

# CORPORATE SOCIAL RESPONSIBILITY REPORT | 2007

# GROUP PROFILE

## AREA OF OPERATION AND ACTIVITIES

KBC is an integrated multi-channel bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, our focus is on Belgium and Central and Eastern Europe for our retail bancassurance and asset management activities, as well as for services to business customers. We are also active in a selection of other countries in Europe in private banking and services to businesses. Elsewhere around the globe, the group has established a limited presence in selected countries and regions with a specific focus in corporate and merchant banking activities. Our group headquarters is located in Brussels, Belgium.

## SHAREHOLDERS

	31-12-2007
KBC Ancora	23%
Cera	7%
MRBB	12%
Other core shareholders	12%
KBC group companies	4%
Free float	41%
<b>Total</b>	<b>100.0%</b>

## NETWORK, CUSTOMERS AND PERSONNEL

	31-12-2007
<b>Bank branches</b>	
Belgium	923
Central and Eastern Europe	1 223
<b>Customers (banking and insurance) - based on KBC estimates</b>	
Belgium	3.8 million
Central and Eastern Europe	8.2 million
<b>Personnel (actual data)</b>	
Total full-time equivalents (FTEs)	56 792
Belgium	34%
Central and Eastern Europe	56%
Rest of the world	10%
Male	42%
Female	58%

See KBC's 2007 Annual Report for more information concerning credit ratings and key financial figures and events.

## SUSTAINABILITY INDEXES

KBC is a constituent of the FTSE4Good Index Series and the Ethibel Sustainability Indexes. It is also included in the sustainable investment universe of Triodos Bank, a Dutch ethical bank.

FTSE4Good (UK)

[www.ftse.com/Indices/FTSE4Good\\_Index\\_Series](http://www.ftse.com/Indices/FTSE4Good_Index_Series)



Ethibel (Belgium)  
[www.ethibel.org](http://www.ethibel.org)



Triodos Bank (Netherlands)  
[www.triodos.com](http://www.triodos.com)



## EXTERNAL MEMBERSHIPS AND COMMITMENTS

KBC is a participant in the United Nations Global Compact.



In Belgium, KBC is a member of Business & Society Belgium and Kauri.



For its asset management activities, KBC signed up to the United Nations Principles for Responsible Investment in December 2007.



KBC adopted the revised version of the Equator Principles for project finance activities in 2006.





# CORPORATE SOCIAL RESPONSIBILITY REPORT | 2007



## KBC's CSR SCORECARD FOR 2007

Ambitions	Score (status)
Publish CSR Report with scope expansion to all of KBC group based on G3 GRI guidelines	(completed)
CSR reports at subsidiary level	(completed)
Upgrade of GRI level from C+ to B+	(completed)
Formal CSR stakeholder policy documents for areas where they don't exist	(mostly completed)
Draw up a list of limited number of CSR KPIs (5-10) for periodic follow-up	(mostly completed)
Design a tool to automate and simplify the data collection and reporting process	(in progress)
Formalised internal communications structure for implementation and follow-up of CSR policies, including an adequate (automated) management information system (MIS)	(in progress)
Recommendation to initiate contacts with certain stakeholder groups for which no active dialogue currently exists (NGOs, suppliers, customers, etc.) + enhance documentation and communication on stakeholder dialogue	(in progress)
Formal appointment of persons with CSR responsibilities at corporate and subsidiary levels	(in progress)

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# STRATEGY & ANALYSIS

## 1 WORD OF WELCOME

Dear Reader,

Welcome to our 2007 report on corporate social responsibility ('CSR'). The report provides a consolidated overview of the non-financial performance of all major entities integrated into KBC group in the 2007 calendar year, and includes quantitative data with regard to KBC staff and KBC's environmental footprint. Our reporting efforts on CSR not only describe the achievements made thus far at KBC, but also those areas that we believe could be enhanced further and the commitments we have set for ourselves for 2008 and beyond.

Indeed, CSR is a long-term process which requires ongoing adaptation in the way a company conducts its business, not only for the purpose of making a financial profit, but in response to the increasing demands for transparency and accountability placed on the company by its stakeholders (including its employees, customers, shareholders, suppliers, etc.) and the society as a whole. In other words, we want to make sure that our strategic objectives are in line with our enduring commitment to behave as a good corporate citizen.

*Challenges beget opportunities and opportunities beget innovation.*

In the last CSR Report, we noted that the issue of climate change has literally taken the world by storm. Indeed, we see more and more telltale signs that a fundamental ecological transformation is in the making, with far-reaching ramifications for humanity. We at KBC cannot afford to remain indifferent to this, as we also contribute our share of emissions in the atmosphere. This is why we decided to reinforce our climate change programme as of 2008, which includes the ambition to achieve carbon neutrality starting with our Belgian operations in 2010. A counterpoint to this will be to deliberate on new opportunities that will likely arise and how to take advantage of them.

Moreover, in an effort to shore up our CSR policy framework, a number of policies were approved during the course of 2007 to address particular stakeholders or activities on a group-wide basis. To ensure their proper implementation throughout the group, including

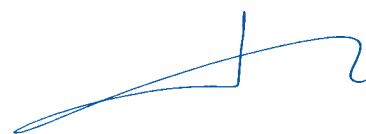
in our new entities, a new monitoring procedure is in the process of being developed along existing reporting lines within risk management.

And, as a fundamental aspect of our reputation is based on public opinion, we decided to formalise our dialogue with civil interest groups in the form of regular meetings between representatives of these groups and our staff involved in core areas of activity to discuss CSR and ethical issues.

Last but not least, we would like to take this opportunity once again to express our gratitude to all our stakeholders, in particular, our employees for our group's staunch performance in 2007 despite much adversity on financial markets, and our shareholders, our customers and our suppliers for the confidence they continue to place in our group.



André Bergen,  
President of the  
Executive Committee,  
KBC Group NV



Jan Huyghebaert,  
Chairman of the  
Board of Directors,  
KBC Group NV

## 2 ORGANISATIONAL PROFILE

### Our strategy

KBC is a multi-channel bancassurer with a core focus on Belgium and Central and Eastern Europe for retail bancassurance and wealth management activities and services for SMEs and corporates. In the areas of private banking and merchant banking, we are active in selected Western European countries, and we maintain a specific presence in the United States and the Asia-Pacific region with respect to particular corporate banking and niche operations. We are intent on pursuing a standalone strategy, firmly convinced that we can finance our own growth, be highly profitable, pay an attractive dividend while still maintaining sufficient reserves to carry out add-on acquisitions when the right opportunities arise, and contribute to the communities in which we operate.

### Our organisation

The group's legal structure is composed of the holding company, KBC Group NV, which controls three direct subsidiaries, namely KBC Bank, KBC Insurance and KBL EPB.

At group level, KBC is split into five units:

- the Belgium Business Unit,
- the Central & Eastern Europe Business Unit,
- the Merchant Banking Business Unit,
- the European Private Banking Business Unit
- and the Shared Services & Operations Business Unit<sup>1</sup>.

Each unit oversees the banking, insurance and asset management activities and is managed by its own management committee headed by a member of the Group Executive Committee, which has oversight over all the business units. The streamlining of our organisational structure has enabled the creation of synergies among the various group companies (such as the introduction of unified IT platforms and payments processes), while clearly maintaining the unity of our strategy and unique operational model.

For more information on the history and organisational structure of KBC, see [www.kbc.com/groupprofile](http://www.kbc.com/groupprofile). A list of our main subsidiaries and associated companies may be found in KBC's Extended Quarterly Report for 4Q 2007 (Earnings Release), p. 39 (also available on [www.kbc.com](http://www.kbc.com)), as well as in the 2007 KBC Group Annual Report.

### 2007 strategy highlights

The potential for growth in Central and Eastern Europe is quintessential to KBC's strategy. The efforts made in 2007 to strengthen sales networks in the region will underpin future earnings growth. Moreover, KBC entered a number of new markets in Eastern Europe (including Bulgaria, Romania and Serbia) and Russia, investing 1.7 billion euros in the region. Further add-on acquisitions to strengthen current market positions will follow.

In Belgium, performance remained solid, illustrating the success of the ongoing strategy that, to a large extent, focuses on cross-selling, service quality and customer satisfaction.

Successful steps were taken to leverage wealth management expertise beyond core markets, by optimising the European private banking concept and enhancing sales of investment funds through third-party networks in growth areas outside Europe (especially in Asia).

Internal business processes continued to be fine-tuned, which included organising them on a cross-border level. Significant operational synergies were realised in this respect.

In 2007, own shares were repurchased for an additional 1 billion euros as part of the 2006-2009 4-billion-euro share-buyback programmes<sup>2</sup>.

<sup>1</sup> The Shared Services & Operations Business Unit includes group-wide product factories and departments providing support to the other business units.

<sup>2</sup> This is a purely financial operation to eliminate some of the excess capital, and is a preferable alternative to paying out a 'super' dividend (for tax reasons).

### 3 REPORTING POLICY AND DISCLAIMER

We drafted this report in accordance with the G3 Global Reporting Initiative (GRI) guidelines<sup>3</sup> and the GRI Financial Services Sector Supplements on Social Performance and on Environment<sup>4</sup>, as we feel that these standards, though not compulsory, provide the necessary structure to ensure transparency and clarity, as well as comparability over time. We are applying the B+ application level to this report. More details on this GRI application level is provided in a table, along with the GRI content index on pages 60-62, showing the relevant indicators that are covered in this report. Additionally, as in previous years, in-house environmental performance has been measured and presented according to the VfU Indicators<sup>5</sup> to complement the GRI principles. To increase the readability of the report, all detailed quantitative data have been shifted to the relevant appendices, along with notes on methodology, where necessary.

Furthermore, wherever possible, we have referred to the UN Global Compact within the report. As part of our obligations under the UN Global Compact, this CSR Report serves as an in-depth document on our Communication on Progress (COP). The Global Compact index on page 62 provides a summary of how we have met our commitments under the Ten Universal Principles.

The information presented in this report is based on data gathered from the various group entities covered herein, and relates to KBC's *Principles for Socially Responsible Business*. The data amassed were, in turn, drawn on various sources and local information management systems, supported by on-site interviews with several of the sources responsible for the information provided. Although there are some inherent limitations to the quality of the data reported herein<sup>6</sup>, we have attempted to provide a balanced description of our CSR performance. However, we are striving to further enhance the accuracy of the performance measures in future reports, as we continue to improve our data collection methodology and move

towards a centralised and automated CSR information system that we estimate to be in place by the first half of 2009.

We continue to use the new reporting framework that was introduced in the last CSR Report to reflect our desire to address our stakeholders more clearly and transparently. We are clearly strong in some areas (e.g., our employees), while we still need to improve in other areas (e.g., regarding our suppliers). Nevertheless, we have attempted to map our performance and provide information that would be useful to our individual stakeholders. Hence, the chapter 'Responsibility in the Community' delves into our rapport with the entire community, including our approach to business ethics and the environment, our relationship with the public authorities and opinion makers and our philanthropic activities. Successive chapters focus on each of our core stakeholders: employees, customers, suppliers and our shareholders and investors.

Finally, in our continuing effort to enhance the readability of this report, we have moved the hard data to the appendices.

#### Disclaimer

This report has been drawn up for the purpose of informing our stakeholders on KBC's performance and commitment with respect to CSR.

Nothing in this document is intended to extend or amend KBC's existing obligations to its customers, shareholders, employees, suppliers, shareholders and investors or other stakeholders.

All references to external Web links in this report are provided purely for information purposes only. KBC is not responsible for the reasonableness, accuracy or completeness of the information available on these Web sites, nor does their mention in this report constitute tacit approval or endorsement by KBC of such sites or the products or services offered therein<sup>7</sup>. KBC accepts no liability with regard to any such information that has been or will be provided by external parties via their Web sites.

<sup>3</sup> Launched in October 2006

<sup>4</sup> Cf. <http://www.globalreporting.org/ReportingFramework/G3Online/SectorSupplements/>

<sup>5</sup> Outlined in 'VfU Indicators 2005: Internal Environmental Performance Indicators for the Financial Industry', available at [www.epifinance.com](http://www.epifinance.com). See p. 31.

<sup>6</sup> The quantitative information provided herein is based in part on best estimates, extrapolations and own calculations.

<sup>7</sup> Other than those Web sites managed by KBC.

## 4 SCOPE OF THIS REPORT

This report covers KBC's CSR commitments and accomplishments in our home markets of Belgium and Central and Eastern Europe<sup>8</sup> and our operations in Western Europe<sup>9</sup> and around the world<sup>10</sup> (henceforth, referred to as 'rest of the world', unless otherwise stated). Although we are also present in Slovenia via our minority stake in Nova Ljubljanska banka (NLB), NLB does not qualify as a subsidiary in the strict sense of the term. Hence, the Slovenian operations are not reported. In comparison to 2006, we have included our Serbian operations in the scope of this report.

Unless otherwise stated, the data and information provided cover the 2007 calendar year. As shown in the tables and charts on the next two pages, this report now covers virtually all of our operations (except where indicated)<sup>11</sup>, both in terms of profit contribution and with respect to social capital. More information can also be found in KBC's 2007 Annual Report (see [www.kbc.com](http://www.kbc.com)).

Below, we explain how we have addressed the persuasive principles of the GRI in this report.

### Identification of our stakeholders (stakeholder inclusiveness)

In the 2006 CSR Report, we adapted the reporting format to focus on our stakeholders. We based the choice of our stakeholders as described in our mission statement and our *Principles for Socially Responsible Business* (see [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility)). We also stated that we would adapt our CSR-related Web pages according to the stakeholder approach and we plan to complete this changeover by the end of 2008.

### Materiality

We believe that the information contained herein reasonably and sufficiently covers the issues and data which reflect KBC's significant economic, environmental and social impacts within the context of our CSR approach.

### Sustainability Context

This report describes KBC's performance within the wider context of sustainability.

### Completeness

We believe that the coverage of the material topics, definition of the reporting boundary and key performance indicators are adequate to reflect KBC's significant economic, environmental and social impacts during the reporting year, and should enable stakeholders to assess our performance.

Indeed, during the course of 2007, we identified a first set of quantitative key performance indicators ('KPIs') according to business area and per stakeholder and on which we wish to report, and we will reassess them as we continue to fine-tune our strategy. We aim to improve the accuracy and consistency of our reporting on these KPIs and introduce KPI targets.

### Balance

This report is published yearly and attempts to present a balanced and unbiased view of our CSR performance during the reporting year.

### Comparability

The information reported herein provides relevant comparable year-on-year data wherever possible and as clearly as possible to enable stakeholders to analyse trends in our CSR performance.

### Responsiveness

The report addresses how sustainability issues relate to our long-term strategy, risks and opportunities in our operations and vis-à-vis our stakeholders.

<sup>8</sup> Czech Republic, Hungary, Poland, Serbia and Slovakia

<sup>9</sup> France, Ireland, Germany, Luxembourg, Netherlands, United Kingdom

<sup>10</sup> USA

<sup>11</sup> As our acquisitions in Bulgaria, Romania and Russia took place during the course of 2007, these new entities will be consolidated for CSR purposes only as of 2008.

## Timeliness

We have also made efforts to bring forward the reporting cycle every year, with the ultimate intention of publishing our CSR Report simultaneously with our Annual Report (in 2009), in order to provide timely information to our stakeholders.

## Assurance

An independent assurance review was conducted on the quantitative data and the policies and measures provided in this report by Ernst & Young Bedrijfsrevisoren BCVBA ('E&Y'). Due to the extension of the reporting scope and on account of changes in the assumptions and the data processing methodology, the data described herein may not be used for comparison purposes with the data in our earlier CSR reports. Moreover, issues of data quality with regard to performance indicators provided by individual entities have meant

that estimates and extrapolations were used to arrive at the consolidated data in this report. In addition, as we are currently reviewing our supply chain management processes, we aim to improve the qualitative and quantitative aspect of our reporting on our suppliers in future publications. Consequently, E&Y's assurance review does not extend to assurance on those elements or information disclosed in this report where the quality of the data is subject to uncertainty, or on the comparative data provided herein (i.e. 2005-2006-2007).

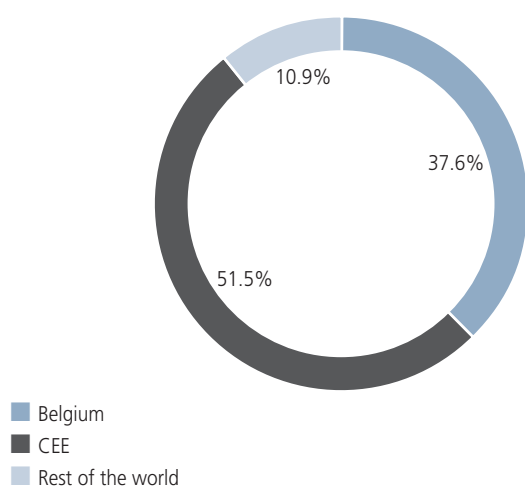
For the environmental figures in Appendix 3, we chose to extrapolate the data for Belgium (representing approximately 37% of total full-time equivalents – FTEs – covered in this report) to group level. As part of our move to automate the data collection process, we intend to introduce training workshops during the course of 2009 for all major reporting entities in order to improve the reliability and consistency of our environmental data over the next three to five years.

## KBC IN FIGURES

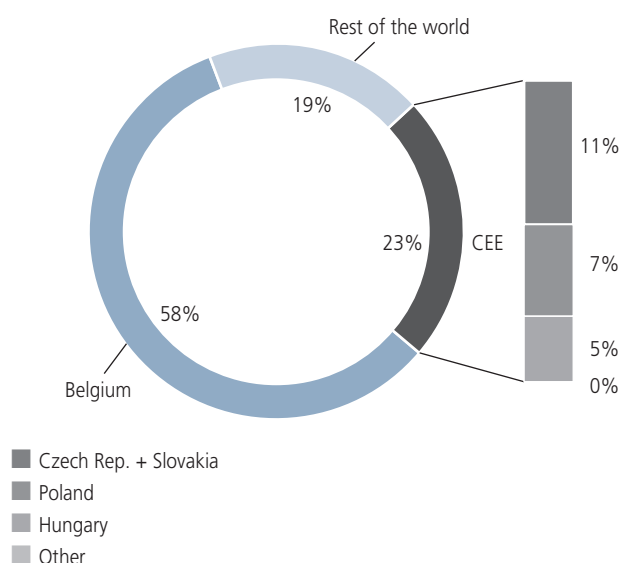
Key figures (in m EUR)	Actual data - FY 2007	Reporting coverage - FY 2007
Total income (IFRS)	13 271	Almost 100%
Profit before tax	4 373	-
Net Group profit	3 281 (2 938 underlying)	-
Total assets	355 597	-
Total staff expenses	3 148	-
Income tax expense	970	-
Other		
Number of staff (FTEs)	56 792	51 119 <sup>1</sup>
Number of bank customers	9.0 million	8.6 million
Number of insurance customers	5.7 million	4.9 million

<sup>1</sup> Except where indicated – e.g., environmental data (Appendix 3) and basic employee indicators (Appendix 4).

### Geographic distribution of KBC staff Reporting coverage (2007)



### Geographic breakdown, total income (IFRS) KBC group, full-year 2007



## 5 SPECIFIC NON-FINANCIAL ASSETS

Our financial reporting system categorises our non-financial assets as 'goodwill' for valuation purposes<sup>12</sup>. However, a key shortcoming of this approach is the inadequate accounting of our non-financial assets such as brands, market share, customer retention levels, quality of human capital, employee satisfaction levels and intellectual property. We address our key non-financial assets in more detail in various parts of this report (our employees, our approach to the environment and the community at large, our customers and suppliers and our investors). Here, we focus on those assets that are not necessarily associated with any particular stakeholder, including our brand, our main franchises and our ICT (information and communications technology) systems.

### 5.1 Our brand

In line with our mission statement<sup>13</sup>, we seek to become an efficient bancassurer and wealth manager with a strong affinity for our customers, while ensuring that our employees are looked after. We also strive to identify with the various communities we serve by such means as using local company names, employing local management and adhering to socially responsible business practices in keeping with the standards of the relevant countries. At the same time, we are aware of the importance of harmonising our corporate values and strengthening our brand. This is why most of our banking and insurance subsidiaries around the world changed over to a uniform brand logo as part of our global brand strategy, incorporating the familiar KBC light blue logo with the individual company name<sup>14</sup>.

We have a systematic measure of our local brand strength and brand recognition in our home markets. Within our Belgian bancassurance network, the latest study, conducted in November 2006<sup>15</sup> by an independent consultancy in the region of Flanders, revealed that KBC's recognisability as a bancassurance brand has remained stable at a high level over time, as has been the case with the three other large bancassurers in Belgium. Moreover, KBC scored highest in the area of public sympathy for the brand, and came out

<sup>12</sup> Goodwill as reflected in the historic acquisition costs of acquired entities in Central and Eastern Europe only.

<sup>13</sup> See [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility)

<sup>14</sup> With the exception of certain smaller subsidiaries in Belgium and within the KBL European Private Banking network, which maintain their own 'valued' brand name as part of a deliberate differentiation strategy.

