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Crelan Group

Financial Institutions | Retail & Consumer Banks | Belgium | ESG Entity Rating

ESG Rating Type	ESG Rating[a]	Score	Analysis Type
Entity	3	48	Full Entity
Instrument	Not Applicable	Not Applicable	Not Applicable
Framework	Not Applicable	Not Applicable	Not Applicable

[a] ESG Rating of 1-5, where 1 is the strongest. Date ESG Rating and score assigned: 25 January 2024.
Note: For Framework, analysis types can be green, social, sustainability, sustainability-linked, conventional, or other.

ESG Rating Drivers

- Sustainable Fitch has assigned Crelan Group an ESG Entity Rating of '3'. The rating reflects that a high proportion (82%) of the mortgages in the group's mortgage portfolio are for properties with energy performance certificate labels D to F, reflecting poor energy efficiency that leads to higher energy consumption.
- Crelan Group's current GHG emissions data are insufficient for trend analysis. However, the group plans to publish comprehensive metrics, including Scope-wise emissions, in its consequent report. Several important social metrics, such as workforce data, turnover rate, and gender and CEO pay gaps, are currently unavailable.
- We positively view Crelan Group's cooperative structure, as it allows customers to become part-owners by purchasing shares in CrelanCo CV, with dividend payouts of 4% in 2022 to its shareholder base.

Source: Sustainable Fitch

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The Entity – Highlights

Crelan Group is a cooperative banking group consisting of cooperative society CrelanCo, Crelan SA and its subsidiaries and affiliate banks (including Europabank and AXA Bank Belgium). The group is one of the leading financial institutions in Belgium by total assets (EUR53.8 billion) following the completion of its acquisition of AXA Bank Belgium by end-2021.

All of the shares of Crelan Group are held solely by CrelanCo and the cooperative society is formed of 277,000 participants. The group has a workforce of 4,610 personnel across all its branches, and serves almost 1.8 million customers by offering a range of banking and insurance products for private individuals, entrepreneurs and SMEs.

Crelan Group's sustainability-related ambitions are aligned with the EU Green Deal, Fit for 55 and climate agreements, thus it has a target of becoming climate neutral in its own operations (across Scopes 1 and 2) and to halve its emissions from business activities (Scope 3) by 2030.

The group has committed to climate neutrality by 2050, but has neither established a net-zero emissions target, nor is it a signatory to any globally recognised alliances such the Glasgow Financial Alliance for Net Zero or platforms such as the Science Based Targets initiative that provide a framework and assist in target setting for transition of the portfolio to net zero.

On the social side, the group has been a member of the Women in Finance initiative since 2019, and has achieved its target of having 25% of board of directors' members be women in 2022. The overall sustainability strategy of the group seems to be under development; apart from the long-term emissions-related target, it does not have any other quantitative or intermediary targets for environmental or social metrics. The group plans to publish a climate report in 2024 that will focus on the near-term targets, and is expected to disclose the group's environmental and social metrics for 2023.

As with the sustainability strategy, Crelan Group is in the beginning stages of integrating ESG risks into its risk management framework, as the group currently classifies ESG risk in the other risk category, but considers it to be a high-impact risk.

Crelan Group has at present placed focus on climate and environmental risks. It distinguishes between physical and transition risks, and performed a qualitative materiality assessment in 2022 along with creating an action plan; however, details on the results of this assessment reveal that, in the short and medium term, the main climate and environmental risks faced by the group stem from increasing energy prices, which will have a potential impact on the value of the collateral.

The group has intentions to further develop the quantitative measures as well as to support the inclusion of ESG risks in the framework and group's risk appetite. It also plans to broaden the coverage of its ESG risk assessment to include social and governance risks, which could become significant to the group's day-to-day business operations.

Crelan Group has published a separate sustainability report since 2018; prior to this, all sustainability-related and non-financial disclosure was included as part of the group's annual consolidated management report. The sustainability reporting does not appear to be aligned with the Global Reporting Initiative standards, or with any other international reporting standards for non-financial disclosure.

The primary source of any data reported in the sustainability report seems to be from the group's own internal methodologies, as no references have been made to external accounting and calculation methodologies such as the GHG Protocol for recording the entity's emissions.

