# Advisory Approach to Investments

## Introduction

The MiFID II rules entered into force on 3 January 2018. MiFID is the European Directive regulating markets in financial instruments. Its aims are threefold:

- To promote transparency on the financial markets
- To improve investor protection
- To further harmonise the European investment market

This information document summarises how KBC's investment advice complies with the revised MiFID rules, what it means for you as a customer and what you can expect from us every step of the investment process.

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## What do wealth management advice (Private Banking) and product advice (Retail & Commercial Banking) entail and what are the differences?

Depending on your wealth needs, you will be assisted at KBC by an expert team in Retail & Commercial Banking on the basis of product advice or by experts and a relationship manager in Private Banking on the basis of wealth management advice(2).

We make the differences between the two clear in a comparison table and glossary.

| | Wealth management advice | Product advice |
|---|---|---|
| **Contract** | | |
| Wealth management advice agreement | ✓ | |
| **Advisory approach** | | |
| Advice entails us performing the following checks: | | |
| • Compatibility with your investment profile and your personal sustainability preferences for investing | ✓ | ✓ |
| • Impact on product concentration (from 5 000 euros per investment product, i.e. per ISIN code) | ✓ | ✓ |
| • Impact on issuer concentration (from 5 000 euros per issuer group) | ✓ | |
| • Evaluation of your knowledge and experience(3) | ✓ | ✓ |
| • Evaluation of the equity exposure of your total portfolio | ✓ | |
| Summary of the advice and checks in the 'advisory overview'(4). | ✓ | ✓ |
| Advisory approach as part of the portfolio approach: whenever advice is provided, the risks and sustainability are considered for the total portfolio | ✓ | |
| Whenever advice is provided, the risks and the level of sustainability are considered for the individual investment | ✓ | ✓ |

(1) In a phasing out period until 31 December 2023, the existing wealth management advice agreements in Retail can continue to run. After that, in Retail and Commercial Banking, only the VSC4Business wealth management advice agreements will remain possible (including new contracts).

(2) KBC gives advice on the basis of its know-how and investment strategy. We take into account the political, economic and financial situation as known to us at that time. Our advice is based on forecasts of expected developments in the financial markets. Given the complex and often unpredictable nature of those markets, KBC cannot guarantee whether and to what extent the forecasts will materialise. KBC will carry out its assignment to the best of its ability.

(3) For leveraged products or products where in-depth knowledge is required and you have insufficient experience at KBC or any other financial institution, KBC can provide a positive recommendation for only limited amounts of money.

(4) If you have a digital KBC app with an inbox, you will always receive this document in digital form. If you do not use digital KBC apps, you will receive it in hard copy.

| | | |
|---|---|---|
| Buy and sell recommendations when you ask for them | ✓ | ✓ |
| Buy and sell recommendations on the bank's initiative (e.g., based on market developments, suitability for the customer, the investment strategy, price opportunities, etc.) | ✓ | (*) |
| Reinvestment advice when an existing investment reaches maturity | ✓ | ✓ |
| Periodic suitability assessment | ✓ | |
| **Reports/Summaries** | | |
| General explanation of the charges associated with the investment, prior to the transaction | ✓ | ✓ |
| Custody account statement | ✓ | ✓ |
| An annual overview of the fees applying to the various investments and investment services (also available at www.kbc.be and in your KBC branch) | ✓ | ✓ |

For wealth management advice, we extend our advisory approach to time deposit accounts, except for time deposit account of less than one year.

If you would like to know more before making your choice, feel free to contact an expert in your KBC branch or contact KBC Live by text, video chat or telephone.

*(*) In the case of product advice, KBC can make buy and sell proposals when opportunities arise for a specific investment product and to the extent that you have sufficient liquid assets at KBC. KBC does not in any way undertake to systematically and periodically evaluate your investments. Furthermore, you remain personally responsible for monitoring your investments.*

## What information about you does KBC use when providing investment advice?

KBC is required to gather all the necessary information about you that enables it to provide you with suitable investment advice. It collects this information in various ways.

