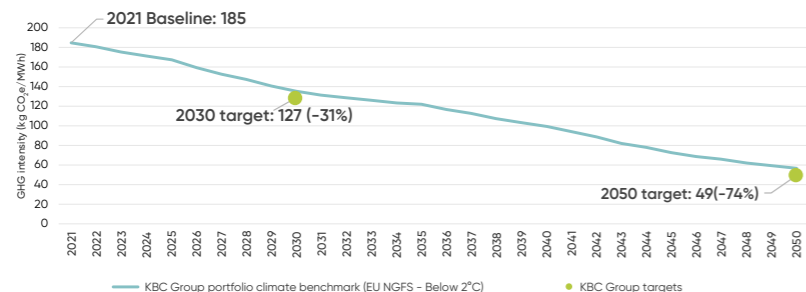
## Electricity producers

For the sub-sector of electricity producers, a physical target was expressed in kilos of CO<sub>2</sub>e per megawatt-hour. The target is slightly more ambitious than those projected in the 'below 2°C' reference scenario. Our projections take account of specific local contexts. For example, the planned replacement of nuclear power plants by gas-fired power plants in Belgium, which may temporarily result in increased emissions.

Electricity 	Baseline 2021 (kg CO <sub>2</sub> e/MWh)	2030 target (kg CO <sub>2</sub> e/MWh)	2050 target (kg CO <sub>2</sub> e/MWh)
Aggregated KBC Group target	185 	127	49
Percentage reduction		-31%	-74%

## Electricity GHG intensity targets (kg CO<sub>2</sub>e/MWh)

The graph with baseline 2021 shows the 2030 and 2050 KBC targets (dots) for this loan portfolio and the main climate benchmark (line) that has informed our target setting.



## Overall energy sector

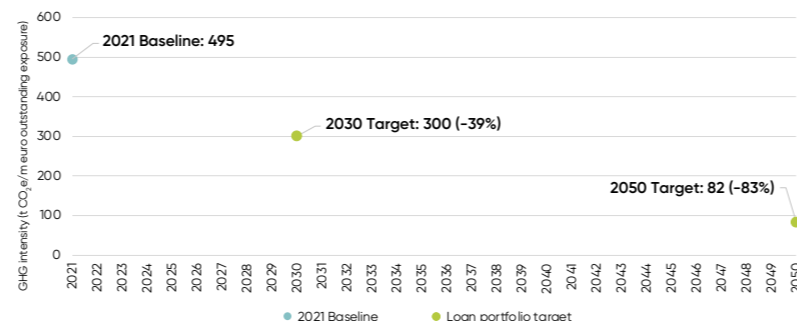
For the energy sector as a whole, a financial target has been set, expressed in tonnes of CO<sub>2</sub>e per one million euros of outstanding exposure. This target applies to the entire energy sector, i.e. including the transmission, distribution and the oil and gas sub-sectors for which currently insufficient data and methodologies are available to express physical emission intensity targets.

Energy whole sector 	Baseline 2021 (t CO <sub>2</sub> e/m euro)	2030 target (t CO <sub>2</sub> e/m euro)	2050 target (t CO <sub>2</sub> e/m euro)
Aggregated KBC Group target	495 	300	82
Percentage reduction		-39%	-83%

The financial targets have not been adjusted for inflation.

## Energy GHG intensity targets (t CO<sub>2</sub>e/m euro outstanding exposure)

Scenario benchmarks are not shown in these charts, as this sector consists of a combination of several sub-sectors for some of which the necessary data are lacking and/or for which no uniform scenario benchmarks exist.



## Actions

In general, KBC supports the energy plans of the local authorities in our home countries. These comply with the rules of the European 'Fit for 55' package and the green deal ambition plan. KBC is committed to contributing to renewable energy solutions. As one of the leading banks in offshore wind farm financing, we advise corporates and Small and Medium-sized Enterprises (SMEs) about energy optimisation and help private individuals make their homes more energy efficient.



# REAL ESTATE

*Mortgages, residential and non-residential commercial real estate*



The real estate sector accounts for 40% of total energy consumption in the EU and is responsible for around 13% of total greenhouse gas (GHG) emissions<sup>5</sup>. The vast majority of the existing building stock in Europe is energy-inefficient, so the potential savings are huge.

The sector is of great importance to KBC as it represents almost half of KBC's total outstanding loan exposure and accounts for an estimated eighth of the total financed GHG emissions. This being the case, KBC is able and fully intent on making a substantial contribution to the sector's decarbonisation.

<sup>5</sup> 2019 data European Environmental Agency (EEA): [EEA greenhouse gases dataviewer](#)



# OUR TARGET SETTING IN OUR LENDING BUSINESS – REAL ESTATE



## Real estate

Mortgages, residential and non-residential commercial real estate

## Context

Mixed forces are influencing renovation trends in the real estate sector. For many years, the EU has had a regulatory framework in place, imposing high energy-efficiency standards

on new buildings. However, with its 'Fit for 55' package, the EU is now also laying down rules targeting the radical renovation of existing buildings and the replacement of polluting energy technologies. All EU Member States will be required to facilitate and encourage this endeavour through amongst others gradual financial incentives, when and where possible. At the same time, high energy prices are acting as additional impetus to invest in renewable energy technologies and deep renovation, whereas, by contrast, high commodity prices may act as a brake given the subsequent rapidly increasing construction costs they trigger.

## KBC portfolio Loan exposure

Real estate financing accounts for around 47% of KBC's total outstanding loan portfolio. Retail mortgage loans are a core financial product in all our core countries, accounting for financing of 77.6 billion euros at year-end 2021. Commercial real estate financing<sup>6</sup> for developers and investors amounted to 11.5 billion euros in the same year.

## Financed emissions

According to the [2021 Sustainability Report](#) financed emissions calculations, KBC's real estate portfolio accounts for around 12% of the total GHG emissions financed by KBC, of which 3% relates to mortgage loans and 9% to commercial real estate. In total, this amounts to around 6.9 Megatonnes CO<sub>2</sub>e (Mt CO<sub>2</sub>e) in 2021.

<sup>6</sup> Commercial real estate finance relates to the development of or investment in real estate assets (or a portfolio of such assets) by property developers or investors, which are subsequently sold or let to third parties.

## Targets

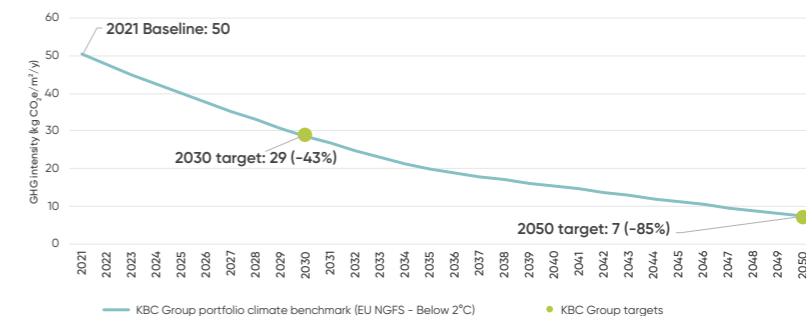
### Residential property

For the residential property sector (financed both privately and commercially), a target was set for the relative emission intensity of CO<sub>2</sub>e emitted per financed m<sup>2</sup> per year. The target scope focuses on emissions from building operations and therefore includes real estate ownership and investments but excludes pure commercial real estate development as this financing exclusively relates to the construction phase.

Residential real estate	Baseline 2021 (kg CO <sub>2</sub> e/m <sup>2</sup> /y)	2030 target (kg CO <sub>2</sub> e/m <sup>2</sup> /y)	2050 target (kg CO <sub>2</sub> e/m <sup>2</sup> /y)
Aggregated KBC Group target	50	29	7
Percentage reduction		-43%	-85%

### Residential real estate GHG intensity targets (kg CO<sub>2</sub>e/m<sup>2</sup>/y)

The graph with baseline 2021 shows the 2030 and 2050 KBC targets (dots) for this loan portfolio and the main climate benchmark (line) that has informed our target setting.





# OUR TARGET SETTING IN OUR LENDING BUSINESS – REAL ESTATE

## All real estate

For the commercial real estate sector (including business premises, schools and shops), there is currently a lack of data to set physical GHG emission intensity targets. Therefore, a financial emission intensity target was set for the real estate sector as a whole, in addition to the targets for residential real estate. The target scope focuses on emissions from building operations and is therefore limited to real estate ownership and investments. Pure commercial real estate development is excluded as such financing exclusively relates to the construction phase. This target is expressed in financed tonnes of CO<sub>2</sub>e per one million euros.

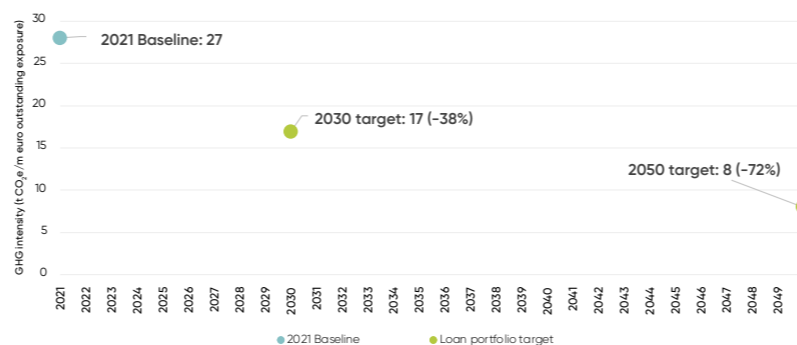
Real estate whole sector	Baseline 2021 (t CO <sub>2</sub> e/m euro)	2030 target (t CO <sub>2</sub> e/m euro)	2050 target (t CO <sub>2</sub> e/m euro)
Aggregated KBC Group target	27	17	8
Percentage reduction		-38%	-72%

The financial targets have not been adjusted for inflation.

Real estate GHG intensity targets (t CO<sub>2</sub>e/m euro outstanding exposure)



Scenario benchmarks are not shown in these charts, as this sector consists of a combination of several sub-sectors for some of which the necessary data are lacking and/or for which no uniform scenario benchmarks exist.



