KBC Group Sustainability framework

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1. VISION AND VALUES

1.1. Our corporate strategy

Our Corporate Strategy is based on four pillars:

- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim in that way to achieve sustainable and profitable growth.
- We take our responsibility towards society and local economies very seriously.

We are convinced that our strategy – powered by our business culture and the contributions made by our people – is instrumental in earning, keeping and growing trust day by day and therefore in helping us become **'the reference' in our core markets.**

1.2. Our corporate sustainability strategy

Sustainability is not part of a separate strategy, but is instead integrated into our overall corporate strategy and is thus embedded in the **four pillars of that strategy** and our day-to-day business activities.

Also supported by the long-term-strategy of our core shareholders, it is KBC Group's ambition to become an even more **sustainable and responsible** bank-insurance company.

Sustainability to KBC as a bank-insurer means that we are able to respond to the expectations of all involved stakeholders, not only today but also going forward.

In the first instance, it is therefore essential that we:

- are able to honour all our commitments without external support, and
- in so doing, maintain the trust of our clients, our investors, the authorities and supervisory bodies, our shareholders and our employees.

However, sustainability is only possible if we also maintain the trust of the society in which we operate, and therefore act as a responsible company by:

- being consistently conscious of the impact of our operations on society, and
- responding to societal needs and expectations in a balanced, relevant and transparent manner.

Based on our corporate strategy, but also considering the significant role we have to play in the local economies in our different core countries, it is not KBC's ambition to become a 'sustainability niche player'. This means that we will have to find the right balance at all times between business objectives and sustainability objectives.

We have translated our sustainability strategy into the following **cornerstones**:

As a bank-insurer, we want to increase the positive impact on society in those areas where we can make a difference through our everyday activities. Please find more information on www.kbc.com.
When carrying out all these activities, we want just as much to limit the possible adverse impact we have on society at large by implementing strict policies and sustainability guidelines, by reducing our own environmental footprint and by our approach towards Socially Responsible Investments ('SRI funds'). Find more information here.
All of our activities have to be performed in a sustainable and responsible way.

2. RESPONSIBLE BEHAVIOUR AND BUSINESS ETHICS

When carrying out our activities, it is evident we respect prevailing laws and regulations, but we also impose stringent rules on ourselves in terms of ethical behaviour, openness and transparency, discretion and privacy.

2.1. Responsible behaviour

Responsible behaviour is the basic layer of sustainability at KBC. In order to maintain and grow trust, it is of utmost importance that we behave responsibly in everything we do, at all layers of the organisation, each and every day. KBC therefore considers responsible behaviour as absolutely necessary to successfully implement an effective and credible sustainability strategy. This means that the mindset of all KBC-staff should go beyond regulation and compliance. As client centricity lies at the heart of our corporate reference strategy, we also specifically focus on responsible selling and providing responsible advice.

The basic principles are embedded into our Pearl values of Respect for our clients, colleagues, society and KBC itself, together with our Responsive and Result-driven spirit. The foundation of responsible behaviour is integrity, which entails honesty, correctness, transparency and confidentiality, combined with a sound risk awareness.

Special attention is being paid towards training and awareness. An internal programme is being set up relating to a number of areas, including professional integrity, providing suitable advice to the client and dilemma training.

2.2. Business ethics

We offer our banking and insurance services based on sound company values. In all our activities, we comply with all relevant rules and regulations and with corporate policies and guidelines that ensure ethical business. When carrying out our activities, we respect the relevant laws and regulations, but also impose stringent rules on ourselves in terms of ethical behaviour, openness and transparency, discretion and privacy. The Corporate Compliance Division ensures that guidelines are observed, information remains confidential and privacy is respected. All policies are reviewed on a regular basis and updated if necessary in order to always meet the changing environment, requirements and

regulations. For more information about our policies, guidelines and the Compliance Division, please visit www.kbc.com.

3. BOOSTING OUR POSITIVE IMPACT

Sustainability is not just about philanthropy and supporting local initiatives with sponsorship. Although these aspects continue to have great importance for KBC Group in its various home markets, its renewed Corporate Sustainability strategy seeks to go beyond this approach and create added value by:

- focusing on a number of genuine societal needs, and
- actively responding to these societal needs by developing business solutions in which only a bank-insurer can provide the elements that really make a difference.

