Green Bond Framework

March 2023

Crelan

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1. Introduction

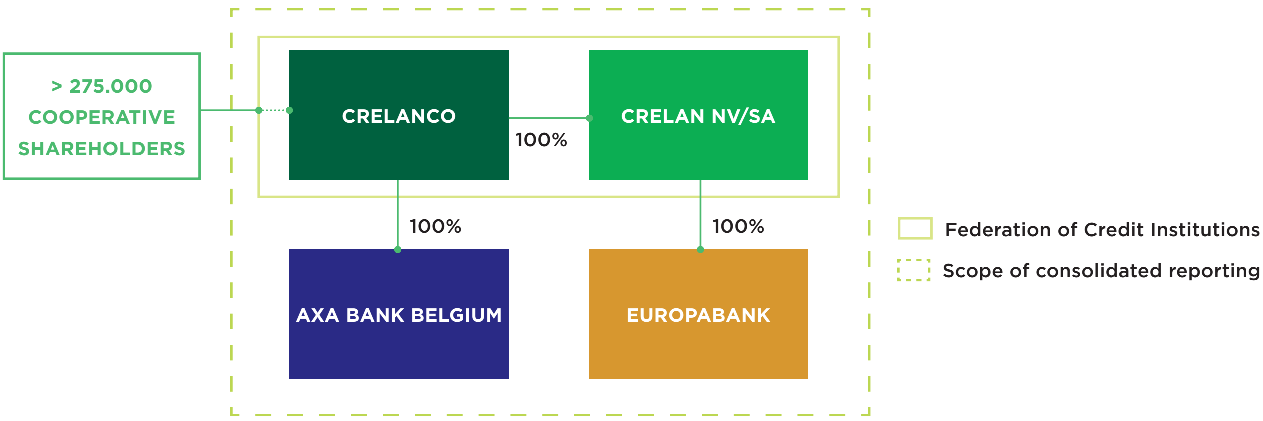
Crelan Group is a leading Belgian cooperative bank, serving 1.8 million clients in the Belgian market. Crelan is convinced that it is possible to approach banking differently. Through its extensive branch network of independent agents, Crelan Group offers a wide range of banking and insurance products for individuals, self-employed and SME's. The objective is to offer its customers a global solution in terms of payment formulas, savings and investment products, credit products, and insurance policies. To this end, Crelan uses its own range of products and supplements this with a broad set of high-quality services from leading insurance and asset management companies. In addition, Crelan offers a range of specialized products for the agricultural sector.

The **Crelan Group** is composed of CrelanCo, Crelan SA, AXA Bank Belgium SA (ABB) and Europabank SA. CrelanCo is the sole and 100% shareholder of the Crelan Group. The share capital of this recognized cooperative company is formed by the participation of circa 277,000 cooperative shareholders. CrelanCo and Crelan SA constitute a federation of credit institutions under Belgian Law creating joint and several obligations between the two legal entities, in which Crelan SA acts as the central institution.

The federation in its turn owns Europabank SA and AXA Bank Belgium SA (and its subsidiaries). The Group acquired AXA Bank Belgium in December 2021. Currently, Crelan and AXA Bank Belgium continue to operate separately in the market, but they are expected to be integrated under the Crelan logo by spring 2024. As of 31 December 2022, the Crelan Group has **€47.8 billion in total of outstanding loans, 1,738**[1] **employees, 1,790,823 clients and 277,755 cooperative shareholders**.

As a 100% cooperative and Belgian bank, Crelan Group has a strong focus on supporting the local economy and having a social impact. This commitment is promoted by Crelan Foundation, through which Crelan financially supports socially relevant projects. As an important financial intermediary within the Belgian financial sector, Crelan Group also has a key role to play with respect to sustainability and corporate responsibility. To this end, the bank has integrated sustainability and corporate responsibility throughout its business model, the strategy of the bank and the risk management framework.

FIGURE 1 CRELAN GROUP



[1] Excluding independent agents and employees thereof

2. Sustainability Strategy

"As a cooperative bank, we should be the motor of the sustainable transition"
Philippe Voisin, CEO of Crelan

At Crelan, we want to be more than just a financial institution and actively contribute to a sustainable and a better world. Sustainability is already at the heart of Crelan's commitments which are aligned with the ambition formulated by the European Green deal, Fit for 55 and Climate agreements.

We commit on the long-term to all our stakeholders, our environment and the communities in which we operate in order to play an active role in society, prioritizing our customers' needs and fostering a positive impact on our environmental, social and corporate governance dimensions. We believe that we play a crucial role in providing sustainable finance and we achieve this by the following commitments:

We actively participate in the transition towards a Climate Neutral Economy by working alongside our customers, partners and branches inspiring them in becoming ambassadors on reducing our common climate footprint. We offer our customers and branches advice in terms of investment and / or credit products and, as their close local partner, we set our focus on accompanying them in the climate transition.

We commit to creating a positive impact on our environment and set as target to become climate neutral by 2030 on Crelan Group's own emissions. We also commit to apply the principle of adverse impact in which significant polluting activities operating in oil, deforestation and water are excluded from our direct financing activities. In addition, a climate policy will be integrated in the onboarding process of our professional customers.