## Actions

To achieve these targets, KBC will seek to encourage its clients to improve the energy performance of their properties, and also focus on real estate with a (more) favourable EPC (Energy Performance Certificate) rating. We will do so by sharing information on sustainable construction and renovation, advising on subsidies, working with partners on energy efficiency exercises and the supervision of constructions or renovations. We also aim to gradually offer the best available interest rates on loans for buildings with a favourable EPC rating and/or incentivise this aspect through energetic renovation upon purchase, in many cases backed by government support.

Note: These targets are set and expressed against a background in which not all of KBC's home countries already have government schemes and incentive packages in place to substantially boost the much needed building energy efficiency improvements.



# TRANSPORT

*Automotive sector and vehicle financing (loans and lease)*



The transport sector, including the production, maintenance and use of transport infrastructure and mobility equipment, accounts for more than a third of total energy consumption in OECD countries, and is responsible for almost a third of greenhouse gas (GHG) emissions in Europe. Within the sector, road transport is responsible for 72% of emissions, followed by shipping (14%), aviation (13%) and finally rail traffic (0.5%).<sup>7</sup>

The majority of KBC's outstanding exposure in this sector is to road transport, which is consequently also the scope boundary of our White Paper on transport. For the remaining part of this section, the term "transport" is used to refer to "road transport". As a leading bank KBC wants to support and finance the decarbonisation of road transport. The first step is the car and light commercial vehicle market, where electrification is ready for broad adoption.

<sup>7</sup> 2019 data European Environmental Agency (EEA): [EEA greenhouse gases dataviewer](#)





## OUR TARGET SETTING IN OUR LENDING BUSINESS – TRANSPORT

### Transport

*Automotive sector and vehicle financing (loans and lease)*

#### Context

The ambitions set out in the EU 'Fit for 55' package state that, by 2030, vehicle emissions should be 55% below their 1990 levels. For passenger transport, it is expected that as from 2035 all new passenger cars should be electric. Additionally, the use of bicycles and public transport is being promoted. Driving down emissions from light commercial vehicles and road freight transport is more complicated. The electrification of trucks is difficult due to the weight of both vehicle (with cargo) and battery. For light commercial vehicles, major progress on the electrification front is expected only after 2030. It is hoped that the emissions of heavy trucks – which are currently the biggest source of emissions from transport – will be achieved through the use of 'green hydrogen'. However, this technology is currently not ready to be rolled out full scale. Finally, greater use of rail and shipping could also contribute to the reduction of emissions from freight transport and should be promoted.

#### KBC portfolio

##### Loan exposure

At year-end 2021, the outstanding loan amount to the automotive sector was 4.6 billion euros, representing 2% of KBC's lending portfolio. The amount of outstanding vehicle loans (loans and financial lease) reached 4.3 billion euros while the outstanding book value of operational vehicle leases amounted to 1.3 billion euros (data as per 30 September 2021).

#### Financed emissions

The automotive sector accounts for around 3% of KBC's financed GHG emissions. Apart from that, vehicle loans and leases account for 2% (loans and financial and operational leases). Taking both segments together, the [2021 Sustainability Report](#) financed emissions calculations suggest that KBC financed 3.2 Megatonnes CO<sub>2</sub>e in 2021.

#### Targets






In our target setting we focused on vehicle financing (both loans and financial leasing and operational leasing). The focus moreover is on passenger cars and light commercial vehicles due to the lack of technological readiness to drive down the emissions from road freight transport.

For car manufacturers and their suppliers, KBC has not yet set climate targets because the composition of this portfolio is so diverse that it makes it difficult to set uniform targets at this point in time.

#### Passenger cars and light commercial vehicles

KBC's targets for loans and financial and operational leasing apply to passenger cars and light commercial vehicles. In order to be able to compare with vehicle market standards, the target applies on a physical CO<sub>2</sub> intensity metric based on the full emission intensities of the vehicles in our portfolio, rather than the financed share.

Based on our current and broad-based understanding of the CO<sub>2</sub> impact associated with our passenger car and light commercial vehicle financing activities, we were able to set detailed climate targets. We deploy our financial leverage to further foster the electrification of the sector and as such generate a positive climate impact. Each country is adopting the electrification trend at its own pace, with the leasing of passenger cars as the fastest sub-segment in the adoption.

Passenger cars and light commercial vehicles 		Baseline 2021 (g CO <sub>2</sub> /km)	2030 target (g CO <sub>2</sub> /km)	2050 target (g CO <sub>2</sub> /km)
Passenger cars loan and financial lease	Aggregated KBC Group target	139 	81	0
	Percentage reduction		-42%	-100%
Light commercial vehicle loan and financial lease	Aggregated KBC Group target	208 	145	33
	Percentage reduction		-30%	-84%
Passenger cars operational lease	Aggregated KBC Group target	133 	25	0
	Percentage reduction		-81%	-100%
Light commercial vehicle operational lease	Aggregated KBC Group target	196 	132	19
	Percentage reduction		-33%	-90%



# OUR TARGET SETTING IN OUR LENDING BUSINESS – TRANSPORT

## Road freight transport

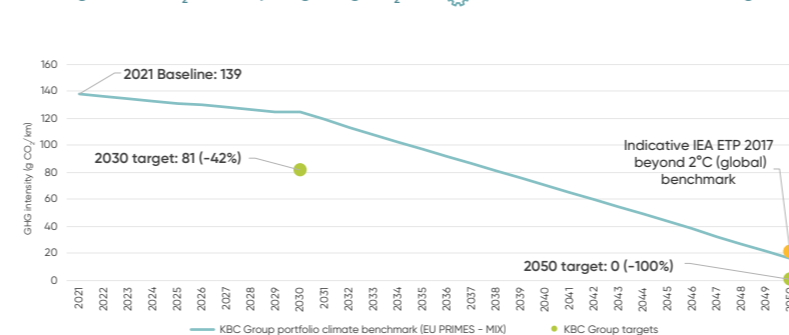
Although KBC is not yet able to set quantified climate targets for road freight transport, it has decided to stop financing trucks that do not meet specific environmental standards<sup>8</sup> as from 1 January 2022. Moreover, KBC maintains a cautious stance on promoting compressed natural gas (CNG). Once technical solutions become available for the road freight transport sector, we will reconsider our approach and set targets to support this transition.

## Actions

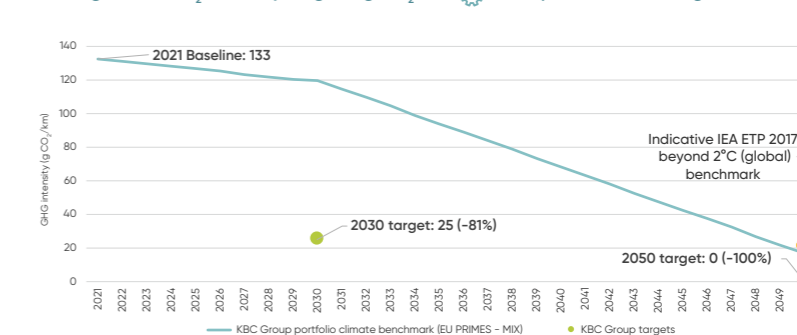
To achieve these goals, KBC is looking to encourage its clients to make greener transport choices: using 100% or part-electric vehicles, public transport, cycling or a combination of these modes. In some core countries, KBC already offers bicycle leasing and bicycle insurance. New services and targeted pricing will make the choice of alternative forms of transport even more attractive.

The graphs with baseline 2021 show the 2030 and 2050 KBC targets (dots) for these portfolios and the main climate benchmark (lines) that has informed our target setting.

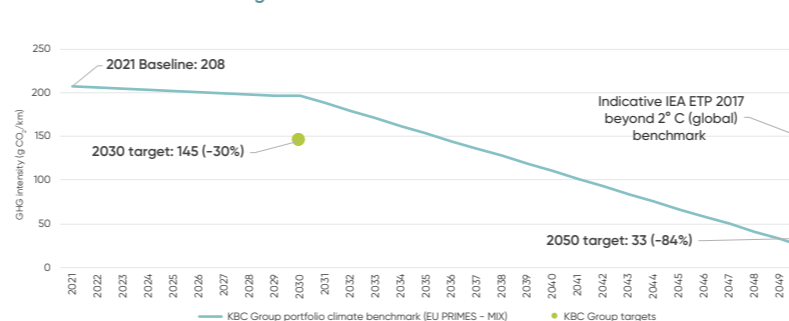
### Passenger cars CO<sub>2</sub> intensity targets (g CO<sub>2</sub>/km) – loans and financial leasing



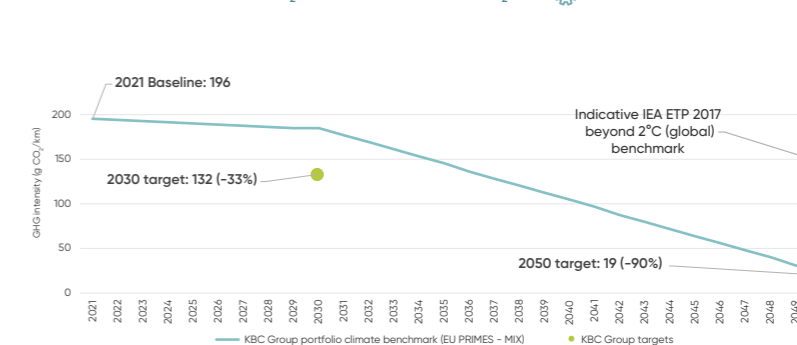
### Passenger cars CO<sub>2</sub> intensity targets (g CO<sub>2</sub>/km) – operational leasing



### Light commercial vehicles CO<sub>2</sub> intensity targets (g CO<sub>2</sub>/km) – loans and financial leasing



### Light commercial vehicles CO<sub>2</sub> intensity targets (g CO<sub>2</sub>/km) – operational leasing



<sup>8</sup> Substantially all financed vehicles need to comply with the Euro VI emissions standards.



# AGRICULTURE



Agriculture is responsible for an estimated 13% of EU greenhouse gas (GHG) emissions<sup>9</sup>. Over half of these emissions result from livestock breeding for food production. Rather than CO<sub>2</sub>, the main GHGs emitted by the sector are methane and nitrous oxide. The fact that most of these emissions result from biological processes is unique to the sector.

