Advisory approach to investments at your KBC Insurance agent (savings-linked and investment-type insurance products)

Introduction

In this information document, we offer you an overview of how the advice provided on savings-linked and investment-type insurance products by your KBC Insurance agent meets the insurance distribution directive, what that means to you as a customer, and precisely what you can expect from your KBC Insurance agent and when.

We also explain how your KBC Insurance agent integrates sustainability risks and adverse impacts on sustainability factors in their advice on guaranteed-interest life insurance (class 21) products (savings insurance and second pillar pension savings products) as well as unit-linked life insurance (class 23) products.

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For which investment products can you go to your KBC Insurance agent for advice?

Your KBC Insurance agent, as a tied agent of KBC Insurance, only provides advice on savings and investment products offered by KBC Insurance. The main benefit of this approach is that they only provide advice on products they know well. More specifically, you can turn to your KBC Insurance agent for unit-linked life insurance (class 23) and guaranteed-interest life insurance (class 21) products.

What data does your KBC Insurance agent use when providing advice with regard to savings-linked and investment-type insurance products?

Your KBC Insurance agent is required to gather all the necessary information about you that enables them to provide you with suitable advice. This is done in various ways.

- The investment profile is used to obtain information about:
    - Your investment objectives (whether you want to preserve your money or put it to work)
    - Your risk appetite and risk preference
    - Your financial situation
    - Your investment horizon (how long you can spare the money you want to invest)
    - Your sustainability preferences regarding investments
- The agent assesses your knowledge and experience with the help of a product knowledge and experience test.
- Your agent sounds out your wishes and requirements each time they offer a new insurance contract.
- The agent considers your financial capacity and ability to bear losses in their advice. They also assess your financial buffer and financial plans.

What does product advice from your KBC Insurance agent consist of?

The advice your KBC Insurance agent will provide you on savings-linked and investment-type insurance products always takes the form of product advice. Product advice consists of the following:

- Advice in line with your investment profile and your personal sustainability preferences for investing
- Evaluation of your level of knowledge and experience
- Summary of the analysis of your wishes and requirements
- Summary of the advice and checks in an 'overview of advice'
- Advice according to product approach: whenever advice is provided, the risks are considered for the individual investment
- Buying and selling advice if you request it or on the agent's initiative (for example, based on market trends, suitability for the customer or when an existing investment matures)
- General explanation of the charges associated with the investment, prior to the transaction
- A personalised yearly overview of your investments and transactions through the annual account statements
- No periodic assessment of the suitability of your investments

How your KBC Insurance agent integrates sustainability risks and takes due account of the principal adverse impacts on sustainability factors in their advice

Sustainability or ESG has never been more topical. ESG stands for 'Environmental, Social and Governance' and covers a number of areas, including climate, energy use, availability of raw materials, health, security, human rights, labour laws and corporate governance. KBC has updated its business strategy to pursue sustainability in all the activities it conducts as a bank-insurer. Our sustainability policy is firmly embedded in KBC's wider business strategy.

KBC Insurance aims to systematically expand the range of responsible savings-linked and investment-type insurance products as well as second pillar pension products. Sustainability is therefore an important theme in the advice with regard to these products. Your KBC Insurance agent also considers the potential adverse impact of sustainability risks in the selection of the products they provide advice on.

What are sustainability risks? These are environmental, social or governance situations and events that, if they were to occur, could have a negative impact on the value of the product. The nature of these risks varies over time:

- A short-term sustainability risk usually depends on a particular event. Such risks generally only affect the value of the investment when the event occurs. For example, an incident that leads to a lawsuit seeking compensation for environmental damage, court cases and fines for failing to comply with social legislation, scandals such as when a company gets bad publicity because human rights are not upheld throughout the production chain or because the products do not meet the ESG standards it promises. Those types of sustainability risk are estimated to be higher when an issuer is less strict in respecting ESG standards
- A long-term sustainability risk refers to risks that may develop over the longer term, such as:
  - Business activities that may come under pressure as a result of climate change (for example, parts of the automobile industry)
  - Changing customer product preferences (for example, preference for more sustainable products)
  - Difficulties with recruiting staff
  - Rising costs (for example, insurance companies facing claims due to changing weather conditions)

  As this risk develops over the long term, companies may try to limit it by, for example, changing their product range, improving their production chain, etc. However, not all companies have the same ability to adapt their activities, which means that some are more exposed to sustainability risks than others. Therefore, the sustainability risk, for example, is partly related to the specific investment policy of a unit-linked life insurance (class 23) fund

In their advice, your KBC Insurance agent also considers the principal adverse impacts on sustainability factors by considering the principal adverse impacts ('PAI'), as described in the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ('SFDR'). By sustainability factors, we mean environmental, social and employment matters, respect for human rights and the fight against corruption as well as bribery. They do this by carefully selecting the products they provide advice on.