We strive to be a diverse and inclusive bank. In the next years, we will set out a solid partnership with our communities in the domains of financial education, poverty reduction and enhancing decent work and economic growth for disadvantaged communities.

A solid corporate governance is at the core of our business and is crucial in ensuring financial stability. We aim to become a reference in terms of governance and ensure our commitment towards compliance, regulation and the supervisory bodies. As a cooperative bank, the cooperative principles are embedded in our business model and provide transparency towards our customers. We exclude financing activities linked to money laundering, offshore activities and apply the different sanction lists into the business operations.

2.1 Crelan's Sustainability Approach

Crelan actively contributes to the **Sustainable Development Goals (SDGs)** developed by the United Nations. Below are six key areas of Crelan's sustainability strategy, linked to the SDGs.

1) Sustainable Governance

- As of January 1, 2022, the Board of Directors of Crelan consists of 20 directors. Consistent with the goal to represent the diversity of the markets in which it operates, Crelan strives to ensure **a balanced and diverse composition of directors** in terms of **professional experiences, skills, language, gender and age**. Also, the bank's agricultural focus is reflected through a substantial presence of representatives from this sector.
- In recent years, Crelan has significantly **strengthened its solvency and liquidity position**. Furthermore, it has in place all internal control procedures to identify, manage and report risks, as required in the "Guidelines on Internal Governance", published by the European Banking Authority (EBA).

2) Sustainable Relationship with Our Clients

Sustainable Loans

- In 2022, Crelan supported the local Belgian market by **granting €8.1 billion in credits**[2], of which 76% was allocated to individuals for the purchase of housing and consumer goods. As for green loans, Crelan offers **ECO-Energy financing**, an installment loan with a favorable interest rate intended for energy-efficient investments. In addition, Crelan supports the purchase of green cars by offering a favorable pricing to customers who purchase **electrical or hybrid cars**.
- **Environmental, Social & Governance (ESG) risks** include those related to climate change impacts mitigation and adaptation, environmental management practices and duty of care, working and safety condition,

[2] Total credit production of Crelan Group

respect for human rights, anti-bribery and corruption practices, and compliance to relevant laws and regulations. Climate change and the response to it by the public sector and society in general have led to an increasing relevance of ESG factors for financial markets. It is, therefore, essential that financial institutions are able to measure and monitor the ESG risks in order to deal with transition and physical risks. In this light, the EBA published in December 2019 an action plan with respect to sustainable finance. In this action plan, EBA discusses the different mandates with respect to sustainable finance (strategy and risk management, key metrics and disclosure, stress testing and scenario analysis and prudential treatment). The following ESG risks identified are described in the appendix.

Sustainable Investment Offer

- Our flagship products are managed according to **ESG criteria**. Crelan collaborates with strategic partners that adopt sustainability criteria in their investment policy. In 2022, more than 70% of the distributed funds were aligned with the requirements of Article 8 and 9 of the Sustainable Finance Disclosure Regulation (SFDR).

3) Sustainable Relationship with Our Employees

- Crelan is firmly committed to a **comprehensive and balanced Human Resources policy**. The certificate **"Top Employer Belgium" was awarded for the seventh time** in a row in 2022. Our efforts are anchored in diversity and inclusion, flexibility of work arrangements, internal mobility and development of talents.

4) Sustainable Investment Policy

- As part of its liquidity management, Crelan holds an investment portfolio consisting of sovereign and corporate bonds. Through internal procedures and exclusion lists, Crelan ensures that funds are invested correctly and sustainably. For corporate bonds, Crelan uses an exclusion list of issuers based on **the exclusion list of the Norwegian government pension fund "Government pension Fund Global (GPFG)"**, one of the largest global investors. The exclusion list of the GPFG is supplemented by excluding issuers whose values or production methods do not fit within the ethical values that Crelan wishes to promote such as respect for human rights, environment and health.

5) Sustainable Societal Actor

- Through the **Crelan Foundation**, the bank financially supports social projects of the cooperative shareholders. The projects can be related to health, environment, culture or training.
- The **Crelan Chair** at Ghent University's Faculty of Bioscience Engineering promotes projects of scientific research on innovation and sustainability in the agricultural sector.

6) Environmentally Sustainable Investments

- In recent years, the following investments have had a positive impact on the energy consumption: 1) the installation of solar panels in 2018 and systematic replacement of energy-intensive lamps by an LED alternative since 2018; 2) the installation of a new system of building management, and optimization of air group humidification system of the head office in 2019; 3) an alignment of the heating curve on real needs in 2020.
- Crelan aligns its commitments towards Net Zero (Green Deal) with the European engagement to achieve a carbon neutral economy by 2050. As commitment Crelan aims to achieve a net zero for the scope 1 & 2 by 2030 and for the scope 3 a net zero by 2050. These commitments are achieved via the installation of solar panels, switch towards green electricity and the relevant programs to reduce further the emissions of the company cars and paper usage.