At the end of 2021, agriculture represented 3% of our total loan portfolio. Moreover, according to an initial estimate, agriculture accounted for 17% of our total financed GHG emissions. Agriculture is therefore an important sector, both from a financial and a climate perspective.

<sup>9</sup> 2019 data European Environmental Agency (EEA): [EEA greenhouse gases dataviewer](#)



## OUR TARGET SETTING IN OUR LENDING BUSINESS – AGRICULTURE



### Agriculture

#### Context

The agricultural sector has a major impact on climate change and, at the same time, is at risk of becoming severely affected by the physical effects of climate change, such as the expected increased occurrence of heat waves, periods of drought or excessive rainfall. As part of its Farm to Fork Strategy, the EU also has ambitions for this sector. Also, within the framework of the new Common Agricultural Policy, sustainability has gained importance, through the incorporation of social, economic and environmental sustainability requirements (on top of previously existing conditions) imposed for agricultural grants. Member States are currently still finalising their plans on how to incorporate these requirements in national action plans.

Agriculture is a highly heterogeneous sector, comprised of various activities such as arable, cattle, swine and poultry farming and greenhouse cultivation. The sector is unique due to its widely dispersed nature as well as its embeddedness within and dependence on biological sources. Moreover, the sector is by far the largest source of non-CO<sub>2</sub> emissions, such as methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). Methane emissions are predominantly generated through ruminant digestion, whereas nitrous oxide mostly emanates from manure and fertiliser applications. Finally, energy use is the main source of carbon dioxide (CO<sub>2</sub>) emissions in the agricultural sector.

Even though agriculture contributes to climate change, it may also play a role in combating global warming. This can be done through the reduction of emissions on the one hand, and the sequestration of CO<sub>2</sub> on the other (e.g. through the application of carbon farming practices).

Finally, the agricultural sector is challenged by other environmental factors which require urgent transformative action, such as biodiversity. KBC is prepared to support its clients on this journey.

#### KBC portfolio

##### Loan exposure

At the end of 2021, agriculture represented 3% of the total outstanding loan portfolio with a credit exposure of 5.2 billion euros. In terms of associated activities, financed arable and greenhouse farming accounted for approximately 40%, animal farming for 31% and mixed farming for 29%.

##### Financed emissions

Based on the [2021 Sustainability Report](#) financed emissions calculations, KBC's agricultural portfolio represented approximately 17% of total financed GHG emissions amounting to 9.5 Megatonnes of CO<sub>2</sub>e (Mt CO<sub>2</sub>e) in 2021.

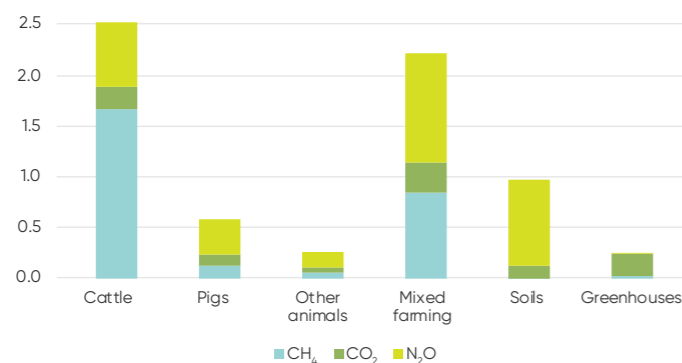


# OUR TARGET SETTING IN OUR LENDING BUSINESS - AGRICULTURE

## Targets

We are confronted with substantial constraints in terms of non-financial data availability for our agricultural portfolio. Yet, KBC was not prepared to waste time in setting climate targets for this sector, given the associated climate relevance. The PCAF scope 1 and 2 emission factors (score 5 - poorest quality) constitute the basis for our baseline emission intensity estimates (see [technical appendix](#) for more information). We are mindful that the quality of the emission intensity calculation should improve over time as we gradually gather the necessary data for this sector. If newly available data were to lead to significant changes from our initial base year, a new, more accurate baseline may need to be considered, without compromising the targets currently set out.

Financed emissions (Mt CO<sub>2</sub>e) PCAF score 5, Scope 1 and 2



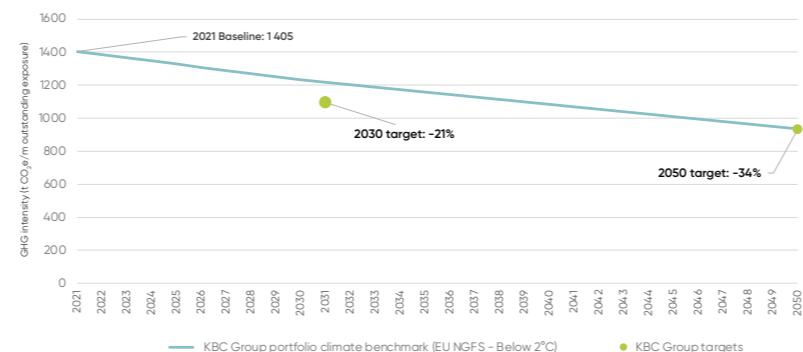
Based upon our initial estimates, KBC's loan agricultural portfolio accounts for a financed emission intensity of 1 405 tonnes of CO<sub>2</sub>e per one million euros. The 21% reduction that KBC seeks to achieve by 2030 is more ambitious compared to the 12% as projected to be minimally required under the 'below 2°C' scenario. As the uncertainty level of any forecasts increases as it moves further in time, we have aligned our 2050 target reduction rate with that of the 'below 2°C' scenario benchmark.

Agriculture	Baseline 2021 (t CO <sub>2</sub> e/m euro)	2030 target (t CO <sub>2</sub> e/m euro)	2050 target (t CO <sub>2</sub> e/m euro)
Percentage reduction	1 405	-21%	-34%

The financial targets have not been adjusted for inflation.

Agriculture GHG intensity targets (t CO<sub>2</sub>e/m euro outstanding exposure)

The graph with baseline 2021 shows the 2030 and 2050 KBC targets (dots) for this loan portfolio and the main climate benchmark (line) that has informed our target setting.



## Actions

Going forward, KBC will inform, inspire and support its clients in achieving methane and nitrous oxide reductions, perform carbon footprint calculations, and support and encourage efficiency improvements and renewable energy investments.

In some of KBC's home countries government ambitions or plans have entered a final and conclusive stage. The lack of such ambitions or plans for other home countries challenges our understanding of how the transition is likely to unfold in the sector. Decisive government policy will be crucial to enable the sector to become a resilient and sustainable partner in climate mitigation without compromising the need for food safety and food supply.



# CEMENT - STEEL - ALUMINIUM



The industrial sectors of cement, steel and aluminium are highly carbon-intensive and are responsible for the majority of global industrial greenhouse gas (GHG) emissions. Their substantial climate impact has also led us to define targets for these sectors, in spite of our relatively small loan exposure to the aforementioned sectors<sup>10</sup>.



<sup>10</sup> In line with the way in which we have approached our PACTA analyses in recent years, our targets are calculated on corporate industrial counterparties (i.e. excluding SME portfolios). This approach is motivated by the fact that these upstream activities are typically performed by large corporate industrial players.



# OUR TARGET SETTING IN OUR LENDING BUSINESS – CEMENT – STEEL – ALUMINIUM

## Cement – Steel – Aluminium

### The importance of these sub-sectors

All three sub-sectors are included in our existing White Paper scope. The steel and aluminium sub-sectors are part of the metals sector White Paper; the cement sub-sector is part of the building and construction White Paper. These three sub-sectors are carbon-intensive and are hard to decarbonise with the technologies that currently exist. This means that innovation – for instance, by using Carbon Capture and Storage (CCS) and hydrogen in some parts of the various production processes – will be essential in achieving emissions reductions and sequestration. Many major players are aware of the climate impact of their activities and are showing commitment to come up with innovative and cleaner solutions.

We included these three sub-sectors in our target setting because of their unequivocal climate impact, in spite of KBC’s relatively small and concentrated lending exposure (overall, the aggregated portfolio represents less than 0.5% of KBC Group’s total outstanding loan portfolio and is spread across around thirty companies). Also, the [UNEP FI Guidelines on Climate Targets](#) require us to set climate targets on these sectors. However, because of the small and concentrated exposure, we have chosen to calculate the loan-weighted baseline GHG intensity of these three sectors based on the granted exposure to the respective underlying companies.



### Cement Context

The cement sector ranks second among all heavy industries in terms of CO<sub>2</sub> emissions and is one of the largest energy consumers, with direct emissions accounting globally for roughly 26% of industrial emissions<sup>11</sup>.

### KBC portfolio

Cement is a sub-sector in our building and construction portfolio. Our target setting for this sub-sector is based on a **granted** exposure of 118 million euros. In terms of outstanding exposure, the sub-sector represents only an approximated 0.01% of KBC Group’s total outstanding loan portfolio, but contributes an estimated 0.3% to the total GHG emissions financed by KBC, or 189 kilotonnes of CO<sub>2</sub>e in 2021<sup>12</sup>.

### Targets

Cement 	Baseline 2021 (t CO <sub>2</sub> /t cement)	2030 target (t CO <sub>2</sub> /t cement)	2050 target (t CO <sub>2</sub> /t cement)
Aggregated KBC Group target	0.69 	0.58	0.22
Percentage reduction		-16%	-68%

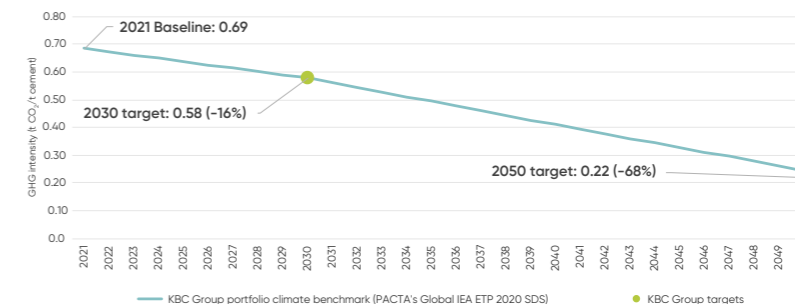
As the main GHG associated with cement production is CO<sub>2</sub>, emissions measured in tonnes of CO<sub>2</sub> and tonnes of CO<sub>2</sub>e are roughly the same

<sup>11</sup> IEA (2021), Energy Technology Perspectives 2020. All rights reserved.