<sup>15</sup> 'KBC imago en communicatie meting november 2006' (KBC's image and communication - measurement, November 2006), Significant Market Research (GfK Group), Belgium.

well with regard to brand success and 'brand potential' (including brand awareness, brand attractiveness and brand loyalty). In comparison with the previous study<sup>16</sup>, more existing customers were also willing to continue using KBC.

Branding studies were also carried out in our Central and Eastern European markets. For instance, our Polish banking and insurance entities commissioned a study at the start of 2007<sup>17</sup>, which showed that brand awareness remained rather high, especially for the insurance arm, but that 'brand potential' strength still had some room for improvement. In Hungary, a study carried out in 2006<sup>18</sup>

demonstrated that the levels for brand awareness, acceptance and appreciation were satisfactory, and that brand attractiveness amongst customers and non-customers alike was quite high. A brand study was also conducted for our Slovakian banking entity in the first quarter of 2007, showing that it is one of the five top banks in the country and customers using ČSOB as their main bank tend to be more loyal than at competing banks, and, on the whole, the quality of the services offered is considered a positive<sup>19</sup>. Finally, in the Czech Republic, a brand survey in mid-2007 revealed that the Czech bank has a strong brand, with an image of professional appreciation and of being a safe and effective institution<sup>20</sup>.

## 5.2 Our main franchises

### KBC in Belgium

#### NETWORK AND MARKET POSITION IN BELGIUM, 31-12-2007

Network	Belgium
Bank branches (KBC & CBC)	865
Bank agencies (Centea)	712
Private banking branches, (KBC & CBC)	25
Insurance agencies (KBC)	552
<b>Customers (estimate)</b>	
Bank customers	3.4 million
Insurance customers	1.4 million
<b>Market share (estimate)</b>	
Loans	22%
Savings deposits	18%
Investment funds	35%
Life insurance	11%
Non-life insurance	9%

For more information about our business activities in Belgium, see KBC's 2007 Annual Report (chapter on the Belgium Business Unit).

<sup>16</sup> This study is conducted twice a year to measure KBC's image and communication efforts in Flanders. In 2006, this took place in May and November.

<sup>17</sup> 'Image of Warta and Kredyt Bank – Report from the research, Warsaw, April 2007', GfK Polonia.

<sup>18</sup> 'Brand Equity Survey for K&H, March-April 2006', Free Association Research Kft., Budapest.

<sup>19</sup> 'Brand Health Research – ČSOB and KBC: Risk and Change Opportunity Analysis', GfK Slovakia, 2007.

<sup>20</sup> 'Brand Management – NeedScope: Presentation for ČSOB, August 2007', TNS AISA, Prague.



## KBC in Central and Eastern Europe

### NETWORK AND MARKET POSITION IN CENTRAL AND EASTERN EUROPE, 31-12-2007

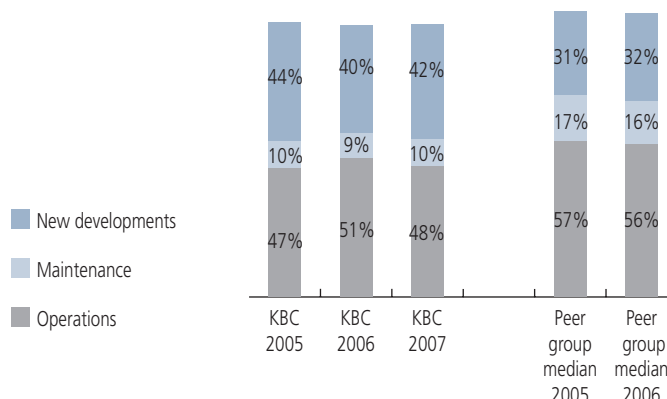
Facts and figures, CEER Business Unit, 31-12-2007	Czech Republic	Slovakia	Hungary	Poland	Bulgaria	Romania	Serbia	Russia
<b>Customers (estimates)</b>								
Bank customers (in millions)	3.0	0.2	0.9	1.0	0.2	–	0.1	0.2
Insurance customers (in millions)	0.8	0.2	0.5	2.0	0.8	–	–	–
<b>Amount, acquisitions</b>								
Total (in billions of EUR)	2.0	0.03 <sup>2</sup>	0.9	1.1	0.6	0.1	0.1	0.7
<b>Network</b>								
Bank branches <sup>1</sup>	251	114	223	393	126	–	45	71
Tied insurance agents	1 238	501	542	3 287	9 005	–	–	–
<b>Assets under management</b>								
Total (in billions of EUR)	6.0	0.8	2.6	2.8	–	–	–	–
<b>Market share (estimate)</b>								
Traditional bank products (loans and deposits)	21%	8%	10%	4%	3%	–	0.7%	0.5%
Investment funds	28%	12%	17%	4%	–	–	–	–
Life insurance	10%	5%	5%	2%	18%	–	–	–
Non-life insurance	5%	3%	4%	10%	15%	–	–	–
<b>E-payment indicators</b>								
Number of proprietary ATMs	637	131	370	382	107	–	14	64
Active subscribers to Internet and PC banking facilities	400 000	50 000	70 000	200 000	2 000	–	1 000	10 000
<b>Loan portfolio</b>								
Amount granted (in billions of EUR)	26.0	See Czech Republic	8.4	6.5	0.6	–	0.1	3.0
Share of the total loan portfolio	12.5%	–	4.0%	3.1%	0.3%	–	0.04%	1.4%
<b>Population and expected GDP growth</b>								
Population, 2007 (in millions)	10.2	5.4	10.0	38.5	7.3	22.3	10.2	141.4
Expected annual real GDP growth, 2008-2010	5.1%	6.5%	3.8%	5.5%	6.0%	5.9%	5.5%	5.7%

<sup>1</sup> Corporate branches are counted separately, even if located in a retail branch.

<sup>2</sup> Excluding acquisition of ČSOB (recognised in full under the Czech Republic).

More details about our activities in Central & Eastern Europe and our entry into new markets in 2007 are described in KBC's 2007 Annual Report (chapter on the Central & Eastern Europe and Russia Business Unit).

### Breakdown of ICT budget



### KBC in the rest of the world

Outside Belgium and Central and Eastern Europe, our corporate banking operations are focused in particular regions, with KBC branches and subsidiaries in Western Europe, Southeast Asia and the US. Most of these establishments, which target local mid-cap customers and customers that already do business with the group's Belgian or Central and Eastern European network, specialise in certain niche sectors or activities (government finance, health care, real estate, financial institutions, trade finance and/or acquisition finance, diamond trade, depending on the establishment concerned). In addition, KBC Bank departments and subsidiaries provide global corporate banking services, such as project finance and structured trade finance.

As for the KBL European Private Banking (EPB) group, it is headed by Kredietbank Luxembourg and focuses on local private banking activities. These activities are conducted via a network of local pure-play private banks centred on the Benelux and certain Western European countries. At the moment, KBL EPB is present in Germany, France, the United Kingdom, Switzerland, Monaco, the Netherlands, Luxembourg and Belgium.

For more details on our presence in Western Europe and around the world, see KBC's 2007 Annual Report (chapters on the Merchant Banking Business Unit and the European Private Banking Business Unit).

### 5.3 Our ICT systems<sup>21</sup>

Our ICT systems are also a valuable non-financial asset for KBC. In this respect, all of our ICT services are brought together in the Group ICT division, which is responsible for the group-wide provision of such in-house ICT services as communication, data processing and tailor-made systems development. Its mission is to foster synergy within the group, including group-wide standardisation, among other things, with a view to exploiting economies of scale and enhancing efficiency. Besides achieving cost-savings through harmonised business processes, it will enable us to offer similar products and services in the various local markets.

In addition, our ICT division is responsible for developing and enhancing our web-based applications and tools, including our online banking and insurance facilities, as well as our local bancassurance and group-wide Internet Web sites and Intranet communication channels. Indeed, an increasing number of retail customers are actively using our e-banking/e-insurance systems in Belgium and in the Central and Eastern European markets. We have also developed various e-solutions for corporate customers.

Finally, we should also note that we place much emphasis on operational excellence. We seek to achieve operational excellence by putting in place swift, error-free, core processes that respond efficiently to market demand and can be quickly and adequately adapted to changes in the marketplace. Accordingly, a number of operational excellence projects are currently ongoing within the group that are designed to streamline processes and enhance efficiency. We also aim to speed up cross-border activities and processes and to intensify the exchange of effective business processes and know-how between the various entities.

The bar chart<sup>22</sup> above shows that KBC spends a smaller portion of its Belgian ICT budget on operations and maintenance and more on new developments when compared to our peers (42% vs. 32% on average). This shows that our ICT capabilities are highly effective in meeting the needs of business expansion.

<sup>21</sup> More details on our ICT division is available in KBC's 2007 Annual Report (chapter on the Shared Services & Operations Business Unit).

<sup>22</sup> Source : Datamonitor. Median figures may not add up to 100%. Averages shown are median values for each segment across the peer group, rather than values from an overall median peer.

## 6 KEY CSR IMPACTS - 2007

### General

#### *2007 highlights:*

- formal group-wide CSR policies to strengthen our CSR framework
- the approval and implementation of a second group-wide CSR Action Plan
- one of top-five nominees for best 2006 CSR report in Belgium in a competition organised by the Belgian Institute of Statutory Auditors and Business & Society Belgium
- publication of first CSR reports in local CEE markets (Hungary, Czech Republic)
- endorsement by Luxembourg subsidiary KBL of national CSR charter<sup>23</sup>
- definition of key performance indicators (quantitative and qualitative)

#### *Ambitions for 2008:*

- to design and draft a formal climate change programme and CSR policy governance (CSR Action Plan)
- to continue to raise awareness on CSR within the Central and Eastern European area, particularly in the newly acquired entities in Bulgaria and Russia.

### Business ethics

#### *2007 highlights:*

- UN Principles for Responsible Investment (UN PRI) endorsed by our asset management division,
- new general investment policy, modelled on the UN PRI,
- in Belgium, continued dialogue with various non-governmental organisations (NGOs) on subjects ranging from human rights to nuclear power – joint organisation of a 'speed-dating' event between companies and NGOs to exchange CSR ideas; SRI workshop with listed companies

#### *Ambitions for 2008:*

- to review and update our group-wide code of conduct
- to implement further monitoring of compliance with our group-wide code of conduct.
- to implement the proxy voting and engagement policy (regarding our investments)

### Employees

#### *2007 highlights:*

- new group-wide employee policy and HR standards
- new acquisitions in Central & Eastern Europe and Russia, accounting for an overall increase in full-time equivalents by 7 000 at year-end
- KBC named among top-4 financial services institutions for best practices in social dialogue by UNI Finance, an international trade union for financial sector employees
- KBC ranked amongst top ten as 'Best Employer' in Belgium
- 64 million euros spent on training for 77% of the established group entities.

#### *Ambitions for 2008:*

- to further roll out a uniform information system and implement the employee policy and standards within new entities

### Customers

#### *2007 highlights:*

- new group-wide customer stakeholder policy
- new set of group-wide standards for customer complaints-handling
- very positive results in customer satisfaction surveys at many of our entities – the majority of our customers appear to be satisfied with the products and services provided and would recommend KBC or its subsidiaries to their friends or acquaintances,
- the assets under management in our SRI funds grew by 57% over the 2007 calendar year and now represent 5% of KBC's total assets under management.

#### *Ambitions for 2008:*

- to further roll out the customer stakeholder policy and complaints-handling standards to new entities

<sup>23</sup> Charte d'entreprise pour la responsabilité sociale et le développement durable

## Environment

### 2007 highlights:

- new group-wide environmental policy
- participation in the Carbon Disclosure Project<sup>24</sup> for the fifth year running,
- continued support of ARGUS, the independent provider of information on environment in Belgium, founded by KBC in 1970,
- new award-winning, environmentally friendly head office of Czech subsidiary ČSOB opens for use
- in Belgium, signing of the FSC Covenant – combined action plan of paper reduction and switching to FSC-labelled or recycled paper
- launch of the *GREENlease* label – KBC-Autolease, in co-operation with ARGUS in Belgium

### Ambitions for 2008:

- to further refine data capture and data collection for environmental management purposes (aiming to achieve ISO 14001 certification for the group head office building)
- to draft a new climate change programme
- to increase accuracy of emissions data as part of the new climate change programme (aiming for carbon neutrality in Belgium by 2010).

## Community initiatives

### 2007 highlights:

- continued support of philanthropic and cultural initiatives, with particular focus on community building, the (re-)integration of disadvantaged persons in society, health issues, education – including financial literacy and help for the elderly and orphans
- the total budget spent on philanthropic and cultural initiatives exceeded 7 million euros, up 10% on the year-earlier amount
- employee volunteerism and engagement were further encouraged in Belgium, and initiated in Luxembourg and some other countries in Central and Eastern Europe.

### Ambitions for 2008:

- to draft a group-wide policy on our community engagement (philanthropy)
- to develop specific KPIs to monitor employee engagement and volunteer activities.

## 7 EXTERNAL CSR INITIATIVES AND BENCHMARKS

### 7.1 Commitments to external CSR initiatives

With regard to our commitments to external initiatives related to CSR, at a local level, we are a member of or actively co-operate with various organisations. Internationally, we have endorsed the United Nations Global Compact (see below), the United Nations Principles for Responsible Investment (see p. 28) and the revised Equator Principles (see p. 25).

In Belgium, we are an active member of Business & Society Belgium<sup>25</sup>. Most of its activities are related to organising workshops for and disseminating information to members on CSR topics that are particularly in focus within Belgium (see [www.businessandsociety.be](http://www.businessandsociety.be))<sup>26</sup>. Additionally, we are a member of KAURI, a Belgian network bringing companies and non-governmental organisations (NGOs) into dialogue on sustainability issues (see [www.kauri.be](http://www.kauri.be)).

In Luxembourg, our private-banking subsidiary KBL became a signatory to a national CSR charter (*Charte d'entreprise pour la responsabilité sociale et le développement durable*), that was originally drawn up by a network of companies operating in the region for the purpose of engaging in and promoting CSR within their companies and beyond.

In Central and Eastern Europe, our entities there have been co-operating with various non-profit organisations mainly in the area of philanthropy (see Appendix 5).

To move towards establishing our CSR credentials on an international platform, we joined the United Nations Global Compact in 2006. The UN Global Compact is an international multi-stakeholder network of companies, UN agencies, labour and civil society organisations, all endorsing the Ten Universal Principles of the Global Compact. The Principles cover the areas of human rights, labour, environment and anti-corruption, and are based on the Universal Declaration of Human Rights, the International Labour Organisa-

<sup>24</sup> [www.cdproject.net](http://www.cdproject.net)

<sup>25</sup> Business & Society Belgium is part of a Europe-wide CSR network (CSR Europe).

<sup>26</sup> In 2007, we were involved in several of the activities organised by Business & Society Belgium, including hosting a session on CSR education at our Brussels head office in January 2007 and taking part in a working group on CSR reporting.

tion's Declaration of Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development (see <http://www.unglobalcompact.org/>). Our CSR Report also serves to meet our obligations under the Global Compact's Communication of Progress criteria (see p. 63). As part of our commitment to the Global Compact, we drafted several group-wide CSR policies that address our stakeholders during the course of 2007. These are available for download at [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility).

## 7.2 CSR share indices - 2007

KBC is a constituent of the FTSE4Good Index Series and the Ethibel Sustainability Indexes. It is also included in the sustainable investment universe of Triodos Bank, a Dutch bank specialised in ethical investment principles. More information is available at [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility).

## 7.3 CSR ratings - 2007

In 2007, we were surveyed and analysed by two well-known CSR rating agencies, SAM of Switzerland and the Franco-Belgian concern, Vigeo. Compared with previous outcomes, our ratings improved on most counts. In addition, our 2007 performance was also reviewed by Dutch Sustainability Research for the SiRi Company rating (published in March 2008).

### SAM, [www.sam-group.com](http://www.sam-group.com)

Company scores (in %)	September 2006	September 2007
Overall assessment	61	68
Economic dimension	68	73
Environmental dimension	46	60
Social dimension	64	69

### VIGEO, [www.vigeo.com](http://www.vigeo.com)

Company scores	November 2005	October 2007
Human resources	+	+
Environment	=	+
Business behaviour	+	+
Corporate governance	-	-
Community involvement	+	+
Human rights	+	+

### SIRI COMPANY (DUTCH SUSTAINABILITY RESEARCH) [www.siricompany.com](http://www.siricompany.com)

Company scores (out of 100)	2007
Corporate sustainability score	73.8
Business ethics	92
Community	84
Corporate governance	70
Customers	78
Employees	67
Environment	68
Contractors	80

Furthermore, in 2007, we took part in questionnaires on CSR organised at national and international levels, including the Belgian Red Cross' *Solidaritest*, BankTrack<sup>27</sup> and Test Aankoop/ Test Achats (a Belgian consumer magazine), as well as issue-specific surveys including the Best Employer (Belgium) and the Carbon Disclosure Project. Additionally, according to a ranking of sustainable banks created by *The Banker* magazine and Innovest Strategic Value Advisors, KBC stood at ninth place with an 'A' rating.<sup>28</sup>

27 a non-governmental organisation which tracks the financial sector and its effect on society and the environment ([www.banktrack.org](http://www.banktrack.org))

28 The Banker/Innovest Top ESG Global Banks (based on the performance of banks in the areas of environment, social affairs and governance – ESG) Source: *The Banker*, February 2008, p. 28.

## RESPONSIBILITY AND GOVERNANCE

KEY PRINCIPLES
Corporate Governance Charter
KEY FOCUS FOR 2008
<i>CSR governance – monitoring and reporting on CSR policy implementation</i>

### 1 CORPORATE GOVERNANCE - SUMMARY

The Belgian Code on Corporate Governance, which came into effect on 1 January 2005, seeks to ensure transparency in corporate governance by requiring every listed company to disclose information in two separate documents: the *Corporate Governance Charter* and the Corporate Governance Chapter of the annual report.

The Corporate Governance Chapter in KBC's 2007 Annual Report<sup>29</sup> contains more factual information regarding the company's corporate governance, including the composition of the Board of Directors and its committees, details on the remuneration and shareholdings of the members of the Board and the Executive Committee, any changes to it and any relevant events that took place during the year under review. All points that must be disclosed under the Belgian Code are further covered in the *Corporate Governance Charter*<sup>30</sup>.

### 2 RISK MANAGEMENT AT KBC

#### Vision and principles

The businesses of banking and insurance are exposed to a number of typical risks, such as credit risk, market risk and

liquidity risk, as well as technical insurance risk and operational risk. Controlling all these risks is one of the most crucial tasks of group management.

At KBC, the essential characteristics of value and risk management are as follows:

- Value, risk and capital management are inextricably linked to one another.
- Every company's aim is to create value. To achieve this aim, decisions are taken and activities developed, even though there is no certainty as to where they will lead.
- To ensure its own continuity, a company must have adequate capital to be able to deal with any unforeseen consequences of adverse developments.
- Risk management should be approached from a comprehensive, group-wide angle, taking into account all the risks a company is exposed to and stemming from the activities it engages in, including intangible risks associated with a company's CSR obligations (e.g., reputational risk).
- Primary responsibility for value and risk management lies with line management, while a separate Group Value and Risk Management Directorate, operating independently of line management, performs an advisory, supporting and supervisory role. The group's risk governance model is also, where relevant, duplicated at the level of the business units and subsidiaries.

More information on our risk governance model is provided in the chapter on risk management in KBC's 2007 Annual Report.

### 3 KBC'S CSR ORGANISATION

At KBC, CSR matters are handled by specific persons or units within various departments at both the group and business-unit levels. These include the compliance departments (in charge of matters concerning business ethics and the monitoring of KBC's ethical codes), the human resources departments (on employee matters), the facilities departments (regarding the environmental performance management of KBC buildings and supplier issues), the sponsorship departments (involved in philanthropic and cultural sponsorship), the

<sup>29</sup> See [www.kbc.com](http://www.kbc.com).

<sup>30</sup> See [www.kbc.com/governance](http://www.kbc.com/governance)

marketing and customer services departments (concerned with products and services related to our customers), the central asset management unit (which designs and markets socially responsible investment – SRI – funds on the basis of research conducted by our in-house team of SRI analysts and is in charge of maintaining a company blacklist on manufacturers of controversial weapons), and the central corporate credit department (which establishes policy guidelines for the granting of corporate credits, as well as co-ordinates policy matters concerning the Equator Principles).

Communication and reporting on all CSR-related matters to the external world at group level is the responsibility of the CSR communications function. This function was set up within the Investor Relations Office at KBC's Brussels head office in response to the increasing prominence of CSR both within KBC and amongst the general public and the need to establish a central point of contact for reporting purposes between the various business lines and KBC's senior management, on the one hand, and between KBC and its stakeholders, on the other. It is involved in several in-house and external working groups concerned with CSR issues. Similar functions have been set up in some of the main subsidiaries to report on local CSR performance.