- It uses the investment profile to obtain information about your:
  - Investment objectives (whether you want to preserve your money or put it to work)
  - risk appetite and risk preference
  - Financial situation
  - Investment horizon (how long you can do without the money you want to invest)
  - Sustainability preferences for your investments

- It assesses your knowledge and experience with the help of a product knowledge and experience test
- It checks whether investments are in line with your financial capacity and assesses your ability to bear losses (by looking at what you have on your savings accounts and investor's accounts). KBC considers all the savings and investor's accounts you hold with it. We also assess your financial buffer and financial plans
- If you qualify for wealth management advice, you can also advise your relationship manager of certain choices, which are saved in your investment preferences (listed in your portfolio overview). The choices relate to:

  - Your interest in leveraged investment products (for Private Banking clients only)
  - Positions to be held
  - Own preferences in percentages of Strategy Plus, lower equity exposure, euro area instead of world
  - Amount of Life products
  - Maximum percentage of individual shares

## What do the identification requirements mean for you?

European financial institutions must report all transactions and equivalent actions in certain financial instruments to their supervisory authority. The supervisory authority for Belgian banks is the Financial Services and Markets Authority (FSMA). This legislation will provide the FSMA with a better picture of the market to enable it to track market movements and identify potential market abuse or market manipulation.

To this end, the EU has imposed identification requirements. It applies to individuals and to companies who trade in listed financial instruments, such as shares, bonds, warrants, government loans and state notes.

Some investment funds, investment-type insurance products, time deposit accounts, deposits and savings certificates are not covered by this measure.

Identification is mandatory for buy and sell transactions, certain transfers, voluntary corporate actions, gifts, business transfers upon death and when a business is wound up. This measure does not entail any tax consequences for you.

If you are an individual (natural person), you will be identified on the basis of your nationality. For Belgian nationals, their national registration number is used, whereas for non-Belgian nationals, it is their passport or ID card number, for instance.

If you are a company, your Legal Entity Identifier (LEI) is used. If your LEI expires, you are responsible for renewing it. You will not be able to execute investment transactions until it has been renewed.

Once we know your ID number or LEI, identification and reporting will take place automatically, which means you won't notice it during your investment transactions.

## How does KBC integrate sustainability risks into its investment advice?

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

Sustainability is also an important theme in our investment advice for funds and investment-type insurance products. It is an inherent part of our investment strategy, and we are systematically expanding our range of responsible sustainable investment products. We also take account of the potential adverse impact of sustainability risks in the selection of investment products we provide advice on.

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

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

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

## How does KBC take due account of the principal adverse impacts on sustainability factors when providing advice?

We also consider the principal adverse impacts on sustainability factors when providing advice. By sustainability factors, we mean environmental, social and employment matters, respect for human rights and the fight against corruption and bribery. We do this by carefully selecting the investment products we provide advice on.

The specialised research team from KBC Asset Management NV is supported by the Responsible Investing Advisory board, an external advisory board of independent experts www.kbc.be/responsible-investing > Three reasons to invest responsibly with KBC > Support from independent experts).

We take due account of the sustainability risks and the principal adverse impacts on sustainability factors in our range of investment products and that is reflected in our advice:

- We provide advice on responsible investing funds offered by KBC Asset Management NV. These funds are characterised by a positive selection methodology, which combines portfolio objectives and support for sustainable development. More information on the positive selection methodology and the specific targets for responsible investing funds can be found at www.kbc.be/investment-legal-documents > Investment policy for responsible investing funds.

- Responsible investing funds that we provide advice on have the 'Towards Sustainability Label' or have an application process for this label is pending. This label is an initiative of Febelfin. Funds that have been awarded this label:
    - Have a clear sustainability strategy in place
    - Exclude very harmful companies or activities
    - Pursue a transparent policy in relation to socially questionable practices (for instance, nuclear energy, tax evasion, the death penalty)

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

- KBC group companies have an exclusion policy for all investment products referred to above in the 'list of products for which you can go to KBC for advice'. The policy stipulates that no investments may be made in companies that are involved in the tobacco, thermal coal and controversial weapons industries, in companies that seriously contravene the principles of the UN Global Compact or in futures contracts on agricultural commodities. Any such companies are blacklisted, are not invested in, and are accordingly excluded from our investment advice. Specific information about these exclusions can be found at www.kbc.com > Corporate Sustainability > Setting rules and policies > Blacklisted companies and activities or by entering the search terms 'Blacklist' and 'KBC Group Investment Policy'. The general exclusion policy applying to all investment products, as well as any exceptions, can be found at www.kbc.be/investment-legal-documents > General exclusion policy for conventional and Responsible Investing funds.

