

KBC Group

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To the attention of Mrs Jeanne Martin, Senior Campaign Manager

Brussels, August 12th, 2021

Dear Mrs Martin,

We received your letter dated July 5th, 2021 which was addressed to our Group CEO. We thank you for your interest in KBC Group in general and in our sustainability strategy in particular. Prior to answering the questions raised in your letter one-by-one, please allow us to first give you a general overview of our approach on both *climate* and *biodiversity*.

Regarding *climate*, KBC fully supports the Paris Agreement and the goal to limit global warming to well-below 2°C – striving for 1.5°C – as we are convinced that taking climate action and striving towards climate-neutrality are pivotal societal objectives for the years to come.

In September 2019 already, KBC strengthened its climate commitment by signing the UN-initiative **Collective Commitment to Climate Action** (“CCCA”). This has led to the initiation of our Sustainable Finance Programme (“SFP”), which focuses on the three commitments included in the CCCA:

- (1) take concrete action to reduce exposure to carbon-intensive and climate-sensitive sectors,
- (2) translate the well-below 2°C – striving for 1.5°C - target into concrete objectives per sector, based on scientific scenarios by the end of 2022, and
- (3) use client relationships, products and services to stimulate the economic transition and hence to boost the greening of our economy and society.

Under this programme, we bring together all relevant climate expertise within our group and amongst other draw up white papers on the impact and exposure relating to the most material

industry sectors and some important products such as mortgages and car loans. These white papers contain our concrete strategies to mitigate the risks both for our clients as well as for ourselves, to support our clients in relevant and necessary transitions and to grasp the opportunities related to climate change. They gradually translate into specific metrics and targets as well as policy changes.

KBC also acknowledges the importance of *biodiversity*. Nature is an important supplier of resources to many different economic sectors and offers essential services such as purification of water, flood protection, pollination and carbon sequestration. For KBC, conservation and the sustainable use of biodiversity are preconditions for sustainable development.

KBC therefore committed itself to reduce its direct and indirect impact on biodiversity and to increase its contribution to the sustainable use and management of biodiversity. A **comprehensive policy on biodiversity** was introduced in 2020.

As you are certainly aware, the European Commission and various European regulators are also preparing climate and environmental related regulations and guidelines. It is KBC's full intention to gradually comply with these guidelines and to ensure that we embark on the necessary risks, data gathering and opportunities development programme to ensure such compliance.

Last but not least, we at KBC believe that a **solid governance structure** is needed to ensure appropriate actions are decided and implemented when it comes to items such as climate and biodiversity. We note in particular that decision-making power on sustainability and climate-related issues has been granted by the Executive Committee to the Internal Sustainability Board, in which all our core countries are represented and which is chaired by the Group CEO. The progress of our SFP is overseen by a steering committee chaired by the Group CFO. All core countries have further nominated a Corporate Sustainability Country Coordinator to coordinate all sustainability matters and implementation within each core country. Via the KBC Sustainability Dashboard, we report twice a year to the KBC Board of Directors. As the Board of Directors has determined climate action failure as a top risk for KBC Group, the Risk and Compliance Committee follows up on sustainability-related risks very closely. In addition to our internal organization, we have set up **external advisory boards** to advise KBC on various aspects of sustainability. They consist of experts mainly from the academic world. The External Sustainability Board advises on KBC sustainability policies and strategy. The SRI Advisory Board acts as an independent body for our SRI funds and oversees screening of the social responsible character of the SRI funds offered by KBC Asset Management.

Following the above high level overview, we will now answer your specific questions and comment on some of the points you raise.

1. "Publish short-term (5-10 years) climate-related targets covering all relevant financial services ahead of your 2022 AGM"

Please note that **KBC has already defined a set of non-financial targets, most of which are climate-related**. These targets have been repeatedly strengthened over the years. For example, in 2020, we increased the targets for our portfolio of socially responsible investment ("SRI") funds and renewable energy loans as well as for our own green electricity use and the reduction of greenhouse gas emissions coming from our own operations. More details on these targets are available on page 9 of our [2020 Sustainability Report](#). A short introduction presentation to this report for investors can also be found on our [corporate website](#).

That being said, we are fully aware that as a signatory to the CCCA, we committed to define more detailed, wider and ambitious climate-related long-term non-financial targets as well as to report transparently on our climate strategy, actions and progress. These commitments are embedded in the mission of the SFP, which we already briefly described. Specifically, we engaged to set and publish by September 2022 (i.e. ahead of our 2022 AGM in April 2023) sector-specific, scenario-based targets for portfolio alignment. We had further committed – within 12 months of signing – to publish and implement a set of measures to support and accelerate the shift towards low carbon, climate-resilient technologies, business models and societies. More details on the initiatives taken by KBC so far can also be found in the [CCCA's first progress report by the United Nations Environment Programme - Finance Initiative](#), which was published in December 2020.

The focus will be on our core business lines in lending, insurance and advisory services, to adjust them in line with the Paris Agreement goals, by analysing the most carbon-intensive sectors of our business portfolios and product lines and establishing related sector policies which integrate climate-related risks, opportunities, metrics and targets. Based on their CO₂ emission level and their materiality for our business portfolio, the sectors and business lines that were identified are energy, commercial real estate, mortgage loans, car loans, car leasing, agriculture, food production, building & construction, metals, chemicals and transportation. Next to further restrictions on coal (see point 3) a first tangible result of this process will be new restrictions on the exploration of new oil and gas fields, which we are currently preparing internally and expect to publicly announced before year-end 2021.