2.2 Rationale of Green Bond Issuance

Being a cooperative and collaborative bank driving the development of the Belgian economy, Crelan is a financial institution that plays a key role in contributing to the low-carbon economy and fighting against climate change. Crelan aims to become a leading player in the sustainable finance market in Belgium and wishes to send a strong message on its robust sustainability commitments.

This Green Bond Framework is fully complementary with Crelan's sustainability strategy to provide a positive environmental impact in its business conduct. The Framework has been established as an overarching platform under which Crelan intends to issue Green Bonds, which may include bonds (public or private placements) and commercial paper in various formats to finance and/or refinance green loans with an environmental benefit.

This Green Bond Framework is aligned with the European Union's desire to promote sustainable finance and to redirect financial flows towards sustainable assets. This Green Bond Framework will help Crelan to finance green assets that clearly contribute to one or more of the six environmental objectives outlined in the European Union Taxonomy.

Future updates of this document will take into account as far as possible future developments in terms of regulations on sustainable finance in Europe. As a privileged partner of farmers, Crelan is currently working hand in hand with them to promote more sustainable agricultural practices for the environmental transition of the agricultural sector. In a future update of the Framework, Crelan may include a category related to sustainable agriculture.

3. Green Bond Framework

Crelan has developed this Green Bond Framework under which Crelan will be able to issue Green Bonds. This Framework has been developed in alignment with the International Capital Markets Association ("ICMA") Green Bond Principles, 2021 ("GBP")[3] which are voluntary process guidelines for best practices when issuing or borrowing Green Bond Instruments. Crelan intends to further align its Green Bond Framework with the European Green Bond Standard (EUGBS). Once enforced, the EUGBS will serve as an alternative standard to the current market practice of GBP. The current proposal of the EUGBS has been taken into account, where possible, in Crelan's Green Bond Framework.

The Green Bond Framework will be presented along the four core components of the GBP and includes commitments regarding external reviews designed to increase transparency.

The document covers:

1. Use of Proceeds
2. Process for Green Assets Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External review

3.1 Use of Proceeds

Crelan intends to allocate an amount equal to the net proceeds of any Green Bond issuance to finance or refinance in whole or in part, new or existing loans within the list of Eligible Categories, together forming the Eligible Green Assets. Eligible loans will exclusively be granted to borrowers within Belgium and all eligible assets will be located in Belgium.

As much as possible, Crelan has taken into account the definition of "Sustainable investment" as defined under SFDR article 2, point 17 to select these eligible assets and update this Green Bond Framework.

[3] Green Bond Principles, ICMA: https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf

USE OF PROCEEDS AND DEFINITION OF ELIGIBLE GREEN ASSETS

Green Use of Proceeds	Eligibility Criteria Eligibility Criteria	EU environmental objective	SDG Alignment
Green Buildings	Loans for buildings with EPC label ≥ "A" or belonging to the top 15% of the national stock or regional building stock expressed as operational Primary Energy Demand (PED) and demonstrated by adequate evidence; or Energy performance of at least 10% lower than the local threshold set for nearly zero building (NZEB) requirements	Climate change mitigation	11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION
	Renovation loans which are used 100% for green renovations (boiler replacement, boiler installed on solar energy, solar panels, installation heat pump, installation of geothermal energy production equipment, double window glazing, roof/wall/floor insulation, installation of thermostatic valves, thermostatic switches, energy audit); and activities leading to energy improvements of at least 30%		
Clean Transportation	Loans financing the acquisition of the following types of vehicles: - Fully electric vehicles - Hybrid vehicles for which the associated tailpipe has been demonstrated by adequate evidence and range below 50gCO^2eq/km.	Climate change mitigation	11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION

3.2 Process for Project Selection and Evaluation

Underlying Eligible Green Assets need to comply with local laws and regulations, including any applicable regulatory environmental and social requirements. Eligible Green Assets will have to be aligned with Crelan's financial risk management and Corporate Social Responsibility (CSR) governance.

The first step is that Crelan's ALM Risk Modelling Team will make a pre-selection of Eligible Green Assets, based on the Eligibility Criteria as described in section 3.1 of this Framework and will present the Eligible Green Assets to the Green Bond Committee. These assets will meet all lending and other business criteria established by Crelan in the ordinary course of its business.

A Green Bond Committee has been established and is comprised of representatives of the treasury team, the ALM Risk Modelling Team, the sustainability team and of representatives from the business units when needed.

The Green Bond Committee will meet on a quarterly basis and is responsible for:

- Reviewing the allocation of proceeds to Eligible Categories periodically
- Verifying the compliance of the underlying loans with the Eligibility Criteria, as described in the section 3.1 of this Framework
- Ensuring that the environmental and social risks potentially associated with the Eligible Green Assets are properly mitigated
- Determining whether any update to allocations (such as replacement, deletion, or addition) is necessary because of evolving compliance of selected projects/assets with eligibility and exclusion criteria specified in section 3.1 and until full allocation of the proceeds. The committee will also verify that the reallocation of the proceeds is compliant with the Framework
- Annual monitoring of potential ESG controversies associated with the projects/ assets and reallocating proceeds to eligible projects if needed
- Adapting the Framework in line with mandatory applicable sustainable finance regulation
- Overseeing, approving and publishing the allocation and impact reporting, including external assurance statements

Crelan will take into account the Do No Significant Harm Principles (DNSH) and the Minimum Social Safeguards (MSS) as defined by the European Union Taxonomy in its selection and evaluation process, where possible, for the two use of proceeds categories described in section 3.1. Crelan will, to this extent, take into account national and local regulations to assess the compliance of its activities.