- There is also a specific exclusion policy for responsible investing funds offered by KBC Asset Management NV that goes further than the exclusion policy applying to all investment products (see above). Specific attention is paid to weapons, fossil fuels, gambling, adult entertainment, fur and speciality leathers, palm oil and controversial regimes. You can find further information on the exclusion policy at www.kbc.be/investment-legal-documents > Exclusion policy for Responsible Investing funds.

- In addition, a number of the principal adverse impacts are implicitly considered through our Proxy Voting and Engagement Policy. Under the Proxy Voting and Engagement Policy, KBC Asset Management NV votes in shareholder meetings and actively communicates with companies, because it firmly believes that active share ownership can have a positive medium and long-term impact on the companies it invests in. For further information, see [Proxy Voting and Engagement Policy: (kbcgroup.eu)](#) and the [Principal Adverse Sustainability Impacts Statement.](#)

More information on how KBC Asset Management NV takes into account sustainability risks and the principal adverse impacts on sustainability factors can be found at www.kbc.be/investment-legal-documents > Statement on sustainability risks and adverse impacts on sustainability.

The only way to invest in responsible investing products that meet the above criteria is through our digital channels. The focus in our branches or via KBC Live is on responsible investing products, though an alternative range of products can be offered that correspond with your wishes and requirements.

## Which investment products can KBC advise on?

KBC provides dependent advice[(5)]. This means that most of the investment products on which we provide advice are selected from a range of products that are issued or offered by:

- KBC itself
- Another KBC group entity or
- Other entities that are closely associated with KBC

This range is extended to cover other investment products, such as certain bonds that are monitored by KBC and shares that are included in its recommendations list.

The great advantage of this approach is that we only give advice on investment products that we know well.

KBC doesn't give investment advice on:

- Shares issued by KBC Group NV or its affiliated companies (a list of these companies is provided at www.kbc.com)
- Investment products issued by companies on KBC Group's exclusion list (see the KBC Group Blacklist)
- Investment products that you hold with Bolero, and
- Investment products that you purchased without any advice from KBC

## For which types of investment products can you go to KBC Retail & KBC Commercial Banking for advice?

| Type of investment product | Number of investment products in scope[(6)] | Issuer[(7)] | Number of issuers |
|---|---|---|---|
| KBC funds + unit-linked investment insurance (Class 23) | > 2 500 | KBC | |
| Savings insurance (Class 21 and Class 26) | 0-25 | KBC | |
| KBC Savings Certificates | 0-25 | KBC | |
| Government bonds (Belgium) | 0-25 | Third party | 0-25 |
| Bonds issued by a KBC group entity | 0-25 | KBC | |
| Bond issues led by KBC (annual) | 0-25 | Third party | 0-25 |

(5) In this document, 'advice' means investment advice and 'KBC' refers to KBC Bank NV. This document does not cover hedging products.
(6) Some of these products are not permanently offered. KBC offers those products subject to market conditions, supply and demand and the economic situation. For more information, go to www.kbc.be, drop by any KBC branch or contact KBC Live.
(7) KBC in this table refers to either KBC Bank NV, KBC Insurance NV or an undertaking for collective investment (UCI) managed by KBC Asset Management NV.

