crelan

Climate report 2023

Inhoud

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Foreword

In December 2023, the United Nations published 'The Global Climate 2011-2020: A Decade of Acceleration'[1], concluding on how the **accelerated pace of global warming** is emphasized by the unfolding events of extreme weather conditions. As a cooperative bank, Crelan wants to take its responsibility and play an important role in the sustainable transition. Therefore, we are not awaiting mandatory regulations on the reporting of climate actions, but we already publish our **first climate report** today. This report complements the sustainability report, in which our ESG projects – encompassing environmental but also social and governance topics – and cooperative initiatives from 2023 are communicated.

This climate report underscores our **commitment to the transition to a sustainable economy**. It demonstrates our understanding of the path to a climate-neutral society, demanding both **tangible actions from individual players and,** more importantly, **collective efforts**. We are convinced that our success hinges on a unified front where governments, industries and our clients join forces to take decisive action.

We attach great importance to our role in supporting our clients in their journey towards more sustainable ways of working and living. Aligned with our **identity as a cooperative bank**, we assist our **customers effectively through the sustainable transition**. Therefore, we intend to provide – besides financial solutions – relevant information, practical tools, and advice, collaborating with external partners, when needed. In addition, we have **shown our solidarity with customers.** Firstly, by facilitating measures such as the suspension of capital repayments on loans when facing consequences of extreme weather events, impacting customers' finances (e.g., flooding leading to property damage). Secondly, through the introduction of energy loans under accessible terms to promote renovations towards more energy efficient buildings.

During extreme weather conditions in the past, Crelan also applied suspensions of capital repayments for the agricultural sector.

Simultaneously, we are taking **initiatives at the company level**, including endeavours to reduce our carbon footprint that involve tangible steps, such as the purchase of green electricity and the accelerated greening of our car fleet. All these initiatives are facilitated by our access to the green bond market, with already two successful issuances under our Green Bond Framework. We also describe the **challenges** we face in the execution of our strategic ambition of financing the transition. Access to (reliable) EPC data for our mortgage loan portfolio proves to be challenging, complicating the execution of customer engagement on the topic of energy efficiency.

Within this report, we describe how our strategy, actions and ambitions were developed and are now integrated into our organizational structure and vision. We focus on the processes for the identification, assessment and management of climate-related risks and opportunities and on the Key Performance Indicators (KPIs) and targets we set to steer and track our performance. In doing so, we hope to demonstrate a **measurable approach** as well as our **commitment to transparency and accountability**.

The **aim to achieve carbon neutrality for Scope 1 and 2[2] by 2030** and to **improve drastically the energy efficiency of the residential real estate** we finance is a testament to our dedication, and we strive to maintain this commitment while averting climate and environmental impact. As Crelan embraces its role as a catalyst for positive change, we invite you to explore this report, which encapsulates our journey towards a climate-neutral future.

Together, let us forge a path towards sustainability, ensuring a vibrant and resilient world for generations to come.

Philippe Voisin,
CEO Crelan

1 **WMO:** The Global Climate 2011-2020: A Decade of Acceleration.
2 Scope 1 emissions refer to direct GHG emissions. Scope 2 emissions account for GHG emissions from the generation of purchased energy consumed by the company. More details can be found on **Chapter 4 – Metrics & Targets**.

Introduction

Crelan[3] recognizes the urgent need for society to mitigate and adapt effectively to (the impacts of) climate change. Crelan wants to play its role, and being transparent about its views and actions via a climate report is crucial.

"Climate change is an existential threat. We all recognize that, and there's an increasing urgency around it. But the converse is, if you are making investments, coming up with new technologies, changing the way you do business, all in service of reducing and eliminating that threat, you are creating value."

- Mark Carney, 22/01/21

Sustainability has become part and parcel of popular speech and social and policy debate and has found its way into the financial world. By now, "ESG" is a widely known concept, encompassing challenges and opportunities related to Environmental, Social and Governance topics. With climate change being an existential threat, the environmental domain is receiving a great deal of attention. Today, there is a common understanding of the **role of the financial sector in the fight against climate change,** as financial institutions are expected to contribute to solving climate and environmental challenges. The financial sector can **bolster the process of mitigation and adaptation to a changing climate**. In addition, it has the **strength to absorb, analyse and disseminate information in a way that exceeds what individuals can achieve by themselves**. However, to use this strength to its maximum advantage, active steps need to be taken to root out greenwashing, develop standards and labels for financial products and ensure that disclosures are internationally comparable, auditable and complemented by forward-looking measures to assess alignment with climate goals[4].

As the financial sector has a responsibility in how society handles **climate risk**, there is a consensus among policymakers and supervisors, and also investors, that climate change poses **real financial risk** as well. Transition and physical risks arising from climate change represent a material risk to the banking system and may even be a source of systemic risk to the financial system[5].

As a **cooperative bank with strong roots in agri-food and the financing of home ownership** in Belgium, Crelan recognizes its responsibility to integrate climate-related and environmental (C&E) opportunities and risks[6]. Since its creation in 1937, the cooperative bank has strong ties with the Belgian agricultural and horticultural sector; sectors that currently face important challenges in terms of sustainability and viability. With years of experience and know-how in these sectors, Crelan assists its customers in these demanding times by listening to the needs and requirements of its agricultural clients and guiding them as best as possible on the path to greater sustainability. Today Crelan has grown into a large bank that caters to different segments of the market – agribusiness, business and retail customers – and her cooperative roots are still very present. Hence, the bank wants to be close to its customers by not only informing them, but also assisting them with energy efficiency, climate impacts and sustainability in general.

As **information and transparency are key**, Crelan has decided to publish the **2023 climate report**. With this report, the group wants to inform its stakeholders on how it integrates C&E opportunities and risks and starts considering impact. The climate report is **complementary to the annual sustainability report,** in which the bank's sustainable initiatives and the integration of E, S and G in its operations and strategy are disclosed. The climate report, on the other hand, emphasizes the **'E'** within ESG, focusing on climate-related and environmental risks. The content is to be **considered in the general ESG strategy of Crelan**.

3 Throughout the report, "Crelan" is used to refer to Crelan Group, containing CrelanCo, Crelan, Europabank and Axa Bank Belgium (ABB). More information on the structure is provided on page 9.
4 The contribution of finance to combatting climate change. Speech by Christine Lagarde, President of the ECB, at the Finance Countdown event, 12/10/21. **The contribution of finance to combating climate change (europa.eu)**
5 **The challenge of capturing climate risks in the banking regulatory framework: is there a need for a macroprudential response? (europa.eu)**
6 For the readability of the report, the term "C&E risks" is used throughout when the broader environmental (E within ESG) is discussed. Where the content specifically concerns "climate", this term will be used instead of "C&E".

The legislative context for the development of a climate report

In 2015, all United Nations Member States have adopted the 2030 Agenda for Sustainable Development, containing the seventeen **Sustainable Development Goals (SDGs).** With this call for action by all countries in a global partnership, it is recognized that ending poverty and other deprivations must be accompanied by strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests[7]. Subsequently, in December that year, the **Paris Agreement** was adopted at the UN Climate Change Conference (COP21) in Paris: a legally binding international treaty on climate change. This landmark brings all nations together to combat climate change and adapt to its effects, containing the overarching goal to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels". Recently, it is stressed even more that global warming must be limited to 1.5°C by the end of this century[8].

One of the key steps towards implementing the historic Paris Agreement, is the **Action Plan on Sustainable Finance**, presented in 2018 by the European Commission. The plan must help to support the flow of private finance towards sustainable economic activities and make the transition to a carbon neutral economy by 2050 possible. The foundations inspired the development of several legislations that collectively contribute to the broader global trend of promoting sustainability, transparency and responsible business practices within the financial sector and the broader economy.

One of the first initiatives was the development of the **EU Taxonomy**: an overarching classification system to identify "environmentally sustainable economic activities". Such activities are defined by their fundamental contribution to one of six objectives: (1) protection of healthy ecosystems, (2) mitigation of climate change, (3) prevention and control of pollution, (4) adaptation to climate change, (5) transition to the circular economy, and (6) sustainable use and protection of water. The **EU Taxonomy Regulation** came into force in 2020, requiring financial institutions to disclose how much of their investments align with such activities.

Several of the other regulations that have been developed, somehow refer or connect to this taxonomy, such as the **Sustainable Finance Disclosures Regulation (SFDR)**. The SFDR came into effect in March 2021 and requires financial market advisors and participants to report on the consideration of adverse sustainability impacts in the investment policy or advice, at entity level and at product level; the integration of sustainability risks, the sustainability risk policies and the remuneration policies in relation to the integration of sustainability risks. Additionally, financial products must be classified as products without a sustainable investment objective nor investments in assets with environmental or social benefits (Article 6 products), products that promote investments or projects with positive environment or social characteristics and with good governance principles (Article 8 products) or products that target a sustainable investment primary objective; an economic activity that contributes to an environmental or social objective (Article 9 products). The higher the classification, the more demanding the disclosure requirements.

Another development within this context, comes from the **European Banking Authority's (EBA)** implementation of additional **Pillar III**[9] disclosures. The EBA requires financial institutions to disclose information on ESG risks for three reasons[10]:

1. To help demonstrate how climate change may exacerbate other risks within institutions' balance sheets (e.g., exposures towards carbon related assets and assets subject to chronic and acute climate change events);
2. To assist in communicating institutions' mitigating actions supporting their counterparties in the transition to a carbon neutral economy and the adaptation to climate change;
3. To help in reporting KPIs on institutions' assets financing activities that are environmentally sustainable according to the EU Taxonomy.

7 Find more information **here**.
8 Find more information **here**.
9 Pillar III is the third pillar of the Basel III framework - an international regulatory framework for banks – and focuses on market discipline through enhanced disclosure requirements for climate and sustainability.
10 To disclose the information on ESG risks, the EBA has drafted Implementing Technical Standards (ITS) which propose comparable quantitative disclosures on climate-change-related transition and physical risks. More information can be found **here**.

In general, the EBA aims to provide stakeholders with a clearer understanding of a bank's risk profile, fostering market discipline and stability. It requires institutions to communicate both quantitative indicators and information on the embeddedness of ESG considerations in their governance, business model, strategy and risk management framework.

These four domains are also referred to in the **European Central Bank**'s (ECB) "**Guide on climate-related and environmental risks for banks**"[11], published in November 2020. The ECB provides **thirteen expectations** for credit institutions, based on its understanding of safe and prudent risk management, focusing on (1) business model and strategy, (2) governance and risk appetite, (3) risk management, and (4) disclosures. The disclosure expectations emphasize the importance of transparency on the **financial implications of climate change and environmental degradation**. They require institutions to publish **meaningful information** and **key metrics** on C&E risks that they deem to be material. To do so, the ECB refers to the **Task Force for Climate-related Financial Disclosures (TCFD)**[12]; a generally accepted framework for an effective approach to map companies' climate change efforts. TCFD provides voluntary guidelines to help businesses to identify and disclose risks, opportunities and potential financial impacts they face due to climate change, structured into four different domains: (1) governance surrounding climate-based risks and opportunities, (2) strategies for addressing such factors, (3) risk management considerations, and (4) metrics and targets which can be used to assess those factors.

Lastly, a recent and influential legislation on sustainability and transparency is the **Corporate Sustainability Reporting Directive (CSRD)**[13], in force since January 2023 with first publications in 2025. This new directive requires companies to report on sustainability according to specific reporting requirements[14]. Companies are expected to communicate on **risks and opportunities related to environmental and social topics**, as well as on how their **own activities/operations (may) impact the environment**. **Structured, standardized and more detailed reporting for all companies** should help investors, consumers, civil organizations and other stakeholders to gain insights into how companies perform on ESG matters, and allow comparison between different companies.

The scope and structure of the climate report

Crelan recognizes its responsibilities in the fight against climate change and attaches great importance to transparent communication thereon. With this climate report, the group intends to communicate on its approach, actions and initiatives concerning environmental opportunities and challenges, while meeting investors', other stakeholders' and regulatory expectations on climate-related reporting.

The **structure** of this report **follows the TCFD recommendations**, providing specific and in-depth insights into the management of climate-related risks and opportunities within Crelan. It will become clear how the bank has made **significant progress** related to the identification, assessment and management of **climate-related risks**. In addition, Crelan is **attending to climate-related opportunities and impact** and has taken actions to assess where these may arise and how to manage them.

Even though the report is titled 'Climate report' and focuses on climate-related topics, there are **occasional references to environmental matters.** The mix of climate-related and environmental topics is made as we are currently balancing different expectations in a developing regulatory environment – as explained above. On the one hand, Crelan is focusing on **clear and transparent reporting** of the approach, actions and initiatives on C&E matters. On the other hand, we are prep**aring for CSRD reporting from 2025 on.** The climate report will only be published once and its content will be integrated in a CSRD compliant report on FY24, together with the information that is currently included in the sustainability report.

2024 should be understood as a transition year with different reports to communicate on our approach; 2025 will provide one comprehensive report, covering climate-related, environmental, social and governance topics.

11 Find the guide **here**.
12 In October 2023, it was announced that the TCFD has fulfilled its remit and disbanded. The website of TCFD will no longer be updated or monitored, but will remain available to serve as a resource for materials developed by the Task Force. Hence, the recommendations can still be found **here**, as they are still seen as relevant for this year.
13 Find more information on CSRD **here**.
14 The reporting requirements are set in the European Sustainability Reporting Standards (ESRS), complementing the CSRD. Find the link to the standards **here**.

Out of scope

Although Pillar III reporting also contains ESG requirements, this content is out of scope for this report. In order to provide a coherent overview and in-depth insights into Crelan's reporting on climate-related risks, a reference to Pillar III is made in Annex 1 through an overview of its content.

In addition, the SFDR was described in the introduction above. In order to provide a complete and coherent picture of legislative developments. Reporting on SFDR is, however, not considered relevant within this climate report and is therefore not included. Information on SFDR at Crelan can be found **here.**

Crelan and sustainability

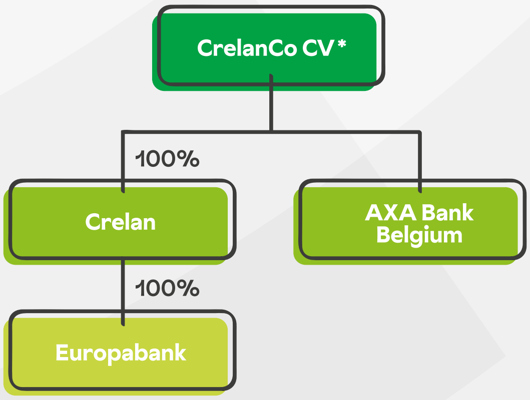
The content of the climate report must be seen in the general ESG integration and strategy of Crelan. The cooperative nature of the group implicates that shareholders do not only expect to see healthy growth and profitability in their bank, but expect this to be achieved in a responsible and respectful manner. Hence, Crelan aims to make a difference in how they act as a company, lend to the Belgian economy and provide financial advice. A **pragmatic approach** is applied, **considering the interests and needs of all stakeholders**.

To clarify and highlight the approach of Crelan, a summary of the structure is provided below as well as some revealing figures of Crelan on our progress in contributing to the fight against climate change and managing environmental topics. To conclude this introduction, climate-related initiatives ("spotlight items") throughout 2023 are included. Specifics on Crelan's sustainability strategy and how climate-related topics are tackled, can be found in Chapter 2 - Strategy.

A cooperative structure

Crelan Group – throughout this report referred to as "Crelan" – is formed by the cooperative society CrelanCo, the public limited company Crelan, the public limited company Europabank and the public limited company AXA Bank Belgium (ABB). "Crelan" hence refers to all these entities that are included in the consolidation through full integration.

Simplified overview of the structure of the Crelan Group



*NV Crelan and the official cooperative company, CV CrelanCo, together form a federation of credit institutions, with NV Crelan as its central institution. In accordance with Article 239 of the Act of 25 April 2014 on the status and supervision of credit institutions

NV Crelan and the official cooperative company, CV CrelanCo, together form a federation of credit institutions, with NV Crelan as its central institution. The CV CrelanCo owns 100% of the shares and voting rights in NV Crelan. As of 31 December 2023, the cooperative capital of CrelanCo was held by almost 278 000 cooperative shareholders. As such, Crelan is a 100% Belgian bank with 100% cooperative roots. These roots date back to the 1960s with origins in the bank's strong ties with the Belgian agriculture and horticulture sectors. The first cooperative societies collected the savings of farmers, which in turn enabled the bank to grant agricultural loans. From the 1990s onwards, these cooperative societies joined Crelan's shareholder structure and thus played an important role in the privatization of the originally state-owned financial institution. In November 2015, all the former cooperative societies merged and CrelanCo became sole shareholder.