KBC Insurance considers the sustainability risks and the principal adverse impacts on sustainability factors in its range of products, and that is reflected in the advice provided by the KBC Insurance agent:

- Advice is provided on responsible unit-linked (class 23) funds (Responsible Investing). Those funds, which are managed by KBC Asset Management NV, are characterised by a positive selection, which combines portfolio objectives and support for sustainable development. More information on the positive selection methodology and the specific targets for responsible unit-linked life insurance (class 23) funds can be found at www.kbc.be/investment-legal-documents > Investment policy for Responsible Investing funds.
- Advice is given on responsible guaranteed-interest life insurance (class 21) products as well as pension products (second pillar). The underlying investments for these products that are managed by KBC Asset Management NV, are characterised by a positive selection. which combines portfolio objectives and support for sustainable development. More information on the positive selection methodology and the specific objectives of guaranteed-interest life insurance (class 21) products and pension products (second pillar) and can be found at www.kbc.be/documentation > Investment policy for responsible life insurance (Class 21) products
- KBC Insurance also applies exclusions to the underlying investments. In the first instance, KBC group's exclusion policy is applied in the investment policy. The exclusion policy stipulates that no investments may be made in companies that are involved in the tobacco, thermal coal and controversial weapons industries, in companies that seriously contravene the principles of the UN Global Compact or in futures contracts on agricultural commodities. These are not invested in. This means that all guaranteed-interest life insurance (class 21) products (savings-linked insurance products and second pillar pension savings products) as well as unit-linked life insurance (class 23) products that your agent provides advice on do not make underlying investments in blacklisted companies either. More specific information about these exclusions can be found at www.kbc.com > Corporate Sustainability > Setting rules and policies > KBC Group Investment Policy, or by using the search term 'KBC Group Investment Policy'

In addition, KBC Insurance also considers the following in its investment policy:

- A general exclusion policy applicable to guaranteed-interest life insurance (class 21) products (savings insurance and second pillar pension products) as well as unit-linked life insurance (class 23) funds. Through this policy, most of the exclusion criteria included in the 'Exclusion policies for responsible investment funds' are applied to the new investments. The additional exclusions cover conventional weapons, fossil fuels other than thermal coal, gambling, palm oil, adult entertainment and fur and specialty leather. Further information on these additional exclusion criteria can be found at www.kbc.be/investment-legal-documents > General exclusion policy for conventional and Responsible Investing funds.
- A specific exclusion policy for responsible guaranteed-interest life insurance (class 21) products (savings insurance and second pillar pension products) as well as responsible unit-linked (class 23) funds. That policy goes beyond the general exclusion policy. Specific attention is paid to weapons, fossil fuels, gambling, adult entertainment, fur and speciality leathers, palm oil and controversial regimes. Further information on these additional exclusion criteria can be found in the exclusion policies for responsible investment funds at www.kbc.be/investment-legal-documents > Exclusion policies for responsible investment funds

Lastly, a number of the principal adverse impacts are implicitly considered through the Proxy Voting and Engagement Policy. As part of its commitment to long-term sustainable investments, KBC Insurance has mandated KBC Asset Management NV to exercise voting rights on shares on behalf of KBC Insurance. Under the Proxy Voting and Engagement Policy, KBC Asset Management NV votes in shareholder meetings and actively communicates with companies, because KBC Asset Management NV firmly believes that active share ownership can have a positive influence on its investee companies in the medium and long term. For further information, see Proxy Voting and Engagement Policy: (kbcgroup.eu) and the Statement on the Principal Adverse Impacts on Sustainability.

More information on how KBC Insurance considers sustainability risks and the principal adverse impacts on sustainability factors can be found at www.kbc.be/investment-legal-documents > Transparency on sustainability risks and adverse impacts on sustainability.

Unless stated otherwise in the pre-contractual documents, KBC Insurance considers that the likely impact of long-term sustainability risks will be low on the value of the financial products it makes available because of the above exclusion criteria. Consequently, this is considered by the KBC Insurance agent in their advice.