## Private Banking clients can also receive advice from KBC on the following types of investment product:

| Type of investment product | Number of investment products in scope | Issuer | Number of issuers |
|---|---|---|---|
| Share universe on the KBC Private Banking recommendations list[8] | 250-2000 | Third party | 250-2000 |
| Secondary-market bonds offered by KBC[9] | 25-2000 | Third party | 25-2000 |
| Convertible bonds[9] | 0-25 | Third party | |
| Stock market flotations (shares) led by KBC (annual) | 0-25 | Third party | |
| Reverse convertible bonds | 0-25 | Third party | 0-25 |
| Third party funds[10] | 25-250 | Third party | 0-25 |
| Perpetual bonds | 25-250 | Third party | 25-250 |
| Additional tier-1 capital instruments issued by financial institutions | 25-250 | Third party/Third parties | 25-250 |
| ETFs and commodity trackers | 25-250 | Third party | 0-25 |
| Listed options: options on shares from the Private Banking share universe | 25-250 | Third party | 25-250 |
| Contingent convertibles (CoCos) | 0-25 | Third party | 0-25 |
| tRACERs | 0-25 | KBC | |
| tJUMPERS | 0-25 | KBC | |
| Tier-2 capitalisation instruments issued by financial institutions for which the issue conditions do not provide for conversion into share capital | 0-25 | Third party/Third parties | 0-25 |

## General information on the above types of investment product

KBC has produced the document 'Investment instruments: strengths and weaknesses' in order to inform you as effectively as possible. You can obtain a copy free of charge from your KBC branch, KBC Live and at www.kbc.be. The document provides more information on the features of, and risks associated with different types of investment product.

More details on how KBC handles its advisory approach can be found in the General Banking Terms & Conditions. The Custody Account Regulations are a supplement to the General Banking Terms & Conditions.
In the Regulations governing Transactions in Financial Instruments of KBC Bank NV, you will find the conditions relating to the mutual rights and obligations of KBC Bank and the customer, whenever KBC Bank executes orders in financial instruments for the customer.

## Which types of telephone call and electronic communication does KBC record and keep?

MiFID also requires KBC to record and keep telephone calls and electronic communications[11] that may lead to transactions in investment products. Recordings are also important for evidence purposes.

We therefore record conversations and electronic communications between customers and staff whose duties relate to investments. If you have a conversation with an expert or relationship manager, or if such a member of staff participates in a group conversation, we will record it and keep the recording for 10 years. You can request a copy of this recording.

(8) KBC Bank and KBC Asset Management actively track a set of approximately 250-2000 shares. A current recommendation is always available for these shares. You can view the list of tracked shares at any time at www.kbc.be (using the search term 'share finder').
(9) Can also be advised in Retail and Business Banking, but only for legal entities.
(10) These are funds for which KBC has signed a distribution agreement.
(11) Electronic communications include video meetings, faxes, e-mails, chat facilities and online apps.

## Glossary

**Algorithms**: our investment advice is drawn up by a professional team of investment advisers that takes the views of economists, financial analysts and strategists, and processes that input with the help of automated apps. These apps use algorithms that have been developed and are updated in-house by KBC. These algorithms implement the advice rules in line with KBC Bank's investment strategy.

**Equity exposure of investable assets:** the degree to which your investment follows movements on the stock markets. The higher the equity exposure, the greater the potential movement and the higher the risks involved. The assessment of whether the equity exposure is still suitable according to your investment profile is conducted solely on the basis of your investable assets. So the money you set aside for your financial buffer and major planned expenses is not used in the calculation.

**Sustainability preferences for investing:** to keep up with the changing demands of society, we – and by extension the entire financial sector – must make a significant contribution to achieving the European climate targets, one of which is to be climate-neutral in Europe by 2050. The bar is set high with ambitions focusing on Environmental, Social and [good] Governance issues or 'ESG'. Whenever we refer to ESG, we are referring not only to the environment (E = Environmental), but also to how a company treats its staff and customers and its role in society (S = Social) and how well a company is run (G = Governance).

European sustainability targets are regulated by legislation, including the Sustainable Finance Disclosure Regulation – or SFDR – (see term) and the EU Taxonomy Regulation (see term). KBC will gauge your sustainability preferences for investing based on these two pieces of legislation and the Principle of Adverse Impact (PAI) (see term) in the Investment Profile. For customers in portfolio approaches with their own sustainability preferences, we also query the desired level of sustainability at portfolio level via the Investment Profile. The level of sustainability is the degree (%) to which the portfolio is composed of investments that meet at least one of your sustainability preferences. The checks on your selected level of sustainability in the portfolio will be conducted on all buy and sell proposals in the overview of advice, which we give you every time advice is offered.