The ultimate responsibility for CSR matters and authority to take decisions related to CSR lies with the Group Executive Committee. This includes its responsibility to provide periodic updates on CSR to the Board of Directors. In this regard, we have taken a pragmatic approach, using existing lines of hierarchy for reporting and monitoring purposes rather than creating a separate CSR department. Moreover, in order to ensure the implementation and monitoring of existing and new CSR policies throughout the group, including in our new entities, the Group Value and Risk Management Directorate is developing a procedure to incorporate CSR into its standard operational risk management duties (see boxed text). A detailed description on how we manage operational risks is provided in the chapter on risk management in KBC's 2007 Annual Report.

## FOCUS ON CSR POLICY IMPLEMENTATION – CASE STUDY

### *Dilemma:*

Several new CSR policies were drawn up and approved at group level during the course of 2007. However, although these policies were communicated to the relevant management of group entities, the lack of a mature implementation framework appeared to be an obstacle to progress.

### *Solution (our approach):*

As part of the CSR action plan for 2008, KBC's Group Executive Committee approved the use of existing lines of monitoring and reporting that are in place within our operational risk management department.

Although our decentralised approach towards CSR organisation is based on our pragmatic background, it lacked the necessary clout to ensure effective implementation of our CSR policies, except where already in place within our core operations. As CSR issues and operational risks tend to run parallel - if not overlap - with each other<sup>31</sup>, it was logical to place the CSR theme formally on the risk management agenda.

The initiative includes:

- Commitment from local management to ensure implementation
- Better co-ordination at group level via regular reporting follow-up from local risk departments
- Enhanced internal communication efforts
- Periodic assessments with regard to policy compliance via internal audits.

We will report on the status of the formal monitoring of CSR policy implementation in our 2008 CSR report.

31 e.g., the involvement in controversial loans or investments, the inferior treatment of customers and claims or problems related to the environment all entail reputational and financial risks.

# RESPONSIBILITY TOWARDS THE COMMUNITY

## 1 BUSINESS ETHICS

### 1.1 Codes of conduct and compliance

KEY PRINCIPLES
Code of Conduct for KBC Group Employees Anti-corruption Policy Statement Human Rights Policy Statement Whistleblower Protection Standards Compliance Charter and Integrity Policy
KEY FOCUS FOR 2008
<i>Revision of the code of conduct</i>

At KBC, business ethics is a key element in ensuring that our operations are being conducted responsibly and in accordance with the laws and regulations in place at both national and international levels. The core of a company's business ethics infrastructure is a code of conduct for its employees. Our basic code is the *Code of Conduct for KBC Group Employees*, which sets out uniform rules of behaviour applicable to all KBC employees in relation to their respective companies, customers and suppliers, colleagues, society, competitors and the media. The concepts of customer-friendliness, efficiency, enterprising spirit and capacity for innovation, as laid down in our mission statement, do not exist in isolation, but only take on their full significance in a wider ethical context (hence, our code of conduct). This code of conduct must be updated continually to reflect structural and organisational changes and to bring it in line with the changing realities within our group and the general environment. Our entry into new markets in 2007 meant that a simple update would no longer suffice, and a working group was set up to overhaul and revise the code during the course of 2008.

More detailed codes derived from the existing code of conduct address particular sectors or more sensitive or specialised activities (e.g., *Code of conduct of KBC Group for the use of means of communication*, various codes for dealing room, asset management and advisory functions, as well as a 'dealing code' to comply with insider-trading regulations).

Other ethical policies that are in place are listed below with the date of implementation. These have already been described in our 2006 CSR Report<sup>32</sup>:

- Anti-corruption policy statement (2005)
- 'Gifts' policy (2006)
- Human Rights Policy Statement (2005)

As a rule, all of KBC's ethical codes apply throughout the group. In practice, several of our group entities have drafted and adopted their own-company codes of conduct that adhere to this framework. Once a revised version of our group-wide code of conduct is finalised (expected by the end of 2008), all entities plan to have codes of conduct modelled on our revised code while ensuring accordance with local laws and regulations<sup>33</sup>.

#### Compliance

The Group Compliance Division acts as our independent adviser, monitoring and promoting compliance of our entities with our internal ethical codes and with regulations in force regarding banking and insurance operations. It reports directly to the President of the Group Executive Committee and to the Chairman of the Group Audit Committee. In particular, it is charged with monitoring and reporting unusual transactions in connection with money laundering and insider trading and performing investigations related to fraud, as set down in detail in the Compliance Charter and in KBC's Integrity Policy (see boxed text). In this regard, the Group Compliance Division collaborates with the internal Audit Division at KBC, which is in charge of monitoring risk management at and assessing internal control systems within all KBC entities.

<sup>32</sup> See also [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility)

<sup>33</sup> The main KBC entities in Central and Eastern Europe (Hungary, Poland, Czech Republic and Slovakia) have already implemented a company-specific code of conduct for employees with the requisite monitoring and control systems in place. Our banking operations in Serbia, our diamond banking and our European Private Banking (EPB) networks have mostly adopted the group code of conduct. The KBL EPB network also has a range of strict ethical codes, charters, manuals and policies for employees, while the international entities involved in retail and corporate banking activities have implemented group codes as standard practice or have designed similar codes based on those of the group.



Special units have been set up within the Group Compliance Division to handle particular issues, including the Group Anti-Money-Laundering Unit and the Group Ethics & Anti-Fraud Unit. In addition, local compliance units have been set up at virtually all our main international subsidiaries and entities, which report by function to the Group Compliance Division on all areas of priority, and, in particular, the areas of anti-money laundering and terrorism financing, fraud and tax evasion, monitoring of the MiFID implementation and market abuse and data protection. We pay much attention to maintaining the confidentiality of information and to respecting privacy, in accordance with local privacy laws, as well.

The Group Compliance Division has also stepped up its contribution to KBC's training courses by way of traditional classes or information sessions for staff on various aspects of compliance, as well as an e-learning package for employees in the bank branches in order to prevent the laundering of funds from criminal activity.

In 2007, we rolled out the 'Know Your Customer' policy to all group entities to further buttress our commitment to anti-money laundering and anti-terrorism and to safeguard our operations from such risks. Moreover, our 'personal transactions' and our 'conflicts of interests' group-wide compliance rules were distributed throughout the group. And, our gifts policy, our dealing code for key employees and our whistleblower guidelines<sup>34</sup> were implemented throughout the group and are already in place in the majority of group entities. In particular, the whistleblower guidelines ensure the protection and privacy of staff members who wish to report irregularities or operational shortcomings in good faith.

## KBC'S INTEGRITY POLICY AREAS OF FOCUS (UPDATE)

1. Anti-money laundering:
  - terrorism financing
  - prevention of tax evasion and other fiscal irregularities
2. Financial ethics:
  - investor protection
  - transactions in financial instruments
  - price manipulation and market abuse (including insider trading)
  - ethical code on proprietary trading
  - incompatibility of mandates
  - prevention of misleading insurance advertising
3. Privacy
  - data protection
  - professional secrecy and duty of discretion
4. Codes of conduct
  - whistleblower protection and combating internal fraud

<sup>34</sup> Group Standards for the Protection of Whistleblowers – see more details in the 2006 CSR Report, p. 22.

## 1.2 Lending policy

KEY PRINCIPLES
General Credit Policy Equator Principles
KEY PERFORMANCE INDICATOR
Number of project-financing operations which fall under the Equator Principles
KEY FOCUS FOR 2008
<i>Further implementation and follow-up of the sustainability screening prerequisite</i>

At KBC, the borrower-lender relationship has traditionally been evaluated and monitored on the basis of potential financial risks, with account taken of the relevant environmental and social concerns. Indeed, our corporate lending business is governed by strict policies and guidelines. The principles and rules set out in the General Credit Policy apply throughout KBC worldwide. In our dealings with our customers and the communities in which we operate, we observe both the regulations and standards in force, and the principles of fairness, reasonableness, openness, transparency and discretion, whilst ensuring privacy. Loan applications are generally assessed not only on the purely financial and economic aspects of the loan, but also on the relevant social and environmental aspects. These last two aspects are important concerns at KBC, as the risks associated with these may be translated into credit risk and associated damage to our brand and reputation. For this reason, the General Credit Policy stipulates that:

- Aspiring borrowers with activities that are potentially polluting must present an environmental permit to KBC.
- KBC is reluctant to finance companies that are exposed to significant environmental risks.
- Criminal and other socially unacceptable activities, including the drug trade, prostitution and illegal arms-related transactions, are ruled out.
- Potential borrowers must have a known and undoubted reputation.
- KBC is very reluctant to finance any manufacturer or trader in the weapons sector. In particular, KBC rules out loans to manufacturers or traders of weapons prohibited by law (e.g., anti-personnel mines, chemical and biological weapons, cluster bombs and munitions – this last banned under Belgian law) or to companies that manufacture or trade in weapons that are not prohibited by law, but are internationally recognised as having led to disproportionate suffering among civilians in the last fifty years (such as weapons containing depleted uranium)<sup>35</sup>.
- KBC will not provide loans to those customers of which we know that they do not respect human rights.

Moreover, a sustainability screening prerequisite has been incorporated into the standard credit appraisal process for corporate loan applications to reinforce the socio-environmental dimension of our lending business and applies uniformly throughout the group. It is expected to be implemented throughout the group by year-end 2008. This prerequisite entails the following:

- Introduction of a classification of the borrower on the basis of a sustainability risk weighting according to the borrower's industry sector and core business,
- For project finance operations, the use of the project categorisation described in the Equator Principles (see below),
- Systematic and structured analysis and communication of relevant information on exclusions/exceptions with regard to a particular borrower or the industry sector of the borrower - this includes information on the borrower's potentially controversial products or activities.

<sup>35</sup> Exceptionally, the granting of credits to subsidiaries of controversial weapons manufacturers that are not involved in the defence sector may be considered, if and only if it is certain that the credits will be used for the financing of activities which have no relationship with arms or weapons. This condition is strictly monitored and must be met before any such credits are granted.

KBC's total loan portfolio, including bonds and uncommitted and unused credit lines, was 208.2 billion EUR as at 31 December 2007, compared with 185.7 EUR at year-end 2006. The share of outstanding loans to companies involved in the production or sales of weapons is 0.006% (vs. 0.015% at year-end 2006). This figure is expected to decline further, in line with contractual repayments.

## The Equator Principles

Special rules in the form of the Equator Principles govern the global project finance operations of KBC group. The Equator Principles are a continually evolving set of voluntary guidelines for the banking industry, developed in conjunction with the International Finance Corporation (IFC), the private sector arm of the World Bank, to address environmental and social issues that may arise in financing large-scale projects (cf. [www.equator-principles.com/](http://www.equator-principles.com/)) exceeding capital costs of 10 million US dollars. The adoption of the Equator Principles reinforces our longstanding commitment to environmental and social responsibility in all our activities, both domestically and internationally<sup>36</sup>. Moreover, we also apply the 'spirit' of the Equator Principles to our structured trade finance transactions, in the event the investments related to the transaction could have significant environmental and/or social impacts. Such qualification is decided on a case-by-case basis by the relevant credit committee. As an Equator Principles bank, we are required to report publicly about the progress and experience of the Equator Principles' implementation, at least on an annual basis.

### Applying the Principles

At KBC, the Equator Principles apply equally to (i) the international project finance business, which is handled by some 50 professionals out of seven centres (Dublin, London, Brussels, Paris, Hong Kong, Sydney and Singapore), (ii) the local project finance units of the main non-Belgian banking units (K&H in Hungary, ČSOB in the Czech Republic and in Slovakia, Kredyt Bank in Poland and IIB in Ireland) and (iii) the Belgian corporate units.

In line with our commitments to the Equator Principles, KBC will only provide loans to projects where the borrower is able and willing to comply with the Equator Principles-related environmental and social policies and processes. In practice, within each KBC entity, an Equator Principles Co-ordinator has been appointed to act as liaison between the local entity and the central credit department, which has overall responsibility for the application of the Equator Principles. The Co-ordinator also serves as main point of contact within his/her entity on issues/questions related to the Equator Principles and their application.

The focus is on transactions within energy (power, renewables, oil & gas), infrastructure (inclusive of mining & metals) and telecommunications. We are usually involved in project finance transactions either as an arranging bank or as a member of a bank syndicate. But irrespective of the position of the non-Equator Principle banks in the syndicate, we insist on compliance with the Principles.

Projects are initially categorised by our loan officers as either 'A', 'B' or 'C', and are then reviewed by the central credit department<sup>37</sup>. The ultimate decision on the project category is taken by the central credit committee. On the basis of this decision and in accordance with the parameters of the Principles, we always require an Environmental Impact Assessment (EIA) to be drawn up for those projects classified as 'A' or 'B'.

When we team up with an independent technical adviser, we ensure that the scope of the adviser's tasks comprises the obligation to provide us with expert assessment on environmental and/or social considerations regarding the project. This includes feedback with respect to potential environmental and/or social impacts, the Environmental Management Plan (EMP) and overall compliance of the project with the Equator Principles.

Furthermore, we see to it that adherence to the Equator Principles is included in any term sheet submitted to the project sponsor and/or borrower. Special attention is also given to the loan documentation process in order to make sure that the appropriate environmental and social clauses are incorporated. All these are standard term and conditions for all our project finance transactions.

### Implementation and training

Following KBC's adoption of the Revised Equator Principles in June 2006, our existing procedures and processes were amended in stages during the second half of 2006 and first half of 2007. These included:

- adjustments to our corporate credit policy, the credit manual and the credit application itself.
- appointment of an Equator Principle Co-ordinator at each KBC

<sup>36</sup> KBC signed up to the first-generation Equator Principles in 2004 and adopted the Revised Equator Principles in mid-2006.

<sup>37</sup> Category A: projects with significant adverse environmental and social impacts which are sensitive, diverse or unprecedented

Category B: projects with (less) adverse environmental and social impacts which are site-specific, reversible and susceptible to mitigation

Category C: projects with little or no environmental impact.

## EQUATOR PRINCIPLES ASSESSMENT BY PROJECT CATEGORY

Category	2006			2007		
	New transactions		Refinancing transactions	New transactions		Refinancing transactions
	Number	As % of 2006 project finance lending volume		Number	As % of 2007 project finance lending volume	
A	2	4%	-	4	11.74%	-
B	11	26%	-	25	40.41%	2
C	20	70%	6	30	47.85%	3

entity which is engaged and involved in project finance operations. This Co-ordinator function is a senior position and demands the requisite experience in corporate banking and lending activities. The responsibilities and obligations of the Co-ordinator are broadly defined to include:

- distribution of all Equator Principle-relevant material within his/her respective entity;
- acting as liaison between the central credit department and his/her respective entity;
- serving as the main point of contact within his/her entity on issues/questions related to the Equator Principles and their application;
- maintaining records of the number of deals submitted for approval and number of deals approved and declined;
- reporting to the central credit department on a yearly basis, with a summary of the deals approved and closed during the previous year. The central credit department centralises this information and a synopsis is provided annually in our CSR report.

In addition, as a larger number of entities and departments within KBC are affected by the lower capital-cost threshold laid down in the Revised Equator Principles, specific documentation is available via our Intranet system, covering general background information on the Equator Principles and the impact of the Revised Equator Principles on our lending procedures and processes.

### **Project finance assessment in 2007**

The table above provides the number and share of the transactions that KBC approved and concluded in 2007, compared with what we reported in the 2006 CSR Report. In line with the June 2006 modifications to the Equator Principles, we now apply the Equator Principles to all projects with capital costs above 10 million USD.

In 2007, on top of the new transactions outlined above, KBC also concluded five refinancing transactions, of which one each in the energy and infrastructure sectors and two in the telecom sector<sup>38</sup>. Incorporating these transactions into their respective Equator Principle categories, the number of Category 'B' projects would rise to 27 and that of Category 'C' to 33, respectively corresponding to 46.79% and 42.93% of the total project finance lending volume in 2007.

The next two tables illustrate our sector concentration and geographical distribution.

In the first table, the three Category 'A' projects in the infrastructure sector involve two related to mining & metals and one waste management project. Category 'B' projects entail projects in energy (oil and gas projects and power plants) and infrastructure sectors. Category 'C' projects refer to the financing of wind farms and projects mostly within the telecom and infrastructure sectors which generally involve light construction works.

<sup>38</sup> The refinancing of existing assets involves no expansion or construction.

### EQUATOR PRINCIPLES ASSESSMENT BY CATEGORY AND SECTOR

2007	Energy	Infrastructure	Telecom	Total
Category A	1	3	-	4
Category B	19	8	-	27
Category C	10	8	15	33
<b>Total</b>	<b>30</b>	<b>19</b>	<b>15</b>	<b>64</b>

### EQUATOR PRINCIPLES ASSESSMENT BY CATEGORY AND REGION

2007	Western Europe	Central & Eastern Europe	Africa & Middle East	Asia Pacific	Oceania	USA
Category A	1	2	-	1	-	-
Category B	9	6	2	4	3	-
Category C	14	8	5	6	1	2
<b>Total</b>	<b>24</b>	<b>16</b>	<b>7</b>	<b>11</b>	<b>4</b>	<b>2</b>

Although a number of project finance transactions were rejected in 2007, none of them were primarily on account of environmental and/or social concerns. Given that our lending executives apply the Equator Principles strictly at an early stage, any transaction that is not or cannot be made to comply with the Principles is turned down and not submitted to the credit committee.

We also apply the 'spirit' of the Equator Principles to other lending transactions should the transaction-related investments have significant environmental and/or social consequences. The above tables include three corporate transactions (two in the telecom and one in the energy sector) to which the Equator Principles were applied and as a result were assigned a category. In 2007, KBC refused one Trade Finance transaction based on the application of the Equator Principles.

## PROJECT FINANCE: FOCUS ON CLIMATE CHANGE

### C-Power – first offshore wind farm in Belgium

This project involves the development and operation of a thirty megawatt off-shore wind farm on the Thornton sandbank, thirty kilometres from the Belgian coastal harbour of Zeebrugge. The project entails four phases, with the end result being sixty turbines of five megawatts each, or total installed capacity of 300 megawatts. The first phase is scheduled to be operational in 2009.

The project is consistent with the Belgian government's aim to reduce greenhouse gas emissions by 2010 by 7.5% vis-à-vis the 1990 level of emissions. Off-shore wind farms are viewed as one of the best contributors to decrease dependence on conventionally produced electricity. Indeed, the project will avoid the discharge of 450 000 tonnes of carbon per year into the atmosphere. It is expected to supply about 1 billion kilowatt-hours of electricity a year, corresponding to about one third of Belgium's renewable energy target in 2010.

In addition to the ecological benefits, the visual impact of this wind farm is negligible, as it will be situated in an area which is of little importance for fishing activities and at a considerable distance from important navigation routes and sea life foraging areas.

Moreover, C-Power will meet local electricity demand, which is presently being covered via import from other regions. Following completion of all four phases, the project would cover yearly electricity consumption of some 275 000 households in the Zeebrugge area alone.

KBC is a co-financer of the C-Power wind farm, along with Dexia and Société Générale. It fits in as part of our renewable energy strategy and with our determination to tackle climate change by focussing on innovative areas such as renewable energy sources.

## 1.3 Investment policy

### KEY PRINCIPLES

Group General Investment Policy  
UN Principles for Responsible Investment

In the past, our investments carried out for our customers and for our account were not necessarily subject to as stringent a set of exclusionary criteria as in the case of our lending operations. In 2007, we drafted and proceeded to implement the Group General Investment Policy. The policy is modelled on the UN Principles for Responsible Investment, launched in April 2006, and advocates the incorporation of environmental, social and governance (ESG) issues in investment analyses and decision-making processes (cf. [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility)). In parallel with this initiative, our asset management division formally endorsed the Principles for Responsible Investment in December 2007 (cf. [www.unpri.org](http://www.unpri.org)). Stemming from this policy and from the work conducted by our in-house Sustainable and Socially Responsible Research Department (SRI research team), the asset management division developed a proxy voting and engagement policy for the investments carried out within the division. This proxy voting and engagement policy specifically focuses on stimulating CSR efforts in the companies that our asset management division invests in via, for example, the voting rights associated with the shares held<sup>39</sup>.

In addition to our general investment policy, we continue to maintain an overarching policy concerning investments in the arms industry. Initially, we blacklisted companies involved in the manufacture of or trade in weapon systems that are banned under international law. This includes anti-personnel mines and biological and chemical weapons. The ban was later extended to other controversial weapons systems<sup>40</sup>, in consultation with the External Advisory Board for Sustainability Analysis. Hence, we also exclude manufacturers of cluster bombs and munitions and weapons using depleted uranium. This means that the shares and bonds of companies found

<sup>39</sup> The voting and engagement policy is expected to be formally approved and implemented as group policy during 1Q 2008.

<sup>40</sup> Controversial weapons are weapons that are not prohibited under international law, but for which there is a broad consensus that they be banned.