3.3 Management of Proceeds

Crelan will allocate the Green Bonds Proceeds to finance the Eligible Green Loan Portfolio in accordance with the use of proceeds criteria (section 3.1) and process for selection and evaluation (section 3.2). Proceeds from Green Bonds will be managed by Crelan based on a portfolio and aggregated approach.

Crelan will strive, over time, to achieve a level of allocation to the Eligible Green Loan Portfolio, which matches or exceeds the balance of proceeds from its outstanding Green Bonds. Crelan expects to fully allocate the net proceeds of any Green Bonds, with all or substantially all of the remaining amount allocated within 24 months of the issuance.

Pending full allocation of an amount equal to the net proceeds of any Green Bond issuance, proceeds may be invested in cash or cash equivalents in line with Crelan's general investment policy, or used to repay existing borrowings. Crelan commits not to invest temporarily unallocated proceeds in GHG intensive activities or controversial activities.

In the case of divestment or if a project no longer meets the eligibility criteria, Crelan will use reasonable efforts to reallocate an equal amount of the funds to other Eligible projects. Payment of principal and interest will be made from our general account and not be linked to the performance of the Eligible projects.

3.4 Reporting

Crelan commits to regularly provide investors with information on both the allocation and the impact of the eligible assets.

Allocation Reporting

Annually, until Green Bond maturity, Crelan will publish a Green Bond Allocation Report on the Investor Relations website, that will include, where possible:

i. The amount of net proceeds from Green Bond Instruments that have been allocated to one or more eligible projects by category (geography, use of proceeds categories described in 3.1, etc.), subject to confidentiality considerations;

ii. The part of Eligible Green Assets that are eligible to the European Union Taxonomy, based on the Substantial Contribution Criteria (SCC) and the part of Eligible Green Assets that are aligned with the European Union taxonomy, complying with the Substantial Contribution Criteria (SCC), but also the Do No Significant Harm (DNSH) principles as well as the Minimum Social Safeguards (MSS);

iii. The outstanding amount of net proceeds from any Green Bonds yet to be allocated to eligible projects at the end of the reporting period;

iv. The share of financing and refinancing (%) of the Eligible Green Loan Portfolio.

This reporting will be available at the latest one year after the issuance of Crelan's first Green Bond.

Impact Reporting

Annually, until Green Bond maturity, Crelan will publish a Green Bond Impact Report on its website that will include expected environmental impact metrics related to eligible projects as shown in the table below.

The reporting indicators will include aggregated output and impact metrics in a portfolio approach.

Crelan will also report on any material controversies related to the financed loans.

The reporting methodology and assumptions used to report on environmental benefits of the Eligible Green Assets will be disclosed in Crelan's impact report. Crelan's impact report will be aligned with the recommendation of the ICMA, as described in the ICMA Harmonized Framework for Impact Reporting[4].

Green Use of Proceeds	Expected Output Metrics	Example of Expected Impact Metrics
Green Buildings	• Number of buildings • Type, localisation and surface of buildings • Average energy consumption in kWhep/m²/year	• GHG emissions avoided relative to local baseline in tCO2eq/year
Clean Transportation	• Number of cars • Share of electric cars among total number of cars	• Avoided CO2 emissions at tailpipe • Weighted average cars' carbon emissions • Estimated reduction in fuel consumption

[4] Handbook, Harmonised Framework for Impact Reporting, June 2022, ICMA

4. External Review

4.1 Second Party Opinion

Crelan has retained Sustainalytics to provide a Second Party Opinion (SPO) on the environmental benefits of Crelan's Green Bond Framework as well as the alignment to the ICMA Green Bond Principles. The opinion can be found on Crelan's website as well as the SPO provider's website.

4.2 External Verification

- Each allocation report will be accompanied by a report (i.e. it will be made publicly available) from an independent party in respect to its examination of management's assertions about allocation of proceeds to Eligible Categories under the Framework.
- The impact report will as well receive an external verification by an independent party.

Appendix: Crelan's risk management process

The risk management process is a continuous process throughout the bank to ensure that the risks (linked to the business model, economic environment and strategy of the bank) are properly identified, measured, managed, mitigated and reported. Note that this assessment takes place separately for financial and non-financial risks. Below a description is provided on how the general risk management process is applied to ESG risks.

Risk identification

Crelan Group's risk identification is performed at least once a year with the review of the bank's risk taxonomy, which includes ESG risk. Note that ESG risk is considered a risk driver affecting other risks in the risk taxonomy. The figure below illustrates how ESG risks may drive other (financial) risks through economic transmission channels.