<sup>12</sup> As this sector belongs to the building and construction sector, no separate financed emissions calculation was performed for this sub-sector in our [2021 Sustainability Report](#). Calculation covers only Scope 1 and 2 emissions and is based on granted exposure, which is conservative as not all loans have been effectively drawn. For the three sectors combined (steel, aluminium and cement), a calculation of Scope 1 and 2 emissions based on outstanding exposure would result in an estimated 0.3% of the financed emissions in KBC Group’s total loan portfolio as at year-end 2021.

### Cement CO<sub>2</sub> intensity targets (t CO<sub>2</sub>/t cement)

The graph with baseline 2021 shows the 2030 and 2050 KBC targets (dots) for this loan portfolio and the main climate benchmark (line) that has informed our target setting.



As the main GHG associated with cement production is CO<sub>2</sub>, emissions measured in tonnes of CO<sub>2</sub> and tonnes of CO<sub>2</sub>e are roughly the same

### Steel Context

The steel sector<sup>13</sup> ranks first among all heavy industries in terms of CO<sub>2</sub> emissions and is one of the largest energy consumers, with direct emissions accounting globally for roughly 7% of total energy sector emissions and 28% of industrial emissions<sup>14</sup>.

### KBC portfolio

KBC has based its target setting on a 639-million-euro **granted** exposure to this sub-sector in its metals loan portfolio. In terms of outstanding exposure, the sub-sector represents around 0.2% of KBC Group’s total outstanding loan portfolio, but contributes an estimated 0.6% to the total GHG emissions financed by KBC, or 359 kilotonnes of CO<sub>2</sub>e in 2021<sup>16</sup>.


<sup>13</sup> For the purpose of this report, the scope of this sub-sector includes iron and primary and secondary steel production.

<sup>14</sup> IEA (2021), Energy Technology Perspectives 2020, All rights reserved.



# OUR TARGET SETTING IN OUR LENDING BUSINESS – CEMENT – STEEL – ALUMINIUM

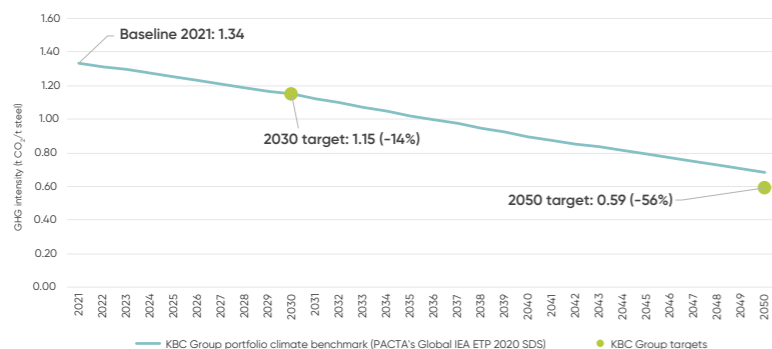
## Targets

Steel 	Baseline 2021 (t CO <sub>2</sub> /t steel)	2030 target (t CO <sub>2</sub> /t steel)	2050 target (t CO <sub>2</sub> /t steel)
Aggregated KBC Group target	1.34 	1.15	0.59
Percentage reduction		-14%	-56%

As the main GHG associated with steel production is CO<sub>2</sub>, emissions measured in tonnes of CO<sub>2</sub> and tonnes of CO<sub>2</sub>e are roughly the same.

### Steel CO<sub>2</sub> intensity targets (t CO<sub>2</sub>/t steel)

The graph with baseline 2021 shows the 2030 and 2050 KBC targets (dots) for this loan portfolio and the main climate benchmark (line) that has informed our target setting.



## Aluminium Context

The aluminium sector is the fourth largest industrial emitter of global direct CO<sub>2</sub>e emissions. Primary aluminium production is highly energy-intensive and approximately ten times more energy-intensive than secondary production<sup>15</sup>.

<sup>15</sup> IEA (2021), Aluminium tracking report, <https://www.iea.org/reports/aluminium>. All rights reserved.

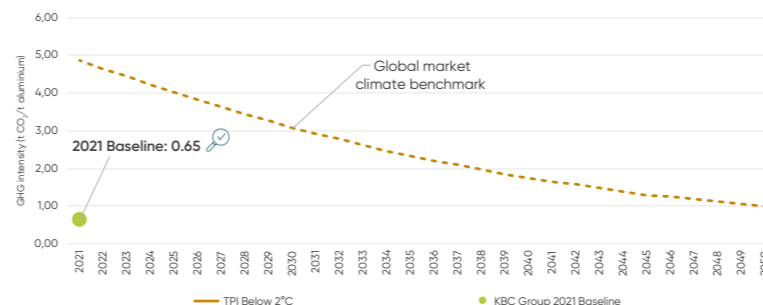
## KBC portfolio

KBC has based its target setting on a 19-million-euro **granted** exposure to this sub-sector in its metals portfolio. In terms of outstanding exposure, the sub-sector accounts for around 0.01% of KBC's overall outstanding loan portfolio. Clearly, the exposure is small. Moreover, the current exposure is mainly to secondary production companies. The financed emissions of this portfolio therefore account only for roughly 0.01% of the total GHG emissions financed by KBC, or 5.6 kilotonnes of CO<sub>2</sub>e in 2021<sup>16</sup>.

## Targets

### Aluminium GHG intensity pathway (t CO<sub>2</sub>e/t aluminium)

In contrast to the other graphs in this report, the line in this graph is not a KBC-specific portfolio pathway but sets out the decarbonisation pathway for the whole global aluminium sector compared to KBC's current weighted portfolio CO<sub>2</sub>e intensity (dot).



<sup>16</sup> As this sector belongs to the metals sector, no separate financed emissions calculation was performed for this sub-sector in our [2021 Sustainability Report](#). Calculation covers only Scope 1 and 2 emissions and is based on granted exposure, which is conservative as not all loans have been effectively drawn. For the three sectors combined (steel, aluminium and cement), a calculation of Scope 1 and 2 financed emissions based on outstanding exposure would result in an estimated 0.3% of the financed emissions in KBC Group's total loan portfolio as at year-end 2021.

We have set a qualitative target in view of the relatively minor exposure to the aluminium sector and the fact that the calculated CO<sub>2</sub>e intensity of our portfolio is far lower than the global market. We strive to remain below the current and future necessary intensity of the global aluminium production sector at all times and have put in place internal policies to ensure we reach our targets.

## Actions

Going forward, we expect all new clients operating in these sub-sectors to commit to a CO<sub>2</sub>e intensity of their activities that is in line with the targets set by KBC. For cement and steel, this means that we expect new clients to commit to or have in place a 2030 target for their CO<sub>2</sub> intensity that is at least commensurate with the level of the KBC targets set for these sectors.

For aluminium, new clients are expected to commit to or have in place at least a 2030 CO<sub>2</sub>e intensity of their activities that is below the 2030 global market benchmark. Finally, going forward, we will monitor progress of the decarbonisation strategies of our clients through active engagement. We intend to schedule annual follow-up visits to our existing clients in these sectors to monitor progress on their climate commitments.





# ASSET MANAGEMENT

At the end of 2021, the Responsible Investing portfolios managed by KBC Group totalled 31.7 billion euros. This amount is continuing to grow: for every new 100 euros invested, 55 euros are invested responsibly. In Belgium this figure even stands at 64 euros.

These assets, held in portfolios which invest responsibly, give KBC Asset Management the leverage to support the transition towards a carbon-neutral society.





# OUR TARGET SETTING IN OUR ASSET MANAGEMENT

## Context

The Sustainable Finance Disclosure Regulation (SFDR) is a European Regulation governing the provision of information on sustainability in the financial sector. It divides investment funds into three sustainability categories to help guide investors through the options open to them.

- **Article 6:** Conventional funds, funds that have not defined any sustainable objectives or are not in a position to calculate the outcomes.
- **Article 8:** Funds that promote a combination of environmental and/or social characteristics.
- **Article 9:** Funds that have a sustainable objective and where the specific contribution to this objective can be measured and reported.

All of KBC’s Responsible Investing funds qualify as article 8 or article 9 funds.

To qualify as an **article 8 fund**, funds must promote environmental and/or social characteristics. With this in mind, KBC Asset Management promotes and focuses, in amongst other things, on reducing carbon-intensity. These funds pursue clear objectives in relation to carbon-intensity and are managed accordingly. They are referred to as **Responsible funds** and are a sub-category of the Responsible Investing funds of KBC Asset Management.

To qualify as an **Article 9 fund** – which includes **KBC’s ECO-thematic and Impact Investing funds** (the two other sub-

categories of the Responsible Investing funds of KBC Asset Management) – funds must pursue sustainable investments and make a real and measurable contribution towards achieving this goal. In order to be included as part of its article 9 funds, KBC Asset Management selects companies which, in amongst other things, deliver a demonstrable contribution towards the climate transition, such as companies operating in areas such as alternative energy and efficient energy use for instance.

## KBC portfolio Assets under distribution (AUD)

At the end of 2021, all funds which qualify as SFDR article 8 and article 9 funds jointly accounted for 32.5% of total assets under distribution at KBC Asset Management. Investments in Responsible Investing funds have grown massively, with no less than a twelfold increase over the last five years.

## Exclusion criteria

### Exclusion of thermal coal from all investments

All of KBC’s actively managed investment funds exclude companies that deal with the extraction of thermal coal, as well as utility companies that use thermal coal to generate electricity. The reason for this policy is the high carbon-intensity of thermal coal and the fact that alternatives are available. An exception is made for coal that is used for the production of steel (metallurgical coal). The reason being that, except in the case of recycling, coal is essential for the efficient production of steel. Another exception is foreseen for bonds used to finance green projects of companies that do not meet the exclusion criteria for thermal coal.