## ABSOLUTE AND RELATIVE INVESTMENTS IN THE AEROSPACE AND DEFENCE SECTORS<sup>41</sup>

(year-end figures)	Equity investments		Bond investments	
	2006	2007	2006	2007
Investments in Aerospace & Defence	76.6 m EUR	37.3 m EUR	0 EUR	0 EUR
Total equity/bond investments <sup>1</sup>	26 723 m EUR	21 244 m EUR	31 215 m EUR	23 101 m EUR
Share of Aerospace & Defence in total	0.25%	0.18%	0%	0%

<sup>1</sup> Source: KBC asset management's database system (Decalog)

to be involved in any of the weapons systems mentioned have been purposefully withdrawn from our investment universe with regard to both our actively and passively managed mutual funds. The list of the relevant companies is updated yearly. In 2007, the number of blacklisted companies came to twenty (cf. weapons policy at [www.kbc.am/sustainableinvestment](http://www.kbc.am/sustainableinvestment)).

Our general investment policy and our weapons policy applies in principle to all investments at KBC group entities. Both policies have been communicated to our group entities, which have been asked to implement them in their operations, where relevant. Given the newness of the general investment policy, implementation is still in progress in several of the entities. As regards the weapons policy, by the end of 2007, more than 85% of our four main Central and Eastern European entities had a similar policy in place, although there are still some legacy issues in Central and Eastern Europe which are not yet fully consistent with group policy<sup>42</sup>. Our banking branches in the rest of the world and our European Private Banking network have also introduced the weapons policy in the affiliated entities.

<sup>41</sup> These figures apply to KBC's asset management unit.

<sup>42</sup> This has to do with a historical investment in a weapons manufacture in Poland, which cannot be simply offloaded because it is an unlisted company and on account of the smallness of the stake concerned.

## 2 ENVIRONMENTAL STEWARDSHIP

KEY PRINCIPLES
Group Environmental Policy
KEY PERFORMANCE INDICATORS : (SEE APPENDIX 3)
Energy consumption Travel for business purposes Paper Water Waste Greenhouse gas emissions
KEY FOCUS FOR 2008
<b>Climate change programme:</b> <ul style="list-style-type: none"> <li>- <b>start of phased carbon neutrality (to be first achieved in Belgium in 2010)</b></li> <li>- <b>drafting of group-wide climate change policy</b></li> <li>- <b>refining data capture for energy and emissions calculations</b></li> </ul>

### 2.1 Policy and recent achievements

Our Group Environmental Policy was drafted and implemented in 2007 (see [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility)). This policy is a high-level document that lays down the basic principles and initiatives that all our group entities are expected to abide by and take in order to reduce our environmental footprint whilst making rational use of natural resources. It includes the principles of efficient consumption of energy, water and paper, and waste optimisation, as well as streamlining business travel and curtailing the production of greenhouse gas emissions.

In addition, as growing evidence is showing that we can no longer afford to ignore the issue of global warming, KBC's Group Executive Committee decided that a climate change programme will be developed and put into place during the course of 2008. One aspect of the programme is our ambition to reduce the production of greenhouse gas emissions in our entities in Belgium and offset any remaining emissions by 2010. Based on our experience in Belgium, we intend to roll out this carbon neutrality initiative to other regions in subsequent phases.

#### Our initiatives in 2007

The initiatives and achievements in the area of environmental stewardship in 2007 were as follows:

- For the fifth year in a row, we took part in the Carbon Disclosure Project, which manages the world's largest registry of corporate greenhouse gases and is used particularly by global institutional investors (cf. [www.cdproject.net](http://www.cdproject.net)).
- In relation to our focus on climate change, renewable energy has become a prominent theme for project finance (see p. 28). Moreover, we launched our first SRI fund devoted to climate change (KBC Eco Fund Climate Change).
- The long-term collaboration with ARGUS, KBC's environmental centre. ARGUS successfully organised an internal environmental awareness campaign amongst KBC Belgium's staff (see boxed text, p. 32).
- In Belgium, new courses to raise staff awareness on environmentally friendly behaviour were developed and will be launched in 1Q 2008. A suggestion box for energy-saving ideas was also introduced on the Intranet for staff and efforts to increase communication on environmental awareness were generally stepped up as part of an overall effort to move towards ISO 14001 certification.
- In the Czech Republic, staff members relocated to the new ČSOB headquarters in Spring 2007. This edifice was awarded Building of the Year 2007 in the Czech Republic. It is the largest building in Prague designed in accordance with Czech and EU ecological standards, and relies on a complex system which enables reduced energy consumption. The building has also been nominated by the American certification system LEED<sup>43</sup> as one of the most

43 The Leadership in Energy and Environmental Design (LEED) Green Building Rating System, developed by the U.S. Green Building Council, provides a set of standards for environmentally sustainable construction. (cf. [www.usgbc.org](http://www.usgbc.org))



environmentally friendly banking houses in Europe. ČSOB exhibited their building concept as an environmental solution at the third annual European MarketPlace for CSR in Brussels<sup>44</sup>.

- Regarding **energy** in particular, in Hungary, K&H was nominated along with four other Hungarian companies to take part in the European Energy Trophy competition, a year-long competition to reduce carbon emissions by lowering energy consumption and raising employee awareness without additional investments. The results will be announced in Brussels towards the end of 2008. (cf. [www.energytrophy.org](http://www.energytrophy.org)). Related to this initiative, K&H continued its reconstruction project of the boiler system, by installing modern condenser boilers in the branch network. In Belgium, following a recalculation of the percentage of *green energy* being used as part of total electricity consumption, there are plans to increase procurement of green energy to 100% in the first half of 2008. And in Ireland, an energy audit was being carried out at the time of writing.
- In response to the climate change issue, KBC Autolease, the fleet management subsidiary, introduced the *GREENlease* label in Belgium for fleet operators. Fleet managers may purchase 'CO2 certificates' to compensate for the CO2 emissions generated by the cars in their fleet. In collaboration with ARGUS, the funds collected from the certificates will be used via the ARGUS Climate Fund towards reforestation projects managed by third parties<sup>45</sup>. With the *GREENlease* label, KBC was runner-up in the second edition of the Belgian Green Fleet Award.
- In tandem with the 'greening' of the environment, KBC Belgium also launched a new instalment loan for retail customers<sup>46</sup> wishing to refurbish their homes with more eco-friendly technology (e.g., solar panels for heating purposes).
- With regard to **business travel**, we encourage the use of alternative commuter arrangements such as carpooling and public transport. In Belgium, KBC partnered with a civil interest group (for cyclists) to promote the use of bicycles for commuting purposes. Additionally, KBC Autolease's *GREENlease* concept was also adapted for use by the fleet of leased company cars available for management staff, by means of supplying a greater range of lower polluting ('green') cars, providing a CO2 emissions-offset

programme and offering training courses in eco-friendly driving techniques. As part of K&H's drive to raise ecological awareness amongst employees, the *GREENlease* concept is also being integrated in our Hungarian entity's car policy for employees.

- As regards **paper**, in May 2007, the Belgium Business Unit signed a Covenant with Fair Timber, the non-profit organisation representing the Forest Stewardship Council (FSC) in Belgium, as part of a concerted action plan in Belgium to reduce paper use by 5% and switch to FSC-labelled or recycled paper in 3-years' time. In the Czech Republic, paperless procedures (e.g., scanning of invoices) were introduced within the new headquarters and will be applied further to ČSOB subsidiaries. A paperless environment is also being encouraged at our Irish banking entity.

## 2.2 Key environmental performance indicators

The table in Appendix 3 is based on that provided in '*VfU Indicators 2005: Internal Environmental Performance Indicators for the Financial Industry*'<sup>47</sup>, available at [www.epifinance.com](http://www.epifinance.com). It shows the environmental performance of KBC entities in Belgium, Central and Eastern Europe and our operations in our other markets, where available. On account of the lack of a centralised database, there are some inherent limitations to the quality of the figures reported on, due to assumptions, estimations and calculations that have been used. For the purpose of data collection, we set down certain basic conditions particularly for entities which have entered our reporting scope for the first time. The conditions specify that companies which are owners and/or majority-occupants of building facilities and employ more than 400 FTEs are required to report environmental performance data. These conditions may be changed in future as we improve our methodology for data capture and storage. Finally, it should be noted that the quantitative data in the table in Appendix 3 is not entirely comparable to the data which appeared in our 2006 CSR Report, as a result of the ongoing need to finetune and adapt the content (especially as regards energy consumption and emissions). This is due to the fact that we extrapolated the data for both 2006 and 2007 to group level for comparison purposes on the basis of the data provided for Belgium (see p. 12).

<sup>44</sup> 29 November 2007, sponsored by CSR Europe, a Europe-wide corporate network.

<sup>45</sup> See [www.kbcautolease.be](http://www.kbcautolease.be)

<sup>46</sup> KBC-Groene Energielening (KBC Green Energy Loan)

<sup>47</sup> VfU, or Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen e.V. (Association for Environmental Management in Banks, Savings Banks, and Insurance Companies), is a German organisation which has been instrumental in developing a pragmatic and practical approach to measure and report on environmental performance within the financial sector.

## ARGUS: KBC's ENVIRONMENTAL CENTRE



ARGUS is an independent organisation based in Antwerp, Belgium, which KBC has funded since 1970 and recently joined by CERA, an important KBC shareholder. ARGUS is entirely staffed by KBC employees and is supervised by an independent board chaired by Baron Rudi Verheyen, Emeritus Professor of the University of Antwerp and one of the pioneers in environmental studies. Other members of the board include representatives from universities, NGOs, labour organizations and public authorities. It aims to contribute to sustainable well-being by providing objective information via its magazine, SME-newsletter and Web site, through education and other services, as well as arranging innovative initiatives to raise public awareness on environmental issues.

In 2007, ARGUS expanded to the southern half of Belgium via our bancassurance entity, CBC<sup>48</sup>. Moreover, ARGUS actively took part in internal projects to raise environmental awareness within KBC, including the showing of Al Gore's 'An Inconvenient Truth', as well as publishing an interview with KBC's Group CEO André Bergen in KBC's internal staff magazine on his vision regarding the environment and the challenges related to this. Finally, ARGUS organised ARGUS Plan V via the company Intranet to mobilise KBC staff members to reduce their environmental footprint with regard to their lifestyle and enable employees to suggest their own initiatives.

In the next few years, ARGUS will become more involved in our carbon neutrality programme, serving as a knowledge centre.

## 3 DIALOGUE WITH OPINION MAKERS

### KEY PRINCIPLES

We are open to pro-active dialogue and exchange with public opinion makers.

### KEY FOCUS FOR 2008

*Formalised group dialogue with NGOs*

With respect to our ongoing dialogue on our CSR performance with opinion makers such as the media and civil associations or non-governmental organizations (NGOs), we aim to maintain good relationships with the local media in the home markets where we operate and we are continually open to pro-active discussions with NGOs, such as GAIA (on animal rights) and Netwerk Vlaanderen in Belgium (see boxed text). At our entities outside Belgium, similar discussions took place with NGOs particularly with regard to corporate philanthropy (for more details, see Appendix 5).

Our Sustainable and Socially Responsible Research Department (SRI research team) in Belgium has been in the forefront of discussions with Netwerk Vlaanderen and debates since 2004. The main area of discussion in the last few years focused on controversial weapons manufacture, resulting in a concrete, overarching policy vis-à-vis the weapons industry (cf. [www.kbcam.be/sustainableinvestment](http://www.kbcam.be/sustainableinvestment)). At group level, in 2007, we also entered into active dialogue with BankTrack of the Netherlands (by collaborating on their benchmarking study of key policies and transparency in the banking sector)<sup>49</sup>. In addition, at group level, we organised the second annual NGO breakfast meeting jointly with our press office in May 2007, bringing approximately 20 representatives from various Belgian and international NGOs, academia and trade unions, as well as several members of the national media face to face with our group CEO. At this meeting, our SRI research team described its SRI screening method-

48 'L'espace environnement de CBC et CERA'

49 See BankTrack's publication, *Mind the Gap*, on [www.banktrack.org](http://www.banktrack.org)

ology in detail and unveiled additional exclusionary criteria, including companies purely in the gambling industry, weapon manufacturers, companies violating human rights treaties or ILO Conventions and companies receiving negative coverage in the media. Moreover, we described our view on nuclear energy and the selection criteria regarding whether to include or exclude a company based on this theme<sup>50</sup>. We intend to formalise this yearly gathering to include other areas of activity within the group.

We are also actively involved with KAURI in Belgium, a non-profit organisation which brings companies and NGOs together to discuss various CSR/sustainability issues that affect the general public. In 2007, we participated in several forums, including on the theme of sustainable communication, and helped to organise KAURI's tenth anniversary by hosting their first 'speed-dating for global sustainable action'<sup>51</sup>.

## FOCUS ON PRO-ACTIVE DIALOGUE – CASE STUDY

### *Dilemma:*

Netwerk Vlaanderen's mission is to 'promote an alternative approach to money' to the general public by encouraging more ethical and sustainable usage of money. In November 2006, Netwerk Vlaanderen launched their public campaign on human rights by issuing a report on the financial links between 5 banks in Belgium and companies directly or indirectly violating human rights. A sequel to this was a report<sup>52</sup> and new Web site conceived by Netwerk Vlaanderen together with the main Belgian trade unions in November-December 2007, describing the practices of eight banks in Belgium.

### *Solution (our approach):*

Although we had previously showed our readiness towards proactive dialogue by working with Netwerk Vlaanderen to become the first financial institution in Belgium to draft a controversial weapons policy<sup>53</sup>, KBC was named along with four other peers in the first report and became the subject of negative media attention.

Our SRI research team studied the concerns raised and our SRI screening and evaluation methodology was adapted to reflect some of these concerns after approval by the External Advisory Board. As a result, in 2007, all the companies mentioned in the report in relation to KBC were removed from our SRI universe.

Even though we are still named in the latest report, in a separate profile on KBC<sup>54</sup>, Netwerk Vlaanderen acknowledged our efforts at enhancing transparency and practicing what we preach by applying our CSR principles on human rights to our investments for customers.

<sup>50</sup> See article on nuclear energy under Controversial Practices on [www.kbcam.be/sustainableinvestment](http://www.kbcam.be/sustainableinvestment)

<sup>51</sup> See [www.kauri.be](http://www.kauri.be)

<sup>52</sup> *Bank Secrets Cracked*, English version published 11 December 2007 (see [www.netwerkvlaanderen.be](http://www.netwerkvlaanderen.be))

<sup>53</sup> See pp. 28-29.

<sup>54</sup> See *Profiel KBC* (available only in Dutch) at:

[www.netwerkvlaanderen.be/nl/index.php?option=com\\_content&task=view&id=479&Itemid=248](http://www.netwerkvlaanderen.be/nl/index.php?option=com_content&task=view&id=479&Itemid=248)

## 4 RESPECT FOR GOVERNMENT

### KEY PRINCIPLES

Our respect for and willingness to co-operate with government (see below)  
Group Responsible Tax Strategy

As KBC's operations span various countries on several continents, we take particular care in observing national and local laws and regulations of our host countries and are mindful of our obligations under them. Indeed, the basic principle underlying our responsibility towards public authorities as stakeholder is our respect for and willingness to co-operate with government by:

- obeying both the letter and spirit of the laws and regulations in place
- making the necessary efforts to cultivate a good and long-standing relationship with local authorities and public bodies.

In particular, we are committed to being a responsible taxpayer, based on solid tax compliance and legitimate tax planning. This is also part of our Group Responsible Tax Strategy<sup>55</sup>. More specifically, we aim to:

- ensure correct and timely payment of all taxes due,
- manage our tax risks and tax disputes pro-actively,
- enable tax clearance for KBC products,
- provide first-rate tax advice.

These objectives are to be met by means of:

1. an optimal system of tax management,
2. compliance with tax obligations in the various jurisdictions in which KBC operates,
3. a code of conduct specifying the standards of fiscal best practice<sup>56</sup>,
4. policies aimed at limiting and controlling tax risk,
5. increased transparency via a reporting system and information exchange.

At KBC, the tax administration and management function is spearheaded by our Group Tax Division. Tax issues relevant to our international operations are managed along entity and country lines. Moreover, each year, the local tax functions are required to report to the group tax function on tax matters. International tax legislation and trends are monitored centrally and communicated to local tax functions, while the latter collect information on tax laws and trends relevant to their countries

<sup>55</sup> Available at [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility)

<sup>56</sup> This includes the prohibition of illegal tax practices and full disclosure of tax information to the relevant tax authorities. For example, we shall never permit tax evasion to occur, as this constitutes fraud and is therefore a violation of tax law:

## 5 PHILANTHROPIC ACTIVITIES AND CULTURAL SPONSORSHIP

### KEY PRINCIPLES

We are keen to improve the general welfare and working environment in the areas in which we operate. In this respect, KBC's basic approach to community involvement and engagement is two-fold:

- to provide financial support to external project initiatives that meet KBC's requirements for community involvement,
- to take own initiatives which demonstrate our pro-active engagement with the community.

### KEY PERFORMANCE INDICATOR

Budget for community endeavours

### KEY FOCUS FOR 2008

*Development of an overall policy which will take into account both our main principles and our local circumstances.*

By providing funds and other assistance to various community projects, we strive to improve the general welfare and working environment in the areas in which KBC operates.

Our approach on community engagement has been based on collaboration and dialogue with the various stakeholders: not only has our approach been steered by the numerous requests for financial support on account of KBC's visibility as a large financial institution, but also by our desire to demonstrate our commitment to act responsibly towards the community. We are currently working on a specific policy that clarifies our approach across the group, while ensuring flexibility to take account of local market conditions.

According to the table, our total budget for community-related projects group-wide in 2007 rose by 10% vis-à-vis 2006 (the year-on-year increase at the end of 2006 came to 12% based on the restated figures). However, at the business unit level, Central and Eastern Europe saw the biggest increase in the total budget, followed by KBL European Private Banking, whereas Belgium and Merchant Banking saw a decline (see bar chart). Belgium's decline was entirely due to a noticeable drop in cultural sponsorship, but this was mainly accounted for by a lower level of *ad hoc* or one-off sponsorships than in 2006. As a result, Central and Eastern Europe now represents a higher share of the total budget than other business units.<sup>57</sup>

## KBC'S BUDGET FOR COMMUNITY ENDEAVOURS<sup>1</sup>

	2006 <sup>2</sup>	Cost/FTE in 2006 <sup>3</sup>	2007	Cost/FTE in 2007 <sup>4</sup>
Philanthropic deeds	3.55 m EUR	70.4 EUR	3.89 m EUR	77.0 EUR
Cultural sponsorship (the arts)	3.40 m EUR	67.3 EUR	3.78 m EUR	74.8 EUR
Total	6.95 m EUR	137.8 EUR	7.67 m EUR	151.9 EUR

1 The figures in the table are based on best estimates, and non-euro amounts were converted whenever possible using the average exchange rate for the year.

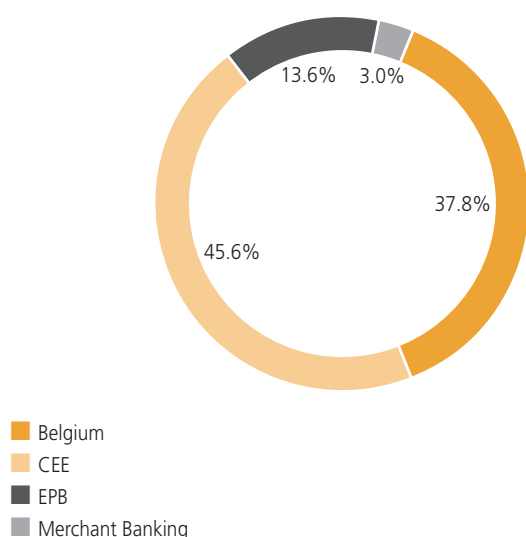
2 Restatement of 2006 amount reported in the 2006 CSR Report, on account of calculation errors stemming from differing currency exchange rates.

3 Total group FTEs in 2006 = 49 492

4 Total group FTEs in 2007 = 51 119 (excluding acquisitions in new markets, but including Serbia)

<sup>57</sup> The Czech Republic and Slovakia represent by far the largest share of the total budget in Central & Eastern Europe, with an overall year-on-year increase by 70%; Hungary has also seen a steady rise in its total budget since 2005. Poland, on the other hand, saw a decline vis-à-vis 2006 (part of this is due to exchange rate fluctuations).

### 2007 Budget breakdown by KBC Business Unit

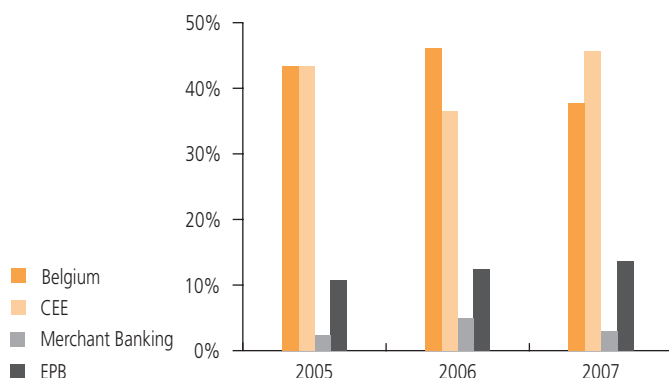


### Philanthropic initiatives and cultural sponsorship

In our main markets of Belgium and Central and Eastern Europe, we are actively engaged in initiatives for community building and with self-help groups involved in the restoration of the urban social fabric and the integration of disadvantaged persons through co-operation with local community centres and other social associations. These projects - mostly small in scale - are designed to promote social integration over the long term at the local level and to help towards community development. Much attention is also focused on health and prevention issues and education, especially raising the level of financial literacy, and help for the elderly and orphans and disabled children. At our merchant banking and private banking entities, initiatives tend to be taken on a more *ad hoc* or individual basis, partly dictated by local culture.