In line with the EBA definition[5], the bank has defined ESG risks as the risks of any negative financial impact on the institution stemming from the current or prospective impacts of Climate & Environmental (C&E), Social and/or Governance factors on its counterparties, invested assets or own assets & operations.

Note that for risk management purposes, C&E, Social and Governance risks are considered separately in risk assessments and mitigation action plans, with currently an increased focus on the C&E pillar. Furthermore, C&E risks have been subdivided into physical and transition risks.

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

[5] Refer to paragraph 38 (page 28) of the following EBA report: EBA discussion paper ESG risks

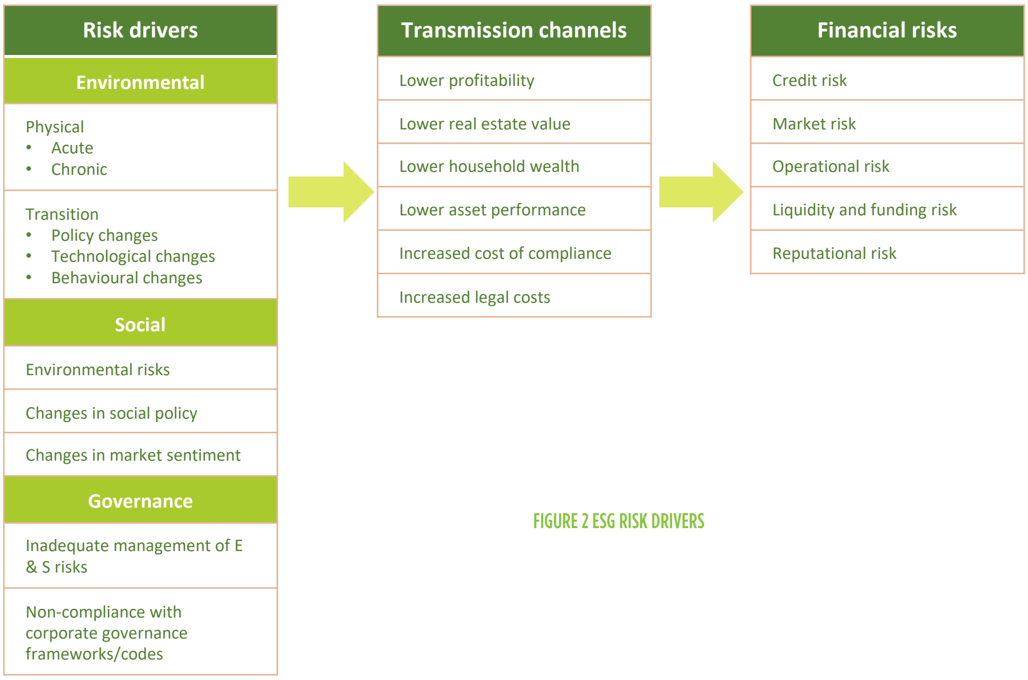


FIGURE 2 ESG RISK DRIVERS

Transition risks refer to the institution's financial loss that can result, directly or indirectly, 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 can be subdivided into policy & regulation risks, technology risks and market sentiment & demand risks.

Risk assessment and measurement

Methodology

Following the yearly review of the bank's risk taxonomy, a risk assessment takes place to determine the materiality of identified risks. As part of this process, an ESG risk materiality assessment is carried out based on expert judgement. Note that the current focus of this exercise is on C&E risk.

For this exercise, Enterprise Risk Management develops a number of plausible C&E risk scenarios for financial risks which are then discussed within the respective risk teams. Separate sessions are organized per financial risk (credit, market and liquidity risk). The same exercise is carried out by Operational Risk Management for operational risks.

The materiality assessment considers two axes, namely likelihood (low, medium, high, very high) and financial impact (low, medium, high, very high) over the short (0 to 3 years), medium (4 to 10 years) and long-term (beyond 10 years). Where applicable, ongoing actions & existing processes are considered in these discussions as risk mitigants.

The 2022 exercise has been performed mainly in a qualitative manner but towards the future more quantitative data will become available to support the assessment process.

Overview of key risks

Today, Crelan's stakeholders, including the regulator, have increased the focus on the C&E pillar of ESG (e.g. in the context of the EU Green Deal). Hence, as mentioned above, the risk identification and assessment exercise of 2022 focused on C&E risks.

As a financial institution, Crelan Group considers itself materially exposed to C&E risks. In the short and medium-term, it is expected that the main impact on the bank will stem from transition risks. More specifically, the Group believes that transition risks could have a significant impact on its retail credit portfolio and its fund raising capacities. Below, a short overview is provided of the key C&E risks identified as part of the 2022 risk identification & assessment exercise.