Crelan Group's sustainability strategy recognises the importance of achieving the targets set by the UN Sustainable Development Goals (SDGs); it aims to contribute to each one of the 17 SDGs through its operations and business activities, though the group's contribution to a few of these is more evident than the rest.

Based on our assessment, we consider that the group's core business contributes mainly to SDGs 8 (decent work and economic growth) and 11 (sustainable cities and communities), as the group's major products include mortgages for individuals and non-financial corporations, agricultural loans and loans to SMEs.

Crelan Group has begin including ESG considerations into its business activities, as the group has made some commitments to apply ESG criteria to its lending and investment portfolios as well as beginning implementation of the exclusion policies; however, due to low transparency, we cannot yet determine the scope of application to the lending business.

On the investment side, ESG considerations seem to have progressed as the group mentions having 73% of its own fund production in 2022 in investment funds that meet the criteria of Sustainable Finance Disclosure Regulation (SFDR) articles 8 or 9. More details on the screening used for ESG risks management, and it setting targets for portfolios to have a dedicated environmental or social impact, would enhance the group's overall impact creation in terms of sustainable financing and investing.

Source: Sustainable Fitch, Crelan Group sustainability reports (2022, 2021), consolidated management reports (2022, 2021), risk disclosure report 2022

Evolution of Environmental Metrics

- Crelan Group does not disclose any absolute figures for the emissions breakdown by Scope or overall emissions, which makes it difficult for us to analyse the group's emissions trend. The only available data are the reduction in CO_2 emissions (in kg), which show a stable reduction when compared year-on-year with a rate of reduction of 5% from 2019 to 2022.
- Due to the lack of data availability, we cannot determine what the biggest contributing sources of emissions for the group are, which in turn makes it difficult to gauge the robustness of the group's emissions reduction commitments.
- Scope 3 financed emissions make up the most significant share of a financial institution's overall emissions, thus measuring and reporting the emissions of its lending and investment portfolios can help enhance the transparency and setting of a transition pathway to support the group's ambition of becoming a climate-neutral entity at least by 2050.
- There is no visibility on other environmental metrics such as the natural resources consumption (eg energy, water or waste generated) from the group's operational activities, which limits our assessment. Providing this information would be beneficial for the group's stakeholders, and would help show the results of the group's efforts and the resulting improving environmental impact.

Source: Crelan Group sustainability reports (2022, 2021), consolidated management reports (2022, 2021), risk disclosure report 2022