Based on these criteria and taking into account the local context in our different home markets, the following sustainability-focus domains have been defined:

- On a KBC Group level in all home markets:
  - Environmental responsibility
  - Financial literacy
  - Stimulating entrepreneurship
- In Belgium and the Czech Republic:
  - Longevity
- In Hungary, Slovakia, Bulgaria and Ireland:
  - Health

Initiatives were already launched and KBC will continue working on other business solutions that contribute positively to these societal challenges. For specific examples, please refer to www.kbc.com.

Over the entire development process, new, innovative business solutions are checked against the Sustainability Framework, which allows us to launch sustainable products and services that meet clients' needs.

The focus domains are also inspired by the UN Sustainable Development Goals (SDGs), which set the global sustainable development priorities for 2030. More specifically, we want to focus our efforts on following specific SDGs:

- SDG on Health: SDG 3.6 (road safety, prevention and longevity);
- SDG on Energy: SDG 7.2 (renewable energy), SDG 7.3 (energy efficiency), SDG 7.4 (energy infrastructure and new technology);

- SDG on Entrepreneurship: SDG 8.3 (supporting start-ups), SDG 8.10 (strengthening financial services in the south);
- SDG on Innovation: SDG 9.3 (access of SMEs to financial services through micro-finance, specifically in the south);
- SDG on Climate Change: SDG 13 (direct and indirect footprint).

4. LIMITING OUR ADVERSE IMPACT

Generating sustainable, profitable growth and contributing to a more sustainable society go hand in hand. This means that, as a bank-insurer, we also seek to limit our adverse impact on society as much as feasible. We want to achieve this ambition by:

- Reducing our own environmental footprint.
- Applying strict sustainability policies to our business activities in respect of human rights, the environment, business ethics and sensitive/controversial societal issues. The recently updated and new KBC Sustainability Policies are set out elsewhere in this document. Please visit www.kbc.com for more details on all KBC policies.
- Offering a complete range of socially responsible investments.

4.1. Our commitment to the environment

Environmental Responsibility is one of the selected domains KBC wants to focus on in playing its role in society. Since climate change is one of the biggest global challenges for the 21st century, our main objective is to contribute to the transition to a low-carbon economy and society.

We are aware that we have an impact through our operations and businesses. To limit our direct and indirect impact on global warming, we started a group-wide programme:

- to reduce our own environmental footprint,
- to review the KBC Energy Credit Policy,
- to leverage the transition to a low carbon economy by taking initiatives in our various core business lines: supporting energy efficiency, renewable energy, sustainable mobility and the circular economy.

In the run-up to the Paris UN Conference on climate change (COP21) in December 2015, KBC Group emphasised this commitment by signing the 'Message from Belgian stakeholders in support of the COP21'.

Reducing KBC's own environmental footprint
KBC Group has committed to reducing its own GHG emissions by at least 20% by 2020 (relative to 2015). This target will be translated by each core country into local short-term action plans by the end of 2016. More information on our own environmental footprint and our targets please visit www.kbc.com.

Our indirect impact
According to the renewed KBC Energy Credit policy, KBC commits to increase its exposure to renewable energy and take firm positions regarding the financing of coal. For more details, please refer to the Energy section in this framework.

Initiatives in the different core business lines
Key to our renewed sustainability approach is the fact that KBC wants to offer core business solutions, i.e. lending, investments, insurance and advisory, to boost a low-carbon, circular economy. KBC wants to actively support energy efficiency, promote sustainable renewable energy, support sustainable, safe mobility and incentivise circular businesses. Some initiatives can be found on www.kbc.com.

4.2. Updated and new KBC sustainability policies

KBC Group recently took decisions regarding updated and new KBC Sustainability Policies. Please find below a general overview and summary of the sustainability policies for our operations.

4.2.1. Blacklisted companies and activities

Companies involved in controversial weapon systems (e.g. cluster bombs and biological or chemical weapons) and UN Global Compact Worst Offenders are included on the KBC Blacklist. No KBC group entity can engage in business transactions with these companies.

For KBC Group, speculative, soft commodity transactions are also blacklisted.

For more information about our Policy on Blacklisted Companies and activities please see www.kbc.com.

4.2.2. Human Rights

We have updated our Human Rights Policy in order to be in line with the UN Guiding Principles on Business and Human Rights and also taking into account the UN Global Compact Principles.