The Management Committee of AXA Bank Belgium is identical to the one of Crelan SA.

Some revealing figures from Crelan: focus on climate and environment

Crelan's office buildings and mobility

At Crelan, improvements are constantly being made to the office buildings, both to ensure the comfort and ergonomics of employees and to reduce the bank's ecological footprint. In 2023, small and large investments in buildings were made to improve Crelan's offices with a focus on sustainable development.

- Investments in sustainability -

1. **Solar panels:** 468 solar panels were installed on the building in Berchem, with a total capacity of 189,600 Watt-Peak. These panels cover approximately 1 000m² of roof and terrace and produced 7.2 MWh, between September and December 2023. This investment helps reduce Crelan's environmental impact by reducing the reliance on non-renewable energy sources.

   In Anderlecht, a total of 84 solar panels were installed on the roof since 2018, representing an area of 140m² and a capacity of 27,468 Watt-Peak. The table below demonstrates the solar panel production from 2018 to 2023 and, as a positive consequence, the reduction of CO_2. The production depends on the age of the panels (degradation throughout time) and the hours of sunshine, connected to the time of year.

Anderlecht	Solar panel production (MWh)	Reduction of CO_2 emissions (kg)
2018	1,7	675
2019	26,8	10,493
2020	25,5 (*)	10,017
2021	21,0 (**)	11,632
2022	20,9 (*)	8,497
2023	19,3 (**)	7,499

Table 1 - Solar panel production & reduction of CO_2 emissions per year
(*) Numbers for the full year without November & December.
(**) Numbers for the full year without January.

1. Replacement of TL lamps with LED lamps: Crelan has set itself the goal of replacing obsolete fluorescent lamps with energy-efficient lamps. This change not only reduces energy consumption, but also extends the life of lighting systems. In 2023, this initiative continued with the replacement of additional lamps, further reducing energy consumption.
2. **Reduce commuting by teleworking:** Crelan offers teleworking, with more than 50% of the time performed from employees' homes. This flexibility also contributes to the reduction of CO_2 emissions related to commuting.
3. **Electrification of mobility:** As part of its efforts to make its transportation operations more sustainable, Crelan replaced one of its own combustion-engine corporate vans with an electric vehicle. In addition, a new car policy was implemented, which limits the choice of new company cars to electric vehicles only.

- Energy consumption -

Crelan's electricity and gas consumption in 2023 decreased compared to 2022. The decrease is a testament to the ongoing efforts to improve energy efficiency and reduce the impact in the environment.

	Electricity consumption	Gas consumption
Berchem	-18%	-34%
Anderlecht	-6%	-24%
Gembloux	-2%	-20%

Table 2 - Crelan's energy consumption in 2022 and 2023

A sustainable year at Crelan: climate-related initiatives

University chairs to support sustainable and innovative agriculture

Through the Crelan Foundation, the bank supports a "Crelan Chair" at two leading Belgian faculties in the field of innovation and research; one at the Faculty of Bio-engineering at the University of Ghent (UGent) and one at Gembloux Agro-Bio Tech at the University of Liège. Both chairs focus on research on innovation and sustainability in agriculture, as well as on the transfer of this new knowledge and results to the agricultural sector, policy-makers and other stakeholders.

- Overview of the Crelan Chair's year of work at the UGent's Faculty of Bio-engineering and Agricultural Sciences -

Traditionally, the Chair plans a number of meetings between the various stakeholders throughout the year. In 2023, these meetings focused on two main themes:

1. **Fertilizer action plans:**

Climate discussions and the nitrogen agreement are complex challenges. The Faculty of Bio-engineering focuses on developing technological solutions that recover valuable substances, such as nitrogen and phosphorus, from organic waste, including manure. Numerous information sessions, debates and study days were organized for various target groups, ranging from experts and political decision-makers to young people and students, and the agricultural sector itself. Thanks to these initiatives, UGent has been able to raise its profile among political decision-makers as a neutral scientific partner offering concrete solutions.

2. **Assessment procedures for chemical plant protection products:**

The UGent has been involved in supporting confidence in sound assessment procedures for chemical plant protection products. Through opinion pieces written by leading professors and researchers, new perspectives and enriching viewpoints are disseminated to industry and policy-makers alike (including via social media and VILT[15]).

- Overview of the Crelan Chair's year of work at the University of Liège Gembloux Agro-BioTech Faculty of Bioengineers -

In February 2017, a Crelan Chair was created at the University of Liège's Gembloux Agri-Bio Tech Faculty of Bioengineers, with the primary aim to **deepen knowledge of short supply chains and disseminate this concept to all players in society**. Short supply chains enable diversification and have a positive ecological impact, as they allow part of the produce to be marketed locally.

Since 2022, the Chair's research area has been reoriented and now comprises two complementary strands. On the one hand, the aim is to **strengthen the acquisition of knowledge on innovative economic models for the local marketing of food products**. On the other, the Chair focuses on **experimentation, innovation and the co-construction of sustainable food systems that link production systems and consumption patterns**. To this end, the Chair organizes participatory events and ensures the dissemination of knowledge.

In 2023, various initiatives were organized:

- Organization of a **seminar/workshop with politicians and logistics experts** to diagnose and optimize flows, incl. the proposal of a summary of possible improvements in certain areas.
- Highlighting students' work on logistics-related themes by **strengthening opportunities for empirical deployment with reflexive and financial support.**
- **Field study days for the AIL4Water quality project** around 'Eco food system' experiments testing innovative agricultural rotations including alternative practices to the use of synthetic pesticides (spring 2023).
- Final symposium of the **ERASMUS + AGREENSMART program** on the use of new technologies in agriculture to improve sustainability and adapt to climate change (end of August 2023).

Bicycle allowance – Wind in the sails for soft mobility

Crelan has instituted a **bicycle allowance program** to encourage soft mobility among employees. This initiative is aligned with Crelan's commitment to sustainable commuting practices.

15 VILT stands for 'Vlaams Infocentrum Land- en Tuinbouw': the Flemish information centre for Agriculture and Horticulture.

Under this program, employees are entitled to receive 0.27 EUR for each kilometre travelled weekly on their bicycle commute, with a maximum allowance for a one-way distance of up to 20 kilometres. This allowance is applicable to both entire routes covered by bicycle as partial commuting routes (e.g., combination of train and bicycle). Furthermore, it is provided as a net amount, exempt from social security and company taxes.

To qualify for the allowance, the bicycle must be regularly used for commuting. The allowance is based on the actual kilometres ridden and the employer cannot cover other commuting expenses for the bicycle route.

In 2023, 202 Crelan's employees have collectively cycled nearly 170,929 kilometres.

Car policy

Since October 2023, Crelan's new Car Policy only allows employees to opt for full electric vehicles.

Chapter 1 Governance

Good governance refers to the set of policies and processes that affect the way in which a company is managed and controlled internally. It concerns the effective and responsible management of an organization while considering society's needs, such as respect for human rights, protection of the environment and prevention of abuse and corruption. Climate risk governance, specifically, refers to the structure of rules and processes adopted by companies to respond to climate-related risks, as well as possible climate-related opportunities and impacts. It involves determining the duties and obligations in terms of climate issues at the level of the General Meeting, the Board of Directors, and the Executive Committee: what is the company's impact on climate change, what are the risks and opportunities for its financial solidity, what are the objectives to be achieved and what actions should be taken. Beyond compliance with regulatory obligations, it is important to have an ambitious and credible transition plan.

As mentioned above, the main actors in this regard are the Executive Committee and the shareholders, represented by the Board of Directors. Employees, agents, suppliers, customers and the wider community are also important elements in this context.

As of January 11 2024, the Board of Directors of Crelan is composed of 20 directors, including ten representatives of our sole shareholder CV CrelanCo (which in turn represents over 284 000 individual cooperative shareholders), four independent directors and six directors who are member of the Executive Committee. These directors have diverse profiles and show differences in working experience, competences, language, gender and age. The aim is for them to represent diversity in society.

Committees within Crelan

Within Crelan's governance structure, several committees were created; each with its own focus and responsibilities.

The composition of the BoD and its subcommittees as well as their general responsibilities is described in the Annual Report. Further down, we highlight their role in terms of climate and environmental topics.

The **Executive Committee (ExCo)** is responsible for the general operational management of Crelan. The members of the ExCo also sit in several other committees:

- **Lending Risk Committee** (LRC), responsible for the lending activities.
- **Balance Sheet Risk Committee** (BSRC), leading role in overseeing and managing Crelan's balance sheet risk.
- **Capital and Funding Committee** (CFC), a sub-committee of BSRC, responsible for monitoring new regulations ("regulatory watch"), monitoring current and expected solvency ratios anticipates, and managing economic and regulatory capital requirements.
- **Audit Risk & Compliance Committee** (ARCC), focused on risk management in audit, operations, information and security and compliance.
- **Customer Invest Risk Committee** (CIRC), responsible for the investment product development and distribution.

In light of the increasing importance of ESG factors, the ESG SteerCo was re-developed in September 2023. This committee is primarily responsible for the design and implementation of the ESG strategy, and the alignment between different ESG projects. This body holds bimonthly meetings and is chaired by the Chief Cooperative Bank Officer (CCBO). In addition, nine other members of the Sr Management Committee sit on this SteerCo. They are those responsible for ESG, Segment Journey Wealth, Segment Journey Credit, Sales Excellence & Commercial Support, Credit Risk Analysis, Acceptance & Policy, Green Bond Programme, ERM and Risk Reporting and the Chief Data Officer. Strategic engagement and decision-making are ensured by the CCBO who reports directly to the CEO and submits the conclusions of the ESG SteerCo to the Executive Committee and the Board of Directors.

Each of the committees that support the ExCo also integrates ESG within its scope. For instance, the CIRC covers the integration of the sustainability preferences in MiFID, whereas the LRC considers the integration of ESG scores in the professional lending activities.

The figure below provides an overview of the ESG governance model within Crelan, demonstrating the new structure with the Chief Cooperative Bank Officer (CCBO), overarching the Cooperator and People Engagement and the ESG Office.

Viviane Verbiest, Isabelle D'haeninck and Saskia De Smet
Crelan Cooperative Bank Office

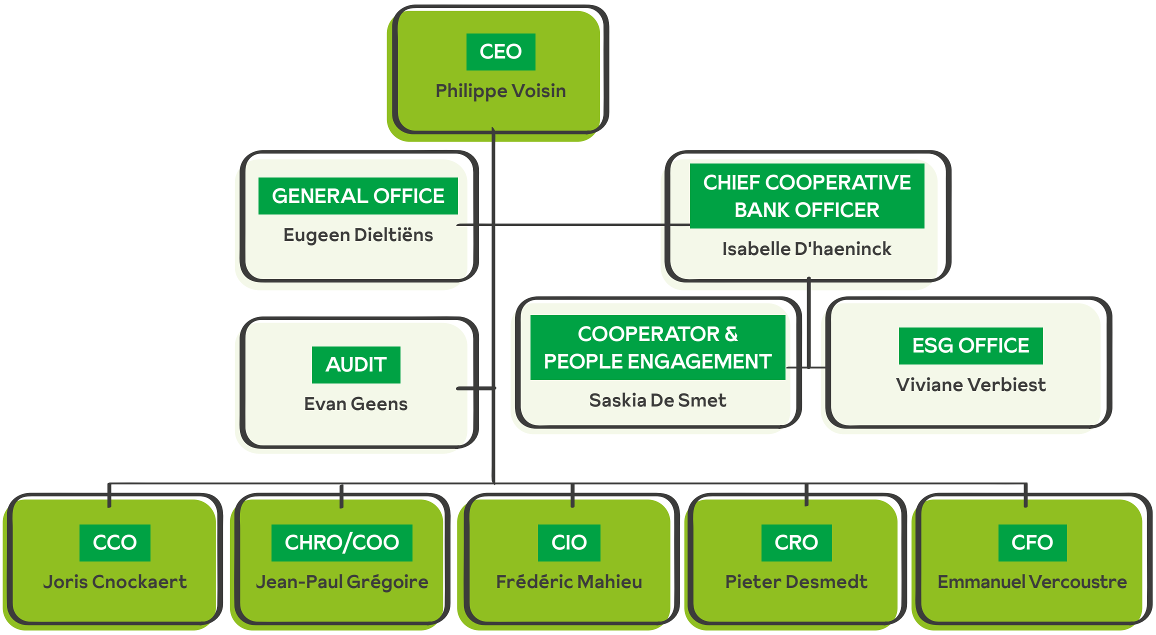


Figure 2 - ESG Governance model within Crelan

Overall integration of climate-related opportunities and risks

Climate-related opportunities and risks are a newly developed domain within Crelan. The bank has implemented these topics **into the group's overall governance and operations**, including business strategy, action plans, and financial planning. This way, C&E risks are managed properly and opportunities and impacts are considered. The actions that were taken include the determination of the role and responsibilities of the ESG Office, the application of a more formalized approach on ESG, and the establishment of roles and responsibilities for climate-related and environmental risks according to the three lines of defence model.

Changes within the ESG Office & a more formalized approach on ESG

In September 2023, the **ESG Office was integrated in the Cooperative Bank Office**, which reports directly to the CEO. The ESG Office is responsible for coordinating the group's ESG strategy and action plan, which also covers all issues relating to climate change and environment. Its role is to collect all ESG-related decisions from across the group and pass them on to the ESG SteerCo. In October 2023, the team was reinforced with a new manager.

In addition to the core ESG team, different people within a number of departments were assigned ESG responsibilities according to their area of expertise, to support a broad implementation of the ESG strategy throughout the bank. These departments include Credit, Finance, Risk Management, IT & Data, HR, Facilities & Buildings, Segment Journeys, Sales, and Procurement. There is also support from external parties foreseen for specific projects.

Furthermore, **three workstreams** were set up to support and prepare the ESG SteerCo, based on the three strategic pillars of Crelan[16].

Crelan & its clients With sub-groups 'Retail & Business' and 'Wealth'	— The integration of ESG into the offering of investment and lending products — Customer support regarding ESG — Training and support for agents — Credit policy (integrating ESG factors in credit decision taking using, for example, ESG scoring[17])
Crelan & institutional parties	— Follow-up of all risk and finance related ESG projects — Green Bond Framework — Regulatory reporting
Crelan as a company	— ESG priorities for own operations and workforce — Diversity and inclusion, wellbeing, leadership — Governance, ethics, remuneration policy — Procurement — Cooperative Bank, Crelan Foundation & community engagement — Cooperation with external partners

Table 3 - Crelan's workstreams

Each "ESG stream" is responsible for implementing their own ESG projects, with managers and business owners responsible for the domains within the streams. The ESG Office plays an overarching role and organizes and coordinates all streams, centralizing all status updates of each project.

16 Information on metrics, targets and actions dedicated to each workstream can be found in **Chapter 4 – Metrics and Targets**.
17 More information on ESG scoring can be found in **Chapter 2 - Strategy**.

A three lines of defence model

For proper integration of C&E risks into its risk management framework, Crelan has established clear **roles and responsibilities in line with the three lines of defence model.**

First line of defence

The **first line of defence** concerns the operational management of the bank, referring to employees owning and managing risks, ranging from client contact to support roles. These roles are dedicated to the Commercial team, the Segment journey and Operations teams of Credit, Payments & Investment departments, the ESG Office, the Data team and IT department, the Procurement team, and the Finance team; each of which is described below.

Crelan's **independent agent network** is the first contact point between Crelan and its clients. Together with Crelan's **Commercial team**, they foster and manage relationships with our clients, assess creditworthiness and offer tailored financial solutions. Furthermore, the Commercial team translates Crelan's strategy into the commercial relationship by interacting with customers on C&E opportunities and risks and advising them with the right tools to take the opportunities and manage those risks.