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Entity Analysis

Business Activities

Company Material	Sustainable Fitch's View	
Core Contributions	Environmental	Social
Banking		
ESG Rating 3		
• The origins of what is now Crelan Group are rooted in the Belgian agriculture and horticulture sectors, as CrelanCo, with other cooperative societies, has granted agricultural loans to farmers and offered other banking services as well since the 1960s. Following years of structural changes, the group's main business activity is currently retail banking, which involves providing full banking services to farmers and horticulturists, private customers, self-employed people and businesses through a network of independent branch managers. • Other banking activities of the group include insurance and asset management, wherein products such as life insurance and property and casualty insurance are offered in partnership with other insurance companies such as AXA and Allianz. The asset management products are offered in partnership with AXA IM, Amundi and Econopol. • A segregation of the different activities was not possible due to the limited breakdown in the consolidated financial statements; hence, we have analysed all the activities under the one segment of banking. Share percent Represents 100% of net total operating income as of end-2022.	• The analysis of this section focused on the positive and negative environmental impact of the group's lending and investments to particular sectors in the economy. • Crelan Group's lending portfolio is composed of 80% mortgage loans, 11.3% professional loans, 4.41% agricultural loans, 3.60% consumer loans and 0.69% other loans. • Real estate sector makes up 40% of the total global GHG emissions, according to the UN Environmental Programme. • To analyse the mortgages in the lending portfolio, we look at the energy performance certificate label breakdown for the loans collateralised by immovable commercial and residential properties, which shows that nearly 12% are for properties rated A to C, which we scored positively as they have better energy-efficiency performance. The majority, at 82%, are for properties rated D to F, which negatively affected the overall score. • The assessment looked at the different sectors in the group's lending portfolio, and we recognised that the information about the green loans provided to non-financial corporations, households and other counterparties states that these are green, sustainable or sustainability-linked loans under standards other than the EU standards. However, more information on the green characteristics of these loans would have facilitated a deeper analysis of their impact. • Crelan Group mentions offering eco-energy loans and loans for buying hybrid or electric vehicles. The eco-energy loans are instalment loans at a cheaper interest rate to allow the borrower to invest in energy-efficient resources such as replacing boilers, installing thermostatic taps and switches, or obtaining an energy audit. • These loans also cover investing in green energy (such as solar-powered boilers, PV panels, heat pumps, or geothermal energy) and insulation work (for roofs, walls and floors, and insulating glass). However, we could not give credit to these loans as the total amount of these loans has not been disclosed. • Similarly, providing agricultural loans is one of the primary activities of the group; however, providing more information on the	• As with the environmental section, the social section's analysis has been affected by a lack of breakdown of the lending and investment portfolios. • Crelan Group provides loans to SMEs, which account for 16.66% of the total loan book of the group and which we scored positively, as providing funding to SMEs supports economic growth in society. This positively correlates to growth in employment, thus promoting a better quality of life. • Lending to SMEs also contributes to the achievement of SDG targets such as 8.3 (among other things, promote development-orientated policies that support growth of SMEs, including through access to financial institutions) and 8.10 (strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all). • The group has not disclosed information about any other category of loans that have a dedicated positive social impact, for example, loans in the sectors of education or healthcare, or loans to disadvantaged communities. • The group's credit policy mentions exclusion of companies involved in the arms production and tobacco sectors, which are socially controversial sectors, but both policies lack any specific thresholds. • At the same time, we positively assess that Crelan Group has referenced recognised international standards such as the principles of the International Labour Organization and the OECD guidelines as a basis for excluding companies that violate these guidelines or principles, or that show any signs of disrespecting human rights, using forced labour or supporting discrimination. • We also positively reflect that the group pays a regular dividend (of 4% of profits in 2022) to its cooperative shareholders.

Entity Analysis

Business Activities

Company Material Core Contributions	**Sustainable Fitch's View**	
	Environmental	**Social**
Banking		
ESG Rating 3		
	implementation of any sustainable practices within this would enhance the transparency of the group's ESG profile. • Crelan Group's credit policy restricts financing of businesses and institutions involved in oil, coal and gas extraction, activities such as financing of private jets, and trading in endangered species. We reflected this positively in our assessment. • However, the policy does not mention any thresholds or exceptions, so there is not enough information for us to determine whether these exclusions cover the whole sector or industry, such as in case of fossil fuels; or only the specific activities mentioned. Details on the applicability and due diligence of the policy would enhance the assurance provided by this policy in terms of the environmental criteria used while making financing decisions.	
Source: Crelan Group consolidated financial statements 2022, risk disclosure report 2022	Source: Sustainable Fitch, based on Crelan Group consolidated financial statements 2022, risk disclosure report 2022	

Entity Analysis

Environmental View

ESG Rating: 4

Profile	ESG Rating
Policies	3
Disclosure	5
Evolution	3
Targets and Supply Chain	5
Risks and Incident Treatment	1

Source: Sustainable Fitch, based on Crelan Group sustainability reports (2022, 2021), consolidated management reports (2022, 2021), risk disclosure report 2022

Social View

ESG Rating: 3

Profile	ESG Rating
Human Rights	3
Labour Rights	2
Diversity	4
Community and Customers	3
Targets and Supply Chain	4
Risks and Incident Treatment	1

Source: Sustainable Fitch, based on Crelan Group sustainability reports (2022, 2021), consolidated management reports (2022, 2021), risk disclosure report 2022

Governance View

ESG Rating: 2

Profile	ESG Rating
Financials and Reporting	1
Top Management and Control	3
Remuneration	4
Risk Management	1
Tax Management	1

Source: Sustainable Fitch, based on Crelan Group sustainability reports (2022, 2021), consolidated management reports (2022, 2021), risk disclosure report 2022

Entity Analysis

Relevant UN Sustainable Development Goals - Entity

8.3	Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services	
8.10	Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all	
11.3	By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries	

Source: Sustainable Fitch, UN

Note: Sustainable Fitch evaluates the relevant UN Sustainable Development Goals at the entity level by considering direct contributions, not generic support.

