



Mr Johan Frijns
Director
BankTrack
By email to johan@banktrack.org
and daisy@banktrack.org

26 August 2019

Dear Mr Frijns,

Thank for your letter dated 29 July 2019 and your interest in KBC 's implementation plan for the Principles for Responsible Banking (PRBs).

As you indeed mention, KBC Group was among the first to endorse the UNEP FI's PRBs back in December 2018, also committing to becoming a Signatory of these Principles, and we were the first and - so far – the only Belgian financial institution to do so.

The Principles are familiar territory to us. As a matter of fact, they clearly reflect the key elements of our own, well-established vision on sustainability, which we have been developing, communicating, implementing and improving for several years now. Therefore, and given the urgency of the recognized need to transform the business world, we have not waited to start implementing aspects of the Principles only after endorsing or signing up to them, quite the contrary we recognize many aspects of these principles in the progress KBC has made in recent years on its own Sustainability pathway.

At KBC, we – like many of our peers– play a key role in the economies and social fabric of the countries where we are active. Our approach to sustainability is fully embedded and deeply grounded in our corporate strategy, as well as in our day-to-day business activities. To facilitate this, we have adopted far-reaching, group-wide sustainability policies and guidelines that reflect today's major ethical shift towards responsible and sustainable finance. Therefore, committing to the UNEP FI's Principles is a logical consequence of KBC's well-established sustainability strategy.

But let us assure you, we aim for continuous progression and the PRBs will undoubtedly help KBC to further analyse and define priority areas for future work, keeping us on course with our ambition of making sustainable finance work.

Hereunder, we address BankTrack's questions on how KBC Group is implementing the PRBs. As we have tried to keep our answers concise, we would like to refer as well to the KBC Sustainability Report 2018 on our Corporate website, where you can find more detailed information and which describes how we address corporate sustainability, how we implement our sustainability strategy, the policies and guidelines we observe, the targets we have set ourselves and our main achievements.
https://www.kbc.com/en/system/files/doc/sustainabilityreponsability/PerfRep/2018/CSR_SR_2018_en.pdf

Your sincerely,

Vic Van de Moortel
General Manager Corporate Sustainability KBC Group

BankTrack's QUESTIONS ON HOW OUR BANK IS IMPLEMENTING THE PRBS

1. Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

- a. Can you explain briefly what **concrete steps** your bank will take to 'align your business strategy to be consistent with and contribute to society's goals, as expressed in the Paris Climate Agreement'?
- b. What **concrete consequences** will adopting this principle have for your current and future involvement in the fossil fuel industry (coal, oil and gas)?

KBC already committed earlier to align its policy guidelines and business approach with the goals of the Paris Climate Agreement. In a first phase, it will therefore contribute actively, in collaboration with third parties, to the development of scientifically underpinned methodologies for identifying the indirect carbon impact of its core activities as a bank, insurer and asset manager. Only when such methods are in place will KBC be able to measure its indirect impact, draw up targets and report on its plans for and progress in realizing those targets.

Pending that, KBC has already taken firm action and implemented specific policies that are contributing significantly to the achievement of the Paris climate goals, including policies related to the fossil fuel industry:

- KBC's sector policy for loans and insurance for the energy sector was significantly tightened once again in 2018, while also extending the policy to all the capital-market advice it provides to its customers:
 - Coal and unconventional oil and gas: a specific policy towards energy sources with the greatest negative impact on the environment:
 - Exclusion of unconventional oil and gas, including shale oil, shale gas and tar sand.
 - Exclusion of all new coal-related activities, including mining and coal-fired power generation.
 - Phasing out of all existing coal exposure to zero by 2023.
 - In consultation with local environmental organizations, the funding of coal-fired central district-heating systems in the Czech Republic will be limited solely to ecological improvements and phased out entirely by 2035.
 - Reduction in the coal-fired power-generating capacity of integrated energy companies to a maximum of 25% of the total capacity by 2023.
 - Oil and gas:
 - Exclusion of new oil-fired power generation, including upgrades.
 - Exclusion of specialist companies active in the extraction and development of new oil and gas fields.
- All socially responsible investments at KBC are fossil-free since the end of 2017 and are promoted more firmly.
- KBC has set concrete targets for renewable energy credits.
- KBC has adopted ambitious goals for reducing its direct ecological footprint.
- KBC supports customers with sustainable business solutions during their energy transition.

Through these commitments, policies and specific actions, KBC is contributing in a relevant, realistic and credible way to the transition to a low-carbon economy

2. Impact & Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

- a. Which **positive and negative impacts** of your business operations has your bank already identified?
- b. Which **concrete targets** have you already formulated to reduce your negative impact, and where possible increase your positive impact?

The PRBs as explained clearly reflect the key elements of our own, well-established vision on sustainability, which we have been developing, communicating, implementing and improving for several years now. That strategy is built on three cornerstones: limiting any adverse impact we might have on society and the environment; increasing our own positive impact; and ensuring all our employees behave in a responsible manner.