The **Segment Journey teams** of the credit and wealth/investment departments identify and categorize market segments, customize products and services to meet specific segment needs, acquires and retains customers through targeted strategies, and continuously adapt offerings based on feedback and market trends to enhance customer satisfaction and drive long-term growth. This includes the creation of a range of C&E related products – such as renovation loans or sustainable investments – to cater to the demand of Crelan's customers and support its ESG strategy.

The **Operations teams** of the credit, payments and investments departments are responsible for handling administrative and operational functions, such as transaction processing, record-keeping, and other support services that enable the smooth functioning of the bank's operations without direct client interaction. These teams play a crucial role in the maintenance of up-to-date portfolio data, including ESG data.

The **Data teams** are tasked with the execution of the C&E data roadmap and must keep an overview of ESG data glossary, ownership and lineage. The **IT department** ensures the necessary technological developments are implemented to support the execution of the ESG strategy.

The **Procurement team** is responsible for acquiring goods and services for Crelan. It ensures Crelan's ESG values are also supported by its suppliers.

The **Finance team** is responsible for managing the financial performance and reporting of the bank. It also tracks the C&E KPIs and reports them to the Exco, the BoD, and the ECB.

Lastly, the **ESG Office** is responsible for the implementation of Crelan's ESG strategy and policy, for a general oversight to the ESG activities within the group, and the follow-up, facilitation and support of action plans in order to execute the strategy and corresponding actions. In addition, the ESG Office guards the general governance of ESG via the ESG SteerCo and workstreams and focuses on the reporting to top management and BoD on a regular basis. Lastly, this team develops ESG awareness and training to all stakeholders of Crelan.

Second line of defence

The **second line of defence** concerns internal monitoring and oversight functions, overseeing or specializing in compliance or risk management. Several teams have a role to play here: **Enterprise Risk Management (ERM)**, **Risk Reporting**, **Risk Data & Analytics**, **Credit Risk Management**, and **Financial Risk Management**.

The **ERM team** is accountable for:

- Updates on the C&E risk charter, while overseeing its definition, approval, publication and maintenance
- Execution of an annual risk identification and materiality assessment
- Inclusion of C&E risk scenarios in the stress testing framework
- Reporting C&E elements in ICAAP/ILAAP and recovery planning
- Collecting quarterly Key Risk Indicator (KRI) data
- Guiding different risk owners in their risk appetite definition for C&E KRIs and ensuring consistency throughout
- Presenting C&E risks to the ExCo, the Risk and Compliance Committee, the BoD and the ECB

Subsequently, the teams on **Risk Reporting and Risk Data & Analytics** focus on a correct reporting and disclosure of C&E risk templates (reporting), and the input and computation of KRIs for physical and transition risks (quarterly) as well as the execution of stress testing scenarios and economic capital (ECAP) calculations (modelling).

Lastly, Credit risk management and Financial risk management are charged with the input and computation of KRIs for credit risk and liquidity risk, both on a quarterly basis.

Third line of defence

Finally, the **third line of defence** refers to internal audit, who provides independent assurance on the effectiveness of the first and second lines of defence. Internal audit includes C&E risks in its scope of activities.

Role of ExCo and BoD related to climate-related risks and opportunities

In general, the executive management and the Board of Directors (BoD) are **directly involved in the development and review of Crelan's strategy and its implementation**. In terms of climate-related and environmental (C&E) opportunities, risks and impacts, the BoD has the final word on actions to be taken. The **annual strategic planning** exercise offers them the opportunity to challenge and set out Crelan's strategic direction. **Quarterly updates** from Risk and Finance give them a view on the group's performance through KPIs and KRIs.

The Quarterly Risk Report (QRR) provides a complete presentation of **all risks, indicators and their evolution.** It consists of a risk dashboard, a recovery dashboard, information on regulatory and economic solvency and liquidity, and the risk analysis by risk component. The risk analysis contains (non) retail credit risks, interest rate risks for banking books, market risks, liquidity risks, operational risks, information risks, compliance risks, security risks and C&E risks. Within the C&E risk section, the report provides the **outcome of the yearly risk materiality exercise**, a **quarterly update of the key risk indicators as well as a comparison with the risk appetite**, and a **status update of the overall C&E action plan** of the group. The ERM team is responsible for collecting input from all teams (e.g., on key risk indicators or risk appetite) to feed the section on C&E risks within the QRR.

The QRR is presented on a quarterly basis to the BoD, the Executive Committee (ExCo) and the Risk and Compliance Committee (RCC). These bodies are responsible for discussing these reports and validating proposed actions that must be taken. The BoD has the ultimate responsibility for risk management in the overall organization and agrees on the risk appetite, risk tolerance and risk policy for the different operational and business activities of Crelan. In addition, the BoD is accountable for the group's general strategy, encompassing climate-related aspects, and has the final word on the input from the ESG Steerco.

Chapter 2
Strategie

The financial sector can – and is expected to – play a crucial role in the fight against climate change. This places sustainability in general, and climate and environment in particular, at the centre of financial institutions' strategies. The strategy is foundational to success and provides an overarching framework for goals and business factors. Furthermore, it enhances long-term planning, competitive advantages and profit optimization.

Strengthening the cooperative identity is an important strategic pillar for Crelan. Being a cooperative bank, Crelan has set a threefold objective: promoting (1) an ecological and sustainable society, (2) a social and inclusive society, and (3) engagement with employees, cooperative shareholders, agents and clients on ESG topics. Sustainability is part of the group's DNA as a cooperative bank. Its integration into the strategy includes outlining clear initiatives, goals and metrics to ensure **robustness to realize sustainability benefits**, while also **managing potentially significant consequences** that arise from climate change. Climate-related effects may place stress on operational models and require comprehensive protection through identification, assessment, monitoring and management of such impacts. Developing an overarching strategy and plan, which are then translated into specific actions, metrics and targets allows Crelan to anticipate climate-related challenges and adapt if needed.

Crelan's general ESG strategy

Crelan's general ESG strategy defines **specific approaches for the different pillars within Crelan**: Crelan's relationship with customers (subdivided into "wealth" and "retail and business"), Crelan's interaction with institutional parties, and Crelan's internal operations (Crelan as a company). Within each pillar, the group aims to not only **adhere to ethical standards and strict compliance** with regulatory requirements, but to also go beyond and **actively contribute to a positive transition**, including commitments to safeguard and generate value for cooperators, customers, partners and employees.

Crelan & customers

Wealth

This pillar covers Crelan's activities around investment advice and investment products. Crelan adopts a non-directive approach to customer decision-making when it comes to advising on investments. It does aim to inform clients about environmental and social challenges and the impact they may have on investments, but ultimately the choice is with the customer. Crelan therefore also focuses to align products with customer sustainability preferences, making sure that the supply can meet customer demand. Providing adequate products, reflecting properly the customers' sustainability preferences, appears, however, to be challenging; for Crelan but also for other financial advisors.

Retail & business

Crelan concentrates on **stimulating and financing sustainable transition in real estate and agri-food** as it is its responsibility to highlight the link between sustainability and long-term financial value. Therefore, the bank offers tools and services to agents and clients that make this link concrete and the right financial products to finance the transition. On top of that, the group avoids the financing of activities in conflict with its exclusion list.

From strategy to action: ESG scorecard development

Crelan has chosen to develop an in-house **ESG scoring** methodology for professional loans to integrate ESG factors into credit risk and to engage with clients on ESG topics that are relevant for the client – covering the three dimensions: E, S and G. This initiative fits within the group's approach on credit and reputational risk management in the lending portfolio and will bring valuable insights for Crelan's mission to support its clients in their sustainable transition.

The development of ESG scores and scorecards for the professional segment started in 2023. Separate scorecards were developed for agricultural, SME and corporate clients. Material topics for each scorecard were based on an independent materiality mapping, supplemented by expertise from internal sector experts. A pilot test of the scorecards was conducted with a small group of clients and experts at the end of 2023.

In the coming years the ESG scoring methodology will proceed with a staged roll-out in the professional segment. For 2024, targets have been set on client coverage of ESG scores, focusing on larger exposures at first. Another objective for 2024 is on the development of measures for integration of the ESG score in the credit granting process and risk monitoring. In 2025 the use of the ESG score will be expanded to smaller credit exposures. Additionally, the target for the total amount of clients covered by an ESG score will be increased. For 2026, the goal is the full integration of the ESG score into the credit and risk processes and systems and application of the ESG score to all professional investment credits.

The ESG scorecards are an important tool, not only to get a better understanding of ESG risk factors in our portfolio. More importantly, Crelan will gain more insight into the challenges its clients are facing, while and at the same time engage with them on the sustainability initiatives they are already taking. Starting in 2024, ESG scores will become an important component of the group's customer engagement strategy in the professional segment. It will allow Crelan to identify high ESG risk exposures and opportunities, and, where possible, accompany clients in the transition to an (even) better ESG performance.

Crelan & institutional parties

This pillar covers **regulatory and supervisory** topics, where the focus is on **compliance**. However, Crelan aims to surpass mere compliance and does so through its development of a **Green Bond Framework** (GBF). With the GBF the group is able to make optimal use of sustainable finance solutions to collect capital from institutional investors.

The proceeds will be used to **finance and refinance, in whole or in part, existing and future loans** that are provided to finance green buildings and **clean transportation projects**[18]. This way, Crelan aims to contribute to climate change mitigation and adaptation. Sustainalytics was engaged to review Crelan's GBF and provide a second-party opinion on the framework's environmental credential and its alignment with the **Green Bond Principles 2021 (GBP)** developed by the International Capital Market Association (ICMA)[19]. GBP-aligned issuances should provide transparent green credentials alongside an investment opportunity. In line with these principles, Crelan will publish an impact and allocation reports in the course of 2024.

18 Clean transportation projects include not only decarbonized or low CO_2 emission transport, but also projects focused on reducing pollution etc
19 The Green Bond Principles seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment. By recommending that issuers report on the use of Green Bond proceeds, the GBP promote a step change in transparency that facilitates the tracking of funds to environmental projects, while simultaneously aiming to improve insights into their estimated impact. Find more information **here**.

The first issuance in September 2023 and the second issuance in January 2024 raised, respectively, 600 million euros and 750 million from institutional investors. A full overview of the Green Bond Transaction can be found in the **Investor Presentation** of January 2024.

From strategy to action:

1. **Green Bond Issuances**

The GBF developed in March 2023, is currently in place and already has a track record of two issuances. The first issuance in September 2023 and the second issuance in January 2024 raised, respectively, 600 million euros and 750 million from institutional investors.

2. **Disclosure improvement – climate report**

Crelan has improved its climate disclosures by composing and publishing this climate report as well as upgrading its other publications in terms of climate coverage. At the same time, Crelan is preparing for the next step, CSRD-compliant reporting in 2025 (on FY2024).

3. **Investor engagement**

Various roadshows and investor conversations have taken and continue to take place to engage with institutional investors on climate risk and opportunities for Crelan.

Crelan as a company

While Crelan, as any other financial institution, has a significant ESG impact and exposure through its lending activities, it must also consider its own operations. Related to climate and environment, it is the group's strategy to be a role model for cooperators and clients and limit its own operations' environmental footprint[20]. From a social perspective, Crelan applies a cooperative approach for its activities, encompassing **social sustainability, education and active engagement** with people and communities. In terms of governance, the group always acts with integrity e.g. on topics such as data privacy and anti-money laundering[21].

From strategy to action:

1. **Remuneration Policy**

In 2023, Crelan has updated its Remuneration Policy. Climate-related and environmental key performance and risk indicators are one of the factors that influence the level of variable remuneration (for those eligible to receive variable remuneration).

2. **Car Policy**

Since October 2023, Crelan's new Car Policy only allows employees to opt for full electric vehicles.

3. **Education & engagement**

From 2024 onwards, Crelan will enrol all employees in educational sessions on climate change, to further increase engagement within all teams of the role Crelan and themselves have in helping clients in the sustainable transition.

20 Crelan's environmental footprint is amounting to 2 963 tonnes of emissions for the year of 2022. More information is provided on page 41, in **Chapter 4 – Metrics and targets**.
21 More details on social and governance initiatives are available in the Sustainability Report 2023.

Impact of climate-related risks and opportunities on Crelan's businesses, strategy, and financial planning

Identification of climate-related risks and opportunities in the short, medium and long-term

As described in **Chapter 1 - Governance**, Crelan has taken **measures to implement climate-related and environmental (C&E) considerations into its strategy and business model.** Besides the changes in the organizational structure (e.g., the set-up of an ESG SteerCo), a more formalized ESG approach was developed with an initial focus on climate and environment. Within this context, three workstreams were set up to implement ESG projects dedicated to the three pillars within Crelan (mentioned above).

Crelan's recognition of its responsibility to integrate C&E risks, is demonstrated by its development of a **climate risk action plan** in 2022, based on the thirteen expectations from the ECB. With this plan, the group aims to adopt a strategic approach and risk appetite, adapt policies, procedures, risk limits and controls accordingly. The intention is for **overall C&E integration** and to maintain a **focus on climate challenges and the path towards a low-carbon economy**. This includes due diligence at the inception of a client relationship, monitoring the impact of risks on Crelan's own operations, market position and future investments, and the incorporation of C&E risks in e.g., the loan pricing framework.

In particular, the plan focuses on the domains of **risk management** (e.g., process development for C&E risk integration in stress testing and scenario analysis, providing well-defined risk descriptions and KRIs with appropriate limits in risk appetite framework, and process review of C&E risk identification and assessment), **data & IT** (e.g., modifications to IT systems to allow C&E data collection and aggregation, and setting up a holistic data governance framework), and **reporting** (e.g., development of risk reports on material C&E risks).

The process for identifying and assessing risks

The specific identification of C&E risks is embedded in Crelan's overall risk management framework, which is described in detail in Chapter 3 – Risk management. Hence, in this chapter, the approach for such risks is summarized, highlighting key elements to demonstrate its overall integration in Crelan's strategy. The process described here focuses on risks and doesn't include C&E opportunities or impacts. However, both will be structurally integrated as Crelan will adopt the double materiality approach to be CSRD compliant from 2025 onwards.

Climate-related and environmental (C&E) risks are defined by means of a **materiality assessment**. In 2022, a first exercise was conducted. Its outcome was used as starting point for 2023, as this assessment started with the 2022 **list of identified C&E risk drivers**. It was reviewed if each risk driver could still be considered as material and if the list was exhaustive. Additionally, a split was made between physical and transition risk drivers as well as per portfolio (mostly retail mortgages, consumer loans, and professional loans).

The next step was an assessment of each risk, combining both a **quantitative and qualitative approach**. The quantitative assessment part is an important **update** compared to the methodology in 2022 and uses publicly available stress scenarios as the starting point for different C&E risk drivers, each of which an impact is calculated and compared to a materiality threshold. For drivers for which a stress scenario is hard to construct, a qualitative approach has been applied, using a SAT/FAT matrix[22] to derive to an impact amount that can also be compared to the materiality threshold.

Another important update compared to 2022, concerns **time horizons**. Instead of short, medium and long-term, Crelan now applies **four categories** to add more granularity:

- Short-term: 1 year
- Short-to-mid-term: 1 – 5 years
- Mid-to-long-term: 5 – 10 years
- Long-term: more than 10 years

- Materiality assessment results -

The results of the materiality assessment demonstrated two risk drivers that reached the materiality threshold: **transition credit risk for retail mortgages**, and **transition credit risk for professional loans** (other than agriculture). This does not mean, however, that Crelan does not **consider other risks** – but the priority lies with the most material risks.

Considering the different time horizons, various climate-related risks may manifest. Firstly, Crelan may face immediate challenges from weather events in the **short-term**. These events could impact physical assets and collateral, such as during the floods in Belgium in the summer of 2021. Furthermore, rapid regulatory changes related to environmental policies may require fast adaptations and compliance measures.

Secondly, the risks expected to be most prominent between one and five years – **short-to-mid-term** - are transition risks. Policy shifts and market dynamics associated with the move towards a low-carbon economy pose challenges, such as regulatory compliance, investment considerations, market volatility and operational resilience. However, physical risks are also expected to arise, as the increasing frequency of climate-related events will affect financial values associated with assets and investments (e.g., market value of assets such as real estate). In addition, they may disrupt supply chains which can, in their turn, impact financial values of companies and investments associated with those supply chains.

Furthermore, in the **mid-to-long-term**, Crelan must anticipate the implications of carbon pricing mechanisms and regulations, while opportunities will emerge for investments in sustainable practices, such as renewable energy and green technologies. Additionally, changing consumer preferences towards environmentally friendly products and services will become a significant factor influencing long-term demand.