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Appendix A: Key Terms

Term	Definition
Debt Types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and socialrelated activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.

Term	Definition
Standards	
Transition	A term applied to green, social, sustainable or sustainability-linked instruments, only when the purpose of the debt instrument is to enable the issuer to achieve a climate change-related strategy according to Fitch criteria or methodology.
ICMA	International Capital Market Association. The "ICMA" credential on page 1 refers to alignment with ICMA's Principles and Guidelines: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments.
EU Green Bond Standard	A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market".
Other Terms	
ESG debt	Green, social, sustainability and sustainability-linked types of debt.
Short term	Within five years.
Long term	At least six years away.
Entity's business activity overlap with use of proceeds	The share of the entity's total business activities that can use proceeds from the debt instrument in question.
NACE	An industry standard classification system for economic activities in the EU, based on the United Nations' International Standard Industrial Classification of All Economic Activities (ISIC).

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

Appendix B: Methodology and ESG Rating Definitions

Fitch's ESG Ratings are designed to indicate an entity's Environmental, Social and Governance (ESG) performance and commitment, as well as its integration of ESG considerations into its business, strategy and management, with a focus on actions and outcomes rather than purely on policies and broader commitments.

There are three ratings: the ESG Entity Rating (ESG ER), ESG Instrument Rating (ESG IR) and, for debt instruments linked to ESG key performance indicators (KPIs) and/or use of proceeds, the ESG Framework Rating (ESG FR). ESG Ratings are on a scale from one to five, where one represents full alignment with ESG best practice. Behind each rating sit scores of zero to 100, as well as sub-scores for even greater granularity.

Sustainable Fitch's analysts assess all the business activities of an entity and more than 40 additional headline factors, covering all three ESG pillars. For debt instruments, they assess use of proceeds and more than 20 additional headline factors.

Fitch provides individual datasets with grades and commentary through a feed. The score and sub-score database allows direct comparison of entities and instruments, on a full ESG basis or on selected fields.

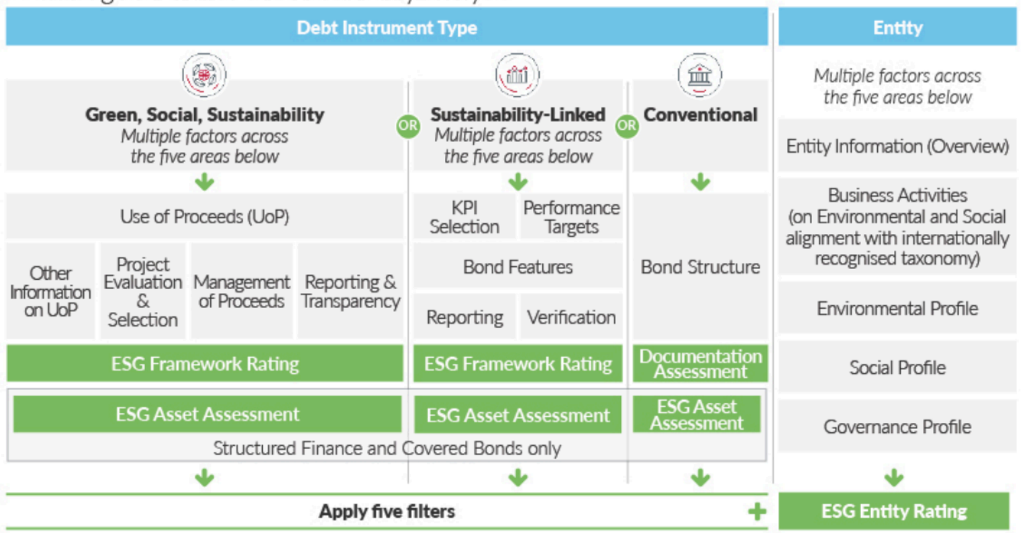
ESG ERs consider the issuer's strategy, how it relates to sustainability, and how sustainability is embedded in the issuer's business, including ESG policies, procedures, and outcomes. The entity is broken down into constituent business units, with NACE codes, for a granular assessment of E and S factors. Fitch assesses G aspects at the company level.