Cultural sponsorship is also well established in many of our main entities. We regularly support a number of cultural and musical festivals and events, with particular emphasis on 'people' (education, increasing public awareness, supporting youthful talent) rather than on 'infrastructure' alone.

Details of the initiatives/activities carried out in 2007 in the various regions are outlined in Appendix 5.

**Budget trend per KBC Business Unit**

## Volunteerism – employee involvement

At KBC, we believe in encouraging volunteer initiatives amongst our employees in the areas of social and community involvement.

In Belgium, this includes:

- providing a subsidy to employees who devote their free time to organisations dedicated to care for the handicapped, childcare, home assistance, Third-World initiatives, immigrant integration or neighbourhood improvement schemes (1 250 euros per employee and their organisation),
- calling upon employees to take part in a number of social and health-care projects, e.g., the fund-raising telethons for *Kom op tegen Kanker*; the anti-cancer campaign; multi-cultural lunches arranged by neighbourhood associations in Brussels ('*Anders gaan eten*' – 'Eating differently') to stimulate contacts between KBC and the neighbourhood,
- serving as a key supporter of the Belgian Raiffeisen Solidarity (BRS) via the active participation in an informal group composed of KBC employees in various international projects (see boxed text on the next page).

Elsewhere, initiatives have either been implemented or are planned for engaging employees in socially responsible activities, as well:

- In Luxembourg, KBL launched a 50 000 EUR budget to subsidise volunteer initiatives by staff members.
- A project on the theme of volunteer activities will be launched in Spring 2008 in the Czech Republic in co-operation with the Czech Donor's Forum.
- In Slovakia, a grant scheme enables employees to select and work with a civic association or foundation to prepare a proposal for funding a community-oriented project.
- In Poland, a special fund has been set aside for employees who wish to support local associations or local initiatives related to care for the disabled and children.
- In Ireland, staff members may volunteer to carry out specific projects in city schools ('Junior Achievement Ireland')
- In New York, a charitable gift-matching programme was introduced (the branch matches employees' charitable contributions on a dollar-for-dollar basis).

## KBC AND MICROFINANCE: AN UPDATE



### Belgian Raiffeisen Solidarity<sup>58</sup>

The **Belgian Raiffeisen Solidarity** (BRS) was established in 1992 to

serve as a conduit for development co-operation. Currently under the auspices of CERA, a co-operative financial group and a reference shareholder of KBC, its mission is twofold: to collaborate with microfinance institutions in the developing world, by offering financial assistance and training and consultancy in banking and insurance matters based on the co-operative movement, and to raise awareness in Belgium through various communication channels about BRS' efforts to help eradicate poverty in the developing world.

KBC has played a special role in BRS ever since its foundation, not only due to its historical and financial link to CERA, but also via the support of KBC staff. KBC employees can volunteer to provide the necessary knowhow in banking and insurance matters in BRS' sustainable microfinance projects, as well as take part in fund-raising and other campaigns to promote North-South dialogue at the grassroots level. In 2007, 388 KBC employees were active members of the '*KBC steunt BRS*' support group. The ICT Division at KBC deserves special mention with *ICT4BRS*, an initiative involving ICT volunteers who offer IT-related assistance to BRS projects.

To summarise BRS' activities in 2007:

**Financial activities:** BRS had twenty projects in operation in sixteen countries in Africa, Asia and Latin America, providing total funding to the tune of 478 182 euros. In addition, the outstanding amount of BRS' guarantee funds came to 214 561 euros – these funds are used to guarantee the loans of established banks in developing countries to microfinance institutions and help to promote trust between these two groups. Finally, BRS is involved in Incofin's Rural Impulse Fund (see the Incofin section for more details). It became a member of this fund's investment committee, which is chaired by KBC.

**Consultancy activities:** A total of 121 days of volunteer consultancy work was performed.

**Training activities and tools:** Noteworthy initiatives included training on performance evaluation in Ghana (co-sponsored by BRS and Centea, KBC's Belgian savings bank) and production of a film which follows the activities of various persons involved in microfinance in Benin. As regards new tools, a microinsurance factsheet and a microfinance database were developed to facilitate monitoring and reporting on microfinance projects.

Finally, BRS celebrated its fifteenth anniversary in November 2007 with a well-attended conference on microfinance in Brussels with Nobel Prize winner Muhammad Yunus of the Grameen Bank as guest speaker. Yunus' speech on the occasion is available on the BRS Web site.

(cf. [www.cera.be/brs](http://www.cera.be/brs))

<sup>58</sup> Formerly known as the Belgian Raiffeisen Foundation.



## KBC AND MICROFINANCE: AN UPDATE (continued)



### Impulse Microfinance Investment Fund

KBC is a shareholder in **Incofin**, a Belgian investment company

founded as a 'co-operative association with a social purpose'. Incofin invests in and provides know-how to micro companies, SMEs and microfinance institutions in the developing world in order to support sustainable and profitable entrepreneurship. In December 2004, we helped to set up the **Impulse Microfinance Investment Fund** with Incofin and three other partners, with half of the starting capital of 5 million euros coming from KBC (still the largest contributor to date). This was the first private-investment fund of its kind in Belgium. The closed-end fund has a life of 12 years and aims to earn both a financial and a social return ('double bottom line'), investing in commercially viable microfinance institutions and improving the accessibility of lending facilities for low-income entrepreneurs. Moreover, it aims to serve as a bridge between capital markets of the industrialised world and emerging markets in less developed countries.

By year-end 2007, Impulse's portfolio had grown from 16.71 million euros a year earlier to 19.64 million euros. Impulse now finances 22 microfinance institutions (MFIs) in thirteen countries, of which five in Latin America, three in Africa and five in Central and Eastern Europe/Central Asia.

Moreover, Incofin continued to expand its microfinance activities. Its capital increased from 6.77 to 8.09 million euros over the reporting year. Incofin also broadened its range of funds via the launch in mid-2007 of a new fund, the **Rural Impulse Fund**. Registered in Luxembourg, this last was created as a microfinance fund with a specific rural focus, a niche market within the microfinance sector that is underserved. The Rural Impulse Fund is an example of a successful private-public partnership, with partners KBC Private Equity and other private and public organisations, including the International Finance Corporation and the European Investment Bank. The total amount committed by shareholders and debt holders comes to 38 million US dollars; the portfolio size at the time of writing already amounted to 9 million US dollars. KBL in Luxembourg is helping to finance and act as custodian bank and paying agent for the fund.

(cf. [www.incofin.be](http://www.incofin.be))

## RESPONSIBILITY TOWARDS OUR EMPLOYEES

KEY PRINCIPLES
Group Employee Stakeholder Policy Group HRM Standards Human Rights Policy Statement
KEY PERFORMANCE INDICATORS
Employee satisfaction Absenteeism Employee turnover Diversity (gender, age group, region) Training (average number of hours, costs) Hierarchy (pay category, contract type - see Appendix 4)
KEY FOCUS FOR 2008
<i>Integration of newly acquired entities</i>

In particular, we value our employees as they are essential to KBC's long-term success. We strongly believe in the professionalism of our employees in fulfilling our customers' expectations and needs and in their individual and team commitment to achieve our group targets. In turn, we care about the level of employee satisfaction in their daily work, and, to foster innovation and entrepreneurship, we provide our employees the opportunity to develop their skills and talents, based on their personal ambitions and individual differences.

Moreover, our employee policy reflects our Human Rights Policy Statement and reiterates our formal endorsement of the Universal Principles of the UN Global Compact and our support of the International Labour Organisation's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy<sup>60</sup>. In this respect, we abide by the principles underlying universal human rights and employee rights throughout the Group<sup>61</sup>.

Specific elements of our employee policy are provided in further detail below.

### 1 EMPLOYEE POLICY

In 2007, we drafted a new group-wide policy<sup>59</sup>, along with a set of internal standards to be followed by all entities in the group. The employee policy sets out what we expect from our employees and what our employees may expect from us. It encompasses all the principles that were already being applied in practice, by emphasising our values based on our mission statement and our pledge to respect international tenets on employee rights and other matters related to labour practices.

<sup>59</sup> The Group Employee Stakeholder Policy. See [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility).

<sup>60</sup> For the ILO Tripartite Declaration, see [www.ilo.org](http://www.ilo.org)

<sup>61</sup> i.e. 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 and healthy working place, the right to freedom of association and collective bargaining), respect for national sovereignty and human rights (including opposition to bribery in any form whatsoever).

## 2 BASIC INDICATORS<sup>62</sup>

Key observations (see Appendix 4):

- The total number of group full-time equivalents (FTES) grew by nearly 15% year-on-year.
- The gender makeup for the group as a whole has remained more or less stable (58% female vs. 42% male). On a regional basis, Central and Eastern Europe again takes the lead for the largest share of women staff members (69% female vs. 31% male employees), while the proportion of women in Belgium and the rest of the world<sup>63</sup> continue to lie under 50% (47% and 41%, respectively).
- According to the breakdown by pay category, nearly two-thirds of the workforce is made up of white-/blue-collar staff (employees in administrative functions), while about one third are at junior/middle management level. In Belgium, however, junior/middle management accounts for over 40% of the region's workforce, whilst one fourth of Central and Eastern European staff falls in this category. The overwhelming majority of Central and Eastern European employees (73%) are white-/blue-collar staff (vs. 54% in Belgium and 51% in the rest of the world).
- Although full-time employees are still in the majority, the number of employees electing to work part time throughout the group rose 10% year-on-year and represents 16% of the total headcount. 94% of Central and Eastern European staff and 91% of employees in the rest of the world work full-time vs. 68% in Belgium.
- The average KBC employee is 39 years old (unchanged) and has been working an average 12 years in the group (+1 year), implying a high degree of loyalty to the company. On a regional basis, the average employee in Belgium is older than his/her Central and Eastern European or rest-of-the-world counterpart (42.6 vs. 35.1 and 34.4 years old, respectively) and tends to have a much longer career record in the group (17.8 years in Belgium vs. 5.1 in the other two regions). Moreover, compared with 2006, the average age and seniority edged up slightly for Belgium and declined in both Central and Eastern Europe and the rest of the world.
- Finally, more than 60% of staff members have had at least 3 years

of university or post-graduate education (and about one-third have a Master's degree or higher).

The information provided in the rest of this chapter cover all the major group entities, with the exception of our new acquisitions in Bulgaria, Romania, Serbia and Russia.

## 3 EMPLOYEE SATISFACTION

At KBC, we attach a great deal of importance to employee satisfaction, as retention of a talented workforce is critical to a company's success. The most common measure to track employee satisfaction is via specially designed satisfaction surveys that are carried out periodically. Based on the results of these surveys, appropriate measures can be taken to amend or enhance those areas of weakness. Although no standardised employee satisfaction survey has been deployed yet for the entire KBC group, we are encouraging our local entities to initiate similar surveys as part of our overall drive to implement uniform standards for human resources management (HRM) throughout the group. See the table for the most recent surveys and basic results.

<sup>62</sup> The data presented herein are based on estimates and extrapolations as the case may be. The basic indicators cover all of our group entities, including those in our new markets.

<sup>63</sup> Rest of the world = our non-Belgian entities within our merchant banking and private banking (KBL European Private Banking) arms.

## OVERVIEW OF EMPLOYEE SATISFACTION SURVEYS BY REGION

Region	Regional coverage	frequency	latest date	outcome
Belgium	80% of staff	once or twice a year <sup>1</sup>	2006	Due to the excellent results of 2006 and absence of any perceived change in sentiment, no survey was conducted at the end of 2007. The next one is expected in late 2008. <sup>2</sup>
CEE	Czech R. + Slovakia <sup>3</sup>	every two years	2007	Average satisfaction of 75% vis-à-vis average of 65% for benchmarked banks in the region
CEE	Hungary <sup>4</sup>	every two years	2007	Main strength of the company is a high level of satisfaction with the work and team environments, while areas of improvement include streamlining work processes
CEE	Poland (banking) <sup>5</sup>	every two years	2006	The first survey was carried out in 2006; the next one is expected in 2008
Rest of the world	Luxembourg	every two years	2007	First-time survey – action plan to boost people-management skills in the upper echelons, better communication (including a new image and improvements in the various internal communication channels) and enhance quality of life at work <sup>6</sup>

1 95% satisfied to extremely satisfied

2 See p. 40 of KBC's 2006 CSR Report.

3 ČSOB Group Health Measurement, January 2007. The previous survey was held in November 2004 in ČSOB Bank in the Czech Republic.

4 K&H Employment Engagement Survey, 2007, conducted by Hewitt Associates.

5 "Employee Opinion/Satisfaction Survey, Summary of Findings, Kredyt Bank", 2006, conducted by Catalyst. The average response was satisfactory.

6 Reported in the special edition of KBL's in-house staff newspaper, December 2007.

Open, transparent communication is essential at all levels to ensure that all employees are well informed on all matters that affect the company and its staff. Various internal channels, such as the intranet, not only provide the means to communicate important news, but also serve to propagate our values throughout the KBC environment, as well as enabling employees to voice their opinions and/or concerns. In addition to locally based intranets, a group-wide site is in full operation, as well, with the purpose of providing a single, uniform platform to introduce new group strategies, policies and guidelines to all KBC entities.

Other channels include entity-specific magazines and newspapers in our Belgian and Central and Eastern European home markets and at the larger entities in the rest of the world (e.g., KBL and the European Private Banking network). Besides these channels, employees may discuss personal problems confidentially with their personnel adviser or a member of the Compliance Division, if the problem is related to financial ethics. In Belgium and at KBL Luxembourg (in the first quarter of 2008), professional psychologists or social workers are also on hand to assist with particular problems arising from undesirable behaviour by members of staff, including violence, bullying and sexual harassment.

## EMPLOYEE ABSENTEEISM, KBC GROUP (IN %)

due to	2005	2006	2007
Sickness	3.78	3.41	3.24
Maternity leave <sup>1</sup>	2.10	2.01	1.90
Accidents <sup>2</sup>	0.11	0.11	0.04
<b>TOTAL (group)</b>	<b>5.99</b>	<b>5.53</b>	<b>5.18</b>
<i>In Belgium<sup>3</sup></i>	<i>3.87</i>	<i>3.83</i>	<i>3.45</i>
<i>In CEE</i>	<i>8.10</i>	<i>6.97</i>	<i>6.67</i>
<i>In ROW</i>	<i>3.46</i>	<i>3.54</i>	<i>3.15</i>

1 The guaranteed period for maternity leave differs from country to country, ranging from 15 weeks in Belgium to three years in the main countries of Central and Eastern Europe.

2 The definition of 'accidents' varies from region to region. For some regions, an accident is defined as an event that occurs within office premises only, other regions include accidents that occur on the way to and from work.

3 The figures applying to Belgium for 2005 and 2006 have been restated to take account of inaccuracies in the 2006 CSR Report.

Employee absenteeism<sup>64</sup> may be construed as another indicator of employee satisfaction, albeit one that should be used with care. According to the table above, employee absenteeism at group level declined in 2007 in all areas. From a regional perspective, absenteeism was still highest in Central and Eastern Europe, but in a declining trend since 2005, parallel with that of KBC Belgium and entities in the rest of the world. All three geographic areas saw an improvement in all causes of absenteeism.

On the other hand, integration and nurturing of 'attachment' to the organisation have been stepped up in recent times, as evidenced by the introduction of new, harmonised logos for all entities throughout much of the group. Moreover, there has been a greater flow of cross-border labour, with more employees from our Central and Eastern European subsidiaries being seconded to our head office in Belgium, on top of the 'traditional' flow of Belgian expatriates to international entities.

In addition, we launched the 'PRO' initiative in September 2007. This focuses on our main values of being Professional ('P'), Respectful ('R') and Open ('O'), both within the company (amongst staff) and externally (to our customers) and is being used as a theme in various communication channels. The aim is to ensure the assimilation of

these values within the entire organisation and in the day-to-day operations carried out at KBC.

Other ongoing projects at KBC aimed at helping employees feel more integrated in the company and enhancing the work-life balance are described in the 2006 CSR Report.

The 2008 Belgian version of the annual 'Great Places to Work' survey (conducted by the Vlerick Leuven Gent Management School) rated KBC as the only financial institution amongst the top ten best employers in Belgium for companies with more than 500 employees<sup>65</sup>. Additionally, KBC came in tenth out of the top 32 in the latest survey on 'The Best Place to Work in the Global Financial Markets', based on employee votes collected from around the world, and leaping from 28<sup>th</sup> place the previous year<sup>66</sup>.

<sup>64</sup> Absenteeism is calculated here as the percentage of days absent due to sickness/maternity leave/accidents during the standard employment year (excluding weekends, national and banking holidays, and unpaid leave days). The standard employment year in each country differs, so that the total outcome is based on a weighted average according to the total number of FTEs per country. The 2007 figures cover 85% of the group (2006 and 2005 data represent 92% and 83% of the Group, respectively). When excluding the newly acquired entities in Bulgaria, Romania, Serbia and Russia, the percentage rises to 95% of the group.

<sup>65</sup> The results were announced mid-March 2008. Also known as the 'Best Employer' survey.

<sup>66</sup> The survey was conducted by 'Here is the City', a London-based financial Web site. (see [http://news.hereisthecity.com/news/business\\_news/7591.cntns](http://news.hereisthecity.com/news/business_news/7591.cntns))

## 4 STAFFING LEVELS AND REMUNERATION POLICY

### 4.1 Staffing levels

In 2007, the total number of employees grew by over 7 000 full-time equivalents (FTEs), nearly 15% year-on-year. The greatest increase on a regional basis was in Central and Eastern Europe (up 26%), largely due to our new acquisitions in Bulgaria, Romania, Russia and Serbia.

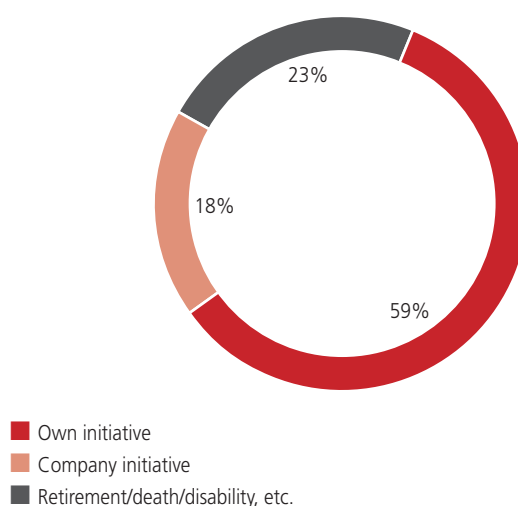
At the same time, our internal and external recruitment both continued apace in 2007 to replace staff departures and to fill new positions. In Belgium, given the tight job market, the inversion of the demographic pyramid and the limited pool of qualified young graduates, the recruitment procedure was revamped and new initiatives were launched to attract candidates (general stepping up of communication efforts, the launch of a new recruitment Web site and a series of job fairs in the second half of 2007, with the aim to engage another 800 to 1 000 staff in 2008).

Outside of Belgium, our Central and Eastern European companies oversaw more recruitment initiatives on the whole, as well, such as in the Czech Republic and Hungary (focused mainly on attracting new retail branch staff), Slovakia (a job fair and analyst trainee programme), while recruitment was stepped up at our consumer finance arm in Poland.

As in the previous two years, the main reason for employee departures in 2007 for the group as a whole was once again on account of personal reasons (59%). By geographic region, this was also the case in all three areas, particularly in the rest of the world<sup>67</sup>.

A breakdown of the reasons underlying employee departures is provided in the pie chart.

*Reasons for employee departures, KBC group (2007)*



<sup>67</sup> Belgium: 56%, Central & Eastern Europe: 57%, Rest of the World: 77%

## EMPLOYEE TURNOVER, KBC GROUP

	2006		2007	
	No. of employees	% of total	No. of employees	% of total
New recruits <sup>1</sup>	6 260 <sup>2</sup>	12.6	7 589	12.6
Employee departures	6 115	12.4	6 751 <sup>3</sup>	11.2

1 Excludes new recruits on a temporary contract.

2 This figure does not take into account those employees who transferred between group companies in 2006.

3 Retirement accounted for 8% of total employee departures in 2007.

### 4.2 Remuneration policy

At KBC, we reward commitment, performance and responsibilities assumed on every level with a fair compensation package. We ensure that transparency exists regarding the elements making up the pay package. By means of continual assessment and by adapting our pay policy to changing circumstances, we seek to pay our staff a fair salary that is commensurate with individual staff performance.