Lastly, looking beyond ten years from now - on the **long-term** - Crelan expects to be confronted with the risk of physical assets stranding, where assets could significantly devalue due to environmental impacts. The value of residential property in high flood risk zones may, for example, decrease significantly. This can negatively impact housing prices, reflecting a greater perception of risk by potential buyers. In addition, the loss of biodiversity poses risks to industries relying on diverse ecosystems. Moreover, there is a concern about global systemic risks, where widespread economic and financial disruptions may occur, due to cumulative and interconnected environmental challenges.

22 A **S**AT/**F**AT matrix is used by operational and security risk teams in risk assessment exercises and is based on two axes: **s**everity and **f**requency. It allows to compute a financial impact and compare this with the materiality threshold. Hence, it allows to classify risk drivers as material, even though they are only assessed in a qualitative way.

Robustness in strategy & business model in respect of various climate scenarios

Managing the C&E risks described above necessitates an **integrated approach** within Crelan's strategic planning, risk management frameworks and investment decisions across all time horizons. Stress testing portfolios under various climate scenarios, assessing asset vulnerability and engaging with stakeholders to promote sustainable practices, are crucial components of proactive risk management, ensuring **long-term resilience** amid a changing climate and evolving environmental landscape for Crelan.

Consideration of climate scenarios

Stress testing and scenario analysis is a dynamic process at Crelan. The outcomes of stress test exercises are discussed and used in the group's **decision-making process**. With regard to climate and environmental (C&E) risks, several stress scenarios were developed, which are regularly evaluated and computed (e.g., in regulatory exercises such as ICAAP[23]/ILAAP or the recovery plan). Crelan has integrated such scenarios to address potential significant risks associated with climate change, for example in the context of the materiality assessment. The ERM team determines how these results[24] could affect Crelan's profits and losses (P&L), capital, and liquidity ratios. For the short and medium term, the group relies on recent publications from the **ECB**, whereas the scenarios outlined by the **Network for Greening the Financial System (NGFS)**[25] are used for the longer term. More details on these scenarios can be found in the description of the materiality assessment in Chapter 3 – Risk management.

This approach ensures that the group's strategic planning incorporates insights from reputable sources and covers a spectrum of timeframes. It allows to proactively manage climate-related risks in alignment with evolving financial and environmental considerations.

Financial resilience

Financial materiality is considered in all the actions and decisions made concerning C&E topics. The more financial impact a topic may have, the higher the actions to manage this material risk or exploit the material opportunity end up on Crelan's agenda.

For the different pillars, Crelan has identified some perspectives of what may generate financial upside or downside, and which serve as guidance to set the ESG strategy. The financial risks derive from the material topics that were identified in the materiality assessment – as described above – and, subsequently, mapped to the different workstreams at the bank. In the strategic exercise, Crelan has also considered the fact that by managing a risk very well, business opportunities for the various streams may arise as well.

23 The Internal Capital Adequacy Assessment Process (ICAAP) allows firms to assess their capital adequacy and requires them to have appropriate risk management techniques in place. The ICAAP documentation in 2023 provides an overview of the materiality assessment of C&E risk drivers on credit, market, operational and liquidity risk. Based on the exercise's outcome, it can be derived what kind of C&E scenarios can have the largest impact on the bank. The ECB expects banks to assess the capital adequacy both in normal and in stressed market conditions. Therefore, Crelan updates its stress testing framework annually and applies the corresponding stress scenarios in that year's ICAAP

24 The results concern both the individual risks calculated/assessed through the materiality assessment and the risks resulting from the integration of several stress scenarios. The identified risks can occur separately or combined, which is also considered in the different KRIs.

25 NGFS is a group of central banks and supervisors that exchange experiences, share best practices, contribute to the development of C&E risk management in the financial sector, and mobilize mainstream finance to support the transition towards a sustainable economy. They aim to support the financial system to manage risks and to mobilize capital for green and low-carbon investments. Find more information **here**.

	Financial risks	Financial opportunities
Crelan & its clients – Wealth	Loss of turnover due to a lack of adequate product offering	Attraction of new clients due to tailored advice
Crelan & its clients – Retail & Business	Credit loss on financing of clients that suffer from the sustainable transition	Increased lending volumes due to transition projects for existing and new clients + lower credit losses
Crelan & institutional parties	Fines or increased capital requirements for non-compliance + no (advantageous) access to capital markets	(Cheaper) access to capital markets for transition finance
Crelan as a company	Greenwashing claims with reputational damage or fines as a consequence	Strong brand reputation, leading to attraction of talent and business partnerships

Table 4 - Financial risks and opportunities identified during the strategic exercise

Integrating the C&E strategy into concrete initiatives

In the section above, it was described how C&E risks and opportunities necessitate an integrated approach and how financial resilience is reflected in Crelan's strategy and decision-making.

This last part considers the consequences of C&E risks and opportunities in a more concrete way and highlights several initiatives the group is taking, following the same structure as above, based on Crelan's three pillars (Crelan with clients, with institutional parties, and as a company). Part of the initiatives are linked to Crelan's **retail and professional portfolio**. The prioritization of C&E risks was contingent upon their **material impact** on Crelan's portfolio and the relative **scale of this portfolio within the group's broader context**. As a consequence, in 2023 emphasis was placed on the evaluations of credit risk associated with the retail portfolio, followed by an examination of analogous risks within the professional portfolio.

Crelan & customers – Wealth

- Sustainable investment offer -

Crelan's large **majority of products are managed in accordance with ESG criteria,** meaning that the companies within these financial instruments are continuously evaluated and accounted for in terms of their climate and environmental impact, social policy and sound governance. For its investment products, Crelan collaborates with Amundi Asset Management[26], Econopolis Wealth Management and AXA Invest Managers, who apply sustainability criteria in their investment policies. In addition, BNP Paribas Asset Management Belgium manages Crelan pension saving funds, integrating a sustainable investment policy. This way, Crelan aims to ensure that its investment offerings are aligned with its commitment to responsible and sustainable practices.

Currently, 87,2% of Crelan's investment offer[27] is classified as SFDR Article 8 (products that promote investments or projects with positive environment or social characteristics and with good governance principles) or Article 9 (products that target a sustainable investment primary objective; an economic activity that contributes to an environmental or social objective). The remaining 12,8% are Article 6 products: products without a sustainable investment objective nor investments in assets with environmental or social benefits. These products do apply minimum exclusion criteria, but to a limited extent. The group aims to remove such products from its offering but wants to give the asset managers the opportunity to transform them into SFDR Article 8.

26 With more than EUR 796 billion of responsible investments under management, Amundi AM can be considered as a pioneer in this domain. This player continuously aims to improve its sustainable approach and is, in particular, focusing on the development of new sustainable solutions related to carbon neutrality.
27 This percentage reflects the products of Crelan & ABB.

- Transparency and tailor-made advice-

Crelan considers **providing correct and accurate information to customers** indispensable in investment advice and distributing investment products. Crelan therefore provides the utmost importance to follow-up on regulations, such as the **Sustainable Finance Disclosure Regulation (SFDR),** that stipulate minimum transparency requirements – described in the introduction. The SFDR requires financial market participants and advisers to describe Principal Adverse Impacts (PAI) in pre-contractual information, referring to negative effects that are (likely) material on sustainability factors, caused, aggravated by or directly linked to investment decisions and advice. Secondly, investment products must be categorized as Article 6 (products without any sustainability rules in their investment process), Article 8 (products that consider environmental or social considerations and, hence, for which ESG criteria are taken into account in the investment strategy), or Article 9 (products with an explicit sustainable objective, striving for a measurable impact in their investment policy). In 2023, 87,2% of investment products offered by Crelan[28] belonged to Article 8 or Article 9, meaning that these financial instruments include sustainability to some extent or as a concrete investment objective.

Crelan does not only focus on being transparent towards its clients; the group also attaches great importance to **tailor-made advice**. Detailed information on sustainable investment products needs to be communicated and incorporated into discussions between advisers and investors to ensure that investors have sufficient understanding of the sustainable nature of these products. Herein, the **Markets in Financial Instruments Directive (MiFID)**[29] is critical. In line with this European directive, financial institutions providing investment advice are required to determine clients' sustainability preferences in conjunction with the suitability assessments. Clients must declare their wishes on the minimum percentage of sustainable investments in the products that are being recommended to them. Furthermore, they can also indicate which PAI issues they deem important. Based on this information, requested through a MiFID questionnaire, Crelan matches each investor's risk profile, with his/her sustainability preferences, which provides a basis for **tailor made investment advice.**

Crelan & customers – Retail & business

- Environmental approach in the credit policy -

As a 100% Belgian cooperative banking group, Crelan strives to build a **long-term relationship with its customers.** A new dimension has now been added to this aim, namely fostering a climate-resilient partnership. The group has always focused on providing simple and transparent products and continues this approach while integrating sustainability.

Crelan's general **credit policy** is validated by the Board of Directors on a yearly basis and contains the driving principles for lending. Crelan **considers ESG factors** and aims to avert any negative impact on environment and society. For the professional segment, more prominence has been given to the impact of lending on climate change and the environment by, for example, **explicit exclusions**. The credit policy does not allow financing private jets, institutions and businesses involved in oil, coal and gas extraction, companies or activities trading in endangered species, and companies that don't comply with relevant environmental standards or norms or are in violation of environmental legislation.

On the retail side, additional **budgetary requirements** are set for financing the purchase of a property with an EPC label E, F or G. As such, Crelan wants to encourage customers to renovate their properties in a sustainable manner and, hence, improve the energy performance . These budgetary requirements can come from either sufficient borrowing capacity, or by making use of existing savings. One related action is the launch of a "**green renovation offer**", targeting young customers to finance renovations aimed at improving properties' energy performance.

Moreover, Crelan has also developed a "**green credit offer"**. Through "**ECO-Energy Financing"**, customers in Belgium can receive instalment loans at a favourable interest rate intended for energy-efficient investments, investments in green energy, insulation work, the installation of thermostatic taps and switches, and energy audits. This will be supported through the use of a specialized tool, that will be at the disposal of the agents to guide retail customers through the renovation opportunities for their property. Based on a property's parameters, the tool calculates renovation costs and energy efficiency gains. In 2023, ECO-Energy Financing represented 54,4% of all real estate instalment loans.

28 This percentage reflects products of Crelan & ABB.
29 The integration of sustainability preferences into MiFID is new since August 2022. Find the regulation **here**.

It is important to mention that exploiting the benefits of these products to finance the transition of the residential real estate market is to a certain extent **hampered by lack of high quality data**. EPC data is hard to access for our existing loan portfolio, preventing us from reaching out to the right customers to discuss potentially upgrading the energy efficiency of their property.

In 2023, Crelan launched a project to significantly increase its loan portfolio EPC data.

In addition, Crelan encourages customers to purchase "**ECO vehicles**", defined as hybrid cars (full or plug-in), electric cars or motorcycles, or cars powered by hydrogen or natural gas. The group offers a **cheaper separate pricing structure** for such vehicles that are new or maximum 36 months old. In 2023, Eco-vehicles represented 13,1% of the total car loan production.

- Support measures -

Crelan recognizes its responsibilities in the fight against climate change and explores ways in which we can contribute to a carbon neutral economy by 2050. In general, we aim to become an **eco-conscious contributor** to society. With this ambition in mind and considering Crelan's strong ties with the Belgian agricultural and horticultural sector since its inception in 1937, the bank undertakes a number of sustainable initiatives in these sectors.

Firstly, these focus on **support measures when facing climate-related events.** As **drought** is a climate change consequence with a strong impact on agricultural and horticultural businesses, Crelan has provided **support to its customers to counter their losses due to drought.** The bank provided the option to **suspend principal repayments on the loans with one year** to ease temporary pressure on customers' cash flow. In case of other natural disasters in the future, Crelan may implement mechanisms like this once again.

Secondly, Crelan took part in the **energy support measures** that the government and the banking sector established for households that experienced temporary difficulties due to increased energy bills. The group even went beyond this and expanded the support to professional customers as well. At the end of 2022, it was announced that professional clients that experience their cash position coming under pressure – due to higher energy prices – could apply for specially developed energy loans with specific terms. Even though this was a one-time support measure, clients always have the possibility to discuss financial difficulties with the bank. Subsequently, Crelan aims to assist such clients, for example by granting an additional loan for working capital, while considering their probability of survival.

Crelan & institutional parties

- Sustainable investment offer for institutional investors-

Crelan issues a range of euro bonds, focusing as well on green bonds, which may include bonds and commercial paper in various formats to finance and/or refinance green loans with an environmental benefit, as described above in the section on the Green Bond Framework.

The proceeds will be used to **finance and refinance, in whole or in part, existing and future loans** that are provided to **finance green buildings** and **clean transportation projects**. This way, Crelan aims to contribute to climate change mitigation.

Crelan as a company

- Own investment portfolio -

As part of its **liquidity management**, Crelan maintains an **investment portfolio** as High Quality Liquid Assets ("HQLA"). Procedures are followed and an exclusion list is applied to ensure investments are ethical and aligned with our sustainability criteria, with a focus on climate and environment. An independently approved ESG rating agency provides the Balance Sheet Management department with ESG data of issuers. Investments with the best ESG scoring are selected. For corporate bonds, this means a score of A (MSCI), 10-20 (Sustainalytics), or 70% (S&P Global). Additionally, issuers are excluded based on the exclusion list of the Norwegian Government Pension Fund Global (GPFG)[30] and an assessment of issuers whose values or production methods do not fit the ethical values Crelan promotes. This assessment leads to the exclusion of companies that violate ILO or OECD guidelines (e.g., child labour or discrimination), companies that are related to – for example – the tobacco sector, non-certified palm oil, illegal deforestation, and coal extraction, and companies involved in arms production, gambling, illegal activities, etc.

30 Observation and exclusion of companies | Norges Bank Investment Management (nbim.no)

Sovereign bonds in the own investment portfolio are currently limited to bonds of the core Euro-zone[31]. As long as this limitation exists, no similar guidelines as the ones for corporate bonds are required.

- Contributions to society -

Crelan recognizes its responsibilities in the fight against climate change and explores ways in which it can contribute to a carbon neutral economy by 2050. In general, Crelan aims to become an **eco-conscious contributor** to society. Besides the focus on its ties with the agricultural and horticultural sectors, the group also emphasizes its cooperative character. Crelan is convinced that, in addition to its role as a financial advisor, it also has a **social commitment** to fulfil. With the **Crelan Foundation,** the bank is building on a tradition of supporting socially relevant and sustainable projects. Each year, the foundation's committee selects and provides financial support for a number of initiatives, considering environmental elements as well[32].

31 Germany, France, Belgium, Netherlands & Austria.
32 The full conditions for application are available on Crelan's website.

General overview of material topics, approaches and key actions

To end this chapter, an overview is provided to highlight the topics found to be material in the materiality assessment. For each material topic, the overview demonstrates which specific approach is used to manage the topic and which key actions have been taken.

Material topic	Approach	Key actions
Transition credit risk for professional loans	Integrating ESG factors into credit risk and engaging with clients on ESG topics	— ESG scoring **For details on ESG scoring, refer to this link.**
Transition credit risk for retail lending	Financing the transition	— Improving EPC data collection process for new and existing loans — Budgetary requirements for financing properties with an EPC label E, F or G — Green credit offering — Eco-energy financing — Facilitation of the purchase of new less polluting cars **For details on these actions, see Environmental approach in the credit policy**
Transition credit risk for retail & professional clients	Offering solutions for customers who had difficulties due to high energy prices	— Suspension of capital repayments of mortgage loans as supporting measure **For details on these actions, see Environmental approach in the credit policy & support measures**

Table 5 - General overview of material topics, approaches and key actions

Chapter 3
Risk Management

Risk management is a key activity in any business. **Complete and effective risk management is necessary** for long-term, profitable growth and enhances the confidence of all stakeholders involved. As sound risk management requires regular updates, Crelan **modifies** its risk management **framework continuously**, considering new laws, changing market standards, everyday experience and alterations to Crelan's operations.

Within this context, **identification, assessment and management of climate-related risks** is essential. Suitable risk management for C&E risk is important and should be integrated into the overall risk management framework. Also the climate-related risk management must be reviewed and updated on a regular basis, similar as the general risk framework.