Credit risk

The majority of the loans to customers balance consists of retail mortgage loans. Hence, the main C&E risks for the credit portfolio, are:

Retail mortgage loans - transition risks

Energy inefficient housing may become a less attractive investment in the medium and long-term, given the high energy costs associated with such properties. Hence, collaterals with poor energy efficiency values may decrease in value, affecting Loss Given Default (LGD) values. Furthermore, customers with energy inefficient houses may experience increasing difficulty to pay back loans as a larger portion of their income is dedicated to paying energy bills, decreasing their Capacity To Pay (CTP) and increasing their Probability of Default (PD). The risk related to volatile energy prices is expected to be most pertinent in the short-term.

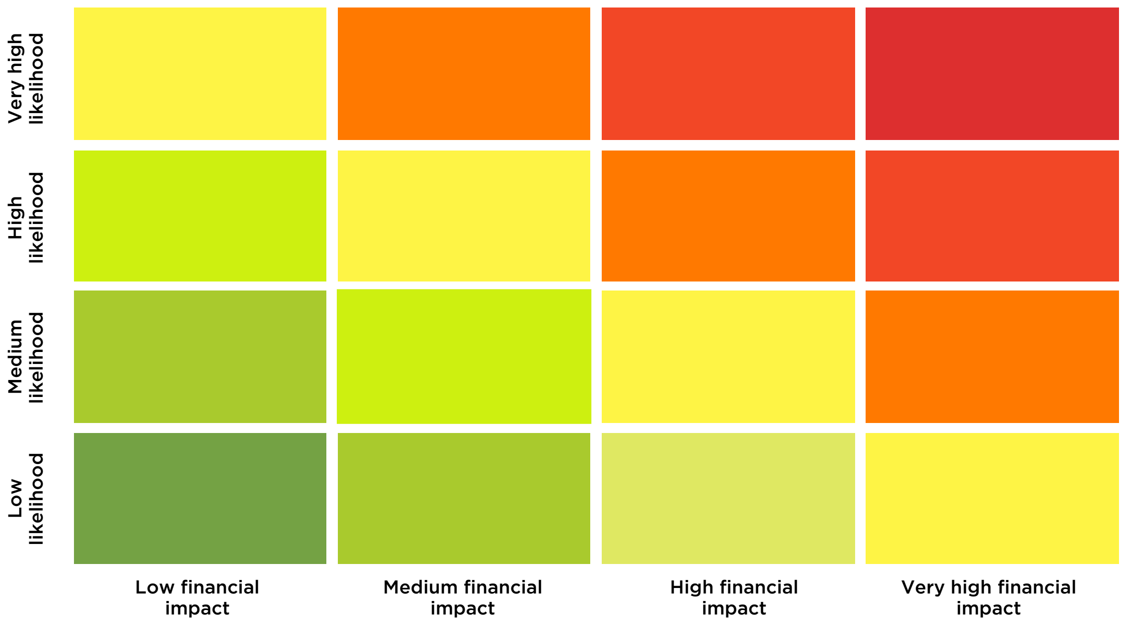
Professional loans - transition risks

The main risks relate to regulatory initiatives in the medium and long-term (such as a carbon tax) affecting carbon-intensive sectors, which will impact their cost of doing business and hence affect their CTP and PD if they have taken out a loan with the bank. For instance, regulation related to nitrogen emissions may impact the costs related to livestock farming and increase the credit risks in this segment. Additionally, soaring energy costs in the short-term may also affect their CTP and PD.

Retail mortgage loans - physical risks

The main risks relate to the damage that may be caused by severe flooding to the property for which a loan was taken out. Owners may need to use their savings to fund repairs, hence affecting their CTP and PD (at least temporarily). Additionally, collateral values may (temporarily) be affected by the damage caused, affecting LGD values. While the financial impact of such a flooding scenario is expected to be similar across different timeframes, the likelihood may increase over time.

FIGURE 3 RISK MATERIALITY MATRIX



Note that flood damage is normally covered by fire insurance in Belgium. This type of insurance is mandatory and hence can be considered a risk mitigant.

Professional loans - physical risks

The main risks relate to the damage that may be caused by severe flooding to company property/ operations. They may not have savings in place to cushion the financial damage caused, hence impacting their CTP and PD if they have taken out a loan with the bank. While the financial impact of such a flooding scenario is expected to be similar across different timeframes, the likelihood may increase over time.

Note that a severe drought scenario was also considered in this year's C&E risk materiality assessment exercise in light of the bank's exposure to the agricultural sector. However, the bank notes that its agricultural exposures have shown resilience in light of droughts in the past (FY18, FY19, FY20 & FY22) and counterparties have in most cases made the necessary investments to adapt to the increasing frequency of droughts (e.g., through the re-use of water). Hence, this risk is not considered material at the moment.

Operational risk

The main C&E risk is related to compliance with ESG regulations. A significant portion of this regulation relates to standardized reporting on C&E topics. In order to be able to meet these reporting obligations, identifying & remediating C&E data gaps is crucial. This risk is considered material across all timeframes. While the likelihood of breaches will decrease over time as more data becomes available and proxy methodologies improve, the financial impact remains significant if a breach were to occur.

Another risk, mainly in the short-term, is green-washing risk at key vendors given the complexity of ESG regulations and a competitive push for green products. Finally, the reputation risks associated with the bank's activities in the agricultural sector have also been assessed. In particular, their impact on the bank's ability to attract and retain talent in the medium and long-term.