We have an equal pay policy for men and women with the same job content and job grade, both in terms of basic monthly salary and with respect to bonuses and other fringe benefits. Staff members are paid a base salary (fixed) and profit-sharing bonus (variable) according to a salary scale based on job content. This means that men and women receive identical salaries within their pay scale and based on their age, as well as identical fringe benefits and identical bonuses in the event of identical performance.

As was the case in 2006, in the Central and Eastern European entities, the remuneration process continues to be under review, including the implementation of new bonus and benefits systems. Many of the entities have implemented or are contemplating implementation of a bonus scheme based on individual or team performance with reduced emphasis on a company-related bonus, which has so far constituted the bulk of variable compensation in an employee's pay package.

As for the entities in the rest of the world, the remuneration policy is much more diversified, depending on the type of activities and

prevailing local market conditions, so that no consistent trend can be determined.

## 5 EQUAL TREATMENT AND NON-DISCRIMINATION

KBC supports the right to equal opportunity and non-discrimination, as underlined in our employee policy. We are also a signatory to specific Belgian charters on diversity and non-discrimination<sup>68</sup>. In Central and Eastern Europe, we comply with strict laws and regulations in this regard, while in the rest of the world, our commercial banking operations have either an equal opportunities policy in place or comply with the anti-discrimination laws where the entities are established. And, in Luxembourg, KBL's adherence to the national CSR charter also reflects our desire to promote diversity on the work floor.

Indeed, at KBC, we insist on a high standard of professionalism, integrity and commitment from our employees, and anyone who meets these standards has equal recruitment and career development opportunities. We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation. The recruitment, deployment, promotion and remuneration of our employees takes place on the basis of each individual's intrinsic qualities, such as his or her knowledge and skills, competence, development potential and added value and his/her performance. In Belgium, we have also drawn up and communicated a procedure via

<sup>68</sup> In Belgium: *Vlaams Manifest van het Bedrijfsleven tegen Sociale Uitsluiting van Migranten* ('Flemish Trade and Industry Manifesto against the Social Exclusion of Migrants') of the Flemish employer's federation; the *Ondernemers tegen racisme en voor diversiteit* ('Flemish entrepreneurs against racism and for diversity') charter, the *Charter voor diversiteit in de onderneming* ('Charter for diversity in the company') of the Brussels Region and the *Ondernemersplatform Diversiteit* (the Belgian Entrepreneurs' Diversity Platform).

the company intranet to preclude or do away with all forms of violence, bullying and sexual harassment at work.

## Women employees

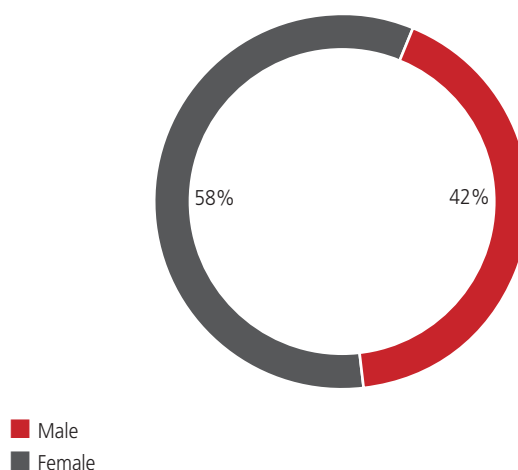
Group-wide, approximately one out of five senior managers is female, rising to almost one in three at our Central and Eastern European entities. Belgium still lags at around 11%. Indeed, we have been keeping track of the percentage of women in management functions in Belgium over the last few years to determine ways of redressing the 'glass ceiling' phenomenon<sup>69</sup>. We have seen that the number of qualified women joining KBC has been at consistently high levels in recent years, resulting in a growing pool of women in management functions. Our approach towards promoting a healthy work-life balance has also enabled our employees to combine jobs carrying a higher level of responsibility with their family life<sup>70</sup>.

Regional distributions can be found in Appendix 4.

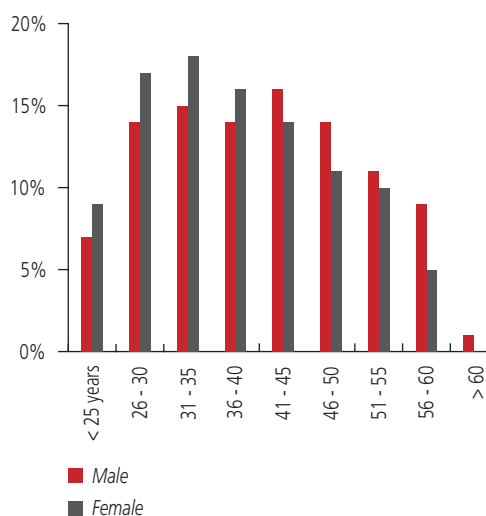
## 6 SOCIAL DIALOGUE

Our employee policy specifically states that a properly working, constructive social dialogue forms a basic building block within our corporate culture. Indeed, we are committed to safeguard the right to freedom of association and collective bargaining for employees<sup>71</sup>. At KBC, every employee may become a member of one of the employee unions or submit his/her candidacy via such an organisation for a mandate in the official consultative bodies. Our desire to maintain social dialogue is illustrated by the fact that the trade unions are viewed as true 'social partners' at our Belgian operations. However, as trade unions are not as well-established in our non-Belgian entities, we have committed ourselves to encourage social dialogue in the various countries in which we operate. One consequence is that KBC's group-level European Works Council

**Breakdown by gender - KBC group 2007**



**Breakdown by age and gender - KBC group 2007**



<sup>69</sup> An invisible barrier that prevents women from advancing to senior levels of management.

<sup>70</sup> Including possibilities for part-time work, provision of childcare facilities during extended school holiday periods, flexible working hours, local working, measures to resolve mobility problems, etc.

<sup>71</sup> One of the fundamental tenets that is also set out in our Human Rights Policy Statement and is part of our commitment to the UN Global Compact: Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right of collective bargaining.



(EWC) meetings now include the participation not only of representatives from Belgium, but from those of Central and Eastern Europe, as well.

We are unable to publish the number of union members at KBC due to privacy concerns. However, our central HR department is charged with serving as intermediary in all matters of social dialogue in both Belgium and Central and Eastern Europe.

Last but not least, in a study conducted in 2007 by UNI Finance Global Union<sup>72</sup>, KBC was recognised as being in the top four out of thirty-five companies in the financial sector demonstrating best practice as regards the right to freedom of association and collective bargaining for employees.

## TRAINING COSTS<sup>73</sup>

All	Cost in 1 000s of EUR	Number of FTEs covered	Cost/FTE
2006	52 844	41 046	1 287 EUR
2007	64 044	39 055	1 640 EUR

## 7 TALENT DEVELOPMENT AND KNOWLEDGE MANAGEMENT

At KBC, our vision on training and talent development is based on the fundamental belief that all employees have skills and talents, that appropriate remuneration should be paid for these talents and opportunities should be provided for their further development. We therefore devote substantial time and effort not only in providing training to our employees, but in the development of the courses themselves, with the available range being continually reviewed and updated.

This is also reflected in our expenditure on in-house training. As shown in the table above, the absolute and the relative costs per full-time equivalent (FTE) went up significantly between 2006 and 2007. The costs cover staff employed full time and any facilities used exclusively for the purpose of in-house classes (e.g., the Learning Centre in Belgium), as well as all costs associated with instructors (including members of staff who volunteer their work time to teach a class) and any equipment or supplies.

At KBC, we offer a differentiated range of developmental possibilities, taking account of an individual's skills. Various types of training tools are available (classical, individual study, learning on the job, etc.) across the entire banking and insurance spectrum. In Belgium, employees may consult and sign up for courses via an in-house, on-line catalogue. Depending on the envisaged goal, we arrange courses for in-class training, individual study or e-learning, while employees may also opt for non-work-related evening courses free of charge. Specific training programmes for new employees and particular job categories are also provided, as well.

We identify employees' competencies by means of career assessment surveys. This in turn enables us to draw up customised career development plans and facilitates the exchange of competencies within the group on an objective basis. Our strong emphasis on employee training has led to the setting up of a systematic training 'ladder' in tandem with career goals. For new or recent recruits, we offer the KBC Bachelor and KBC Master programmes, covering all aspects of banking and insurance. Moreover, for young talented staff members with managerial potential, more advanced pro-

<sup>72</sup> UNI Finance Global Union is an international trade union representing employees in the financial sector. The 'UN Global Compact Survey' was carried out in late 2006-early 2007 to investigate how Principle 3 of the UN Global Compact is being implemented in practice within the financial sector.

See [http://www.union-network.org/unifinance.nsf/\\$webDocuments/CBD596FF0AF8359DC1257355004AA88B?Opendocument](http://www.union-network.org/unifinance.nsf/$webDocuments/CBD596FF0AF8359DC1257355004AA88B?Opendocument)

<sup>73</sup> Training costs cover 77% of the Group in 2007 (83% in 2006) – based on total FTEs of 50 738 (excluding all new acquisitions in Central and Eastern Europe). The number of Belgian FTEs covered is based on an average number of FTEs over 2007, whereas, for Central and Eastern Europe and for the rest of the world, assumptions were made on the basis of the year-end FTEs for each of the companies that provided data on the costs.

## BREAKDOWN OF COURSES ACCORDING TO COURSE DAYS

	2005	2006	2007
Number of course participant days (total)	277 956	282 315	290 656
In-house courses	187 045	207 709	193 844
External courses	90 911	74 607	96 812
Average number of training days per FTE*	7.44	6.88	7.44

\* Total number of course participant days divided by number of FTEs covered (see Training costs table).

grammes are available, including the internationally geared 'KBC Academy', an intensive, five-week-long module for promising young 'high potentials' throughout the group's international network.

According to the table above, in 2007, the total number of course participant days went up somewhat, as did the average number of training days per full-time equivalent (FTE), which climbed back to 2005 levels.

## 8 HEALTH AND SAFETY

Our employees are our lifeblood. Occupational health and safety is therefore an important matter at KBC and at our subsidiaries. We ensure that health benefits are made available to our staff on top of any national government schemes in this regard. We also devote attention to the physical and psychological well-being of our employees and strive to ensure a safe and healthy working environment.

In Belgium, we have an in-house health, safety and security department which covers our group entities in the country. Its main focus is on the prevention of accidents at work and to safeguard the wellbeing of our staff and includes a medical service with certified doctors and nurses, professional psychologists, advisers in ergonomics and hygiene/sanitation. The initiatives taken by the health, safety and security department stem from yearly action plans and have also been approved by the various local Health and Safety Committees. For example, in 2007, there were internal campaigns on how to manage verbal aggression by customers and security awareness at branches (production of DVDs), 'Start to Run' jogging groups and a 'feel good week' with healthy menus in company restaurants.

In Central and Eastern Europe, health care is provided in accordance with national laws. Additionally, our Hungarian arm has an in-house prevention department with eight members who are hired on a contractual basis. Regular reviews are conducted there on the status of occupational health and ergonomics, and professional psychologists are on duty to help staff in case of incidents of aggression. In Poland, our banking and insurance units provide medical care for staff via external providers, while at our Czech and Slovak banking units, all employees are covered by a health programme with the possibility to register for standard medical checkups every two years.

In our banking operations in the rest of the world, our German unit has established an in-house prevention department in co-operation with an external organisation, while our Irish arm has appointed first aid officers and fire marshals. And in Luxembourg, our private banking entity there decided to hire a full-time independent professional social worker to provide psychological counselling to staff.

In Belgium, KBC also provides assistance in the case of other non-work-related accidents or hospital admissions (e.g., payment of hospitalisation expenses via an insurance policy, guaranteed income, repatriation from abroad, income top-up in the event of long-term incapacity for work, etc.). In the event of death - whether or not due to a work-related accident - there are also a number of financial assistance schemes for the next of kin (a lifelong annuity for the spouse and minor children, etc.). In Central and Eastern Europe, KBC's Polish arm provides medical care for employee families. In the rest of the world, some of our companies either extend health insurance cover (including some in the European Private Banking network) or provide it on an optional basis for employee spouses

and dependents (for example, in the UK and Ireland), in accordance with the local regulations in force.

In addition, employees may also opt to enrol in a KBC pension plan, if available. In Belgium, this may be either one funded by the employer (defined benefit plan) or one funded by the employee, involving tax-friendly investment with a guaranteed minimum return (defined contribution plan). Many of the established entities in Central and Eastern Europe<sup>74</sup> have introduced voluntary or supplementary pension schemes, while in the rest of the world, pension plans have been implemented in several of the entities belonging to the European private banking network, as well as other areas of operations, where some are based on the defined benefit scheme (such as in Ireland and the US).

Finally, KBC's corporate pension fund, Pensioenfonds, was designated the Best European Fund in 2007, as well as Best Corporate Pension Fund, Best Small Pension Fund and Best Belgian Pension Fund by *Investment & Pensions Europe*, a Europe-wide pensions magazine, in acknowledgement of excellence in pension fund management<sup>75</sup>.

74 Czech Republic, Hungary, Poland, Slovakia

75 See [www.ipe-awards.com](http://www.ipe-awards.com)

# RESPONSIBILITY TOWARDS OUR CUSTOMERS

KEY PRINCIPLES
Group Customer Stakeholder Policy Group Standard for Customer Complaints Handling
KEY PERFORMANCE INDICATOR
Customer satisfaction

## 1 GROUP CUSTOMER POLICY<sup>76</sup>

Another key stakeholder group for KBC is our customers. Indeed, one of our core values at KBC is 'customer-friendliness', as stipulated in our mission statement. Our first aim is to be a **'warm and friendly bancassurer'** towards all of our customers, both current and potential, by providing as much access as possible to our network, physically and virtually. We also place much value on our expertise and professionalism by providing the best solutions to our customers. Our second aim is to be a **'responsible bancassurer'**: we care about our customers' privacy and will handle their personal information with strict confidentiality and discretion. And, we continually attune our products and services to our customers' needs and desires and ensure their satisfaction with what we offer.

These aims are set out in our new group-wide customer policy, which was approved in 2007 and communicated for implementation to all our main retail banking entities in Belgium, Central and Eastern Europe and our European Private Banking network.

## 2 OUR APPROACH IN PRACTICE

Two ways in which we pro-actively cater for our customers are via our customer service departments and our periodic customer satisfaction surveys.

### Our customer service departments

These departments have been set up at almost all of our group entities to handle customer-specific matters, except at most of those which deal exclusively with corporate customers and institutional counterparties. Customers may contact any of the KBC group companies by ringing the company's call centre or via another channel, including by means of e-mail or on-line form available on group company Web sites with any questions, complaints and/or suggestions they may have.

Specific complaint-handling procedures are in place at our main group companies operating in our home markets, at our retail and commercial banking subsidiary in Ireland and throughout most of the European Private Banking network. Consequent on the formal publication of the *Group Customer Stakeholder Policy*, at the end of 2007, the *Group Standard for Customer Complaints Handling* was approved by the Group Operational Risk Committee for implementation in all group entities, including those which have direct relationships with retail, private banking and corporate customers. It is expected to be in place by the first quarter of 2009. The purpose of this Group Standard is:

- to ensure that all complaints are handled with care in order to convince customers that we appreciate their opinion,
- to provide internal guidelines to KBC entities and units on how to organise, manage and report on the process of handling customer complaints in a uniform, consistent and systematic manner, and
- to stress the fact that the handling of complaints is a good managerial tool to maintain and broaden a sound customer base.

The complaints-handling procedure involves electronic databases for employees to register and manage complaints. For complaints received in writing, the routing system stipulates that customers should be sent a letter acknowledging receipt of the complaint in good time, and that the complaint should be handled, on average, within seven to fifteen business days (depending on the country), unless it is a complicated matter and requires more time for investigation<sup>77</sup>.

<sup>76</sup> Group Customer Stakeholder Policy. See [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility).

<sup>77</sup> In Belgium, approximately 4 300 complaints were received in 2007.

## Customer satisfaction surveys

Although there is no uniform group-wide survey, we encourage customer satisfaction surveys at our local entities as another way of understanding our customer needs. In the Central and Eastern European group companies, customer satisfaction surveys in the main existing banking entities have been conducted less frequently or regularly to date compared with our Belgian retail bancassurance service, but the findings of recent surveys have generally been quite good. Customer satisfaction surveys

are expected to be introduced at our Polish insurance arm and our Serbian banking entity in 2008. A summary of the surveys carried out in 2007 is provided in the table.

As for our operations in the rest of the world, our Irish banking subsidiary conducts regular surveys for its home loan customers. Within our European Private Banking network, some of the entities have also conducted surveys, but not systematically – several plan to conduct one in 2008<sup>78</sup>.

### OVERVIEW OF CUSTOMER SATISFACTION SURVEYS BY REGION

Region	Regional coverage	Latest year	Outcome
Belgium	Retail banking and insurance	2007 (June) <sup>1</sup>	<ul style="list-style-type: none"> <li>the number of highly satisfied customers went up<sup>2</sup> - the highest level ever since the first systematic measurement of customer satisfaction.</li> <li>57% of the customers surveyed felt that KBC was better than its peers in Belgium (vs. 54% in 2006)</li> </ul>
CEE	Czech Republic (private individuals)	2006 (year-end)	<ul style="list-style-type: none"> <li>a mean satisfaction index level of 71.1 out of 100 vis-à-vis 67.5 in 2005<sup>3</sup></li> <li>customer loyalty also increased from 73.9 (out of 100) in 2005 to 77.3 in 2006</li> </ul>
CEE	Slovakia	2007 <sup>4</sup>	<ul style="list-style-type: none"> <li>start-up of a 'Service Quality Index'</li> </ul>
CEE	Hungary (retail bank)	2007 (second quarter)	<ul style="list-style-type: none"> <li>63% for overall service quality in the branches and an average 3.05 out of 5 for the loyalty index</li> <li>a majority of individual customers gave an average satisfaction score of 6.0 on a scale from 1 to 7 (5.3 for all peer banks put together)<sup>5</sup>; loyalty index: 80% score (up slightly from start of 2007)</li> <li>for SME<sup>6</sup> and corporate customers<sup>7</sup>, the respective average satisfaction score was 5.3 and 5.5 on the scale from 1 to 7 (slightly down for the first, unchanged for the second); loyalty index: SME and corporate customers each scored 76% (unchanged from the previous year)</li> </ul>
CEE	Poland (private individuals, SME and corporates)	2007 (year-end)	

<sup>1</sup> Surveys in Belgium are carried out every year.

<sup>2</sup> 72% in 2007, compared with 69% in 2006 and 66% in 2005

<sup>3</sup> The 2007 survey results for ČSOB Czech Republic were not yet published at the time of writing.

<sup>4</sup> Based on mystery shopping and calling methods.

<sup>5</sup> Carried out quarterly.

<sup>6</sup> SME customer satisfaction survey for Kredyt Bank – September 2007 – conducted every 6 months

<sup>7</sup> Corporate clients satisfaction survey for Kredyt Bank – December 2007 – conducted every 6 months

<sup>78</sup> In the Netherlands, Germany. The Belgian entity carried out a survey in June 2007, but no results were available at the time of writing.

## Socially responsible products and services

- Banking and insurance products and services for senior citizens:
  - Banking:  
Special exemptions from electronic payment and cash withdrawal charges for older customers and customers with serious handicaps (Belgium), mortgages tailored to older working citizens (Belgium), special bank accounts for senior citizens/retired persons (Czech Republic – including no or lower fees for certain products, Hungary, Serbia).
  - Insurance:  
Motor insurance policy for senior citizens (Belgium).
- Banking and insurance products and services for young people:
  - Special bank accounts, credit cards, mortgages and insurance policies (including motor insurance) are available in both home markets and involve several products and services free of charge or reduced fees (Belgium and Central and Eastern Europe<sup>79</sup>).
- Banking services for low-income citizens are provided in both Belgium<sup>80</sup> and Central and Eastern Europe<sup>81</sup>. In the Czech Republic, a new service was introduced to help low-income citizens and the general public to overcome low financial literacy and the debt trap.
- Socially responsible investment (SRI) funds, including ones with a specific ecological focus (see next section).
- Initiatives aimed at senior customers: PC training courses to introduce senior customers to the Internet (Belgium, Czech Republic), Senior Road Shows to introduce senior customers to various payment techniques, from bank cards to electronic bancassurance (in Belgium).
- Other:
  - an environmental insurance policy in Belgium aiming to cover the customer and to protect the environment,
  - in early 2007, we acted as lead manager for bearer bonds issued by the Belgian parastatal *Fonds ter Reductie van de Globale Energiekost* (Fund for the reduction of overall energy costs) and backed by the Belgian State<sup>82</sup>. The funds collected will be used to extend cheap loans to private consumers wishing to install energy-saving structures in their homes,

- our fleet manager in Belgium introduced the GREENlease label to promote less polluting cars and raise awareness on eco-friendly driving (KBC Autolease – see p. 31)
- discounted products for specific customer segments (Czech Republic), ranging from disabled persons to non-profit organisations and municipalities.

## 3 SOCIALLY RESPONSIBLE INVESTMENT

Socially responsible investment (SRI) at KBC combines traditional financial values with social, ethical, governance and environmental criteria by including them in investment management (saving and investing) in a structural, voluntary and transparent manner. Consultation with the stakeholders is an important part of this process.