We have already set firm targets on sustainability and have developed a tradition over the years of communicating openly and transparently to all our stakeholders about sustainability. Please find an overview of our non-financial environmental targets:

Indicator	Goal	2018	2017
Share of renewables in total energy credit portfolio	Minimum 50% by 2030	43.8%	41.1%
Financing of coal-related activities	Immediate stop of coal-related activities and gradual exit in the Czech Republic by 2023	34m EUR exposure	86m EUR exposure
Total GHG emissions (excluding commuter travel)	25% reduction by 2020 relative to 2015, both absolute and per FTE Long term target for a 50%-decrease by 2030	-37.58% (absolute) -36.64% (per FTE)	-28.9% (absolute) -28.1% (per FTE)
ISO 14001-certified environmental management system	ISO 14001 certification in all core countries at the end of 2017	All 6 core countries certified	Belgium, Slovakia, Hungary and Bulgaria
Business solutions in each of the focus domains	Develop sustainable banking and insurance products and services to meet a range of social and environmental challenges	See Sustainability & Annual Report 2018	For examples: see Sustainability & Annual Report 2017
Volume of SRI funds	10 billion EUR by end 2020	9 billion EUR	7.1 billion EUR
Awareness of SRI among both our staff and clients	Increase awareness and knowledge of SRI	100% awareness among Belgian sales teams through e-learning courses	Progress in line with target

As mentioned above (sub 1), we are further working on the development of methodologies for identifying the indirect carbon impact of our core activities and only when such methods will be in place, we will be able to measure indirect impact and draw up subsequent targets.

3. Clients & Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

- a. Which **specific clients or business sectors** have you already identified as priority for engagement on encouraging sustainable practices?
- b. What **specific procedures** does your bank have in place for identifying, issuing sanctions to, or divesting from clients whose operations continue to be unsustainable or damage prosperity for current and future generations?

- **KBC Sustainability policies**

We apply strict sustainability policies to our business activities in respect of human rights, the environment, business ethics and sensitive/controversial societal issues (such as arms-related activities, energy sector, tobacco, mining, palm oil sectors,..).

Compliance with KBC sustainability policies is monitored through an active internal screening of our lending, insurance and investment operations for the correct application of our sustainability policies.

Remedy and mitigation: we have established the following mitigation actions if breaches are identified:

- Zero tolerance for blacklisted companies in all our business activities.
- Exclusion of companies that are not compliant with the UN Global Compact Principles, as assessed by an external ESG assessor, for loans, insurance and proprietary assets.
- After due diligence by KBC and in dialogue with the parties concerned, an exit strategy or specific conditions will be applied to any existing credit or insurance relationships and advisory services provided, and new requests will be rejected.

- **Sustainable business solutions**

KBC has determined focus domains to support its clients with relevant products and services, part of which is the focus on environmental responsibility and climate change to support customers in the energy transition. KBC facilitates and finances energy-saving investments by its customers a.o. via:

- the setup of a program for identifying and considering potential energy-saving measures for energy-intensive businesses
- funding of ESCOs (energy service companies) and alliances in the area of energy-saving for corporate customers.
- online modules for measuring the carbon impact of renovation investments and providing energy-saving renovation advice for retail customers.
- financing of the renewable energy sector (cf. our environmental targets)

- **Sustainable investments**

We view the field of sustainable investment as another powerful tool to engage and help achieve a more sustainable society. We want to give our clients the opportunity to invest in sustainable companies and countries that recognize their social and environmental responsibility. We put a stronger focus on sustainable investment, enabling customers to choose fossil-free investment and savings products. We develop new sustainable investment solutions for different customer profiles, including the launch of an innovative, socially responsible pension savings product. We have set clear targets for the increase of SRI funds, please refer above sub 2.

4. Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

- a. Which **concrete stakeholders** (names) have you engaged with until now when implementing the PRBs in your bank?
- b. As we consider ourselves a prime stakeholder with a sincere interest in your PRB implementation process, with **who** (name, contact details) should we be in contact within your bank to follow this process?

Given the PRBs reflect the key elements of our own, well-established vision on sustainability, their implementation will be integrated into our existing sustainability strategy and Stakeholder engagement approach, which is described in detail in the KBC Sustainability Report (page 38).

As Sustainability means to us that we are able to respond to the expectations of all our stakeholders, not only today but also going forward, we can only fully live up to KBC's importance in society if we maintain a dialogue with our stakeholders. We maintain regular contact at various levels with a diverse group of stakeholders: our clients, our employees, our investors and our suppliers, but also governments, NGOs and representatives of society. Please find an overview of our engagement and dialogue with our different Stakeholders groups on page 38 of the KBC Sustainability Report. We specifically want to point out on the annual Stakeholder dialogue we organise for NGO's and other societal stakeholders.

For BankTrack, your contact is the KBC General Manager Corporate Sustainability and its Sustainability team.



As from September 1st 2019, the GM responsibility will be taken over from Vic Van de Moortel by Hans Declercq.

5. Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

- a. Which **board members** have been assigned to oversee the proper implementation of the PRBs within your bank?
- b. Which **section/unit of your organisation** has been tasked with ensuring the proper implementation of the PRBs within your bank?

As the PRBs will be anchored in KBC's Sustainability strategy, we can refer to our existing Sustainability Governance (see KBC Sustainability Report page 16). The Group Executive Committee has the highest level with direct accountability for sustainability. The Corporate Sustainability Department is responsible for developing the sustainability strategy and implementing it across the group, and reports directly to the Group CEO. The Sustainable Finance Program manager is part of this Sustainability Department and reports to the Corporate Sustainability General Manager.

6. Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

- a. What **reporting format** have you developed to review and report on your implementation of the PRBs?
- b. What **concrete procedure** have you put in place to allow stakeholders to engage with you on your implementation of the PRBs, or file a complaint in case of apparent non-delivery on the public commitments made by your bank?

KBC annually reports on its sustainability approach, targets and results in its Annual Report and Sustainability Report.

The PRB-reporting will be integrated into our existing sustainability reporting formats.

For Stakeholder engagement on the PRBs, we refer above sub 4 and the relevant information in the KBC Sustainability Report.