ESG FRs consider any type of bond, with varying analysis if there is a defined use of proceeds, KPI-linked coupon, or conventional bond. The rating aims to identify the strength of the bond framework on a standalone basis, separate to the entity, regardless of any self-assigned descriptions. Fitch analysts categorise bonds as Green, Social or Sustainability (GSS) types independently, based on their view of the main area covered by the use of proceeds, rather than automatically using the entity's categorisation. They will also determine if the bond should be classed as a transition bond and if it aligns with the EU Green Bond Standard and ICMA principles. Analysis considerations include the use of proceeds and sustainability-linked targets that form the primary purpose of the instrument, and the structure and effectiveness of the framework being used to further that purpose.

ESG IRs consider different types of debt instruments in the context of the issuing entity, enabling absolute ESG credentials comparisons for similar types of instruments issued by different types of entities, different types of instruments issued by different issuers, as well as different types of instruments issued by a single entity.

Analytical Process
Analysis considers all available relevant information (ESG and financial), including the entity's ESG report. Fitch's ESG Rating Reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed.

Fitch's ESG Rating Process
A visual guide to our debt and entity analysis



Note: KPI - key performance indicator
Source: Sustainable Fitch

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds and business activities. In considering those aspects, the rating framework is inspired by major taxonomies (e.g. the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects). Once the analyst has completed the model, with commentary for the related ESG Ratings, it is submitted to the approval committee, which reviews the model for accuracy and consistency. ESG Ratings are monitored annually or more frequently if new information becomes available.

Use Cases
Sustainable Fitch's ESG Ratings can help inform decisions related to:

- Investment strategy
- Asset allocation and portfolio construction
- Benchmarking and index construction
- Risk management and stress testing
- Identification of transition bonds
- Disclosure and reporting.

Rating Scale and Definitions

	ESG Entity	ESG Instrument	ESG Framework
1	ESG ER of '1' indicates that the entity analysed evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '1' indicates that the debt instrument in the context of the ultimate issuing entity evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is excellent in terms of framework structure and proceeds destination.	ESG FR of '1' indicates that the framework for the instrument evidences an excellent ESG profile. Framework structure is excellent in terms of alignment with ambitious best practises and proceeds are dedicated to excellent environmental and/or social activities/projects according to taxonomies of reference.
2	ESG ER of '2' indicates that the entity analysed evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '2' indicates that the debt instrument in the context of the ultimate issuing entity evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is good in terms of framework structure and proceeds destination.	ESG FR of '2' indicates that the framework for the instrument evidences a good ESG profile. Framework structure is good in terms of alignment with ambitious best practises and proceeds are dedicated to good environmental and/or social activities/projects according to taxonomies of reference.
3	ESG ER of '3' indicates that the entity analysed evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '3' indicates that the debt instrument in the context of the ultimate issuing entity evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is average in terms of framework structure and proceeds destination.	ESG FR of '3' indicates that the framework for the instrument evidences an average ESG profile. Framework structure is average in terms of alignment with ambitious best practises and proceeds are dedicated to average environmental and/or social activities/projects according to taxonomies of reference.
4	ESG ER of '4' indicates that the entity analysed evidences a subaverage ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '4' indicates that the debt instrument in the context of the ultimate issuing entity evidences a sub-average ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is sub-average in terms of framework structure and proceeds destination.	ESG FR of '4' indicates that the framework for the instrument evidences a sub-average ESG profile. Framework structure is sub-average in terms of alignment with ambitious best practises and proceeds are dedicated to subaverage environmental and/or social activities/projects according to taxonomies of reference.
5	ESG ER of '5' indicates that the entity analysed evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '5' indicates that the debt instrument in the context of the ultimate issuing entity evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is poor in terms of framework structure and proceeds destination.	ESG FR of '5' indicates that the framework for the instrument evidences a poor ESG profile. Framework structure is poor in terms of alignment with ambitious best practises and proceeds are dedicated to poor environmental and/or social activities/projects according to taxonomies of reference.

Source: Sustainable Fitch

Solicitation

Status	Solicited
The Ratings were solicited and assigned or maintained by Sustainable Fitch at the request of the rated entity.	