In this chapter, the processes for climate-related risk identification, assessment and management are described. Additionally, this section documents how climate-related risk management is integrated into Crelan's general risk management framework, providing a comprehensive overview.

Process for climate-related risks identification and assessment

The concept of "**ESG risks**" gained more importance over the last years given the increased awareness of sustainability within society and the financial world. ESG risks are defined as **risks with current or potential negative financial impact on the institution because of environmental, social and/or governance aspects on its investments, counterparties, own assets, and operations**. To limit such effects, financial institutions develop methods to measure and monitor ESG risks. Over the past years, Crelan has developed various initiatives related to climate; one of them being the management of climate-related and environmental (C&E) risks.

Definition of climate-related and environmental risks

C&E risks are the risks of any negative financial impact on the institution, stemming from the current or prospective consequences of climate change or environmental degradation on its counterparties, invested assets or own assets and operations. Such risks can be divided into two groups: **physical risks** and **transition risks.**

Physical risks

Physical risks are risks of **any negative financial impact on the institution stemming from the current or prospective consequences of a changing climate and environmental degradation**, on its counterparties, invested assets or own assets and operations. This includes risks related to frequent extreme weather events - **acute physical risks** -, and risks related to gradual changes in climate - **chronic physical risks**.

Transition risks

Transition risks refer to **the institution's financial loss that can result (in)directly from the process of adjustment towards a lower-carbon and more environmentally sustainable economy** on its counterparties, invested assets or own assets/ operations. Transition risks include **policy and**

regulatory risks, **technology risks**, risks related to **market changes**, and risks related to **shifts in consumer and investor sentiment.**

Risks specific to the financial sector

For the financial sector, climate change risks can be categorized into credit risk, operational risk, liquidity risk, and market risk.

Credit risk

Credit risk refers to risk of loss if a borrower fails to repay a loan. At Crelan, this type of risk can arise for both retail and professional customers.

- Mortgages: transition risk -

Energy performance increasingly plays a role in the valuation of a residence. Houses with a lower EPC value can **decrease in value** in the future, and that has an impact on the loss given default value (LGD value). The additional consumption of energy for this type of housing can also have a negative impact on the capacity to pay (CTP) and the probability of default (PD), taking into account the **sharp increase in energy prices**[33]. As this is related to measures for the transition towards a lower-carbon economy, this is a transition risk.

- Professional loans: transition risk -

The most significant risk is the **impact of various legislative initiatives** that impact clients' business models, such as a carbon tax. Like mortgages, this is also related to measures for the transition towards a lower-carbon economy and, hence, a transition risk.

- Mortgages & professional loans: physical risk -

More extreme weather conditions due to climate change may **impact the probability of default (PD) and capacity to pay (CTP)**. Damage caused by events such as extreme flooding, may require customers to use their budgets for insurance premiums and necessary repairs, and, therefore, stressing PD and CTP. In addition, the **value of loan collateral** also decreases.

Operational risk

Operational risks are defined as the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. Operational risk includes both legal and reputational risks and is embedded in all banking products and activities. Implementing reporting requirements and supervisory expectations in a proper and timely manner is crucial for financial institutions and also entails paying attention on the availability of high-quality data.

Liquidity risk

Liquidity risk is the risk that a company doesn't have enough cash to meet financial obligations on time. Liquidity risk can, amongst others, originate from a **large scale acute weather event**, triggering **cash withdrawals** and **temporary suspension of loan repayments**, due to non-ability to pay as clients need to invest to repair damages. In an even more extreme scenario, climate change may lead to **assets losing value or triggers for the repricing** of assets, causing losses on banks' balance sheets, disrupting financial infrastructure and, hence, adversely affecting bank liquidity. By example, with climate change leading to more frequent and intense extreme weather events, events such as heavy rainfall can lead to certain regions in Belgium facing a higher risk of property damage. Prolonged periods of heavy rainfall may lead to flooding in urban areas, causing significant damage to residential and commercial properties. As a consequence, the value of real estate in these regions could sharply decline which, in turn, might trigger a repricing of property-related assets held by financial institutions. As banks grapple with the devaluation of their assets, losses on the balance sheets could occur, impacting their overall financial health.

For banks who rely on institutional investors, to fund part of their activity, a **reputational issue** or **lack** of **clear sustainability targets** may **reduce access to the market** and thereby prevent refinancing, causing a liquidity issue as well.

33 Increasing energy prices were considered a very likely scenario given that it was already materializing in 2023. The Russian war in Ukraine has highlighted risks and costs arising from high dependency on fossil fuels, the prices and supplies of which are extremely volatile in an uncertain geopolitical environment. Amounting to climate change-related considerations, these elements should push European firms towards an immediate and accelerated transition.

Market risk

Market risks are risks associated with potential losses due to changes in market conditions. The **value** of investments can vary as the issuers of bonds or equities are subject to climate risk as well, resulting in **fluctuations in the market value**. Bonds issued by companies active in high carbon sectors, for example, are prone to heightened market risks by increasing carbon taxes. As regulatory frameworks increasingly address environmental concerns, companies within such sectors may face more financial burdens; struggling with financial implications of rising carbon taxes. Hence, the market value of bonds from such entities may fluctuate in response to developments in the regulatory landscape and more stringent environmental policies; exposing investors to market risks.

Materiality assessment to identify, measure and assess climate-related and environmental (C&E) risks

Throughout 2023, Crelan has made progress in developing the C&E strategy. It is grounded in a thorough **materiality assessment of C&E risk drivers.** In Chapter 2 - Strategy, this process was described in a summarized way. Below, a full description and details are provided. Even though this report focuses on the 2023 exercise, we start the description with a summary on 2022 to demonstrate the progress that was made. We also highlight that this exercise will continue to evolve as we (and the rest of society) continue to gain insights in climate-related and environmental risks.

2022

Crelan carried out a first qualitative C&E materiality assessment for credit, operational, liquidity and market risks in 2022. The assessment was based on a number of qualitative **C&E risk scenarios**, tailored to Crelan's business.

The C&E scenarios were discussed during dedicated workshops with key staff from risk and business teams across the three entities of Crelan (Crelan, ABB & Europabank). Two axes – **likelihood and financial impact** – were considered over the short (0-3 years), medium (4-10 years) and long-term (beyond 10 years). Each risk driver was assigned a score of 'low', 'medium', 'high' or 'very high' on both axes. Where applicable, ongoing actions and existing processes were considered as risk mitigants.

2023

The materiality assessment in 2023 took place in September-November and **started from the list of identified C&E risk drivers in 2022**. During this assessment, Crelan reviewed whether each risk driver on the list could still be considered as material (given factual evidence of it being material or not) and if the list was exhaustive (if new or additional drivers should be included). In addition, the risk drivers in the list were split into physical and transition risk drivers, as well as per portfolio (mostly retail mortgages, consumer loans and professional loans (agricultural & other)). The geographical focus was on Belgium as almost all exposures are originated in this country.

This first step of risk identification, led to an updated overview of risks/risk drivers, which is provided below. As a next step, the topics in blue were assessed in a qualitative way; the topics in orange have been subject to a quantitative assessment.

Transition risk

Risk affected	Portfolio affected	Narrative (stress scenario)
Credit risk	Retail mortgages	Increase in energy prices, investment acceleration
	Agriculture	
	Other professional loans	
	Consumer loans (LOA)	
Market risk	Sovereign portfolio	Widening spreads
Liquidity risk	Retail mortgages	Not enough eligible assets under Green Bond Program
	Retail mortgages	New regulation impacting the eligibility of assets as HQLA through securitisation
	Retail mortgages	Not enough value for covered assets under Covered Bond Program
	Retail mortgages	Collateral eligibility requirements changed by the central bank[34]
Operational risk	All portfolios	Increased scrutiny and timing pressure with actual fines
	External	Greenwashing by vendors/providers
	Agriculture	Reputational impact of nitrogen-intensive financing on client & talent

Table 6 - Transition risks/risks drivers

34 If the central bank were no longer to accept 'traditional' government bonds as collateral, this would impact the liquidity position of the bank, as the bank's ability to borrow money from the central bank would be compromised significantly. However, given sovereign bonds are important sources of financing for countries, the central bank is very unlikely to make such a drastic call. While the likelihood for corporate bonds' acceptance could be considered slightly higher, the size of this portfolio is much smaller than government bonds for Crelan, limiting its relative impact on this axis (remote likelihood).

Physical risk

Risk affected	Portfolio affected	Narrative (stress scenario)
Credit risk	Retail mortgages	Floodings
	Agriculture	
	Other professional loans	
	Consumer loans (LOA)	
	Retail mortgages	Drought
	Agriculture	Drought
	Other professional loans	
	Consumer loans (LOA)	Drought
Market risk	Sovereign portfolio	Widening spreads
Liquidity risk	Retail & wholesale deposits	Drawdown of funds due to flooding
	Retail mortgages	Not enough eligible assets under Green Bond Program
Operational risk	All portfolios	Physical risk events, affecting operational resilience
	Hacking event	Hacking event

Table 7 - Physical risks/risks drivers

The final list of identified risks to be assessed was altered compared to 2022, as the following topics were considered **immaterial**:

Transition risk

Risk affected	Portfolio affected	Narrative (stress scenario)	Reason for immateriality
Market risk	Corporate bonds	Stress on corporate portfolio	No corporate bonds in Crelan's portfolio at the time of the materiality assessment
	Covered bond portfolio	Stress on covered bond portfolio	No covered bonds in Crelan's portfolio at the time of the materiality assessment
Liquidity risk	Retail mortgages	No Green Bond Framework, hindering access to institutional investors	Crelan has an active Green Bond Framework in place

Table 8 - Immaterial transition risks

Physical risk

Risk affected	Portfolio affected	Narrative (stress scenario)	Reason for immateriality
Credit risk	Retail mortgages portfolio	Other (storms/heat wave/ wildfire)	Based on publicly available information, the probability & severity for these events in Belgium is not significant enough to be material for Crelan.
	Agriculture		
	Other professional loans		
	Consumer loans (LOA)		
Market risk	Corporate bonds	Stress on corporate portfolio	No corporate bonds in Crelan's portfolio at the end of 2023
	Covered bond portfolio	Stress on covered bond portfolio	No covered bonds in Crelan's portfolio at the end of 2023

Table 9 - Immaterial physical risks

For the measurement and assessment of the identified risks, Crelan has revisited its approach as it is important to review and confirm definitions and thresholds of materiality on a yearly basis. The update in 2023 was driven by three shortcomings from 2022:

1. Even though the bank comprehensively identified key risk drivers coherently applying a qualitative approach in its materiality matrix, a **quantitative approach was missing.**
2. There was a need for a clear **difference and definition between short, medium and long-term impacts** on the risk profile.
3. Additional substantiation of the **non-materiality** of certain risk drivers was deemed necessary by the bank.

The 2023 update led to three important updates:

1. **Four distinct time horizons** are now applied to add more granularity: short term for 1 year, short-to-mid-term for 1 to 5 years, mid-to-long-term for 5 to 10 years, and long-term for more than 10 years.
2. A **quantitative approach** is conceptualized as impact is now calculated for each risk driver, starting from publicly available stress scenarios for different C&E risk drivers. The impact is compared to a materiality threshold, expressed as a % of CET1[35] (for solvency impact) and a % of the LCR[36] buffer (for liquidity impact).
3. For the risks for which a stress scenario is difficult to quantify, a **qualitative approach** is used. In addition, **the SAT/FAT matrix** [37] is applied in order to derive an impact amount which can be then compared to the materiality threshold.

35 CET1 refers to Common Equity Tier 1, a component of Tier 1 capital that is primarily common stock held by a bank or other financial institution. CET1 is a capital measure introduced in 2014 as precautionary way to protect the economy from a financial crisis.
36 LCR is the Liquidity Coverage Ratio, the proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short term obligationsa
37 A SAT/FAT matrix is used by operational and security risk teams in risk assessment exercises and is based on two axes: severity and frequency. It allows to compute a financial impact and compare this with the materiality threshold. Hence, it allows to classify risk drivers as material, even though they are only assessed in a qualitative way.

- Climate scenarios –

Stress scenarios for different C&E risk drivers are used as basis for the quantitative approach. Different scenarios were selected for different time horizons.

For the **long term**, two scenarios outlined by the **Network for Greening the Financial System (NGFS)**[38] are used as a key reference: the current policy scenario and the delayed transition scenario (phase III)[39]. These scenarios typically include different pathways for global warming, with associated socioeconomic and policy developments. The table below describes the characteristics of both scenarios. The graphs demonstrate the scenarios' places on two axes: transition risk and physical risk.

	Current policies scenario	**Delayed transition scenario**
Policy ambition	3°C	1,6°C
Policy reaction	None	Delayed
Technology change	Slow change	Slow/fast change
Carbon Dioxide Removal	Low use	Low-medium use
Regional policy variation	Low variation	High variation

Table 10 - Characteristics of current policies scenario and delayed transition scenario

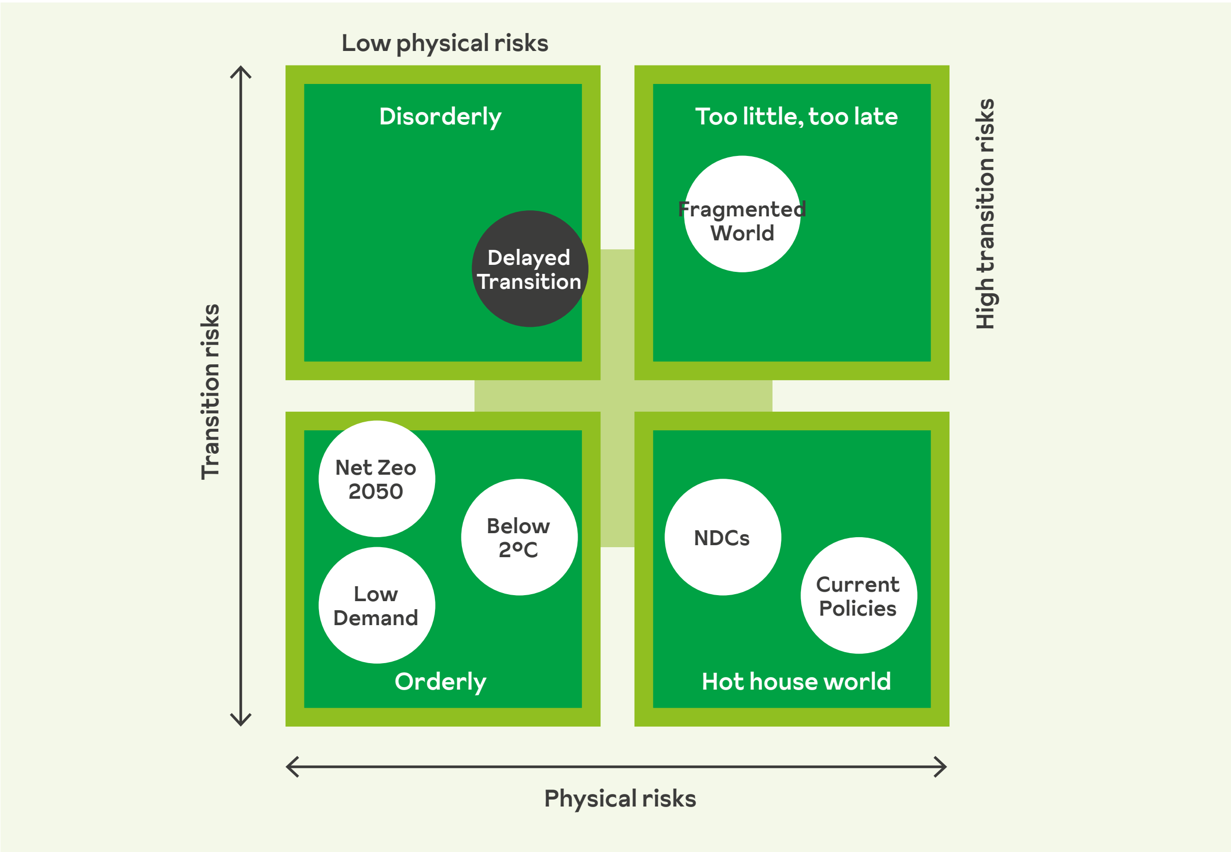


Figure 3 - Delayed transition scenario (source: NGFS)

38 NGFS is a group of central banks and supervisors that supports the financial system to manage risks and to mobilize capital for green and low-carbon investments. Find more information **here**.
39 The scenarios of NGFS are regularly updated. At the end of 2023, phase IV was published.