Responsible funds that your agent provides advice on have the Towards Sustainability Label[1], or an application process for this label is pending. This label is an initiative of Febelfin. Funds that have been awarded this label:

- Have a clear sustainability strategy in place
- Exclude very harmful companies or activities
- Pursue a transparent policy in relation to socially questionable practices (for instance, nuclear energy, tax evasion, the death penalty)

See www.towardssustainability.be/en/quality-standard for more details.

[1] The label, which was developed by Febelfin (the Belgian banking federation), is re-evaluated every year. It is a quality standard under the supervision of the Central Labelling Agency of the Belgian SRI Label (CLA). The standard defines several minimum requirements that sustainable financial products must meet at product level and in the investment process.
Products that are awarded this label may not meet your own sustainability objectives and the label itself may not necessarily meet the requirements of future national or European regulations. Learn more at www.fsma.be/en/sustainable-finance.

Glossary

Sustainability preferences for investing: to keep up with the changing demands of society, we – and by extension the entire financial sector – must make a significant contribution to achieving the European climate targets, one of which is to be climate-neutral in Europe by 2050. The bar is set high with ambitions focusing on Environmental, Social and [good] Governance issues

or 'ESG'. Whenever we refer to ESG, we are referring not only to the environment (E = Environmental), but also to how a company treats its staff and customers and its role in society (S = Social) and how well a company is run (G = Governance).

European sustainability targets are regulated by legislation, including the Sustainable Finance Disclosure Regulation – or SFDR – (see term) and the EU Taxonomy Regulation (see term). Your sustainability preferences for investing will be assessed based on these two pieces of legislation and the Principle of Adverse Impact (PAI) (see term).

EU Taxonomy Regulation: the EU Taxonomy is a classification system for determining which economic activities are environmentally sustainable. The taxonomy currently uses six environmental objectives for this purpose, namely:

- Protection and restoration of biodiversity and ecosystems
- Climate change mitigation and adaptation
- Pollution prevention and control
- Transition to a circular economy
- Waste prevention and recycling
- Sustainable use and protection of water and marine resources

Environmentally sustainable activities must make a substantial contribution to at least one of them and not do significant harm to any of the other five environmental objectives.

Although the EU is currently preparing a Directive that would require companies to publish sustainability information (the Corporate Sustainability Reporting Directive), this legislation is still a work in progress. Consequently, there is currently a lack of sustainability data available. This element will, therefore, not be included in KBC's 'responsible investing' methodology (just yet).

Financial buffer: this constitutes part of the investment profile. This financial reserve is money you set aside not only to cover unexpected expenses, but also to give you financial peace of mind and security. KBC suggests a minimum buffer of 5 000 euros.

Level of knowledge and experience: your level of knowledge and experience concerning the investment product in which you want to invest. Our 'product knowledge and experience assessment' is based on your answers to our questions on savings-linked and investment-type insurance products as well as your experience based on the transactions you executed in the relevant products during the past four years.

Overview of advice: a written statement of suitability you receive when advice is provided. That document specifies how the advice provided meets your preferences, needs and other characteristics.

Principal Adverse Impacts (PAI): the SFDR also specifies the extent to which adverse impacts on sustainability factors (or Principal Adverse Impacts – PAI) must be excluded and how the investor can explicitly opt for this.
Economic activities can have not only a positive, but also a negative impact on sustainability factors. Principal Adverse Impacts (PAI) refer to the adverse impact of investment decisions on sustainability factors such as the environment, social matters, respect for human rights and anti-corruption.
As an investor, you can choose environmental and social themes, so that your investments can limit the adverse impacts on sustainability factors under these themes.

Product rating: this is the rating of each investment product, determined on the basis of six parameters. These parameters provide a broad approach for assessing risks and result in a rating from 1 to 7. The higher the product rating, the higher the risk associated with the product.

Profile approach: the product rating of each investment may not be higher than the maximum rating permitted by your investment risk preference.

Product advice: the product rating of each investment may not be higher than the maximum rating permitted by your risk preference.

Sustainable Finance Disclosure Regulation (SFDR): the SFDR is a European regulation which stipulates that, for each investment product, a percentage of 'sustainability' has to be calculated which then has to correspond with the customer's preferences. SFDR also imposes transparency and disclosure requirements on financial institutions to prevent greenwashing, i.e. the pretence by a company or organisation to be greener or more socially responsible than it really is.

According to SFDR, sustainable investments are investments in economic activities that help achieve an environmental objective (such as limiting the use of fossil fuels) and/or a social objective (such as a gender-neutral remuneration policy), while always adhering to good corporate governance practices (for instance, complying with tax laws). In addition, the contribution of an economic activity to one target may not have an adverse impact on any of the other targets.

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