**Issuer concentration:** indicates the percentage of your assets that have been invested in investment products from the same issuer or from issuers belonging to the same group. By 'issuer' KBC means the issuer of a financial instrument. It could be a government, company or financial institution. KBC sets a concentration limit for each issuer and checks whether this limit has been respected every time advice is offered. The issuer concentration may amount to 30% of the total portfolio for issuers with an 'AAA' rating[12] or higher and 10% for issuers with a rating that is lower but not below 'BBB'. For issuers rated 'BB+' or lower, or for which KBC has no data, a concentration limit of 5% applies. KBC does not calculate the issuer concentration for certain products, some of which include savings accounts, savings certificates, time deposit accounts, investment funds, investment-type insurance products and options.The money reserved for your financial buffer and major planned expenses in accordance with your investment profile is not used in the check on issuer concentration. The calculation of the concentration therefore only considers the investable assets.

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

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

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

Asset management firms depend on the availability of sustainability data relating to the companies in which they invest.

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

**Financial buffer:** this constitutes part of the investment profile. This financial reserve is money you set aside not only to cover unexpected expenses, but also to give you financial peace of mind and security. KBC suggests a minimum buffer of 5 000 euros. When performing this check, KBC factors in the amounts held on your savings account, investor's account or amounts you have with Bolero (if – as a Private Banking client – you've opted for this information to be made available). You can choose to increase the buffer amount or declare that you are holding it at another financial institution. If the buffer is held elsewhere, you undertake to inform KBC without delay of any changes in these amounts. When you invest in an investment plan, it suffices to hold the equivalent of 12 times the amount you invest each month, on the account if you have sufficient savings capacity.

As standard, a financial buffer is not provided for minors, unless the legal representative indicates that he or she wants one. A different system is in place for legal entities that takes account of their investable assets and Articles of Association.

**Level of knowledge and experience:** your level of knowledge and experience as measured by your responses to our product knowledge and experience test.

**Custody account statement:** a statement – which you receive at least once a quarter – of the investments held in your custody account at KBC.

**Overview of advice**: a written statement of suitability which KBC gives you when providing advice. In it, KBC specifies how the advice provided meets your preferences, needs and other characteristics.

If you have a digital KBC app, you will automatically receive this overview in a message sent to that app.

*(12) Credit rating assigned by an external rating agency (Standard & Poor's).*

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

**Periodic suitability assessment:** appraisal of your assets based on your investment profile, a financial buffer check, a product concentration check and an evaluation of the equity exposure, possibly with suggested improvements. This occurs one or more times per year, as set out in the wealth management advice agreement.

**Portfolio approach:** the portfolio rating is the weighted average of the product ratings of your investments and the cash in your portfolio, excluding any cash reserved for your financial buffer and major planned expenses in accordance with your investment profile. It may not exceed the maximum rating permitted by your portfolio risk preference. A portfolio approach is based on an overview of your investments, broken down by asset class (cash, shares, interest-bearing instruments), with attention paid to sector, currency and themed allocation. To ensure the best possible allocation, KBC takes account of the target portfolio when offering advice. This reflects an ideal asset allocation for each portfolio risk preference based on the KBC Investment Strategy (which is updated each month).
With a portfolio approach, individual investment products with a rating no higher than your investment risk preference may be advised, provided that the entire portfolio is in line with your portfolio risk preference. We define your portfolio risk preference and your investment risk preference in your investment profile.

**Product concentration:** indicates the percentage of your assets that have been invested in an investment product. KBC sets a concentration limit for each investment product and checks whether this limit has been respected every time advice is offered. The money reserved for your financial buffer and major planned expenses in accordance with your investment profile is not used in the check on product concentration. The calculation of the concentration therefore only considers the investable assets.

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

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

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

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