Exclusion of fossil fuels from Responsible Investing funds  
KBC excludes all fossil fuels – being oil and gas in addition to thermal coal – from its Responsible Investing funds. Companies that operate in the energy sector (i.e. companies involved in the exploration, production, refining, marketing, servicing, transport and storage of oil and gas) are all excluded, as are coal mining companies. Utility companies are considered for inclusion only if they are committed to producing reliable, safe, low-carbon and energy-efficient electricity. One exception are bonds used to finance green projects and issued by companies that are excluded purely on the basis of this policy.

## Objectives

### Objectives with regard to sales targets for Responsible Investing funds

Firstly, by 2030 KBC aims to derive 65% of its gross sales from Responsible Investing funds at group level. Secondly, in terms of % in total AUD in Responsible Investing funds, KBC wants to reach a target of 45% by 2025 and 55% by 2030.

Responsible Investing Responsible investing	Baseline 2021	2025 target	2030 target
Responsible Investing funds in % of total annual fund production (gross sales)	55%	-	65%
Responsible Investing funds in % of total assets under distribution (AUD)	33%	45%	55%



## OUR TARGET SETTING IN OUR ASSET MANAGEMENT

### Objectives with regard to decarbonisation of corporate investments in Responsible funds

KBC Asset Management wants to drive down the carbon intensity (Scope 1 + 2) of the corporate investees in Responsible funds by 50% versus the end of 2019 reference<sup>1</sup> values, by 2030.

The metric used is the number of tonnes of CO<sub>2</sub>e emitted per million US dollars in turnover (t CO<sub>2</sub>e/\$M turnover) for companies.

The calculations are based on the Trucost data and methodology. The data of Trucost, a daughter of S&P, are used to map carbon emissions to companies in our portfolios. For more details on the methodology and the assumptions, please refer to the [2021 Sustainability Report](#).

The amount of CO<sub>2</sub> emitted by a company is the sum of:

- direct CO<sub>2</sub> emissions stemming from the company's own activities (Scope 1 emissions); and
- indirect CO<sub>2</sub> emissions deriving from the generation of purchased electricity (Scope 2 emissions).

Given the scarcity of data, indirect CO<sub>2</sub> emissions caused by the activities of suppliers, clients, etc. (Scope 3 emissions) are currently not included in this sum total.

### Actions

KBC will ask its investors about their preferences with regard to sustainability. These preferences will be incorporated and taken into account in all investment advice given by KBC, to ensure that clients always receive appropriate advice within the parameters of their preferences.

In addition, KBC Asset Management signed up to the collective engagement initiative Climate Action 100+ in 2020, an investor-led initiative to systematically engage with major greenhouse gas (GHG) emitters and other companies across the global economy that have significant opportunities to drive the transition towards clean energy and help achieve the goals of the Paris Agreement.

The entire Responsible Investing policy is overseen by the Responsible Investing Advisory Board, an independent body made up of academics, which continually seeks to improve the Responsible Investing offering. Any changes made by KBC Asset Management to its Responsible Investing methodologies must pass the scrutiny of the Board. This enables KBC Asset Management to keep its finger on the pulse of social trends and to continually challenge ourselves to do better. For more information, please refer to our [commercial website](#).

<sup>1</sup> 'Reference values' are calculated based on the portfolio's benchmark or its reference portfolio based on neutral investment views. The aggregated reduction target combines the specific targets under the assumption of a neutral asset allocation. Changes in asset allocation may lead to changes in the actual aggregated reduction achieved. Substantial changes in this allocation, for example due to a significant change in the product mix offered to our clients, may necessitate a restatement of the aggregated reduction target based on a 50% reduction versus an updated reference at the end of 2019.



# TECHNICAL APPENDIX





## TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

Calculating and setting climate-relevant targets requires a very diverse set of tools. This technical appendix aims to provide transparency about our target-setting approach for our lending portfolio and outlines their main conceptual building blocks. Note that climate target setting within the financial industry is in the very early stages of development and without any doubt subject to further fine-tuning. Existing target-setting methodologies may change over time and new methodologies may be established. Also, the data about the climate impact that can be associated with financial institutions' activities is expected to improve over the coming years, which will further enhance the quality of climate alignment measurements.

### UNEP FI guidelines on climate target setting

KBC's target-setting approach is built on the guiding principles (or the set of guidelines and criteria) that apply to all signatories of the Collective Commitment to Climate Action (CCCA) and the Net-Zero Banking Alliance (NZBA). These guidelines serve as an integrity safeguard and are publicly available on the [UNEP FI \(United Nations Environment Programme Finance Initiative\) website](#). All of our targets cover lending activities and focus on the carbon-intensive sectors that are expressly listed in the guidelines<sup>1</sup>. The scenarios underlying our target setting come from credible and well-recognised sources such as those used by the Network for Greening the Financial System (NGFS) and the International Energy Agency (IEA).

The NGFS scenario technical documentation<sup>2</sup> offers the following definition of a scenario: 'Scenarios present a plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships. In the context of target setting, scenarios help us understand what should be done over the coming years to be aligned with predefined climate objectives'. Note that scenarios are neither predictions nor forecasts, but are used to provide a view of the implications of developments and actions. The scenarios that KBC has selected to inform its target setting have all been developed by established, credible and renowned modelling institutions and climate scenario providers. Notwithstanding the credible sources they derive from, the projections they set out should not be regarded as the only possible pathways towards reaching the Paris Agreement climate goals. Rather, they reflect potential pathways.

<sup>1</sup> The sectors expressly listed in the guidelines are agriculture, aluminium, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation and transport.

<sup>2</sup> Available on the NGFS scenario portal website.

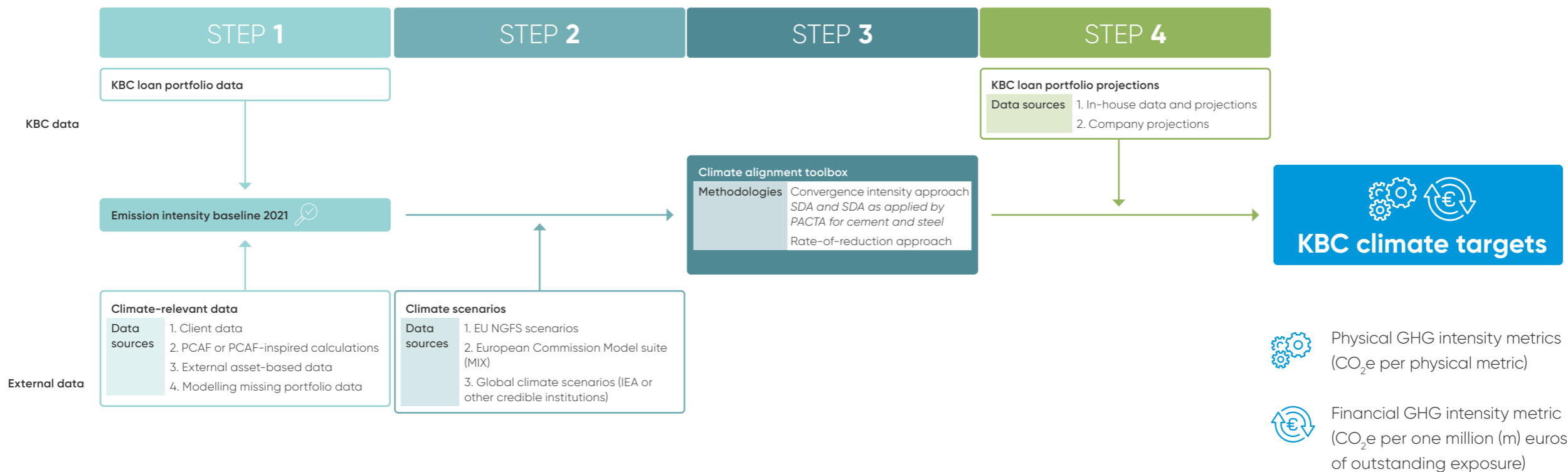


# TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

## Target-setting overview

Climate alignment targets can only be set by combining a number of conceptual building blocks. Figure 1 provides an overview of these building blocks and how they ultimately feed into our climate target calculations.

Figure 1: Overview of KBC's target-setting approach for climate scenario-based targets





## TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

**1** As a first step, we combined our own loan portfolio data with climate-relevant data for each of the sectors. This allowed us to measure portfolio **CO<sub>2</sub>e intensities**, i.e. CO<sub>2</sub>e/metric. A physical metric (e.g., MWh, m<sup>2</sup>) was used whenever the available data so allowed. Where such data was not available, a financial metric was used (i.e. m EUR of outstanding exposure). The data sources and methodologies used to arrive at these emission intensities are listed in [Figure 1](#) and further detailed in [Table 2](#).

**2** Secondly, we used **climate scenarios** to create normative benchmarks to help us understand how each of the sectors should decarbonise in order to be aligned with the goals of our existing climate commitments. The climate scenarios used were selected based on a predefined set of criteria:

- As part of our CCCA commitment, we follow scenario pathways that are consistent with a well-below 2°C temperature objective (all of the scenarios used are centred around a policy ambition of 1.7°C) and that are no/low overshoot<sup>3</sup>;
- The scenarios should derive from well-established integrated assessment models (e.g., those used in peer-reviewed studies, further underpinning the scientific basis);
- The scenarios should have relevant sectoral coverage and sufficiently granular sub-sector data and information;
- The scenarios should ideally include regional specific pathways relevant to the markets where KBC operates and properly reflect relevant government climate action ambitions (e.g., the EU Green Deal). The reason for this preference is explained by the fact that regional pathways better reflect the division of the decarbonisation responsibility across the various continents, as developed countries carry a higher responsibility for climate mitigation – and should therefore decarbonise at a faster pace compared to developing countries. Global pathways do not provide such regional distinctions in terms of decarbonisation efforts and are therefore used where no regional specific pathways are available or where they are not of sufficient quality and/or for the purpose of supplementary benchmarking.

We performed analyses using more than one set of scenarios. Table 1 presents the full overview of all climate scenarios underlying our target setting as well as a brief explanation of the rationale

for the selection of each scenario. Furthermore, some scenarios had a greater reference influence on our ultimate target decision as they met particular relevant criteria for the characteristics of our specific portfolios. [Table 2](#) therefore provides an overview of the climate scenarios that have most profoundly influenced our targets.