Human Rights Policy

KBC fully respects and supports and has fully implemented the principles underlying universal human rights throughout the group, including the right to equal opportunity and non-discrimination, the right to the security of persons, the rights of employees (including opposition to any forms of forced labour or child labour, the right to a safe, healthy workplace, the right to freedom of association and collective bargaining) and human rights (including opposition to bribery in any form whatsoever) and obligations with regard to consumer protection and environmental protection.

In this respect, KBC Group abides by the letter and the spirit of the United Nations Universal Declaration of Human Rights, the eight Fundamental International Labour Organisation Conventions for the Protection of Human Rights and Fundamental Freedoms and other international and regional human rights treaties containing internationally recognised standards that the business sector must abide by. KBC complies with the laws, rules and regulations of every country in which KBC Group operates.

KBC has signed the UN Global Compact Principles and implemented them in its policies to make sure it applies them in all its operations. KBC also follows the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. The UN Global Compact asks companies to embrace, support and, within their sphere of influence, enact a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. Therefore, in our client and supplier assessment, we take those principles into account.

Implementation

As a financial institution, KBC has a direct and an indirect impact on human rights. Therefore, we have implemented the KBC Human Rights Policy in relation to our core stakeholders, clients, suppliers and employees.

First, we expect our clients to comply with local and international laws and regulations. Our Compliance Department monitors compliance with these regulations in all our home markets. No commercial relationship will be maintained with companies failing to comply with local and international regulations.

KBC has also incorporated compliance with human rights in a number of policies. If of relevance, we ask our clients to demonstrate that they are compliant with other international industry standards (Free and prior informed consent, Roundtable on Sustainable Palm Oil, UN Global Compact principles, Extractive Industries Transparency Initiative, ICMM). Regarding international project finance for corporate clients, we apply the Equator Principles.

Based on external ESG assessments of the UN Global Compact Principles, we also apply restrictions in our core lending and insurance activities, as well as for our proprietary assets, with regard to companies whose adherence to these principles is subject to major controversy. The worst offenders are blacklisted: KBC Group Policy on Blacklisted Companies.

KBC fully commits to respecting and upholding the human rights of its employees. Employees are also expected to apply and respect the human rights standards when conducting business. Please see the KBC Code of Conduct for employees.

Suppliers are amongst our main stakeholders and we want them to integrate criteria in their purchase, sale and outsourcing procedures that reflect social, ethical and environmental concerns. Suppliers have to comply with the principles outlined in the KBC Sustainability Code of Conduct for Suppliers.

4.2.3. Controversial regimes

KBC Group does not want to be involved in financial activities with or related to the most controversial regimes (governments, public authorities, central and state-owned banks, and state-owned companies). These are regimes that fundamentally violate human rights, lack any form of good governance, rule of law or economic freedom. An exception is made for humanitarian goods.

Based on the input of well-recognised external sources, the Group Executive Committee decides each year what countries are to be included on the KBC list of controversial regimes.

4.2.4. Energy

KBC Group's support for the Paris COP21 Agreement is a general reflection of its broader ambition of contributing towards a low-carbon society by the following measures:

- KBC has the ambition of gradually increasing the share of renewables in the total KBC Energy Credit Portfolio to at least 50% by 2030 at the latest.
    - KBC supports renewable energy, such as hydro, solar and wind.
    - KBC abstains from financing biomass and biofuel activities, with the exception of small-scale biomass projects (processing waste materials from e.g. food industry or agriculture).
- KBC stops financing new, coal-fired electricity generation, including coal mining. Based on the current local energy mix, local government policies and KBC's responsibility towards its local economy and society, an exception will be made for local coal-based electricity production and coal mining in the Czech Republic, under strict conditions, including that:
    - only the best available Clean Coal Technology be used;

    - in line with the EU Energy Roadmap 2050, the share of credits to the coal sector in the total KBC Energy Credit Portfolio be reduced to 'zero' by no later than 2050;
    - current nominal exposure not be exceeded meanwhile and that it be gradually reduced to zero.
- KBC abstains from financing oil-based electricity production, both new and upgrades.
- KBC will continue to finance activities related to nuclear electricity generation under very strict conditions.
- For integrated energy companies, KBC will continue to provide finance, provided they raise no more than 50% of their turnover from coal-related activities or demonstrate they will become compliant within a short timeframe.