For further details regarding our in-house SRI research team and the screening methodology used to determine the KBC SRI universe, see the 2006 CSR Report and our asset management Web site (cf. <http://www.kbcam.be/sustainableinvestment/>).

Some of the activities undertaken by our SRI research team in 2007 included the organisation of 'Shareholder Days' specifically on SRI research and SRI funds in various locations in Belgium, the joint organisation of the NGO breakfast meeting in May 2007 (see p. 33) and a seminar with listed companies to present our SRI screening and evaluation methodology.

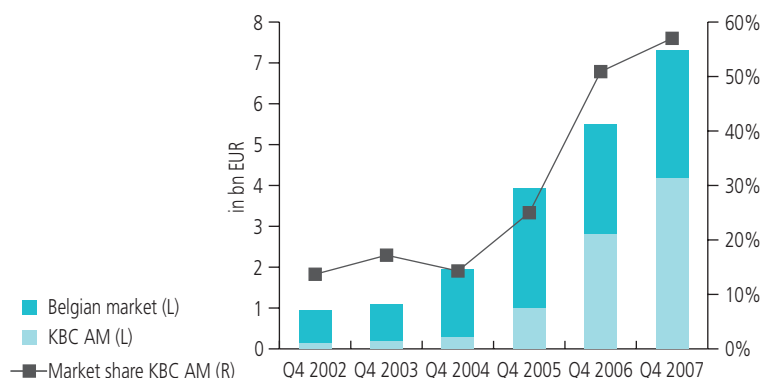
79 Including Serbia.

80 This is offered free of charge to senior citizens and disabled persons.

81 Including Serbia.

82 Gross rate of 3.92% and maturing in 2012 (cf. [www.kbc.be/obligaties/prospectus/](http://www.kbc.be/obligaties/prospectus/) and [www.frge.be](http://www.frge.be))

### SRI fund growth in Belgium



## SOCIALLY RESPONSIBLE INVESTMENT (SRI) FUNDS AT KBC<sup>83</sup>

In 1992, we launched the first SRI fund in Belgium, the KBC Eco Fund, with a focus on ecological values. This fund, renamed KBC Eco Fund World, is the oldest SRI fund in Belgium still in existence. As at year-end 2007, we offered 67 SRI funds investing in equities, bonds or mixed asset classes, of which 47 received the Belgian Socially Responsible and Sustainable Investment label by the Belgian Asset Managers Association (BEAMA, cf. [www.beama.be](http://www.beama.be)).

37 new SRI funds were introduced in 2007, 21 of which are closed-end funds approved by BEAMA. One SRI fund was closed. At the start of 2007, we also launched the first SRI fund with a focus on global warming (KBC Eco Fund Climate Change). This fund invests in shares of companies actively fighting against climate change or making efforts to reduce greenhouse gas emissions. Moreover, the Eco Funds have become more and more popular beyond Europe: for instance, KBC Eco Fund Water was successfully launched in Eastern Asia (Korea, Japan and Taiwan), partly reflecting the growing importance of this theme worldwide<sup>84</sup>.

In addition, we launched several of our SRI funds in Central and Eastern Europe (in the Czech Republic, Slovakia and Hungary – under both the KBC and the respective ČSOB and K&H brands)<sup>85</sup>. Our SRI funds are also marketed in some areas of our merchant banking operations and our European Private Banking network (in Luxembourg, Germany and the Netherlands).

As at year-end 2007, the amount of capital in KBC's officially approved SRI funds came to 4.2 billion euros, up from around 2.8 billion euros a year earlier. This represents about 5% of total assets under management at KBC's asset management division (KBC AM). Moreover, KBC's share of the SRI fund business was approximately 57% at the end of 2007, as opposed to 51% at the start of the same year (according to BEAMA, the total Belgian SRI fund business at year-end 2007 amounted to 7.3 billion euros), with 85% market share in SRI funds with capital protection. (The bar chart covers BEAMA-approved funds only.)

<sup>83</sup> See [www.kbcam.be/sustainableinvestment](http://www.kbcam.be/sustainableinvestment).

<sup>84</sup> 22 March 2008 has been designated 'World Water Day' by the UN to raise awareness on the issue of water scarcity.

<sup>85</sup> In the Czech Republic, ČSOB and the Postal Savings Bank in the Czech Republic offer the ČSOB Climate Change Fund and the ČSOB Water Wealth Fund, both administered by KBC Asset Management. ČSOB Slovakia offers five funds from the World Sustainable sub-funds of KBC Equimax, KBC Equisafe and KBC Equiselect series. In Hungary, K&H's Eco Fund series was awarded first prize in the 'Savings Product of the Year' in 2007 by MasterCard's Bank of the Year programme.

## RESPONSIBILITY TOWARDS OUR SUPPLIERS

KEY PRINCIPLES
Group Suppliers/Contractors Policy
KEY FOCUS FOR 2008
<i>Revision of internal Belgian Standard Administrative Guidelines concerning Suppliers/Contractors and group-wide dissemination for information purposes</i>

### 1 GROUP SUPPLIER POLICY<sup>86</sup>

The issue of supplier and supply-chain management has become more and more prominent in the financial sector in recent times. Consequent on this and conscious of the need to uphold our CSR values in our relationships with our suppliers and contractors, a CSR policy highlighting this particular stakeholder group was approved in 2007. All of KBC's procurement and outsourced activities are covered by this policy, including IT-related matters, logistics (transportation, office equipment, printing services, etc.), facility services (cleaning, utilities, catering services, technical installations, etc.) and marketing support services (translation services, product merchandising, etc.).

The main principles are as follows:

- Raising CSR awareness in the supply chain, including factors such as ethical and labour considerations, security of supply and the environmental footprint.
- Objectives of KBC's procurement departments regarding the supply chain and the environment:
  - to secure services and products generating as low an environmental impact as is reasonably achievable,
  - to work with suppliers to create services and products that further KBC's progress towards sustainable development, whilst meeting KBC's economic targets.
- Incorporation of the Ten Universal Principles of the UN Global Compact within internal outsourcing and procurement guidelines (e.g. via laying down of minimum sustainability requirements in tenders and contracts, based on the Global Compact principles).
- Obliging key suppliers/contractors to induce their subcontractors to comply with the same CSR principles.

The Group Supplier/Contractor Policy focuses particularly on key suppliers/contractors in the main cost areas of each KBC group entity and on suppliers/contractors operating in cost areas that are affected by CSR concerns (e.g., toxic waste disposal), who are to be actively monitored vis-à-vis this policy.

As part of the implementation process, we are now in the process of revamping existing supplier/contractor guidelines available in Belgium for our group-wide entities. These guidelines have already introduced a sustainability clause in procurement contracts with third-party suppliers and in real estate contract work to ensure that environmentally-friendly products are used.

<sup>86</sup> See [www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility).



## 2 BASIC DATA

We initiated the collection of data on our suppliers in 2007 in line with our environmental data collection procedure, by limiting our scope to the same entities (countries) covered by the latter. We have not yet determined particular key performance indicators for this area, but provide some information below for 2007. We intend to enhance our reporting on our suppliers in future.

Regarding the number of suppliers on a regional basis:

Belgium<sup>87</sup>: 40 585

Central and Eastern Europe<sup>88</sup>: 5 194 (permanent or active suppliers)

Rest of the world<sup>89</sup>: 650 (active/large active suppliers)

The main areas of procurement include communications/IT, office supplies, facility maintenance and security, and utilities (in Central and Eastern Europe).

As for the proportion of spending on local suppliers, this ranges from 70 to 100% (including local establishments of international companies).

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<sup>87</sup> The procurement process has been centralised for the majority of the entities.

<sup>88</sup> The countries covered are Czech Republic, Slovakia, Hungary, Poland and Serbia. Each country manages its own procurement process.

<sup>89</sup> The countries covered are Ireland and Luxembourg.

## RESPONSIBILITY TOWARDS OUR SHAREHOLDERS & INVESTORS

### KEY PRINCIPLES

#### Group Investor Relations Policy

The Group Investor Relations Policy applies at group level to address our commitments to our shareholders and investors – including members of the SRI community – in the legal entity, KBC Group NV, and its direct subsidiaries, KBC Bank NV, KBC Insurance NV and Kredietbank S.A. Luxembourgeoise<sup>90</sup> (as issuers and/or guarantors of publicly-traded debt instruments).

The main principles in our policy include the following:

- we are committed to providing timely, transparent, consistent and credible information on our corporate strategies, trends and financial data to the investment community

- the information is disseminated via various channels and by active participation in investor roadshows and conferences, as well as via meetings with senior management
- all parties in the investment community have fair access to information we provide
- we will avoid selective information disclosure at all times
- the handling of insider information by authorised employees is strictly governed by an internal code
- we will never deny any analyst or investor access to information or company officials on account of their negative recommendation or decision no longer to hold the company's securities.
- we will never attempt to exert pressure on an analyst to change his or her analysis or recommendation on KBC.

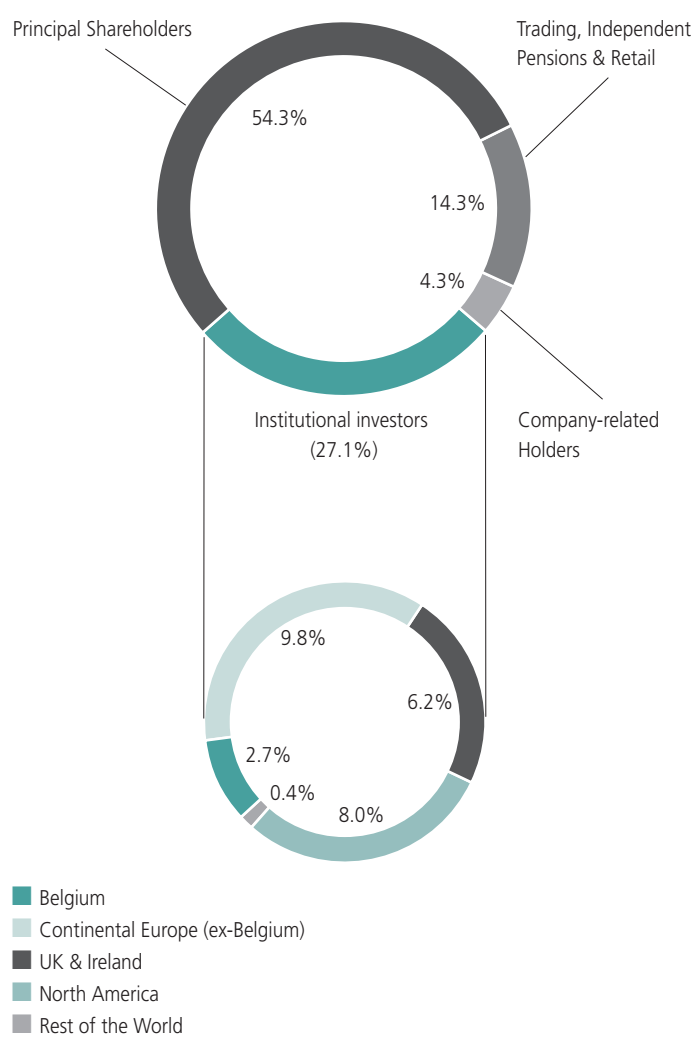
A more detailed description was provided in the 2006 CSR Report and the full text of the policy is available on [www.kbc.com](http://www.kbc.com).

The pie chart provides an overview of the shareholder composition of KBC Group NV, with a geographic breakdown of where our institutional investors are located.<sup>91</sup>

<sup>90</sup> KBL

<sup>91</sup> Source of chart data: CapitalBridge

### Shareholder composition, KBC Group NV (January 2008)



# INDEPENDENT ASSURANCE REPORT

## TO THE STAKEHOLDERS OF KBC GROUP

### Engagement and responsibilities

We have been engaged by KBC Group NV ("KBC") to perform a limited assurance engagement on the KBC Corporate Social Responsibility Report 2007 ("the Report"). The scope of the Report, including any inherent limitations that could affect the reliability of the information contained therein, is set out in the sections "Scope of the report" and "Reporting policy and disclaimer" of the Report. The Report is the responsibility of the management of KBC. Our responsibility as independent auditor is to provide limited assurance about the reliability of the quantitative information contained in the Report and about whether the description of policies and measures in the Report, properly reflects the efforts made in 2007. A limited assurance engagement provides less assurance than an audit.

### Criteria and reporting principles

There are currently no generally accepted criteria for reporting sustainability performance in Belgium. KBC applies its own internal sustainability performance reporting criteria, which are primarily derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative ("GRI") level B+. This is detailed in sections "Reporting policy and disclaimer" and "Scope of the report" of the Report.

### Scope of work performed

We conducted our procedures in accordance with the International Standard for Assurance Engagements 3000 ("ISAE 3000"): *"Assurance Engagements other than Audits or Reviews of Historical Financial Information"* and the Code of Ethics, issued by the International Federation of Accountants ("IFAC").

The comparative figures in the Report have been changed compared to the prior year report to reflect the changed presentation of these quantitative data in 2007. This comparative information has not been subject to any procedures.

We have performed the procedures deemed necessary to provide a reasonable basis for our conclusions. Our principal procedures can be summarised as follows:

- Obtaining an understanding of the sector and its relevant social responsibility matters specific for KBC.
- Assessing the acceptability of the criteria, for reporting sustainability performance and reporting principles used and significant estimates and calculations made in preparing the Report.
- Performing analytical procedures at both Group and identified Business Unit level to assess the quantitative data;
- Examining, on a test basis relevant company documents and evidence supporting the descriptive and quantitative data provided.
- Conducting interviews with responsible company officers in Belgium, Czech Republic, Slovakia, Poland, Hungary, London, Luxembourg and Dublin.
- Evaluating the overall view presented in the Report, in part by testing its contents against the guidelines as issued by the GRI.

### Conclusions

Based on the procedures performed, nothing came to our attention that causes us to believe that:

- The description of policies and measures in the KBC Group Corporate Social Responsibility Report 2007 do not properly reflect the efforts made in 2007; and
- The quantitative data included in the KBC Group Corporate Social Responsibility Report 2007 are not free of material misstatement.

Without qualifying our limited assurance opinion, we refer to the section "Scope of this Report" where management explains the uncertainties with respect to the environmental data of the non Belgian entities (particularly in Central and Eastern Europe) as specified in Appendix 3 to the Report and where due to this uncertainty, management has extrapolated the data for the Belgian entities to the whole group. Management has initiated a set of actions with the objective to improve reliability and consistency of the environmental data in respect of the Central and Eastern European entities in the course of the next two years.

Brussels, 4 April 2008

Ernst & Young Bedrijfsrevisoren BCVBA  
Represented by

Harry Everaerts  
Partner



## GRI – G<sub>3</sub> INDEX

We are applying the B+ level to our report and have covered the minimum required disclosures associated with this level, as well as the inclusion of the Financial Sector Supplements (social and environmental indicators).

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	<b>G3 Profile Disclosures</b> OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	<b>G3 Management Approach Disclosures</b> OUTPUT	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	<b>G3 Performance Indicators &amp; Sector Supplement Performance Indicators</b> OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	

\*Sector supplement in final version

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4.5 Compensation of highest governance body	AR, Corporate Governance Charter	EN 20 NOx, SOx air emissions	NR
		EN 21 Total water discharge	NR

<sup>1</sup> NA = not applicable; NR = not reported, AR = KBC's 2007 Annual Report.

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<sup>1</sup> NA = not applicable; NR = not reported, AR = KBC's 2007 Annual Report.

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F2 Screening of environmental risks	24-29	F9 Assets subjected to screening	25-27, 53
F3 Threshold(s) for risk assessment	24-27	F10 Share voting policy	28
F4 Monitoring aspects raised in risk assessment process(es)	25-27	F11 Assets under management with right to vote shares	28
F5 Addressing risks and opportunities	25-28	F12 Value of products and services	NR
		F13 Value of portfolio	NR

## DISCLOSURE ON MANAGEMENT APPROACH

	Materiality	Responsibility	Policy	Objectives and performance	Training	Monitoring
Economic	Economic Performance Market Presence Indirect Economic Impacts	Group Executive Committee	AR	AR	NA	AR
Environment	Materials Energy Water Emissions, Effluents, Waste Transport	Facilities  Human Resources (for Transport)	p. 30	pp. 30-31, 66-67	pp. 30-31, 47-48	pp. 30-31, 54
Labour practices	Employment Labour Relations Occupational Health & Safety Training and Education Diversity and Equal Opportunity	Human Resources	p. 40	pp. 40-49	pp. 41-49	pp. 41-49, 54
Human Rights	Investment & Procurement  Non-discrimination Freedom of Association & Collective Bargaining	Asset Management/ Facilities  Human Resources	Human Rights Policy Statement, pp. 28, 54  p. 40	pp. 28-29, 52-54  pp. 45-47	NR  pp. 45-48	pp. 28-29, 54  pp. 45-47
Society	Community  Corruption Public Policy Anti-competitive Behaviour Compliance	Sponsorship  Compliance	p. 35  pp. 22-23, 35	pp. 35-37, 70-71  pp. 22-23	pp. 35-37  pp. 22-23	pp. 35-37  pp. 22-23
Product responsibility	Product & Service Labelling Marketing Communications Customer Privacy Compliance	Business lines Marketing/ Communications  Compliance	p. 50	pp. 23, 50-53	pp. 23, 47-48, 50-53	pp. 23, 50-53

<sup>1</sup> NA = not applicable; NR = not reported, AR = KBC's 2007 Annual Report.



## GLOBAL COMPACT – GRI CROSS-REFERENCE TABLE

Global Compact Issue Areas	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Human Rights	Principle 1 – Businesses should support and respect the protection of internationally proclaimed human rights.	HR1-9	LA4, LA13, LA14 ; SO1
	Principle 2 – Businesses should ensure that they are not complicit in human rights abuses.	HR1-2, HR8	
Labour Standards	Principle 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	HR5; LA4, LA5	
	Principle 4 – Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7	HR1-3
	Principle 5 – Businesses should uphold the effective abolition of child labour.	HR6	HR1-3
	Principle 6 – Businesses should uphold the elimination of discrimination in respect of employment and occupation.	HR4; LA2, LA13, LA14	HR1, 2; EC5, EC7; LA3
Environment	Principle 7 – Businesses should support a precautionary approach to environmental challenges.	Profile Disclosure 4.11	EC2
	Principle 8 – Businesses should undertake initiatives to promote greater environmental responsibility.	EN2, EN 5-7, EN10, EN13-14, EN18, EN21-22, EN26-27, EN30	EC2; EN1, EN3-4, EN8-9, EN11-12, EN15-17, EN19-20, EN23-25, EN28-29; PR3-4
	Principle 9 – Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN2, EN5-7, EN10, EN18, EN26-27	
Anti-Corruption	Principle 10 – Businesses should work against all forms of corruption, including extortion and bribery.	SO2-4	SO5-6

## APPENDICES

### Appendix 1: KBC's financial results<sup>92</sup>

Consolidated income statement, KBC Group (in millions of EUR, IFRS)	2006	2007
Net interest income	4 158	4 089
Gross earned premiums, insurance	3 321	3 989
Dividend income	211	256
Net (un)realised gains from financial instruments at fair value	1 370	1 642
Net realised gains from available-for-sale assets	513	682
Net fee and commission income	1 865	1 993
Other net income	1 119	619
<b>Total income</b>	<b>12 556</b> <b>(11 644 underlying)</b>	<b>13 271</b> <b>(12 745 underlying)</b>
Operating expenses	-4 925	-5 219
Impairment	-175	-267
Gross technical charges, insurance	-2 843	-3 404
Ceded reinsurance result	-63	-64
Share in results of associated companies	45	56
Profit before tax	4 595	4 373
Income tax expense	-1 002	-970
Profit after tax	3 593	3 403
attributable to minority interests	163	123
attributable to the equity holders of the parent	3 430 (2 548 underlying)	3 281 (2 938 underlying)
Belgium Business Unit	1 202	1 402
Central & Eastern Europe and Russia Business Unit	464	664
Merchant Banking Business Unit	872	833
European Private Banking Business Unit	678	210
Group centre Business Unit	214	172

Consolidated balance sheet, end of period (in millions of EUR)	2006	2007
Total assets	325 400	355 597
Loans and advances to customers	127 152	147 051
Securities	111 959	105 023
Deposits from customers and debt securities	179 488	192 135
Gross technical provisions and liabilities under investment contracts, insurance	25 121	26 833
Parent shareholders' equity	17 219	17 348
Risk-weighted assets, banking (Basel I)	128 968	154 054
KBC share		
Number of shares outstanding, end of period ('000)	363 217	355 115
Share price at year-end (in EUR)	92.9	96.2
Equity market capitalisation, end of period (in billions of EUR)	33.7	34.2
Ratios		
Return on equity (based on underlying profit)	18%	18%
Cost/income ratio, banking (based on underlying profit)	58%	58%
Combined ratio, non-life insurance	96%	96%
Tier-1 ratio, banking	9%	8%
Solvency ratio, insurance	374%	265%

## Appendix 2: CSR policies and principles

Our values are shaped by our Mission Statement and various CSR-related policies, principles and ethical codes. The following are available for download on the KBC group Web site ([www.kbc.com/social\\_responsibility](http://www.kbc.com/social_responsibility)):

Our Mission Statement	Group General Investment Policy
Principles for Socially Responsible Business	Responsible Tax Strategy
Code of Conduct for KBC Group Employees	Group Environmental Policy
Human Rights Policy Statement	Group Employee Policy
Anti-Corruption Policy Statement	Group Customer Policy
Anti-money-laundering certification	Group Supplier/Contractor Policy
Controversial Weapons Policy	Group Investor Relations Policy

Other policies that are in place at KBC include the General Credit Policy Rules, which incorporates a strict policy on arms financing, the Whistleblower Policy, the Know-Your-Customer Policy, Group Standard on Customer Complaints Handling, Group HRM Standards.

