As part of its Sustainability commitments, KBC group applies strict ethical restrictions with regard to investments.

As a basic rule, KBC Group does not invest for its own account nor does it advise its clients to invest in financial instruments (shares, bonds and any other financial instrument) issued by “excluded counterparties”. Excluded counterparties are counterparties which either:

- are listed on the KBC Blacklist: these are companies involved in controversial weapon systems and companies considered “worst offenders of UN Global Compact Principles (UNGC)”; please refer to the KBC Group Policy on Blacklisted Companies for more details;
- are listed on the KBC Human Rights Offenders List; please refer to the KBC Group Policy on Human Rights for more details;
- are government and other public authorities within a country that is listed on the KBC Controversial Regimes List; please refer to the KBC Group Policy on Human Rights for more details;
- are in any way involved in the extraction of thermal coal and/or are power generation companies using thermal coal; thermal coal is coal used for power generation (as opposed to metallurgical coal – i.e. coal used for the production of steel – which remains out of scope of this policy restriction); one exception however applies:

KBC can advise its clients to invest in Green Bonds issued by counterparties involved in the extraction of thermal coal and/or are power generation companies using thermal coal, provided that the bond is:

1. fully compliant with the negative screening used for Responsible Investing Funds, with the exception of the Fossil Fuels Policy;
2. in accordance with the use of proceeds principles of the International Capital Market Association (ICMA);
3. verified by an reputed external review provider to assess, through a pre-issuance external review, whether the ESG Bond complies with the Principles of the ICMA;
4. labeled as a Green Bond according to the framework of Bloomberg.

Moreover, the bond issuer or its parent company must have committed to the phase out of the thermal coal related activities by 01/01/2030 (through a public statement or a commitment obtained through Engagement).
It is also understood that this exception does not apply to KBC’s own investments, to which the exclusion of counterparties involved in the extraction of thermal coal and/or are power generation companies using thermal coal remains fully applicable.

- have activities related to tobacco\(^1\); companies are excluded as soon as one of the following conditions is fulfilled:
  - a screening reveals that the company derives any revenue from the production of tobacco, or essential parts including filters, tobacco paper and flavors of e-cigarettes;
  - non-essential related products/services (such as packaging and processing machinery) account for more than 10% of revenues;
  - a retailer derives more than 5% of sales from tobacco product;
  - or the company has significant ownership of one of these (meaning any stake if we have zero tolerance or the stake is larger than 5% and consolidating the stake would lead to more than 5% of consolidated revenues from the sale of tobacco products).

KBC does also not want to be involved in the speculation on food prices. As a consequence, and in accordance with the KBC Group Soft Commodity Policy, KBC will not invest nor advise its clients to invest in financial instruments linked to livestock and food prices.

The above rules apply to:

- all investments done by KBC Group for its own account, through the group’s insurance companies or any other group entity;
- all investments advised by KBC Group to its clients, either on an advisory basis or based on a discretionary mandate; this includes both direct investments in financial instruments issued by excluded counterparties and indirect investments, either via investment funds managed by KBC Asset Management or via funds managed by third parties.

Additional exclusions apply to KBC’s Responsible investment funds. More details on these exclusions can be found here. Most of these exclusions also apply to investments done by KBC Group for its own account, including counterparties with a significant involvement in activities related to:

- conventional weapons;
- other fossil fuels than thermal coal;
- gambling;
- palm oil;

\(^1\) On 26 March 2019, KBC announced it had signed the Tobacco-Free Finance Pledge, initiated by the international organization Tobacco Free Portfolios, which has been calling on financial institutions worldwide since 2018 to divest from the tobacco industry.
– adult entertainment;
– fur and specialty leather.

However, investments in financial instruments falling under one of the exclusions as mentioned remain possible in the following cases:

- execution only: transactions in financial instruments of excluded counterparties made on the initiative of the client; “transactions” in this sense means “execution only” of client buy and sell orders in financial instruments issued by excluded counterparties or the keeping of such positions in client securities accounts;
- index-linked investments funds: investment funds whose investment policy in accordance with their statutes or administrative regulations, aims to follow the composition of a particular stock or bond index; only KBC Asset Management can define which index-linked investments funds are allowed;
- structured funds: structured funds will comply at launch with the KBC Blacklist, the KBC Human Rights Offenders List, the KBC Controversial Regimes List and other exclusions as mentioned; however during the lifetime of the product the composition of the basket will not reflect changes in the KBC Group Investment Policy; yet structured products will not include new shares resulting from a corporate action if in the meantime the related company has been excluded based on the KBC Group Investment Policy.
- hedge funds and institutional mandates: it will not be possible to enforce a list of excluded counterparties to hedge funds or to institutional mandates.

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2 As of 1 March 2019, KBC Asset Management has become a signatory to the “Open letter to global index providers”, initiated by Swiss Sustainable Finance and asking global index providers to exclude controversial weapons from mainstream indices. For more information, please refer to www.sustainablefinance.ch