4.2.5. Arms-related activities

KBC is very reluctant to finance any kind of arms-related activities. As the armaments industry nevertheless remains a relevant factor in security issues, KBC imposes strict conditions on its financing of companies:

- with only very limited arms-related activities (development, production, sale, maintenance, etc. of arms or munitions equipment),
- additionally requiring that such weapons be delivered exclusively to NATO forces or NATO/OECD/EU police forces or like, and
- that it be clear that no deliveries be made to countries under a UN, EU or US embargo or to armed non-governmental groups without UN, EU or US support.

Nuclear weapons

Although there might be some arguments to consider nuclear arms as controversial due to their indiscriminate effect and the probability of civilian casualties, nuclear weapons have a different character than other controversial weapons: ownership, production and proliferation are heavily regulated and monitored by the international community and they are currently not fully banned by that international community.

For the production, development and maintenance of nuclear weapons, KBC applies additional restrictions alongside its standard restrictions:

- the nuclear weapons must be supplied exclusively to NATO forces and countries that have signed the Non-Proliferation Treaty; and
- the counterparty gives a written commitment to KBC that the credit will not be used for nuclear weapons-related activities.

Controversial weapons

For controversial weapons, please see our KBC Group Policy on Blacklisted Companies.

4.2.6. Project finance

KBC will not provide financing or advisory services to projects where the client is unwilling or unable to comply with the Equator Principles.

For more information on the adoption of the Equator Principles at KBC Group please visit www.kbc.com.

4.2.7. Other socially sensitive sectors

KBC has also set down restrictions on other socially sensitive sectors such as: intoxicating crops, gambling, fur, the production of palm oil, mining operations, deforestation, land acquisition and the involuntary resettlement of indigenous people and prostitution**.**

Intoxicating crops, gambling and fur

KBC rules out finance for companies with a relevant involvement in these activities. Moreover, in cases of a minor involvement in those sectors, KBC is only willing to consider granting finance provided the activities are legal and KBC can be credibly and reasonably assured that the finance will not be used for those specific activities.

Production of palm oil

Given concerns about the environmental impact of the production of palm oil, KBC is only willing to consider financing these activities where they comply with the Principles and Criteria set down by the Roundtable on Sustainable Palm Oil.

Mining operations

Given concerns about the environmental impact of mining operations, KBC is only willing to consider financing these activities:

- within KBC's home markets: provided they comply with the rules set down in European, national and/or local legislation;
- outside KBC's home markets: if the mine operates in a country that is compliant with the Extractive Industry Transparency Initiative (EITI) standards or with the ICMM Sustainable Development Framework.

Deforestation

Given concerns about the environmental impact of the exploitation of forests and production of raw lumber, KBC is only willing to consider financing these activities:

- within KBC's home markets: provided they comply with the rules set down in European, national and/or local legislation;
- outside KBC's home markets: if compliant with rules set down by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification(PEFC).

Land acquisition and the involuntary resettlement of indigenous people

Given concerns about the environmental and social impacts, in particular on the rights of indigenous people and the protection of cultural heritage, KBC is only willing to consider financing such land acquisition where it complies with the "Free and prior informed consent".
Only projects involving land acquisition of more than 1000 ha outside the OECD and EU are within the scope of this restriction.

Prostitution

KBC Group rules out the finance of any prostitution-related activities.

4.2.8. Scope of restrictions

The general policies in this section (KBC Blacklist, Human Rights, Controversial Regimes) will apply to the largest extent possible to all business units within the KBC group, also including our proprietary assets. The sector polices will apply group-wide to our relevant core business activities of lending (via the KBC Credit Risk Standards on Sustainable & Responsible Lending) and insurance (via the KBC Policy on Sustainable & Responsible Insurance).

4.3. A complete offer of socially responsible investments

For the last decade, KBC has been a pioneer and market leader in socially responsible investments (SRI funds). Offering clients a full range of SRI funds gives them an opportunity to invest in sustainable companies. This allows us, first, to limit some of our business's adverse impact on society and, second, to make a contribution towards a more sustainable society.

As client centricity lies at the centre of our corporate strategy, it is ultimately up to the clients to choose between SRI and non-SRI investments, but KBC will increase the focus on SRI investments, for instance by means of enhanced SRI training for the relevant relationship managers in the various sales networks.

For more detailed information on socially responsible investments, please visit www.kbc.com.

Proxy voting
KBC Asset Management has embraced its responsibility regarding the use of the voting rights of shares in which KBC Asset Management's investment products invest. These voting rights can be exercised at companies' general meetings of shareholders. KBC Asset Management has drawn up guidelines for exercising these voting rights in the interest of investors. For more information on these guidelines, please visit www.kbcam.be.