**Table 1: Full overview of scenarios used to inform KBC's target-setting approach in lending**

Institution	Model/Modelling institutions	Scenario name	Information source for the following sectoral targets	Rationale for scenario selection	Data source location
NGFS (Phase 2)	GCAM 5.3	Below 2°C	Residential real estate		
	REMIND-MAgPIE	Below 2°C	Agriculture, electricity sector	Availability of EU-specific sectoral emission pathways.	<a href="#">NGFS scenario explorer</a> (subscription-based access only)
	MESSAGEix-GLOBIOM	Below 2°C	Agriculture, electricity sector		
European Commission	E3-Modelling	MIX	Agriculture, electricity sector and transport	> Availability of EU-specific sectoral emission pathways and forward-looking drivetrain technology distributions. > Outlines the prevailing climate policy context where KBC operates.	<a href="#">Policy scenarios for delivering the European Green Deal and EU Climate target plan impact assessment</a>
IEA	Energy Technology Perspectives	ETP 2017 Beyond 2 Degrees (restricted data available through the <a href="#">SBTi webpage</a> )	Transport, residential real estate	Global scenario consulted for supplementary benchmarking purpose.	<a href="#">SBTi SDA Transport Tool</a> <a href="#">SBTi SDA tool for Commercial Real Estate and Residential mortgages</a>
IEA	Energy Technology Perspectives	ETP 2020 SDS (restricted data available through the dedicated <a href="#">PACTA webpage</a> )	Cement and steel	> Alignment with PACTA approach for these sectors. > Availability of emission intensity pathways for cement and steel. Only global pathways available.	<a href="#">PACTA scenario input files</a>
TPI	TPI (based on IEA modelling)	Below 2°C	Aluminium	Availability of emission intensity pathways for aluminium. Only global pathways available.	<a href="#">TPI sector benchmarks</a>

<sup>3</sup> No or low overshoot scenarios outline climate pathways that keep global warming consistently below a predefined temperature objective (e.g. 2°C or 1.5°C) throughout the 21<sup>st</sup> century or allow a limited "overshoot" of 0.1°C at most.



## TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

**3** KBC used the most suitable target-setting methodologies and alignment calculation approaches for its portfolios, which [Figure 1](#) references as the [climate alignment toolbox](#). The target-setting methodologies used are based on:

- The [convergence intensity approach](#) for sectors with CO<sub>2</sub>e intensities based on physical metrics (i.e. electricity generation, real estate, transport, steel, cement and aluminium). This methodology is also known as the Sectoral Decarbonisation Approach or SDA (as worked out either by the Science Based Targets initiative (SBTi) or by the PACTA method (for steel and cement)) and is an approach in which portfolio intensity targets need to converge to equal the sector intensity target by the end date specified in the scenario<sup>4</sup>.
- A [rate-of-reduction approach](#), for sectors with CO<sub>2</sub>e intensities based on financial metrics. This approach applies the sectoral emission reduction rates relevant to the sector.

**4** Next, we created [loan portfolio projections](#) to develop a plausible future state of the relevant portfolio and assess its alignment with the normative climate scenario benchmark. We did so by combining in-house expert-based portfolio projections (e.g., by incorporating redistribution effects on specific asset classes or estimated portfolio effects of government policies), company projections (i.e. by incorporating the implementation of public climate commitments taken on by companies in our portfolio) and our own proposed actions (i.e. focusing on stimulating positive evolutions, limiting negative impacts or a combination of both).

The energy and real estate sectors include sub-sectors for which currently no or insufficient data is available to determine emission intensity targets expressed in physical outputs or activities. As such, a financial emission intensity target was set, in addition to the physical emission intensity targets set for the sub-sectors where this was already possible. Consequently, these financial emission intensity targets are a combination of the science-based climate objectives (for electricity production and residential real estate) and our own ambitions in terms of financed emissions (for the other sub-sectors belonging to the energy and real estate sectors). The use of CO<sub>2</sub>e intensities per unit of physical output/activity or financing is a straightforward demonstration of our current portfolio's climate performance and how it compares to predefined climate benchmarks. Nevertheless, it comes with a number of constraints that are inherent to this type of metrics (see the ['Methodological limitations and data constraints'](#) section of this report). While our climate alignment exercise was conducted diligently and under close guidance of and in consultation with our senior management, it did take place within a context of rapidly evolving methodological practices and sometimes poor climate-relevant data quality. Any data quality-related issues or adjustments resulting from methodological changes or new information that result in materially different outcomes than previously reported will be addressed and adjusted in subsequent reports. Where needed, such changes may result in a restatement of our baselines and potentially even our targets.








<sup>4</sup> KBC goes by a uniform end date of 2050 notwithstanding the fact that some of the scenario timeframes set out data as far as 2100 (included).





## TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

**Table 2: Summary of data and target-setting approach used for climate scenario-based GHG-emission intensity targets**

Sector	Metric	Client emissions in scope of target (Scope 1 or 2)	Baseline greenhouse gas emission intensity			Target-setting method	Climate scenarios			
			Measurement methodology	Data source emission factors	Reporting year		Institution (model)	Scenario reference/name	°C Policy ambition	Geographical scope
Electricity generation	 kg CO <sub>2</sub> e/MWh	1	PCAF <sup>2</sup>	Client data + EU data for missing information	2021 (2020 as fallback)		NGFS <sup>8</sup> (MESSAGEi-GLOBIOM)	Below 2°C	1.7°C	European Union
Residential real estate <sup>3</sup>	 kg CO <sub>2</sub> e/m <sup>2</sup>	1 + 2	PCAF-inspired <sup>4</sup>	CREMM Global Pathways (PCAF European building emission factor database)	2021	SDA <sup>6</sup>	NGFS <sup>8</sup> (GCAM)	Below 2°C	1.7°C	European Union
Transport	 g CO <sub>2</sub> /km	1	PCAF-inspired <sup>4</sup>	PCAF emission factor database for motor vehicle loans	2021		European Commission model suite <sup>9</sup> (PRIMES)	MIX <sup>7</sup>	Net Zero 2050 <sup>7</sup>	European Union
Agriculture	 tonne CO <sub>2</sub> e/m euro of outstanding exposure	1 + 2	PCAF <sup>2</sup>	PCAF emission factor database for business loans	2021	Rate-of-reduction <sup>7</sup>	NGFS <sup>8</sup> (MESSAGEi-GLOBIOM)	Below 2°C	1.7°C	European Union
Cement	 tonne CO <sub>2</sub> /tonne cement	1 + 2	PACTA <sup>5</sup>	Asset Resolution 2020 dataset	2021		IEA <sup>10</sup> (ETP)	ETP 2020 SDS <sup>8</sup>	1.7°C	Global
Steel	 tonne CO <sub>2</sub> /tonne steel	1 + 2	PACTA <sup>5</sup>	Asset Resolution 2020 dataset	2021	SDA <sup>6</sup>	IEA <sup>10</sup> (ETP)	ETP 2020 SDS <sup>8</sup>	1.7°C	Global
Aluminium	 tonne CO <sub>2</sub> e/tonne aluminium	1 + 2	Not applicable	Client data	2021		TPI <sup>11</sup>	Below 2°C	<2.0°C	Global

<sup>1</sup> Scope 2 emissions are out of scope since these are immaterial for primary power and heat production assets and/or companies.

<sup>2</sup> Partnership for Carbon Accounting Financials (PCAF), a [carbon accounting framework](#) for financial institutions which makes it possible to calculate the emissions associated with financing activities.

<sup>3</sup> Comprises both mortgage loans and loans to commercial residential real estate counterparties.

<sup>4</sup> Related baseline calculations based on an alternative calculation method which corresponds as closely as possible to the PCAF Global Standard. For these alternative baseline calculations, we have endeavoured to ensure that our approach is technically robust and remains in very close observance of the spirit of PCAF. For residential real estate portfolios with no or insufficient data on financed floor area, the standard loan-by-loan PCAF calculation formula could not be applied and subsequently an alternative portfolio-based calculation method was applied to estimate the emission intensity of the subject portfolio. This alternative calculation method uses expert-based m<sup>2</sup> market values to estimate the financed floor area of the portfolio and combines this information with the relevant PCAF emissions factors to calculate an estimated financed emission intensity of the subject real estate portfolios. For transport, WLTP emission intensities of the financed passenger cars and light commercial vehicles have been used to define the portfolio baseline intensity as we believe the metric corresponds more strongly to and hence allows better comparison with the EU CO<sub>2</sub> emission performance standards that apply to passenger cars and light commercial vehicles in accordance with Regulation (EU) 2019/631. For more information we refer to the Table 4 in the [‘Methodological limitations and data constraints’](#) section of this document.

<sup>5</sup> Paris Agreement Capital Transition Assessment (PACTA), a methodology developed by the 2<sup>nd</sup> Investing Initiative utilising company-specific asset-level data to calculate portfolio technology profiles and emission intensities. KBC has reported through PACTA in its Sustainability Reports of 2019, 2020 and 2021. The PACTA methodology on cement and steel is fully documented and available at [transitionmonitor.com](#).

<sup>6</sup> Sectoral Decarbonisation Approach (SDA), a climate target setting method created by the Carbon Disclosures Project, the World Wildlife Fund and the World Resource Institute in 2015 as documented in Krabbe et al. (2015), “Aligning corporate greenhouse-gas emissions targets with climate goals,” Nat. Clim. Chang., vol. 5, pp. 1057–1060, 2015. The method derives carbon intensity pathways for companies based on sectoral pathways from existing climate mitigation scenarios and is widely accepted as a target setting method for financial portfolios. Through SDA, greenhouse gas emissions targets made at the international level (e.g., under the Paris Agreement to the UN Framework Convention on Climate Change) are translated into appropriate benchmarks, against which the performance of individual companies and portfolios can be compared and towards which they should converge in order to align with the climate goal predefined under the scenario. The method requires the availability of convergence-based benchmarks (i.e. CO<sub>2</sub>/activity or output).