2. “Integrate the findings of the IEA Net-Zero scenario and/or another 1.5C scenario with low overshoot and minimal reliance on Negative Emission Technologies into your climate strategy”

Up till now, KBC did not join the Net-Zero Banking Alliance (“NZBA”), as we consider that the actual commitments that it entails need to be further specified and/or analysed first.

However, as mentioned, we signed the CCCA back in September 2019 and since then the CCCA – which entails a commitment to the limit global warming to well-below 2.0°C, striving for 1.5°C – has been the basis for all processes launched under the SFP. The guidelines for target setting, which should be science-based, are equal for CCCA signatories as for signatories of the NZBA. We are currently selecting suitable target scenarios, in order to be able to set concrete sector-specific targets by September 2022, as requested by the CCCA.

3. “Phase out from coal by 2030 in OECD countries and by 2040 in non-OECD countries at the latest”

We committed to reduce our direct credit exposure on coal projects to zero by the end of 2021 at the latest and to completely phase out coal by 2030. The first objective was already reached last June, as recently announced – [2Q2021 press release](#).

Please note that KBC had already started to reduce its direct exposure to the thermal coal related sector (mining as well as energy generation) as of 2016. As per 30th of June 2021, this full reduction was achieved - 6 months ahead of schedule- and we estimate that we have reduced the related financing of CO₂ emissions by approximately 6 million tons over the course of the last 5 years - equivalent to the emissions of about 5,400 flights between Brussels and New York. At the same time we are continuing our efforts to strongly support

investments in green energy infrastructure and last quarter we saw important new project financing transactions such as the first Belgian subsidy-free wind turbines in Ghent which KBC has financed on a bilateral basis. Such new transactions clearly support our target that aims at expanding our share of renewables to 65 % of the total energy portfolio by 2030.

In July 2020 and April 2021 we further tightened our already far-reaching policy on coal, which is part of our [Group Energy Policy](#). While any direct financing of thermal coal projects (power plants, mines etc) has been excluded for a number of years now (see above), this exclusion has now been extended to all financing (including general corporate loans) of *existing* clients with any thermal coal-based capacity (even when used only for their own operations), unless they provide a detailed plan on how they will completely phase out coal by 2030 and they commit not to add any new coal-based capacity until then. Specifically for energy companies, we also request that their current coal-based production capacity does not exceed 25%. *New* clients with any coal-based capacity are always excluded from financing. Finally, transactions related to the supply of essential equipment or services to coal-based plants or coal mines are also excluded from financing. Similar rules apply to insurance activities and advisory services.

Moreover, since March 2021, our [Group Investment Policy](#) excludes companies which are in any way involved in the extraction of thermal coal or are power generation companies which have a coal-based electricity production capacity of more than 25% from all of KBC's investment activities. This includes asset management activities (both SRI and non-SRI funds) as well as the group's proprietary investments.

We therefore believe that our policies on coal fully comply with the set of conditions described in your letter.

4. “Ensure your financial statements are drawn up in alignment with a 1.5C-pathway”

KBC is convinced that material climate risks should be fully reflected in the company accounts and has therefore incorporated climate-related risks and ESG risks in general in the overall risk management of the group. ESG risks are covered by the KBC Enterprise Risk Management Framework which defines our overall approach to risk management and sets our groupwide standards in this area. The management of climate risks, for which, following the recommendations of the **Taskforce on Climate-Related Financial Disclosures** (“TCFD”), we differentiate between transition risks and physical risks, is embedded in the existing risk governance. This lies at the heart of the SFP, where a.o. Group Risk is part of the core team. Tools and methodologies are also being developed in order to strengthen our ability to measure and analyse climate-related risks.

More details on how we manage climate risks can be found on pages 62 to 65 of our [2020 Sustainability Report](#), on pages 123 to 126 of our [2020 Annual Report](#) and on pages 139 to 145 of our [2020 Risk Report](#).

5. “Commit to protect and restore biodiversity”

We fully subscribe the statement in your letter that “banks, through their financing decisions and client selection, play an essential role in incentivising the protection and restoration of biodiversity, as well as mitigating and preventing the major drivers of nature loss.”

While as of today we did not take on any formal external commitment yet, we closely monitor initiatives such as the Finance for Biodiversity Pledge. This already triggered some policy changes, such as the introduction of a comprehensive [Group Biodiversity Policy](#), covering areas such as forests, protected areas and endangered and invasive species, or certain crops such as soy, palm oil and cocoa. With regard to project finance, KBC abides by the Equator Principles, which cover biodiversity-linked aspects as well. And finally, our policy also includes protections of the rights of indigenous people, as KBC is only willing to consider the financing of land acquisition outside the EU and OECD if the transaction is compliant with the Free and Prior Informed Consent principle (“FPIC”), as outlined on page 15 of our [Group Sustainability Framework](#).

Finally, and although we believe that specific commitments on biodiversity might become necessary, we think that biodiversity and climate risks are closely interrelated and that as a consequence some actions taken regarding climate change will also benefit biodiversity and vice-versa. One example is to encourage the recycling of plastic, which helps to reduce both plastic waste and CO₂ emissions linked to the production of plastic. Another example is fighting deforestation, which prevents both the destruction of habitats and the reduction of carbon sequestration capacity.

We hope that this response will have helped you to have a better understanding of KBC’s initiatives regarding both climate and biodiversity. Full details are available in our [2020 Sustainability Report](#). The public commitments that we have taken on so far are triggering intense internal action and we believe you will see that KBC will continue to strengthen its approach towards these important topics in the years to come. Please do not hesitate to contact us in case you would have further questions.

Yours sincerely,



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