5. OUR PEOPLE

Our employees represent our 'human capital' and are one of the main drivers to creating value as a bank-insurer. By focusing on recruitment, management and development of our employees, we seek to give them the opportunity to make best possible use of their talent and experience and adapt to our fast-changing world. We encourage all our employees to behave in a way that is responsive, respectful and result-driven. It is our ambition to truly involve all staff in realising the sustainability ambition.

For more details on our approach, please visit the 'Our people' and 'Our people strategy' section of our corporate website.

6. STAKEHOLDER ENGAGEMENT

We engage with all of our stakeholders to define what is material to both our stakeholders and KBC and how we can create value. We use a variety of channels for open, transparent sustainability communication and dialogue with our stakeholders. They include the annual Report to Society, the Annual Integrated Report, the annual stakeholder debate hosted by the CEO and the Chairman of KBC Group, the CSR e-mail box, the corporate website and any other channels suitable for this purpose.

On regular basis, we conduct stakeholder surveys in all our countries in order to discover what it is that is important to our stakeholders and thus meet their expectations. The results from the questionnaire are published in a materiality matrix and used as guidance for new, future and existing projects.

For more information on stakeholder engagement at KBC Group, please visit www.kbc.com.

7. SUSTAINABILITY GOVERNANCE

Sustainability governance as driver for implementation of KBC's Group Sustainability Strategy

Driven by a renewed sustainability strategy, KBC has the ambition to embed sustainability into the strategic decision-making and core business operations throughout the entire Group. Therefore, aligned with our ambition, we adapted our Sustainability Governance model in 2015 as a key driver for implementing sustainability. The organisational structure is now anchored at different levels within the Group (Board level, Executive Management level, Group level and Business & Country level), ensuring that sustainability receives the highest level of attention and that it is integrated on a broad business basis. Alongside our internal organisation, we have set up external boards of experts to advise KBC in the different areas of sustainability.

The Corporate Sustainability Strategy is decided by the **KBC Group Executive Committee** and the **KBC Group Board of Directors**. The Group Executive Committee has the highest level of direct accountability for Sustainability within KBC Group and reports twice a year to the Board of Directors regarding KBC's approach to sustainability.

The **Corporate Sustainability Department,** a dedicated team that has been formally designated in line with the group's updated strategy as a Group Function since 2012, is headed up by the Corporate Sustainability General Manager and reports directly to the Group CEO. The team is responsible for the development of KBC's group-wide sustainability strategy and its deployment into the larger group. It also acts as the point of reference for sustainability in KBC Group and works together with partners across the group. The team monitors implementation of the strategy and periodically informs the Group Executive Committee and the Board of Directors on progress by means of a Corporate Sustainability Dashboard.

In 2015, we set up an **Internal Sustainability Board (ISB).** Chaired by the Group CEO, this board is composed of the senior managers of all business units and core countries and the Corporate Sustainability General Manager. The execution and implementation of the sustainability strategy and awareness-raising is organised under the guidance of the ISB so that the platform ensures effectual integration of the strategy within the various business domains and countries, together with the support of all the group's employees. As decided by the ISB, each country and business unit appoints a sponsor to make implementation of the four sustainability focus domains effective.

In the core countries and Ireland, dedicated **Local Sustainability Departments** support the Senior Managers of the Internal Sustainability Board to integrate the sustainability strategy within the different business areas and countries and to organise and communicate on local sustainability

initiatives. **CSR Committees**, established per country, deliver and validate non-financial data. Coordination between the Local Sustainability Departments within each country and with the Corporate Sustainability Department is managed via a KBC CSR Community.

An **External Sustainability Board (ESB)**, composed of academic experts, advises the Corporate Sustainability Department on the development of KBC policies.

An **SRI Advisory Board**, also composed of academic experts, acts as an independent body regarding SRI funds. The Board oversees the screening of the socially responsible nature of SRI funds offered by KBC Asset Management.

The **Sustainability Advisory Board (SAB)**, on which the Chairman of the Board of Directors and the KBC Group CEO both sit, is composed of external opinion leaders and sustainability experts and challenges and inspires KBC top management regarding its sustainability policies and initiatives.

KBC's governance structure now demonstrates a clear determination to turn KBC into a financial services group with strong, sustainable performance and able to reflect sustainability in its core business.

Overview of the Sustainability Governance Structure at KBC Group.