<sup>7</sup> In line with the considerations from the [TCFD’s Portfolio Alignment Team’s “Measuring Portfolio Alignment” report](#) we prioritised convergence-based benchmarks for the sectors for which it is possible to extract such benchmarks from reference scenarios. We used rate-of-reduction benchmarks for those sectors for which these were not available. To the best of our knowledge there is currently no reference scenario available for agriculture from which physical GHG emissions intensity (CO<sub>2</sub>e/unit output) benchmarks could be extracted, making it impossible to apply SDA at this time.

<sup>8</sup> Network for Greening the Financial System (NGFS), a group of Central Banks and Supervisors that contribute to the development of climate risk management in the financial sector. NGFS climate scenarios are the adapted form of key scientific assessments/scenarios, such as those conducted by the Intergovernmental Panel on Climate Change (IPCC), and key reference climate scenarios used in the financial sector to create a deeper understanding of the possible impacts of climate mitigation and adaptation strategies on the economy and the financial system. NGFS scenarios are made available as a public good and can be further explored at the [NGFS scenarios portal](#).

<sup>9</sup> The European Commission uses model-based quantification to analyse and assess (climate) policy options, using a set of modelling tools which are outlined and briefly explained on its [webpage](#). The MIX scenario is one of the [three cornerstone scenarios](#) used as a common tool for analysis across the European Green Deal policy impact assessments. CO<sub>2</sub>/km performance benchmarks were calculated by combining the [MIX projected car and van stock by drivetrain technologies distributions](#) (as made available on the [European Commission website](#)) with drivetrain-specific 2021 vehicle emission factors from [DEFRA](#). The ‘Net Zero 2050’ °C Policy ambition reflects the EU’s ambition to become the first climate-neutral continent by 2050.

<sup>10</sup> Scenario benchmarks downloaded from the dedicated [PACTA webpage](#). The International Energy Agency’s scenarios produced by the Energy Technology Perspectives (ETP) model cover the buildings, transport and heavy industrial sectors. The ETP 2020 version replaces the earlier IEA ETP two Paris-aligned scenarios (“Beyond 2 Degrees” and “2 Degrees”) by the new Sustainable Development Scenario (SDS) and was adopted as part of the PACTA reference scenario universe for cement and steel. More information is available on the dedicated [IEA webpage](#) (IEA (2021), Energy Technology Perspectives 2020, All rights reserved).

<sup>11</sup> The Transition Pathway Initiative (TPI) produces [sectoral benchmark pathways](#) derived from IEA scenarios. [TPI’s aluminium sectoral pathway benchmarks](#) were derived from IEA’s ETP 2017 report and can be downloaded from the [TPI webpage](#).



## TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

### Measurement and scope

The GHG intensities reflected in our 'Climate Report' are calculated by applying the measurement methodologies referenced in [Table 2](#). This appendix will not further elaborate on the methodologies themselves, as these are separately documented in our latest [2021 Sustainability Report](#). Rather, the appendix focuses on the choices that have been made in observance of the application and boundaries of the said methodologies and the data sources used as input. In Table 3, the applicable PCAF data quality scores (which ranges from '1' – highest – to '5' – lowest) are listed which serve as indicators of the quality of the non-financial information that was used as input for the GHG emission intensity calculation. The PCAF quality score cards are referenced in Table 3 and are available to be consulted in the [PCAF Global Standard](#).

**Table 3: Summary of data and measurement choices**

Sector	Financial indicator	Data source for GHG emission intensity	Applicable PCAF data quality score <sup>1</sup>	Applicable PCAF quality score card	Attribution approach
Electricity generation	Outstanding loan exposure	Reported GHG emissions and output (only partly verified)	Weighted average score 2.6	Project finance and business loans	PCAF attribution approach for business loans to private companies and project finance
Residential real estate		Country- and EPC-specific PCAF emission factors Estimated expert-based m <sup>2</sup> values	Weighted average score 3 <sup>2</sup>	Mortgages	See Table 4 for overview attribution approaches
Transport		Contract data of the financed vehicle (e.g. Registration information) PCAF emission factors for motor vehicle loans Proxy data, such as country-specific averages (e.g. passenger km driven) or emission factors (e.g. WLTP average per drive train technology)	Weighted average score 2.9 <sup>3</sup>	Motor vehicle loans	See Table 4 for overview attribution approaches
Agriculture		PCAF emission factors for agriculture (country- and subsector specific)	Score 5	Business loans	Economic activity-based approach based on outstanding loan exposure

Sector	Financial indicator	Data source for GHG emission intensity	Applicable PCAF data quality score <sup>1</sup>	Applicable PCAF quality score card	Attribution approach
Cement	Granted loan exposure	Asset Resolution's physical asset-level dataset	Score 3 <sup>4</sup>	Business loans	Portfolio-weighted approach <sup>5</sup>
Steel		Asset Resolution's physical asset-level dataset	Score 3 <sup>4</sup>	Business loans	Portfolio-weighted approach <sup>5</sup>
Aluminium		Reported unverified GHG emission intensities	Score 2 <sup>4</sup>	Business loans	Portfolio-weighted approach <sup>5</sup>

<sup>1</sup> The PCAF data quality scores only refer to the quality level of the non-financial information used in our calculations.

<sup>2</sup> PCAF-inspired weighted quality score partially based on estimated EPC labels and m<sup>2</sup> per building. The quality score refers to the quality of the PCAF emission factors used.

<sup>3</sup> Based on the 2021 PCAF exercise for the 2021 Sustainability Report. This still serves as our best PCAF-inspired estimate.

<sup>4</sup> Note that portfolio emission intensity calculations exclude company exposures for which no information was available. For cement and steel, portfolio emission intensity calculations are based on company information representing >99% of the granted exposure. The aluminium portfolio emission intensity calculation is based on company information approximating 90% of the granted exposure. As the measurement methodology is based on PACTA for steel and cement (and a similar method was applied by KBC for aluminium) these quality scores are an expression of the quality of the non-financial information used and not an expression of calculations being based on the PCAF Global Standard.

<sup>5</sup> GHG intensities of the companies in the portfolio are weighted according to their granted loan exposure in the portfolio.

Our targets are based on actual financing (i.e. outstanding loan exposure) as widely as possible in order to reflect the actual climate impact of associated financing. The only exception to this general rule relates to cement, steel and aluminium producers which, relative to the other sectors, are much smaller portfolios limited to a handful of counterparties. To avoid large fluctuations in our target monitoring, it was decided to base targets on granted loan exposure.

Figure 2 shows an overview of the type of targets set for each of the sectors, and the activities covered within the boundaries of these targets.

**Figure 2: Overview of KBC's target expressions and scope**

Targets set	Physical GHG emission intensity (CO <sub>2</sub> e/activity or output)	Financial GHG emission intensity (CO <sub>2</sub> e/m euro outstanding)
Energy	● electricity producers	● whole sector
Real Estate	● mortgages and commercial residential real estate	● whole sector excluding commercial real estate development
Transport	● loans and lease of passenger cars and light commercial vehicles	
Agriculture		● whole sector
Cement	● cement producers	
Steel	● primary and secondary steel producers	
Aluminium	● primary and secondary aluminium producers	



## TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

### Methodological limitations and data constraints

We conducted our analysis with as much integrity as possible. Nevertheless, there are notable shortcomings inherent to this new type of work. Below we outline the main limitations in our target-setting approach.

A first major constraint is found in the necessity to select relevant climate scenarios. With an endless number of transition pathways that can be used to reach the Paris Agreement objectives, any scenario choice involves a significant narrowing down of assumptions. As in our target setting we have relied on [a relatively small number of scenarios](#), and we intrinsically accept the transition pathway they set out as well as the uncertainty and error margins associated therewith.

In addition to our target-setting methodology's dependence on the quality of climate scenario data, it also relies on [emissions data](#), the quality of which is outlined in [Table 3](#) of this appendix. A lower quality of emission calculation logically results in a lower quality of the calculation of the portfolio emission intensity and consequently less accurate target setting. For the calculation of emissions and emission intensities for our target baselines please note that these are based:

- as widely as possible and as far as data allows on the established (carbon accounting) market standards or data sources such as PCAF and PACTA, as referenced in [Table 2](#). As outlined and explained in Tables 2 and 3 of this report, notwithstanding our endeavour to act in line with these standards as closely as possible, certain contexts (including non-financial data constraints) prompted us to apply alternative calculation methods to estimate portfolio GHG intensities (see [Table 2](#)). These alternative calculation methods take account of robust technical considerations and have a strong correspondence with the spirit of the relevant market standard, although they currently do not follow the exact letter of the subject market standard for the reasons explained in previous sections.

- on emission attribution approaches which may diverge between KBC entities depending on local data availability. Most notably for real estate and transport the attribution of emission intensities could not be uniformly applied across all KBC entities operating in distinctly different country settings. Please refer to [Table 4](#) on the next page for an overview of attribution approaches between KBC entities for these sectors.

Going forward, we will continuously strive to further improve the quality scores of emission calculations. When emission calculations are based on new data and such calculations lead to significant changes compared to our initial base year, re-establishing a more accurate baseline may need to be considered.

Furthermore, as explained in the [TCFD's Portfolio Alignment Team's 'Measuring Portfolio Alignment' report](#), there are [important pros and cons to each of the climate metrics used](#) (i.e. absolute emissions, production capacity or emission intensity). The report explains that the metric chosen in our target-setting efforts (emission intensity) may overestimate or underestimate the global warming effect if the projections of the denominators (physical outputs or economic units) are not kept up to date. There is a potential risk for physical emission intensity metrics (CO<sub>2</sub>/output or activity) that emissions are higher than projected by the reference scenario in the event the sector produces more output than foreseen. Also, a financial emission intensity metric (CO<sub>2</sub>/financial unit) is reported to introduce substantial volatility (e.g., inflationary effects). Any such effects and the proposed ways to deal therewith will be closely monitored in going forward. An important benefit of a [physical emission intensity metric](#), however, is that it is strongly linked to company-specific production features that can be used to steer the portfolio and that this type of metric does not disincentivise transition activities in the same way as absolute units<sup>5</sup>. Furthermore, [financial emission intensity metrics](#) have the benefit that they can be widely applied to sectors or activities where it is not possible to define homogeneous production units.

<sup>5</sup> The TCFD's Portfolio Alignment Team's report describes that by measuring counterparty performance in absolute terms, institutions may be disincentivised to finance important transition activities, such as inorganic growth or expansion into net-zero technologies separate from decarbonisation activities.



# TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

Finally, there are constraints on how much KBC is able to steer or control matters in relation to their climate impact. We are engaging with our clients to the widest extent possible with a view to decarbonising their activities, which in turn should improve the CO<sub>2</sub>e intensity of our portfolios.

For polluting activities which we ultimately no longer wish to finance and which consequently act to improve our portfolio's CO<sub>2</sub>e intensity, it is virtually impossible to trace whether emissions in the real economy are effectively falling at the same time, as the activities may be redistributed to other financial portfolios.

**Table 4: Emission attribution approaches in KBC entities for the sectors real estate and transport**

Sector	Subsector	Belgium	Czech Republic	Hungary	Slovak Republic	Bulgaria
Real Estate						
	<i>Mortgages and commercial residential real estate</i>	Physical emission intensities are based on PCAF emission factors (CO <sub>2</sub> /m <sup>2</sup> ), weighted by the EPC label distribution (outstanding amount). Financed emissions are derived from the physical emission intensities and estimated m <sup>2</sup> financed.				Physical emission intensities are derived from financed emissions and estimated or actual m <sup>2</sup> financed. Financed emissions are based on PCAF emission factors, estimated or actual EPC label distribution (m <sup>2</sup> , or units) and an attribution factor (in most countries overall outstanding amount versus value at origination).
	<i>Commercial non-residential real estate</i>	Financed emissions are based on emission intensity retrieved from PCAF emission factors per building type, and estimated financed m <sup>2</sup> .	Financed emissions are based on emission intensity retrieved from PCAF emission factors per building type and EPC label, and estimated financed m <sup>2</sup> .	Financed emissions are based on emission intensity retrieved from PCAF emission factors per building type and EPC label, and estimated and actual financed m <sup>2</sup> .	Financed emissions are based on emission intensity retrieved from PCAF emission factors per building type and EPC label, and estimated financed m <sup>2</sup> .	Financed emissions are based on emission intensity retrieved from PCAF emission factors per building type and EPC label, and actual financed m <sup>2</sup> (based on outstanding versus value at origination).
Transport – Vehicle loans and financial lease						
	<i>Passenger cars</i>					
	<i>Light commercial vehicles</i>	Average emission intensity based on a best estimate of the emission intensity of the financed vehicle.				
Mathematical emission intensity average based on a best estimate of the emission intensity of the financed vehicle.						
Transport – Vehicle operational lease						
	<i>Passenger cars</i>	Average emission intensity based on a best estimate of the emission intensity of the financed vehicle.				
	<i>Light commercial vehicles</i>	Average emission intensity based on a best estimate of the emission intensity of the financed vehicle, weighted by estimated kilometers of the financed vehicles.				



## TECHNICAL APPENDIX: LENDING PORTFOLIO CLIMATE TARGETS

### Sources<sup>6</sup>

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<sup>6</sup> Weblink access date: 14 July 2022




## INDEPENDENT LIMITED ASSURANCE REPORT ON THE SUBJECT MATTER INFORMATION OF THE “CLIMATE REPORT – DETERMINING OUR 2021 BASELINE AND TARGET SETTING OF 2030 AND 2050” OF KBC GROUP NV



To the Board of Directors of KBC Group NV

This report has been prepared in accordance with the terms of our engagement contract dated 27 July 2022 (the “Agreement”), whereby we have been engaged to issue an independent limited assurance report in connection with the Subject Matter Information marked with the symbol  on pages 8 to 37 of the “Climate report – determining our 2021 baseline and target setting of 2030 and 2050” as at 31 December 2021 (the “Report”).

### The Directors’ responsibility

The Directors of KBC Group NV (“the Company”) are responsible for the preparation and presentation of the information and data in the 2021 baseline for climate related targets marked with the symbol  on pages 8 to 37 of the Report (the “Subject Matter Information”), in accordance with the criteria set-out in the “Technical Appendix : Lending Portfolio Climate Targets” on pages 28 to 37 of the Report (the “Criteria”).

This responsibility includes the selection and application of appropriate methods for the preparation of the Subject Matter Information, for ensuring the reliability of the underlying information and for the use of assumptions and estimates for individual sustainability disclosures which are reasonable in the circumstances. Furthermore, the responsibility of the Directors includes the design, implementation and maintenance of systems and processes relevant for the preparation of the Subject Matter Information that is free from material misstatement, whether due to fraud or error.

### Auditor’s responsibility

Our responsibility is to express an independent conclusion about the Subject Matter Information based on the procedures we have performed and the evidence we have obtained.

We conducted our work in accordance with the International Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements other than Audits or Reviews of Historical Financial

Information” (ISAE 3000), issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and that we plan and perform the engagement to obtain limited assurance as to whether any matters have come to our attention that cause us to believe that the Subject Matter Information has not been prepared, in all material respects, in accordance with the Criteria.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable engagement been performed. The selection of such procedures depends on our professional judgement, including the assessment of the risks of material misstatement of the Subject Matter Information in accordance with the Criteria. The scope of our work comprised the following procedures:

- assessing and testing the design and functioning of the systems and processes used for data-gathering, collation, consolidation and validation, including the methods used for calculating and estimating the Subject Matter Information as at 31 December 2021 presented on pages 8 to 24 in the Report;
- conducting interviews with responsible officers;
- reviewing, on a limited test basis, relevant internal and external documentation;
- performing an analytical review of the data and trends in the information submitted for consolidation;
- considering the disclosure and presentation of the Subject Matter Information.

The scope of our work is limited to assurance over the Subject Matter Information. Our assurance does not extend to information in respect of earlier periods or to any other information included in the Report.



### **Our independence and quality control**

Our engagement has been carried out in compliance with the legal requirements in respect of auditor independence, particularly in accordance with the rules set down in articles 12, 13, 14, 16, 20, 28 and 29 of the Belgian Act of 7 December 2016 organizing the audit profession and its public oversight of registered auditors, and with other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Our conclusion**

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Subject Matter Information within your Report as at 31 December 2021 has not been prepared, in all material respects, in accordance with the Criteria.

### **Other ESG related information**

The other information comprises all of the ESG related information in the Report other than the Subject Matter Information and our assurance report. The directors are responsible for the other ESG related information. As explained above, our assurance conclusion does not extend to the other ESG related

information and, accordingly, we do not express any form of assurance thereon. In connection with our assurance of the Subject Matter Information, our responsibility is to read the other ESG related information and, in doing so, consider whether the other ESG related information is materially inconsistent with the Subject Matter Information or our knowledge obtained during the assurance engagement, or otherwise appears to contain a material misstatement of fact. If we identify an apparent material inconsistency or material misstatement of fact, we are required to perform procedures to conclude whether there is a material misstatement of the Subject Matter Information or a material misstatement of the other information, and to take appropriate actions in the circumstances.

### **Other matter - restriction on use and distribution of our report**

Our report is intended solely for the use of the Company, to whom it is addressed, in connection with their Report as at 31 December 2021 and should not be used for any other purpose. We do not accept or assume and deny any liability or duty of care to any other party to whom this report may be shown or into whose hands it may come.

Diegem, 29 September 2022

PwC Bedrijfsrevisoren BV/Reviseurs d'Entreprises SRL  
represented by

Marc Daelman\*

\*Marc Daelman BV, member of the Board of Directors, represented by its permanent representative Marc Daelman



# GLOSSARY







## GLOSSARY

<b>CCCA</b>	Collective Commitment to Climate Action	<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>CCS</b>	Carbon capture and storage	<b>Mt</b>	Megatonne or 1 million tonne
<b>CH<sub>4</sub></b>	Methane	<b>M EUR</b>	Million EUR
<b>CNG</b>	Compressed natural gas	<b>MIX</b>	One of the three cornerstone policy scenarios used for analysis across the impact assessments of various initiatives of the European Green Deal policy package.
<b>CO<sub>2</sub></b>	Carbon dioxide	<b>N<sub>2</sub>O</b>	Nitrous oxide
<b>CO<sub>2</sub>e</b>	Carbon dioxide equivalent  These are the total emissions of greenhouse gases expressed in tonnes of CO <sub>2</sub> . As well as carbon dioxide (CO <sub>2</sub> ), they also include other greenhouse gases, such as methane and nitrous oxide, which are converted into tonnes of CO <sub>2</sub> equivalent.	<b>NGFS</b>	Network for Greening the Financial System
<b>Defra</b>	(UK) Department for Environment, Food & Rural Affairs	<b>NZBA</b>	Net-Zero Banking Alliance
<b>EEA</b>	European Environment Agency	<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>EPC</b>	Energy performance certificate	<b>PACTA</b>	Paris Alignment Capital Transition Assessment
<b>EU Green Deal</b>	The EU Green Deal was adopted in December 2019. It is the European Union's new growth strategy that aims to transform the Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050.	<b>PAT</b>	Portfolio Alignment Team
<b>ETP</b>	Energy Technology Perspectives	<b>PCAF</b>	Partnership for Carbon Accounting Financials
<b>GHG</b>	Greenhouse gas	<b>SBTi</b>	Science Based Targets initiative
<b>IEA</b>	International Energy Agency	<b>SDA</b>	Sectoral Decarbonisation Approach
<b>IIASA IAM Framework</b>	International Institute for Applied Systems Analysis, an independent, international research institute that conducts policy-oriented research into issues that are too wide-ranging or complex to be resolved by a single country or academic discipline. This includes pressing concerns that affect the future of all of humanity, such as climate change, energy security, population aging, and sustainable development. See <a href="https://iiasa.ac.at/">https://iiasa.ac.at/</a>	<b>SME</b>	Small and medium-sized enterprise
		<b>T</b>	Tonne
		<b>TCFD</b>	Task Force on Climate-related Financial Disclosures
		<b>TPI</b>	Transition Pathway Initiative
		<b>UNEP FI</b>	United Nations Environment Programme Finance Initiative
		<b>WLTP</b>	Worldwide Harmonised Light Vehicles Test Procedure

### Feedback

We welcome comments and questions from all our stakeholders.

Please send us your feedback via

[csr.feedback@kbc.be](mailto:csr.feedback@kbc.be)