## Appendix 3: Environmental data

KBC's environmental performance <sup>1</sup>				2007		2006	
	Number of FTEs	Absolute data	Per FTE	2006 vs. 2005 (per FTE)	Number of FTEs	Absolute data	Per FTE
<b>1) Total internal energy consumption in GJ</b>	<b>51 119</b>	<b>1 801 111</b>	<b>35.2</b>	<b>-17.1%</b>	<b>49 492</b>	<b>2 008 514</b>	<b>42.5</b>
1a) Electricity consumed in GJ		1 117 703	21.9	-12.2%		1 232 736	24.9
1b) Fossil fuels consumed in GJ		683 407	13.4	-23.9%		869 938	17.6
- natural gas		89.5%				88.7%	
- heating oil		10.5%				11.0%	
<b>2) Travel for business purposes in '000 kms</b>	<b>51 119</b>				<b>49 492</b>		
2a) commuter travel		465 931	9 115 kms	-4.9%		474 432	9 586 kms
2b) business travel		251 368	4 917 kms	11.7%		217 862	4 402 kms
<b>3) Total paper consumption in tons</b>	<b>51 119</b>	<b>8 107</b>	<b>0.159</b>	<b>-6.8%</b>	<b>49 492</b>	<b>8 423</b>	<b>0.170</b>
<b>4) Total water consumption in m3</b>	<b>51 119</b>	<b>604 383</b>	<b>11.8</b>	<b>-14.8%</b>	<b>49 492</b>	<b>686 885</b>	<b>13.9</b>
<b>5) Total waste in tons</b>	<b>51 119</b>	<b>11 444</b>	<b>0.224</b>	<b>2.57%</b>	<b>49 492</b>	<b>10 803</b>	<b>0.218</b>
<b>6) Direct and indirect GHG emissions in tons</b>	<b>51 119</b>	<b>166 226</b>	<b>3.25</b>	<b>-8.3%</b>	<b>49 492</b>	<b>175 520</b>	<b>3.55</b>
6a) GHG emissions of direct energy use		119 045	2.33	-29.6%		169 035	3.42
6b) GHG emissions of indirect energy use		47 181	0.92	604%		6 484	0.13

<sup>1</sup> The figures in the table are based on extrapolations made from data reported on Belgian entities (representing approximately 37% of the group) to group level, in accordance with the scope of this report.

Note: The data provided in this table may not correspond with the unaudited, provisional figures appearing in KBC's 2007 Annual Report, due to information updates and methodology changes.

### Methodological notes and main conclusions to the environmental performance table

The total number of full-time equivalents (FTEs) covered for the environmental performance data is 51 119 in 2007 (hence, excluding the new markets of Bulgaria, Romania and Russia). The number of FTEs relating to the indicators covered differs by year. For comparison purposes, it is therefore preferable to focus on the figures per FTE rather than the absolute data.

#### Indicator 1 (Internal energy consumption)

Indicator 1 entails the overall amount of energy used within KBC's buildings<sup>93</sup>. Not included is the fuel consumption for business travel, which is covered by indicator 2 (Business travel).

Internal energy consumption per full-time equivalent (FTE) fell 17% over the year, with a remarkable drop in the use of fossil fuels. Due to the lack of regional data (excepting Belgium), we cannot report

on the aggregate proportion of green energy in total electricity. As regards fossil fuel use, the proportion of natural gas rose to nearly 90%, with corresponding declines in heating oil and coal (to zero). At the regional level, electricity consumption was down in Belgium (where the proportion of green energy used stood at 39%).

#### Indicator 2 (Commuter and business travel)

Indicator 2 covers business trips undertaken by the company's employees. Travel by clients and suppliers is not included. Road travel is defined as business trips undertaken in leased, business or private cars, documented by kilometre.

The relative data show that commuter travel per FTE declined somewhat, while business travel at group level rose. In 2007, rail travel continued to be the preferred means for commuting (47%), followed by road travel (40%)<sup>94</sup>. On the other hand, road travel was still the most popular form of business travel (65%), although air travel for business purposes rose, too<sup>95</sup> (probably on account of the

<sup>93</sup> Although district heating is still used in some Central and Eastern European entities, we did not include this information in the above table.

<sup>94</sup> Other categories measured include bus (5%), car-pooling (6%) and bicycle/on foot (2%).

<sup>95</sup> The proportion rose from 16% in 2006 to 32% in 2007.

increased exchange between our Belgian and Central and Eastern European markets). In Central and Eastern Europe, commuters continued overwhelmingly to choose public transportation over cars.

#### Indicator 3 (Total paper consumption)

Total paper consumption is defined as the amount of paper ordered by the various group entities.

The following categories make up the largest share of paper used:

- office paper (multi-functional paper for copying and printing);
- letterhead/pre-printed forms;
- envelopes;
- continuous paper forms (account statements for clients, etc.);
- marketing material and publications (internal and external).

We differentiate between recycled paper (based on 100% recycled post-consumer waste), new-fibre-type paper (elementary chlorine-bleached or ECF/TCF - a more ecologically friendly technology) and FSC-labelled paper (approved by the Forest Stewardship Council (FSC) as having originated from responsibly managed forests).

At group level, paper consumption per FTE in 2007 declined year-on-year. and although most of the paper used was still new ECF/TCF paper, the share of recycled and FSC-labelled paper both increased over the year<sup>96</sup>. Regionally, the decline in paper consumption per FTE in Belgium was marked by an increase in the use of recycled and FSC-labelled paper – in keeping with the FSC Covenant and paper reduction initiative there. A greater use of recycled paper and declining new chlorine-bleached paper use was also noted in Central and Eastern Europe.

#### Indicator 4 (Total water consumption)

KBC's water supply is mainly from drinking water.

Estimating the water volume used based on financial data is impossible because of significant differences between the prices charged in the various regions/cities covered. For this reason, only data based on meter readings are taken into consideration.

#### Indicator 5 (Waste)

The waste indicator covers the total amount of waste produced by KBC. The following waste categories are included:

- paper/cardboard
- residual waste/domestic-type waste
- special/hazardous waste
- electronic scrap

Total waste does not include:

- waste from staff restaurants (the total amount of waste they produce is not very relevant)
- waste from construction and building remodelling

Total waste per FTE edged up year-on-year. The proportion of waste separated and recycled nudged down slightly year-on-year, while that of incinerated waste crept up. On a regional level, waste per FTE in Belgium went up slightly (+3%) after the drastic reduction in 2006 as a result of streamlined waste collection contracts and increased waste recycling (standing at 97% of total waste). In Central and Eastern Europe, most waste is still disposed of in landfills (81%). However, this does not take into account individual efforts at entity/country level to reduce the amount of waste produced<sup>97</sup>. Waste in the rest of the world went up, as well, but the proportion of separated and recycled waste also rose. Our private banking arm is introducing a new waste management system in 2008.

#### Indicators 6a (Direct greenhouse gas emissions) and 6b (Indirect greenhouse gas emissions)

Due to the change in methodology (calculation of emissions on the basis of green energy versus grey energy) the breakdown of figures for direct energy use are not entirely accurate or comparable year-on-year. In Belgium, it was previously impossible to achieve an accurate split of emissions from green versus grey energy. Hence, it would be advisable to look only at the total emissions from direct energy vis-à-vis emissions from indirect energy (business travel). However, we intend to refine our emissions calculations in future, based on this breakdown.

<sup>96</sup> ECF/TCF paper went down from 100% to 91%.

<sup>97</sup> For example, the Czech Republic has made big inroads in waste reduction - down almost 18% per FTE year-on-year.

## Appendix 4: Employee data

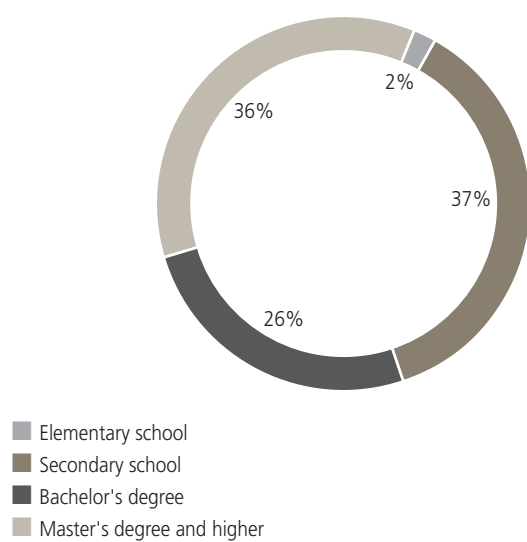
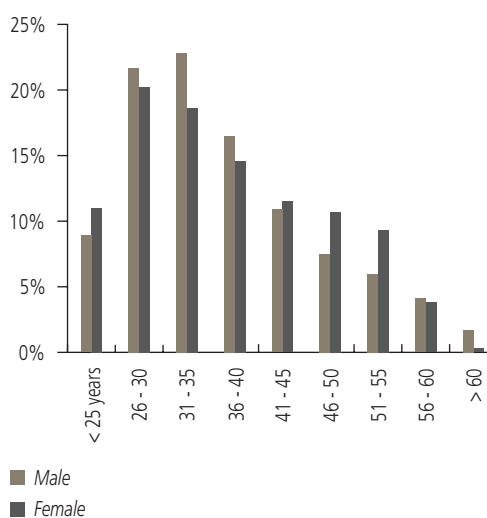
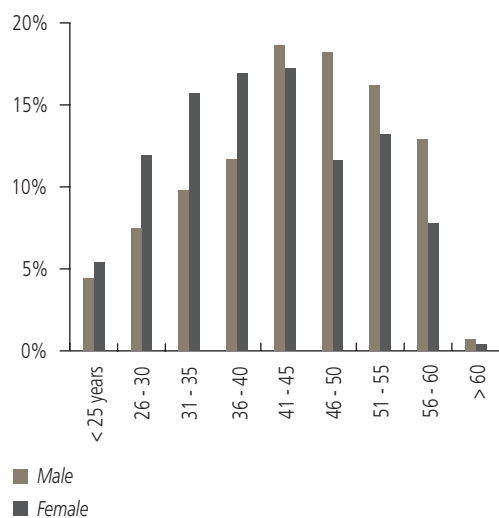
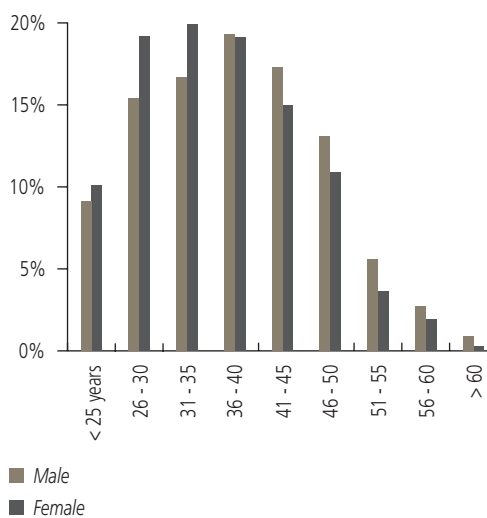
Basic indicators	as at 31/12/2006 <sup>1</sup>	as at 31/12/2007 <sup>2</sup>
Breakdown by gender	% of total	% of total
Men	43%	42% -
Women	57%	58% -
Breakdown by pay category	Number	Number % of total
Senior management	1 732	1 658 3%
- of which women	356	342 (21%)
Junior and middle management	16 641	19 796 33%
- of which women	6 369	8 445 (43%)
White- and blue-collar staff	33 925	38 095 64%
- of which women	22 939	26 231 (69%)
Breakdown by contract type	% of total	% of total
Permanent	93%	93% -
Temporary	7%	7% -
Breakdown by workhour	% of total	% of total
Full-time (100%)	84%	84% -
Part-time	16%	16% -
Total headcount covered in breakdown	52 298	59 549 -
Total group FTEs <sup>3</sup>	49 492	56 792 -
Average age	39	39 -
Average seniority	11	12 -

1 2006: covers 99.9% of the group

2 2007: total headcount for the group was 60 338; the basic indicators cover 98.7% of the group

3 A full-time equivalent (FTE) is defined according to the employment percentage laid down in each employee's labour contract. The number of hours worked by an FTE is not uniform throughout the group – in Belgium, the number of hours worked by a full-time employee is approximately 37.5 hours per week, whereas many of our non-Belgian entities, particularly in Central and Eastern Europe, define the number of hours worked as 40 hours per week.

Note: The data provided in this table may not correspond with the unaudited, provisional figures appearing in KBC's 2007 Annual Report due to information updates.

**Breakdown by education level - KBC group 2007****Breakdown by age and gender - CEE 2007****Breakdown by age and gender - Belgium 2007****Breakdown by age and gender - ROW 2007**

## Appendix 5: Philanthropic and cultural initiatives

### Highlights of philanthropic activities in 2007:

#### Belgium:

- Long-term support for leading solidarity campaigns which affect a significant number of people: Levenslijn (fund-raising campaign for young victims of traffic accidents), Kom op tegen Kanker (the anti-cancer campaign) and Cap48 (a charity sponsored by subsidiary CBC to help handicapped children)
- Long-term donations to De Sleutel particularly for drug prevention and rehabilitation programmes aimed at young people
- Accident prevention campaigns such as fire prevention and road safety and children's health and safety themes
- Collaborative efforts with neighbourhood organisations to lower the threshold between the company and the surrounding community and raise awareness amongst KBC employees over the social plight of the lower-income neighbourhoods where KBC's main administrative buildings are significantly present (in Brussels and Antwerp)
- Permanent support of ARGUS (see p. 32)
- Donations to various foundations and charities via the Antwerp Diamond Bank (e.g., the King Baudouin Foundation, Action in Focus – a Kenyan charity)

#### Czech Republic and Slovakia:

- New streamlined procedure for civic associations and non-profit organisations to apply for funding (via the ČSOB Web site)
- Goodwill Committee: providing financial support for the Education Fund - scholarships for disabled or socially handicapped secondary school students
- Social integration programmes in 'at risk' regions; partnership via the Postal Savings Bank with Ergotep, a co-operative which helps disabled people to better integrate themselves in society by providing jobs
- Sponsorship of the Information Centre for NGOs, which provides aspiring NGOs with information and training programmes
- LIFE 90 - partnership with an NGO to provide Internet training for senior citizens
- Partnership with regional orphanages and support of regional hospitals, including provision of respiratory monitors and other equipment for new-born infants

- Various other initiatives focusing on handicapped athletes or disabled children in both the Czech Republic (SOS Children's Villages) and Slovakia (Slovak Company Games)
- In Slovakia, donations to the local Anti-Cancer League and to children's hospitals.

#### Hungary:

K&H was awarded 'Best Business Donor' by the Hungarian Donors' Forum in 2007 (a first for the banking sector in Hungary). The award recognised K&H for donating the highest amount in 2006 as a percentage of net sales and profit before tax.

Other initiatives include:

- Magic Cure Programme: a long-term series of ongoing projects to enhance health care, including purchase of medical appliances for children's hospitals
- Additional medical appliances are donated to children's hospitals at Christmas instead of buying corporate gifts
- Affinity cards to support amateur athletes and child healthcare
- Sports events, including for disabled persons
- Sponsorship of the National Paralympics Committee

#### Poland:

- Ongoing projects focusing on children<sup>98</sup>: donations and national fund-raising campaigns to support orphanages and NGOs helping poor and disadvantaged children, sponsor of 'Children's Day' in association with UNICEF
- Via the Kredyt Bank-WARTA Foundation:
  - Support for orphanages, donations to various civic associations to assist disabled or poor and disadvantaged children
  - Financial support of cardiology associations and NGOs taking care of mentally handicapped persons
  - Safety campaigns, including campaigns aimed at general crime prevention, prevention of accidents in water, promotion of safe driving
  - Promotion of higher education in the banking and insurance fields (sponsorship of a nationwide competition for the best MA and PhD dissertations in these areas)

#### Serbia:

- Various projects to support disabled children students and activities sponsored by the Red Cross

98 At all three main entities – Kredyt Bank, WARTA and Zagiel.



**Merchant Banking Business Unit:**

- In London, KBC Peel Hunt, KBC Financial Products and KBC Bank London branch collaborated for the first time in a fund raising event for Starlight Charity to help grant the wishes of seriously and terminally ill children. The intention is to repeat this event on a yearly basis.

**European Private Banking Business Unit:**

- Support of the Papageno Foundation in the Netherlands, dedicated to using music therapy to help autistic children, and the Ronald McDonald House Charities – to help families and children in need
- Sponsorship of the European Business School in Germany
- Sponsorship of fund-raising evenings for foundations against prostitution and for seriously ill children in Belgium

**Highlights of cultural activities in 2007:****Belgium:**

- Founding sponsor of the Gouden Vleugels project to help promote young, would-be classical musicians in Flanders by, among other things, arranging master classes and musical competitions for them. One of the prizes sponsored by KBC at the competitions is the KBC Music Award.
- Rockoxhuis (The 17th-century Rockoxhuis, formerly the private residence for the mayor of Antwerp and art collector of the time, Nicolaas Rockox, was purchased by KBC in 1970 and is now open to the public, housing a wealth of paintings, furniture and sculptures of the period. As part of the Rubens year in 2007 and to mark the thirtieth anniversary of the Rockoxhuis' establishment as a public museum, the Samson and Delilah painting by Rubens, on loan from the National Gallery of Art in London, was placed on special exhibit.)
- Additionally, in 2007, sponsorship of a major exhibition on 'British Vision'

**Czech Republic and Slovakia:**

- Sponsorship of film awards and film festivals (e.g., Český Lev – Czech Film Academy awards, the Febiofest – international film festival – in both the Czech Republic and Slovakia, Ekofilm - festival of eco-films), as well as a film school in Moravia
- Funding of theatres, Libri prohibiti (Library with books/texts banned during the Communist period)

**Hungary:**

- Sponsorship of the Young Opera Friends Association
- Supporter of one of the region's largest multi-cultural pop/rock festival (Island Festival) for the promotion of cultural diversity

**Poland:**

- Sponsorship of 'Belgian Days' in Warsaw and National Publishing Institute's jubilee (2007)<sup>99</sup>
- Via the Kredyt Bank-WARTA Foundation:
  - Sponsorship of photo competition and exhibition at Krakow's International Cultural Centre
  - Patronage of the Warsaw National Theatre

**Serbia:**

- Sponsorship of the People's Theatre

**Merchant Banking Business Unit:**

- Sponsorship of 'Music in Great Irish Houses Festival' (Ireland), Bremen Music Festival (Germany), special exhibit on Belgian tapestries at the Museum of Modern Art (New York)

**European Private Banking Business Unit:**

- Patronage of ballet and opera production at the Grand Théâtre de Luxembourg and concerts at the Philharmonie de Luxembourg
- Support of Luxembourg's contemporary art museum Mudam (Musée d'Art Moderne Grand-Duc Jean)<sup>100</sup>.
- Sponsorship (via the Belgian private banking company's membership in the Prométhéa foundation) of WIELS, a project for a modern arts centre in Brussels
- Main sponsor of the National Ballet Gala in the Netherlands, organised by an NGO which supports both young and talented dancers

<sup>99</sup> Kredyt Bank and WARTA

<sup>100</sup> KBL is supporting the Mudam by creating a collection of artworks by young artists mainly from Central & Eastern Europe.

## **We want to hear from you!**

Please send us your feedback regarding this report and any suggestions for improvement to:

Marina Kanamori  
CSR Communications Officer  
Investor Relations Office (IRO)  
2 Havenlaan  
B-1080 Brussels  
Belgium  
[investor.relations@kbc.com](mailto:investor.relations@kbc.com)

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An electronic version of this report is available for consultation and download in PDF format at [www.kbc.com/social\\_responsibility.PDF](http://www.kbc.com/social_responsibility.PDF). Versions may also be requested by e-mailing [investor.relations@kbc.com](mailto:investor.relations@kbc.com), mentioning 'CSR Report – 2007' in the subject line.

Other information on KBC available for download at [www.kbc.com](http://www.kbc.com):

- Annual and interim financial reports
- Corporate Governance Charter
- CSR Reports
- CSR policies and principles
- Presentations
- Press releases

A list of KBC's SRI funds and full explanation of the screening methodology is available at: [www.kbcam.be/sustainableinvestment/](http://www.kbcam.be/sustainableinvestment/)

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