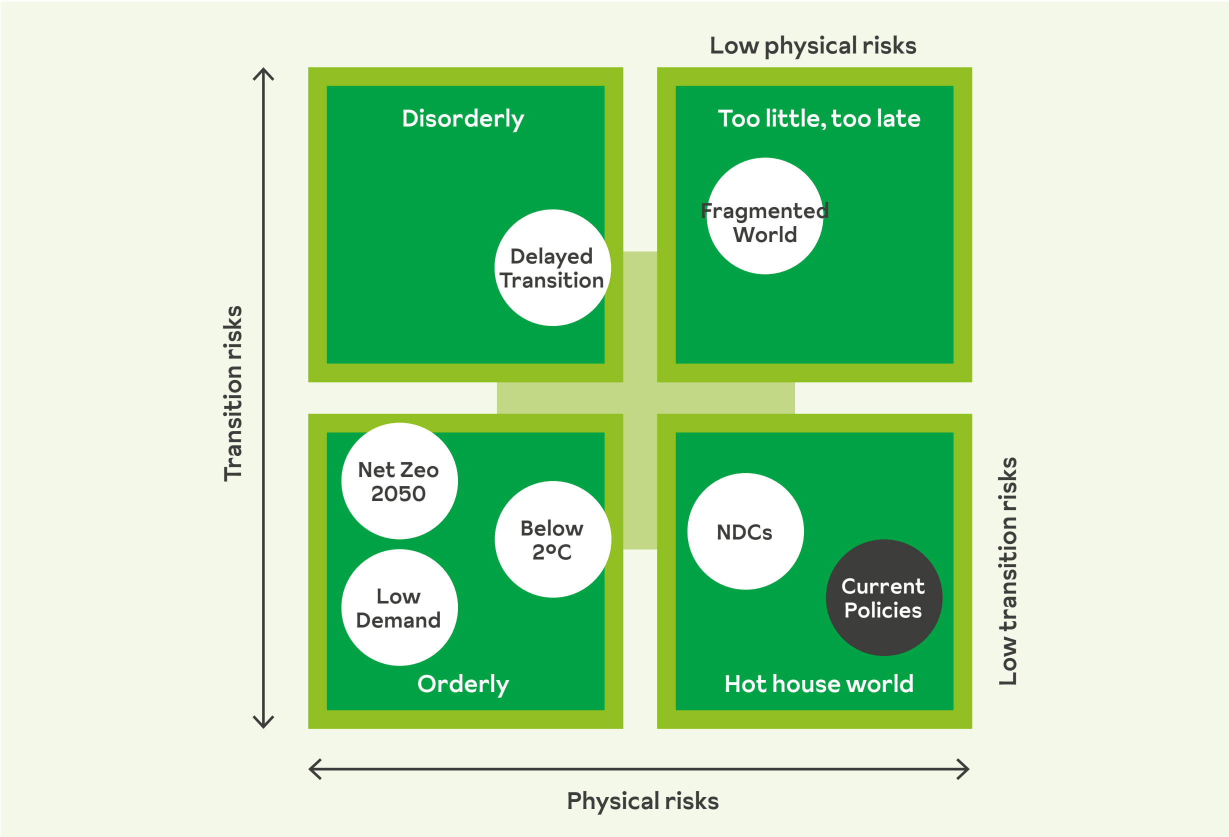


Figure 4 - Current policies scenario (source: NGFS)

Looking on the **short and medium term**, Crelan relies on a recent **publication from the ECB** in which updates on climate transition risks are provided for the same time horizons. The **accelerated transition** and **delayed push** scenarios were selected[40]. Both scenarios are largely based on the Phase IV models of NGFS (released in November 2023).

Below, we provide an overview of the scenarios that are considered:

Time horizons

	Risk affected	S	S-M	M-L	L
Transition risk	Credit risk	ECB: Accelerated transition	ECB: Late push transition	ECB: Late push transition	NGFS: NiGEM[41] delayed transition
	Market risk	ECB: Accelerated transition	ECB: Late push transition	ECB: Late push transition	NGFS: NiGEM delayed transition
	Liquidity risk	Custom narrative			
	Operational risk	Custom narrative			
Physical risk	Credit risk	NGFS NiGEM current policies + ECB's climate stress test 2022 + Crelan overlay			
	Market risk	NGFS NiGEM current policies			
	Liquidity risk	Custom narrative			
	Operational risk	Custom narrative			

Table 11 - Climate scenarios considered

40 Find the scenarios **here**.
41 NiGEM refers to 'National institute of Economic and Social Research Global Econometric Model': a macroeconomic model developed by the National Institute of Economic and Social Research. NiGEM is the modeling tool used within NGFS – the Network for Greening the Financial System – to assess the macroeconomic impacts of environmental and climate-related policies and risks.

Materiality assessment results

The results of the materiality assessment showed two risk drivers which reached the materiality threshold: **transition credit risk for retail mortgages**, and **transition credit risk for professional loans** (other than agriculture). This does not mean, however, that Crelan does not consider other risks – but the priority lies with the most material risks.

Depending on time horizons, various climate-related risks may become relevant for Crelan. In a first instance, Crelan may face immediate challenges from weather events in the **short-term**. These events could impact physical assets and collateral, such as during the floods in Belgium in the summer of 2021. Furthermore, rapid regulatory changes related to environmental policies may require fast adaptations and compliance measures.

Secondly, the risks expected to be most prominent between one and five years – **short-to-mid-term** - are transition risks. Policy shifts and market dynamics associated with the move towards a low-carbon economy pose challenges such as regulatory compliance, investment considerations, market volatility and operational resilience. Physical risks are however also expected to arise, as the increasing frequency of climate-related events will affect financial values associated with assets and investments (e.g., market value of assets such as real estate). In addition, they may disrupt supply chains which can, in their turn, impact financial values of companies and investments associated with those supply chains.

Furthermore, in the **mid-to-long-term**, Crelan must anticipate the implications of carbon pricing mechanisms and regulations, while opportunities will emerge for investments in sustainable practices, such as renewable energy and green technologies. Additionally, changing consumer preferences towards environmentally friendly products and services will become a significant factor influencing long-term demand.

Lastly, looking beyond ten years from now, on the **long-term,** Crelan expects to be potentially exposed to the risk of physical assets stranding, where assets could significantly devalue due to environmental impacts. The loss of biodiversity poses risks to industries relying on diverse ecosystems. Moreover, there is a concern about global systemic risks, where widespread economic and financial disruptions may occur, due to cumulative and interconnected environmental challenges.

In addition, we provide a detailed overview of the results of the exercise. Table 12 demonstrates the results based on the qualitative assessment using a SAT/FAT approach[42].

42 A SAT/FAT matrix is used by operational and security risk teams in risk assessment exercises and is based on two axes: severity and frequency. It allows to compute a financial impact and compare this with the materiality threshold. Hence, it allows to classify risk drivers as material, even though they are only assessed in a qualitative way.

Colour code:

E = Exceptional
NS = Not significant
I = Infrequent
M = Minor
S = Serious
F = Frequent
VS = Very serious
VF = Very Frequent

Transition risk

Portfolio affected	Narrative stress scenario	Likelihood				Impact			
		S	S-M	M-L	L	S	S-M	M-L	L
Liquidity risk									
Retail mortgages	New regulation impacting the eligibility of assets as HQLA	E	E	E	E	VS	VS	VS	VS
Retail mortgages	Not enough value for covered assets under Covered Bond Program	E	E	I	I	S	S	S	S
Retail mortgages	Collateral eligibility requirements changed by the central bank	E	E	E	E	VS	VS	VS	VS
Operational risk									
External	Greenwashing by vendors/ providers	F	F	I	I	M	M	S	S
Agriculture	Reputational impact of nitrogen-intensive financing on client & talent	I	I	F	F	NS	NS	NS	NS

Physical risk

Portfolio affected	Narrative stress scenario					Impact			
		S	S-M	M-L	L	S	S-M	M-L	L
Credit risk									
Retail mortgages	Drought	F	F	F	VF	M	M	M	M
Consumer loans (LOA)	Drought	F	F	F	VF	M	M	M	M
Liquidity risk									
Retail & wholesale deposits	Drawdown of funds due to flooding	E	E	E	E	VS	VS	VS	VS
Retail mortgages	Not enough eligible assets under Green Bond Program	E	E	E	E	S	S	S	S
Operational risk									
All portfolio	Physical risk events affecting operational resilience: flooding	I	I	I	F	M	M	M	M
All portfolio	Physical risk events affecting operational resilience: heat wave	F	F	F	VF	NS	NS	NS	NS
All portfolio	Physical risk events affecting operational resilience: extreme cold wave	F	F	F	VF	NS	NS	NS	NS
All portfolio	Physical risk events affecting operational resilience: heavy storms	F	F	F	VF	M	M	M	M
All portfolio	Physical risk events affecting operational resilience: Paris flood	I	I	I	F	VS	VS	VS	VS
Hacking events	Hacking events	I	I	I	I	M	M	M	M

Table 12 - Results from the qualitative assessment for transition and physical risks

Besides the qualitative results, the table below provides the outcomes from the quantitative measurement through stress scenarios. For each risk driver it is mentioned if the result is below the materiality threshold **(<MT)** or above **(>MT)** and, hence, for the latter, considered as material for Crelan.

Transition risk

Portfolio affected	Narrative stress scenario	Impact			
		S	S-M	M-L	L
Credit risk					
Retail mortgages	Increase in energy prices, investment acceleration	<MT	>MT	>MT	<MT
Agriculture		<MT	<MT	<MT	<MT
Other professional loans		<MT	<MT	>MT	<MT
Consumer loans (LOA)		<MT	<MT	<MT	<MT
Market risk					
Sovereign portfolio	Widening spreads (sovereign portfolio)	<MT	<MT	>MT	<MT
Liquidity risk					
Retail mortgages	Not enough eligible assets under Green Bond Program	<MT	<MT	>MT	<MT
Operational risk					
All portfolios	Increased scrutiny and timing pressure with actual fines	<MT	<MT	>MT	<MT

Physical risk

Credit risk					
Retail mortgages	Floodings	<MT	<MT	<MT	<MT
Agriculture		<MT	<MT	<MT	<MT
Other professional loans		<MT	<MT	<MT	<MT
Consumer loans (LOA)		<MT	<MT	<MT	<MT
Agriculture	Drought	<MT	<MT	<MT	<MT
Other professional loans					
Market risk					
Sovereign portfolio	Widening spreads (sovereign portfolio)	<MT	<MT	<MT	<MT

Table 13 - Results from quantitative measurement through stress scenarios

Processes for the management of climate-related risks

Within this document, we described the identification and assessment of climate-related and environmental risks and provided information on the materiality assessment that is conduced within our bank. Our approach leads to a comprehensive overview and assessment of C&E risks we are exposed to. The C&E risks that have been identified are part of our risk management procedures and are also adequately followed up and managed. As documented in the introduction, C&E risks are included in **Crelan's risk framework**. We documented our risk governance in Chapter 1 – Governance and the strategic component in Chapter 2 – Strategy. In the remainder of this chapter, we elaborate on the following risk management processes: risk appetite framework, risk reporting and data & IT.

Risk appetite framework

Crelan's **risk charters** contain the general objective of keeping risk within **the limits of the risk appetite,** by describing the minimum requirements that must be fulfilled within specific functional domains. These requirements are based on identified risks, the group's strategy, best practices, and legal, regulatory and contractual requirements.

Risk appetite statements at Crelan are applied on three levels: **strategic, functional, and operational**. For each risk appetite indicator, thresholds with increasing severity are defined, creating a standard zone, monitoring zone and alert zone. Within **the standard zone**, indicators are at an acceptable level and Crelan conducts business-as-usual. Indicators that breach the threshold of the **monitoring zone** are considered close to Crelan's risk appetite. The evolution of these risk indicators will be monitored closely and Crelan will assess if the changes are of a temporary or a structural nature. Lastly, when an indicator exceeds the **alert zone** threshold, it is considered above the risk appetite and actions must be taken by the bank.

The results of the materiality assessment performed by our bank showed that two risk drivers have been identified as material: **transition credit risk for retail mortgages**, and **transition credit risk for professional loans** (other than agriculture). Based on this result, Crelan has set the objectives of a gradual transition to more energy-efficient real estate and the prevention of a decline of the value of the collaterals. In order to reach these objectives, Crelan sets a limit in terms of % of new production volume of retail mortgages loans which combine a low EPC value with a high loan to value and/or a high debt-service-to-income ratio. In addition, while developing and fully integrating the ESG Scorecards (mentioned above), the bank maintains exposure limits for professional customers as well.

Finally, even if physical risk for retail mortgages did not reach the materiality threshold, a risk appetite statement has also been developed around flood risk: no more than a % of the mortgage loan portfolio should be located in a **high risk flood zone**. This limit will be monitored on quarterly basis.

Risk reporting

Internal reporting

Crelan carefully monitors its C&E risks through a set of tools for risk reporting.

Firstly, C&E risks have been incorporated in the group's **Quarterly Risk Report (QRR) framework** – as described in Chapter 1 – Governance – to ensure adequate embedding of C&E risks in the overall business strategy and risk management framework. The QRR provides of a complete presentation of **all risks, indicators and their evolutions.** It consists out of a risk dashboard, a recovery dashboard, information on regulatory and economic solvency and liquidity positions/ratios, and a risk analysis by risk component. The risk analysis contains (non) retail credit risks, interest rate risks for banking books, market risks, liquidity risks, operational risks, information risks and C&E risks. Within the C&E risk section, the report provides the **outcome of the yearly risk materiality exercise**, a **quarterly update of the key risk indicators as well as a comparison with the risk appetite**, and a **status update of the overall C&E action plan** of the group. The enterprise risk management (ERM) team is responsible for collecting input from all teams (e.g., on key risk indicators or risk appetite) to feed the section on C&E risks within the QRR.

It is the ERM team's responsibility to update the QRR on a quarterly basis, based on the input from other teams, before presenting the QRR to the Executive Committee (ExCo), the Risk and Compliance Committee (RCC) and finally the Board of Directors (BoD). These bodies are responsible for discussing these reports and deciding on actions that must be taken.

In addition, the following sub-committees[43] are also updated on a quarterly basis of the C&E risks that affect their risk domain, as demonstrated in the overview below. The asterisk (*) refers to updates that happen on an annual basis instead of quarterly.

Committee	Owner	Topics to be presented
Risk & Compliance Committee (RCC)	ERM	— Materiality assessment (*) — KRI overview — Status report ESG
Lending Risk Committee (LRC)	Credit risk & policy	— Portfolio high-energy intensive EPC grades (if EPC is known) — Flood risk (% of collaterals in high, medium, low risk) — Professional loan exposure — Outcome ad-hoc exercises (e.g., energy crisis assessment)
Capital & Funding Committee (CFC)	ERM	— Follow-up of regulatory watch, incl. sustainable finance topics
Balance Sheet Risk Committee (BSRC)	ALM	— Eligible assets in the green bond framework
Audit Risk & Compliance Committee (ARC)	Compliance, QRM, Risk reporting	— Compliance status updates regarding ESG regulations — Update implementation internal controls around C&E risks — Ad-hoc topics (e.g., C&E risk impacts on BCP, reputation, ...) — Update on public disclosures (*)
Customer Invest Risk Committee (CIRC)	Compliance	— Compliance MiFID II sustainability preferences (*)
Remuneration Committee	ESG Office	— Review and validation of ESG component of STIC (*)

Table 14- Sub-committees and C&E topics

43 See also Chapter 1 - Governance for more info on these sub-committees.

External reporting

Crelan's key external reporting includes the **annual accounts, Pillar III reporting[44] and sustainability reporting**. Since 2023, the group also publishes this **climate report,** which includes the **EU Taxonomy reporting[45]**. The bank has a risk disclosure policy which describes the roles and responsibilities of various internal teams in the preparation of these reports. The reporting is available on Crelan's website and can be found here.