Liquidity risk

The group currently does not have a green bond framework in place in order to raise green funding, which can be an important risk, already in the short-term. The bank notes that investor preferences for green bonds (in particular non-covered bonds) compared to traditional issuances are already more pertinent in the market today.

The impact of flood risk on client drawdowns is also considered a relevant risk across all timeframes. While the likelihood is considered low in the short-term, financial impact is expected to be very high, in particular if government and insurance support cannot keep up (which is more likely in an extreme scenario where a more significant portion of the country is flooded).

Market risk

The bank does not carry out any trading activities for its own account. The main C&E risks for the bank relate to the transition risks in the investment portfolio. These risks are expected to be most pertinent over the medium and long-term horizon.

The investment portfolio mainly consists of government bonds, which are concentrated at the moment in 5 EU countries (Belgium, Austria, France, the Netherlands and Finland).

Risk evaluation and mitigation

All known identified material risks must be evaluated and mitigated by adequate mitigation techniques and/or processes. Below, a high-level overview is provided of the processes in place to evaluate and mitigate identified material C&E risks.

Credit risk

Retail mortgage loans - transition risks

For the existing loan stock, the Group is currently exploring how to best scale up its efforts to collect EPC values, so that it can further optimize its credit modelling & stress testing to support the evaluation of transition risks across the bank. Additionally, the bank is looking into a tool that has integrated national decarbonization pathways to estimate i.e. when collateral could become a stranded asset (CRREM), and how this could be used further. In light of the energy crisis, an exercise was also carried out to evaluate the impact of the increase in energy prices on existing retail clients' eligible income.

In terms of mitigation, the bank has taken measures in its credit policy for FY23 to decrease the transition risks associated with new mortgage loans for housing with a poor EPC label (EPC E or F). To mitigate the risks related to soaring energy costs, the amount subtracted to come to eligible income for new loan applications is also indexed in line with the latest inflation figures. This partially captures the increase in energy costs. Finally, capital moratoria, similar to the system in place during COVID-19, are also available for retail clients, on the condition that they were considered financially healthy before the crisis.

Professional loans – transition risks

To evaluate transition risks across the bank, a transition risk scenario is part of the bank's ICAAP & ILAAP. More information on the narrative is provided in the section on stress testing.

Professional exposures are monitored on an individual basis. To mitigate default risk associated with soaring energy costs, moratoria on capital or energy loans can be provided if the client was considered financially healthy before the energy crisis. To mitigate transition risks related to the agricultural portfolio, financing never goes beyond the duration of environmental licences granted to the counterparty by the government.

Physical risk

A physical (flood) risk scenario is part of the bank's ICAAP to support the evaluation of physical risk exposure across the bank. More information on the narrative is provided in the section on stress testing. In 2022, Crelan successfully launched a project which allows for mapping of flood risk for its mortgage collaterals on the most granular level, being the collateral's address. These results will be further implemented in Crelan's Risk Management Framework in the coming year(s).

Operational risk

To mitigate regulatory risk related to ESG topics, a bank-wide regulatory watch is in place to ensure regulatory developments are closely followed up on. This is complemented by regular internal discussions to discuss identified regulatory risks and develop mitigation plans. Note that a specific plan is in place related to compliance with ESG regulations.

With regards to vendor greenwashing risk, the bank finished a vendor screening pilot incorporating ESG factors in December 2022. The results of this exercise will be built on to ensure ESG considerations are systematically included in procurement processes.

Finally, the Group closely monitors the reputation risks associated with its activities and foresees communication action plans when necessary.

Liquidity risk

The bank is in the process of developing a green bond framework. Furthermore, a Key Risk Indicator (KRI) has been included in the bank's Risk Appetite Framework (RAF), which monitors the difference (i.e., the spread) between the cost of funding of social/C&E issuances and traditional issuances.

Market risk

As previously mentioned, market risk for the bank is limited. The bank is currently exploring how to best incorporate ESG factors (with a focus on C&E) in the investment selection process.

Stress testing

Stress testing is an analysis conducted to identify the vulnerabilities of the bank to determine whether the bank has enough capital and/or liquidity to withstand the impact of adverse developments, such as the impact under unfavorable economic scenarios. These tests are meant to detect weak spots in the bank at an early stage, so that preventive actions can be taken by the bank itself. It plays an important role in:

- Providing forward-looking assessments of risk;
- Overcoming limitations of models and/or historical data;
- Feeding into capital and liquidity planning procedures;
- Informing the setting of a bank's risk tolerance/appetite;
- Facilitating the development of contingency plans;
- Informing supervisors for the annual SREP assessment.