Data aggregation and IT systems

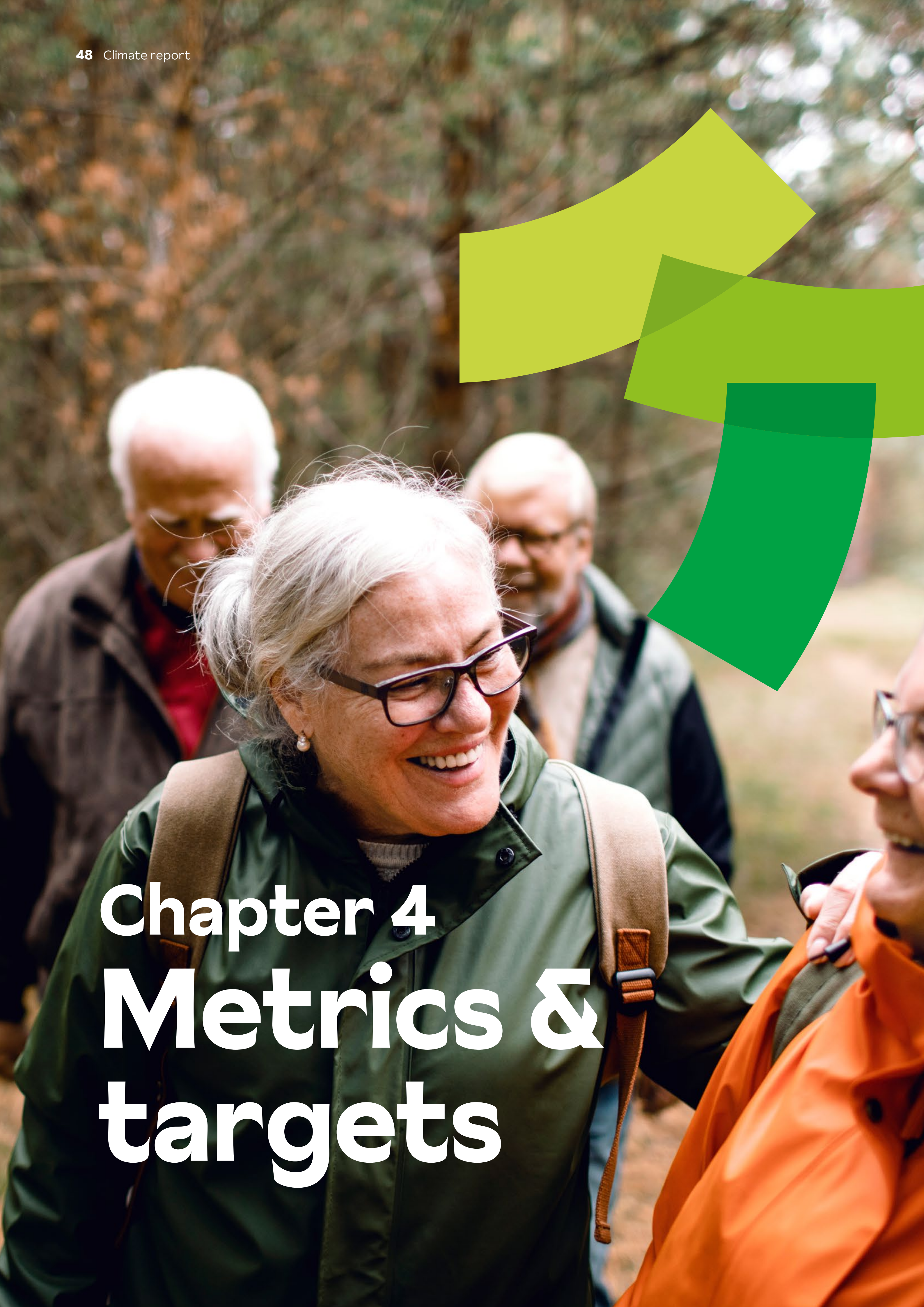
Consolidated C&E reporting is currently performed by combining the information coming from Crelan, AXA Bank Belgium (ABB) and Europabank data environments. However, in light of the importance of increasing expectations on C&E risk data and aggregation by various stakeholders (e.g., internal requirements and external requirements by regulatory bodies), Crelan has established multiple projects to **strengthen data availability and quality**. These projects are also included in the climate risk action plan described above.

In 2023, the Executive Committee has endorsed the creation of the **Data Board**. This body has the mandate to decide on data-related activities and will oversee the inclusion of ESG data in Crelan's overall data governance and data transformation framework.

Crelan has also adopted a new approach for ESG data which includes **two short-term actions** that have been launched in 2023 and will be followed up on throughout 2024. Firstly, Crelan has created an **ESG data dictionary** to identify ESG data points, define those data points and identify data owners, data sources, and other important elements. Subsequently, the Data Board will set priorities on which actions to take to acquire new data, improve data quality and distribute ESG data to the entire organization as a "single version of the truth". This prioritization is based on the regulatory reporting calendar as well as business materiality.

Secondly, at the end of 2023, Crelan signed a contract with an **external data provider** to acquire C&E data on the real estate it finances and/or receives as collateral[46]. It is working to acquire and integrate this data by the end of 2024.

44 As part of the Pillar III reporting also covers ESG, an overview of the qualitative description in the context of climate-related risks is provided in Annex 1.
45 In **Chapter 4 – Metrics & targets**, Crelan's approach to prepare the quantitative disclosures for the EU Taxonomy Regulation is described. Prescribed templates for reporting to which extent its financing activities are aligned with the EU Taxonomy criteria can be found in **Annex 2.**
46 Only related to retail mortgage loans.



Chapter 4
Metrics & targets

The integration of climate-related and environmental (C&E) risks, opportunities and impacts into Crelan's business model and strategy, the governance, and the risk management framework on risks, were described throughout this report. In this last chapter, specific metrics and targets related to C&E risks are provided. These facilitate an understanding of how Crelan measures, steers and monitors its climate-related risks and opportunities and has started to consider impact.

Metrics to assess climate-related risks and opportunities in line with the strategy and risk management process

The risk identification and assessment process demonstrated that Crelan expects to be primarily impacted in the **short and medium term** by two factors: **rising energy prices** and **collaterals' energy performance.** Both elements are material due to the relative size of the group's retail mortgage portfolio.

Firstly, **rising energy prices** may have an impact on the probability of default (PD) by raising borrowers' costs of living and decreasing disposable income.

This leads to the second factor - **collaterals' energy performance** - which serves as a **practical indicator of borrowers' ability to navigate transition risk**. Collaterals with poor energy performance require more financial resources to upgrade the EPC[47] score of the property, which has a direct impact on the value of the property. Transitional measures towards a lower-carbon economy contain energy performance improvements of real estate which are becoming mandatory in a gradual manner. Flanders, Brussels and Wallonia all have their respective regulations and timelines for the renovation of properties with low EPC scores. When collateral values are negatively impacted, an increase in Crelan's credit risk can be anticipated. As a consequence, Crelan recognizes the need to be cautious when faced with requests for loans to finance properties with low energy efficiency.

In general, the main drivers Crelan uses to assess the indebtedness and repayment capacity of clients are '**loan to value**' (LTV) and '**debt to service income'** (DSTI). An LTV above 85% and DSTI above 40% are considered as riskier when combined with a low EPC (F or G). Accordingly, the table below shows the share of new loans with low EPC granted between 2021 and 2023, within three different risk classes, based on LTV, DSTI and the purpose/destination of the loan:

EPC	Risk class	Risk drivers	Purpose of the loan	% of total new loans (*)
F - G	High	LTV ≥85% and DSTI ≥40%	≠ Renovation	4%
	Medium	LTV <85% and/or DSTI <40%		23%
	Low	NA	= Renovation	5%
A - E	NA			68%

(*) with known EPC

Table 15 - Share of new loans with low EPC granted between 2021-2023 of which 604 were dedicated to renovations.

47 EPC refers to energy performance certificate.

As described in the risk management section, Crelan has set a risk appetite limit on the % of production that can fall in the high risk category. In addition, a limit has been set on the share of the mortgage loan portfolio that can be located in a **high risk flood zone**. For professional loans, Crelan has certain sector concentration limits such as on e.g. horticulture, pig farming, etc.

Future developments

Crelan is actively engaged in **improving data availability, data quality and methodologies.** As this climate report marks the first explicit disclosure on C&E risks, trend analysis for past criteria is non-existent. Nevertheless, Crelan is proactively committing to the incorporation of comprehensive trend assessments in future reporting. This way, the bank will be able to communicate on C&E risks in a more thorough and informed way.

Measurement of Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions, and the associated risks

Throughout this report, Crelan's ambition to contribute to the shift to a climate-neutral economy was demonstrated. As GHG emissions are a key driver for climate change - amongst other various drivers highlighted in the report – Crelan considers it a responsibility to play its role in actually reducing emissions. The bank has the objective to not only manage C&E risks that the bank is exposed to and have become unavoidable, but also wants to tackle climate risk at the root and contribute to a carbon neutral society.

Specifically, Crelan aims to achieve full **carbon neutrality in its operations in terms of their own emissions[48], by 2030**. In addition, the group wants to actively contribute to the global goal of carbon neutrality by 2050 and aims therefore to **reduce the impact of its retail mortgage lending activity by 69% by 2033** the latest. Both goals refer to different types of targets for different types of emissions.

Definition of Scope 1, 2 and 3

According to the GHG accounting protocol[49], **Scope 1** emissions refer to **direct GHG emissions**. Direct GHG emissions occur from sources that are owned or controlled by the company, such as emissions from combustion in owned or controlled boilers, furnaces and vehicles.

Scope 2 emissions account for GHG emissions from **the generation of purchased energy consumed by the company**. Purchased energy is defined as energy, such as electricity and heat, that is purchased or otherwise brought into the organizational boundary of the company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 emissions refer to **indirect emissions** as a **consequence of the activities of the company, but occurring from sources not owned or controlled by the company**. Examples are extraction of resources and production of purchased materials, transportation of purchased fuels, and use of sold products and services. For credit institutions, the most important category in Scope 3 is the **financed emissions** (category 15): emissions from the assets or activities financed by the financial institution.

Emissions from Crelan's operations

Crelan acknowledges the environmental impact it currently bears with its own operations, with an ecological footprint amounting to 2 963 tonnes of emissions[50]. The footprint was calculated based on data from 2022 (this year we chose as a baseline); the figures for 2023 have not yet been finalised.

Recognizing the critical role the group plays in addressing climate change and preserving the environment, Crelan is proactively engaged in internal initiatives aimed at the **significant reduction of its carbon footprint, and full carbon neutrality in its own operations by 2030**. This emphasizes the need for Crelan to systematically evaluate the environmental implications of its decision-making processes and investments, such as the considerations to make concerning office facilities.

The group collaborates with an external consultant to calculate its CO_2 footprint and draw up an **emissions reduction plan**. The type of data used for the calculations of its Scope 1 and 2 emissions concerns information on natural gas, lease cars, company cars and electricity. In addition, the total

48 Own emissions refer to Scope 1 & 2 emissions. More information is provided below.
49 Find information on GHG protocol **here**.
50 This number of emissions concerns Scope 1, 2 and parts of Scope 3 (commuting and flights).

number of full-time employees (FTEs) and turnover is provided.

After data collection, the external consultant calculates the carbon footprint for Crelan and provides them with a report, including the following information:

- The carbon footprint of the past year, formatted in a graph and including information on emissions related to company cars, lease cars and heating for Scope 1; company cars, lease cars, and electricity for Scope 2; and waste, paper, transport, air travel, water, and commuting for Scope 3.
- A split on emissions related to waste and electricity (green & grey) per office.
- An example of a general carbon emissions reduction plan (graph with intermediate targets).
- Suggestions for CO_2 compensation: investing in certified climate projects that reduce carbon emissions elsewhere by avoiding or removing emissions. A balanced approach is suggested, integrating several projects (e.g., focused on forestation or renewable energy) to develop a comprehensive and impactful strategy for compensation. The Oxford Principles for Carbon offsetting51 is recommended as strategic framework in which transparency, additionally and sustainable development are emphasized.

Based on the report and considering the ambitions Crelan has set, the group has taken actions to reduce its emissions from operations. The short term actions are listed below:

- Since October 2023, the **new car policy** only allows employees to opt for electric vehicles.
- As the **building strategy** has been focused on turning offices into zero-emission buildings, solar panels were installed at the office in Berchem.
- Proposal to digitalize specific activities to reduce paper consumption52.

Emissions from Crelan financing activities

For Crelan, it is most important to measure first GHG emissions from its real estate portfolio given that 80,15% of the loan portfolio consists of this type of loans. Therefore, we have focused for now on the financed GHG emissions from this segment. Subsequently, cars (retail) and professional loans are also very important for the bank. In the coming years, Crelan will also consider the other retail segments and the professional loan portfolio for measurement and management.

Establishment of targets to manage climate-related risks and opportunities

The Paris Agreement (PA) forms the backbone of European and global initiatives related to climate change. Its objective is to curtail global greenhouse gas (GHG) emissions and constrain the rise in global temperatures to well below 2ºC above pre-industrial levels, with a concerted effort to limit to 1.5ºC. Recognizing the PA's critical importance, Crelan diligently acknowledges its responsibility and actively works towards alignment with its goals.

Therefore, Crelan is translating its ambition for PA alignment into a target for its **Scope 3 financed emissions**. In doing so, the group is inspired by the broad standards, principles and guidelines of the Science Based Targets initiative (SBTi) on target development[53]. In general, we follow the target setting principles for banks from the UN Environment Program Finance Initiative (UNEP FI)[54]:

1. Banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.
2. Banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities.
3. Banks shall use widely accepted science-based decarbonization scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement.
4. Banks shall regularly review targets to ensure consistency with current climate science.

51 Find more information on the principles **here**.
52 This initiative will probably be initiated Mid 2024.
53 The SBTi drives ambitious climate action in the private sector by enabling organizations to set science-based emission reduction targets. More information can be found **here**.
54 Find more information **here**.

Focus on the retail mortgage portfolio

At the beginning of 2023, Crelan set the overall high level ambition to be **net zero for scope 3 by 2050**. During 2023, this **ambition level was made more tangible** and aligned with market practices.

As retail mortgage loans is Crelan's most material portfolio – corresponding to 80,15% of the loan portfolio – a target aligned with a 1.5° temperature rise scenario was developed for this portfolio first. An intermediate target for 2033 as well as a longer term target for 2050 have been set: a reduction of the residential real estate portfolio emission intensity by 69,9% by 2033 and 99,3% by 2050, **with 2023 as the baseline year.**

The target setting process

The target setting is based on a decarbonization scenario in line with the Paris Agreement. Different scenarios were considered for selection, such as NGFS GCAM 5.3[55] and IAE Beyond 2 Degrees[56], and assessed on several predefined criteria. These criteria include the credibility and use of well-recognized sources, the granularity of data with regards to geography, and the use of recent data. As a result, Crelan has selected the **1.5°C scenario provided by the Carbon Risk Real Estate Monitor** (CRREM)[57]. CRREM provides country-specific science-based carbon reduction pathways for the European real estate market at building, portfolio and company level, developed in collaboration with several partners, amongst which SBTi. These pathways are complemented by financial risk assessment tools that allow to assess downside financial risks associated with poor energy performance (the quantification of financial implications of climate change on the building stock), which can, in turn, assist in managing carbon mitigation strategies in a cost-effective way.

In addition to scenario selection, and adhering to UNEP FI's target-setting guidelines – as mentioned above – Crelan decided to establish its sectoral target for residential real estate on emissions intensity. In the process towards the target, the main outputs are total portfolio financed emissions and portfolio emission intensity. The total portfolio financed emissions are expressed in metric tonnes of carbon dioxide and equivalents (tCO_2e) and is calculated as the sum of all individual financed emissions within the residential real estate portfolio. The portfolio emission intensity is expressed in metric kilograms of carbon dioxide equivalent per square meter per year ($kgCO_2e/m^2/y$).

For the data on emission factors, which are based on EPC score and EPC label, Crelan uses the "European buildings emission factor database" provided by the Partnership for Carbon Accounting Financials (PCAF). PCAF is an industry-led initiative created in 2015, that helps financial institutions to assess and disclose the GHG emissions from their loans and investments through GHG accounting. Their Global GHG Accounting and Reporting Standards (published in November 2020) contain a standard for the financial industry with detailed guidance for each asset class on the calculation of financed emissions58. Crelan calculated a baseline at group level and arrived at a retail real estate portfolio emissions intensity for the group of 70 $kgCO_2e/m^2/y$ for 2023, with a total financed emissions baseline of 1.3 Mt of CO_2e59.

Finally, the CRREM 1.5°C scenario was applied and Crelan decided to focus on 2033 as target year for intermediate targets. This led to the goal of reducing its residential real estate portfolio intensity at group level by 69,9% by 2033 and 99,3% by 2050.

55 NGFS refers to the Network for Greening the Financial System. See more information **here**.
56 IAE is the abbreviation of International Energy Agency. Find more information **here**.
57 Find more information **here**.
58 Find more information on PCAF **here**.
59 $MtCO_2e$ refers to Mega-tonnes (million tonnes) CO_2e (scientific notation).

Residential real estate targets	
2023 Baseline	
Retail mortgage financing	EUR 37.6 billion
Financed emissions	1.3 Mt CO_2e
Portfolio emissions intensity	70 kgCO_2e/m²/y
2033 intermediate target	
Portfolio emissions intensity	21 kgCO_2e/m²/y
% reduction	69,9%
2050 target	
Portfolio emissions intensity	0,5 kgCO_2e/m²/y
% reduction	99,3%

Table 16 - Crelan Residential real estate portfolio emissions intensity

Considerations on the target setting process

The process for climate target setting is new to the sector and therefore to Crelan as well. As for all new developments, adaptations will need to be made to the methodology and data (quality) when progress is made and additional information becomes available. Therefore, it should be noted that a significant amount of **EPC values are unknown**, leading to a large portion of the EPC data being obtained by the use of proxy values. In the meanwhile, efforts are ongoing to better capture EPC values to enhance the data quality for the credit portfolios. One of the actions taken is a contract signed with an external data provider at the end of 2023 to improve the accuracy of EPC estimates. Once more (accurate) data is available, baseline and target calculations will be updated.

In this regard, it is crucial that stakeholders, including governmental bodies and social organizations, actively engage in **collaborative efforts** to drive society and the economy, such as the real estate market, towards a Paris-aligned future. Governments play a pivotal role in, for example, fostering data transparency and standardization. Society's awareness and involvement contribute significantly to the **availability and accuracy of pertinent information**. Recognizing such shared responsibilities, ongoing collaboration and advancements will undoubtedly contribute to a more robust and reliable assessment of financed emissions and, subsequently, better-informed decision-making processes towards a more sustainable future.

The transition pathway: realizing the targets

In general, **governments play a crucial role in supporting the sustainable transition** through policy frameworks. Well-developed, transparent, and consistent government policy is needed to achieve carbon neutrality. Furthermore, such policy is essential for the entire financial sector, including Crelan, to be able to assume its responsibility in reducing carbon emissions. By recognizing that addressing global warming requires collective efforts, Crelan wants to emphasise that success in supporting climate transition is contingent on collaboration among governments, industries, and clients.

Moreover, Crelan **actively takes steps to support** this transition by launching **engagement initiatives** to guide clients. The bank is dedicated to assisting clients in adopting more sustainable business practices and this involves providing relevant information, practical tools, and advice.

Metrics and targets overview

The residential real estate portfolio is Crelan's focus and first initiative towards climate-related target setting. The group has, however, also formulated several other ambitious objectives in the near future pertaining to the establishment and enhancement of climate-related and environmental key performance indicators (C&E KPIs). The overview below demonstrates these ambitions per stream within Crelan: clients, institutional parties, and Crelan as a company. For each stream, at least one metric and target has been developed. These are, however, still being refined and may be prone to changes, following developments in the bank's approach to C&E risks, opportunities and impact. Moreover, in the upcoming years, Crelan wants to incorporate an increasing emphasis on quantitative metrics within these KPIs .

Metric	**Type**	**Target year**	**Target (KPI) / Limit (KRI)**	**Status**
Crelan & clients				
Percentage of the number of funds available that are Art.8 or 9 (SFDR)	KPI	2027	100%	87,2%[60]
Residential real estate portfolio emissions intensity	KPI	2033	21 $kgCO_2e/m^2/y$	70 $kgCO_2e/m^2/y$
Low energy performance of real estate exposures	KRI	N/A	Alert level[61] of 5% of newly granted loans in the high risk class	4%
ESG scoring	KPI	2026	Full integration in credit & risk policies	In progress
Crelan & institutional parties				
Metric	Type	Target year	Target	Status
Exclusion policy own investment portfolio in line with the Norwegian state pension fund	KPI	2023	100% alignment	100% alignment
Crelan as a company				
Metric	Type	Target year	Target	Status
Take awareness initiatives on ESG for employees, agents and cooperators	KPI	2024	Organize at least one ESG initiative for employees and one for agents & cooperative shareholders	In progress
GHG scope 1 & 2	KPI	2030	Net zero GHG emissions	In progress

Table 17 - C&E metrics and targets overview

60 This percentage reflects the products of Crelan & ABB.
61 Alert level means that if the level is breached, an ad-hoc LRC convenes to decide on actions to resolve the breach.

Evaluation of performance against established targets

The target set for the residential real estate for 2033 will be embedded in the business strategy of Crelan as a KPI and progress towards it will be reviewed annually and monitored quarterly. Reporting on the target follows the existing risk reporting framework and business reporting at Crelan, i.e., quarterly reporting to the Executive Committee and Board of Directors.

EU Taxonomy reporting

Reporting principles

The preparation of the EU Taxonomy reporting is based on prudential consolidation of the Crelan Group. The consolidation is in accordance with the supervisory reporting of financial institutions as defined in Regulation (EU) No 575/2013 of the European Parliament and of the Council, and the Commission Implementing Regulation (EU) 2021/451 (FINREP). Furthermore, the preparation of reporting is based on the Delegated Act supplementing Article 8 of the Taxonomy Regulation (Disclosures Delegated Act 2021/2178).

The EU Taxonomy is a classification system of economic activities that make a substantial contribution to environmental sustainability. It defines the criteria that an economic activity must meet to qualify as environmentally sustainable. Such criteria include the following: substantially contributing to one or more of the six EU environmental objectives; doing no significant harm (DNSH) to any of the other five EU environmental objectives; observing minimum safeguards covering social and governance standards; and complying with the technical screening criteria for the EU environmental objectives.

The six EU environmental objectives are:

1. Climate change mitigation
2. Climate change adaptation
3. Water and marine resources
4. Circular economy
5. Pollution prevention and control
6. Biodiversity and ecosystems

The EU Taxonomy criteria from Crelan's perspective

For credit institutions, the EU Taxonomy is relevant from a financing perspective. This means that, broadly speaking, a credit institution's financing activities are sustainable if they finance activities which are aligned with the EU Taxonomy. Crelan's core business aims at two segments: SMEs and retail. SMEs are currently out of scope for EU Taxonomy reporting, which leaves the retail loan book as the core focus for the group. In particular, the **financing of energy-efficient residential housing,** investments in energy-efficiency or renewable energy linked to residential housing and private transportation, can today be reported as potentially contributing to the EU environmental objective on **climate change mitigation**.

Counterparties that have economically sustainable activities must **do no significant harm** to any of the six EU environmental objectives (DNSH criteria). For mortgage lending to households, DNSH means making sure that there is no harm to the environmental objective "climate change adaptation." Financing the ownership of an energy efficient building which faces high exposure to physical risk and for which there is no adaptation plan in place, does not meet the alignment criteria. Crelan performs the assessment of DNSH in relation to climate adaptation based on risk data on acute and chronic physical risks in our ESG Pillar III disclosure.

As part of the assessment of environmentally sustainable economic activities, it is required that economic activity is carried out in compliance with **minimum safeguards** as part of Article 18 of the EU Taxonomy Regulation (Regulation EU 2020/852). According to the FAQ published in 2023 by the European Commission, for retail loan exposures, there is no need to verify whether minimum social safeguards are respected, except if the asset that is financed can be traced back to a single producer[62]. This is not the case for a real estate building. We therefore consider this criterion to be fulfilled.

62 https://ec.europa.eu/sustainable-finance-taxonomy/faq

Limitations in data and voluntary reporting

When assessing Taxonomy-eligible and Taxonomy-aligned activities for financial and non-financial undertakings, information that is published by the different counterparties is required. The **information for the core retail asset classes** is typically **difficult to obtain with complete confidence.** Also for Crelan this is a challenge and at this stage, it is not possible to have complete confidence of having the right data quality and regulatory interpretation to report in alignment with the EU Taxonomy regulation. Crelan therefore – conservatively – opted to not report any formal Taxonomy-aligned loans. However, in the interest of transparency, Crelan follows the European Commission's recommendation to **add voluntary reporting based on its current interpretation on the data it has at its disposal**. When additional clarity will come from the regulator and when the market on the data requirements and regulatory interpretation and the quality of data improves, Crelan will evolve towards reporting formal EU Taxonomy alignment.

For this voluntary reporting, Crelan focuses on retail mortgage loans, its largest portfolio. It has applied the following criteria:

Technical screening criterion (TSC) (climate change mitigation section 7.7): in the Green Asset Selection Methodology of its Green Bond Framework, Crelan has laid out its methodology (based on public data) for defining the top-15% most energy efficient residential properties in Belgium.[63] Out of this pool, Crelan has removed the loans for which the first drawing was made after 01/01/2022 as a proxy for the EU Taxonomy cut-off date based on the building permit grant date of 01/01/2021.

Do no significant harm: Crelan excludes loans which are linked to assets in high flood risk areas, based on public data sources, in line with Pillar 3 reporting.

Minimum social safeguards: as explained above, this does not apply to retail mortgage loans.

Voluntary reporting	31/12/2023
Total retail mortgage loans (MEUR)	37,782.14
Total green bond asset pool (MEUR)	3.401,09
Exclusion of loans with first drawing date from 01/01/2022 (MEUR)	-716,63
Proxy for loans meeting TSC (MEUR)	2.684,46
Exclusion of loans linked to high flood risk (MEUR)	-144,66
Proxy for alignment (MEUR)	2.539,80
Proxy for alignment / total retail mortgage loans (%)	6,7%
Denominator Green Asset Ratio (Mln. €)	53.977,74
Proxy for alignment / total EU Taxonomy eligible loans (%)	4,7%

Table 18- Voluntary reporting EU Taxonomy

63 Document available **here.**

Glossary

C&E opportunities and risks

Climate-related and environmental opportunities and risks.

CO_2e

A carbon dioxide equivalent or CO_2 equivalent, abbreviated as CO_2-eq is a metric measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential (GWP), by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential.

Climate neutrality

Climate neutrality is achieving a balance between greenhouse gases emitted and those removed from the atmosphere. In short, it's about not adding more emissions than what's naturally taken out.

CRREM

Carbon Risk Real Estate Monitor. CRREM is a global initiative that aims to develop a transparent and science-based approach to assessing and managing climate-related risks for the real estate sector. The CRREM has developed key tools to help assess and manage climate-related risks for real estate assets.

CSRD

Corporate Sustainability Reporting Directive. This new EU directive aims to improve quantity and quality of sustainability reporting.

DNSH

Do No Significant Harm. It is a principle that ensures that neither environmental nor social objectives are significantly harmed by the economic activity being financed.

EPC

Energy Performance Certificate. An EPC indicates how energy efficient a building is by means of a label. An EPC also contains recommendations to make the building more energy efficient.

ESG

ESG stands for 'Environmental', 'Social', 'Governance'. It is a common term in the debate on issues related to climate and environment, social domains or (good) governance.

EU Taxonomy

A classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate. The EU taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool.

GHG emissions

Greenhouse gas emissions. GHG are gases that trap heat in the earth's atmosphere, contributing to climate change. The main GHGs are carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF6).

HQLA

High-Quality Liquid Assets are an essential component of bank liquidity management, playing a crucial role in ensuring that financial institutions can meet their short-term obligations during periods of financial stress.

ICAAP/ILAAP

Internal Capital Adequacy Assessment Process/ Internal Liquidity Adequacy Assessment Process. ICAAP is a framework that banks use to assess their capital needs in a comprehensive and forward-looking manner. The Internal Liquidity Adequacy Assessment Process (ILAAP) is a similar framework that banks use to assess their liquidity needs.

KPI

Key Performance Indicator. KPIs are measures that assess a bank's performance against specific objectives. KPIs are used to track progress, identify areas for improvement, and make informed decisions about resource allocation and business strategy.

KRI

Key Risk Indicator. KRIs are measures that assess the level of exposure to various risks faced by banks. They provide insights into the potential impact of these risks on the bank's financial performance and stability. By monitoring KRIs, banks can identify early warning signs of potential problems and take proactive measures to mitigate or prevent them.

NGFS

Network for Greening the Financial System. A network of central banks for research and publications on the integration of climate and environment risk in the financial system. Particularly well known for its publications of economic and financial parameters for different climate scenarios, used by e.g. the ECB in the climate stress test exercise.

NiGEM

NiGEM refers to 'National institute of Economic and Social Research Global Econometric Model': a macroeconomic model developed by the National Institute of Economic and Social Research. NiGEM is the modelling tool used within NGFS – the Network for Greening the Financial System – to assess the macroeconomic impacts of environmental and climate-related policies and risks.

PAI

Principal Adverse Impact. PAI is any impact of investment decisions or advice that results in a negative effect on sustainability factors, such as environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters.

Paris Aligned

The process of ensuring that investment and financial activities are consistent with the goals of the Paris Agreement, specifically to align business activities in such a way that global warming will be limited to below 2 degrees Celsius (see below).

Paris Climate Agreement

The Paris Agreement is an international treaty on climate change and Paris Agreement's central aim is to limit global warming to well below 2 degrees Celsius, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

PCAF

Partnership for Carbon Accounting Financials. A market initiative that has created a standard for measuring financed emissions: emissions linked to the lending to and investing in economic activities that generated GHG emissions. It is the golden standard for measuring and reporting financed emissions. It also publishes emission factors that can be used as proxies for real estate financing.

Physical risks

Changing climate, including rising temperatures, changing weather patterns, and increased instances of extreme climate-related disasters, create physical risks for a business. Acute physical risks are, for example, storms, floods, and wildfires. These can damage physical infrastructure in real-time and present immediate business interruptions (e.g., plant shutdowns & transportation issues) as well as other financial impacts (e.g., degradation of physical collateral). Chronic physical risks are more indirect and compound over time, an example being an increase in the number and severity of droughts, which create very dry conditions.

RAF

Risk Appetite Framework. A risk appetite framework is a set of guidelines and principles that define an organization's tolerance for risk. It helps organizations to identify, assess, and manage risk in a way that is consistent with their strategic objectives.

SBTi

Science-Based Target initiative SBTi is a global non-profit organization that helps companies, cities, and other organizations set science-based targets for reducing greenhouse gas emissions. The SBTi is based on the latest climate science and provides guidance on how to set targets that are in line with the goals of the Paris Agreement.

Scope 1 emissions

Direct emissions from owned or controlled sources.

Scope 2 emissions

Indirect emissions from the generation of purchased energy.

Scope 3 emissions

All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. For banks, the most significant category is Scope 3 Category 15: emissions from financing and investing activities.

SFDR

Sustainable Finance Disclosure Regulation. SFRD is an EU regulation that requires financial market participants to disclose certain sustainability-related information to investors. The SFDR aims to promote transparency and accountability in the financial sector on sustainability issues, and to help investors make informed investment decisions.

SFDR Article 6

SFDR Article 6 products are products without a sustainable investment objective nor investments in assets with environmental or social benefits.

SFDR Article 8

SFDR Article 8 products are products with environmental or social considerations and, hence, for which ESG criteria are taken into account in the investment strategy.

SFDR Article 9

SFDR Article 9 products are products with an explicit sustainable objective, striving for a measurable impact in their investment policy.

STIC

Short Term Incentive Compensation

TCFD

Task Force on Climate-Related Financial Disclosures. Market initiative which provides a framework to measure, manage and report on climate risk.

Transition risks

Transition risks are the result of the uncertainty created by a global shift towards a more sustainable, net-zero economy. Changes to the regulatory landscape, consumer pressure/preferences, and investor expectations all create transition risks for operating companies.

Annexes

Annex 1: Pillar III – Qualitative description in the context of climate-related risks

Annex 2: EU Taxonomy Reporting

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