C&E scenarios

Transition risk – Short Term

The transitional risk scenario is a NGFS disorderly scenario. Delayed Transition assumes global annual emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2 °C. Negative emissions are limited. This scenario assumes new climate policies are not introduced until 2030 and the level of action differs across countries and regions based on currently implemented policies, leading to a "fossil recovery" out of the economic crisis brought about by COVID-19. The availability of CDR technologies is assumed to be low pushing carbon prices higher than in Net Zero 2050. As a result, emissions exceed the carbon budget temporarily and decline more rapidly than in Well-below 2 °C after 2030 to ensure a 67 % chance of limiting global warming to below 2 °C. This leads to both higher transition and physical risks than the Net Zero 2050 and below 2 °C scenarios.

In Crelan Group's scenario, the need for strong policies is frontloaded to 2023. The government takes stricter measures over the coming years to achieve a transition to a carbon neutral energy system, to energy neutral houses, ... As a result, the real estate that currently not fulfils these criteria will decrease significantly in value. In addition, decisions are being taken by the Belgian government with respect to the nuclear phase-out and a negative geo-political context (with high dependency on foreign natural gas resources) leads to an increase in energy prices. Similarly, the government applies stricter measures for the agricultural sector and less people are interested in agriculture active as the sector becomes too complicated and too strict. The value of agricultural collateral drops. Another secondary effect of a transition of the society to a more climate conscious environment, clients will demand that their saving money is invested in "green" investments. If the Crelan Group does not follow this evolution, clients will retrieve their money from their deposit at ABB, Crelan and Europabank. The cooperative shareholders of Crelan will ask to pay back their shares.

Transition risk – Long Term

Similarly to the short term transition scenario, the government takes stricter measures to achieve a transition to a carbon neutral energy system, to energy neutral houses,... However, in this scenario, the measures are not frontloaded to 2023, but are instead fully aligned with the narrative of the NGFS delayed transition scenario.

In this scenario, the long-term strategic response of the bank is elaborated and details how the portfolio of the bank is expected to evolve, reflecting how the bank is planning to adapt in the different transition (long-term) pathways. A dynamic balance sheet approach is applied. A similar strategy is applied as in the Climate Stress Test, where the business environment and bank specific strategy define the growth per asset class (mortgages, SME & corporate loans,...) and the allocation per segment (EPC grades for exposures secured by real estate or sectors for exposures not secured by real estate). Similarly as for the short-term scenarios, NGFS scenarios lead to long term shocks on macro-economic variables.

While transition risk is a relevant risk driver for the bank and the economy as a whole, the outcome of the FY22 stress test shows that this risk does not pose an immediate threat to the capital adequacy or liquidity position of the bank.

Physical risk

The physical risk scenario is a NGFS Hot house world scenario which assumes that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical risks and irreversible impacts like sea-level rise. Current Policies assumes that only currently implemented policies are preserved, leading to high physical risks. Emissions grow until 2080 leading to about 3 °C of warming and severe physical risks. This includes irreversible changes like higher sea level rise.

As a result of climate change and lack of action, Belgium is hit by a severe flood in several areas of the country. A significant part of collateral for the credits at ABB and Crelan is affected. The damage to the real estate is in Belgium covered by the fire insurance, but a lot of damage is not covered: damage to outside furniture, garden houses, car, alternative housing in case the house is uninhabitable. A part of the damage is also covered by the government (Rampenfonds). Also, the agricultural sector will receive governmental aid, but also this amount will not cover the total damage. But as the payment of the compensation of the damage takes a lot of time and a part of the damage has to be borne by the households, they have (temporarily) difficulties to repay their mortgage. On top of that the value of the collateral for these credits decreased significantly due to flood. Crelan is affected by increased credit losses. As the government has to pay a part of the damage (covered by Rampenfonds, for the damage to public infrastructure), the government is downward revaluated by the foreign market and the OLO spreads increase. As the flood is that severe, Belgium is hit by a secondary effect: slowdown of economic growth, higher unemployment, political instability, ...

While physical risk is a relevant and increasingly prominent risk driver for the bank and the economy as a whole, the outcome of the FY22 stress test shows that physical risk does not pose an immediate threat to the capital adequacy of the bank.

In order to monitor these risks, Crelan has set out a relevant governance model:

Overarching governance structure

To ensure that C&E risks are adequately embedded in the overall business strategy and risk management framework of the bank, C&E risks have been incorporated in the bank's **Quarterly Risk Report (QRR) framework** and quarterly **Risk Presentation (RP).** The QRR consists of a complete presentation of all risks, indicators and their evolutions:

- Risk dashboard
- Recovery dashboard
- Regulatory and economic solvency
- Regulatory and economic liquidity
- Risk analysis by risk component (retail credit risk, non-retail credit risk, IRRBB, market risk, liquidity risk, operational risk, information risk **and C&E risk**)

The RP summarizes significant events of the quarter and can be considered as the executive summary of the QRR. The reports described above are presented on a quarterly basis to the Board of Directors (BoD), Executive Committee (ExCo) and Risk Committee (RC), which will take action based on the outcome of the discussions held. Note that the **ECB is also informed of the outcome of the QRR. The different climate risks are monitored and evaluated in the different governance bodies applicable in the Crelan entity**.


Crelan
Een uurtje praten over een woonkrediet?
Daar krijg je geen seconde spijt van.
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