

REPORT TO  
**SOCIETY** FOR  
2014





▲ Johan Thijs and Thomas Leysen: A clear focus, individual accountability and smooth cooperation – three key components of KBC's culture

Dear Reader,

We can safely say that 2014 was another decisive, milestone year. The sale of KBC Deutschland marked the completion of our divestment programme. This means that we are no longer bound by the restrictive conditions imposed on us by the European Commission as a result of the state aid we obtained in the wake of the financial crisis. We continued to strengthen our capital base and came through the European stress tests with flying colours. We are, therefore, entering a new chapter in our history with confidence and can focus entirely on our corporate strategy, which is to become the reference in our core markets as one of the best-performing bank-insurers in Europe.

How do we intend to implement this strategy? By always putting the interests of our clients centre stage, focusing on our long-term performance and meeting society's expectations, all within a rigorous risk management framework. In brief, by doing business sustainably.

- We wish to offer our **clients** a service that is close, accessible and solution-driven. We listen to their requirements so that we can offer them the right product. We make access to us as easy and convenient as possible. That's why we strive for seamless, dynamic integration of our channels of distribution (bank branches, insurance agencies, advisory centres, websites and mobile applications) in which we have invested significantly in recent years.
- Focusing on **long-term performance** means that we don't aim for high short-term returns that come with excessive risk, but rather sustainable, profitable growth.
- Stringent **risk management** is key to ensuring this sustainability and to maintaining our focus on real economies.
- Meeting **society's expectations** is not a constant, but an evolutionary process. This means that as a company we wish to contribute to thinking about the world of tomorrow and developing innovative solutions, and to communicate as transparently as possible on socially sensitive issues.

We hope this report will give you an idea of how we, KBC, assume our role in society, how we take our stakeholders into account and how we are working on our own and our clients' future.



Johan Thijs  
President of the Executive Committee



Thomas Leysen  
Chairman of the Board of Directors



5

core countries



125 billion euros

in lending to individuals and companies



136 billion euros

in savings



1 600

bank branches



4 000

insurance agencies and other insurance distribution channels





10  
million

clients



36 000

employees

2.1  
billion euros'

worth of insurance compensation paid out



People are not solitary creatures. We prefer instead to live together in family units, to make friends and to develop networks. In a globalising world, our contacts can help us go far, or bring us surprisingly close together.

### Stefan and Katka's international network

Throughout this report we follow two KBC members of staff, Stefan and Katka Garaleas. Stefan has Greek roots and Katka is from the Czech Republic. They met when they were attending the KBC Academy. After deciding to set up home in Belgium, they married and now have two children, Alexander and Sofia. They are being brought up in an international family, speaking Czech with Katka, Dutch with Stefan, and even venturing to speak a bit of Greek with their grandfather.

Stefan and Katka are keen basketball players, have many interests and a wide circle of friends and acquaintances. Their international relationships take us from the Czech Republic, Hungary and Slovakia to Ireland and back. In all these places, we ask people about their story and their experience of KBC.



733  
million euros'

worth of loans for renewable energy



12 850

stakeholders  
took part  
in our survey



## KEY EVENTS

### FIRST QUARTER 2014

#### KBC REPAYS

0.33 billion euros, plus pays a penalty of 0.17 billion euros, to the Flemish Regional Government

#### START IT @KBC extended

KBC launches **MINERVA**, a late career options plan for older employees

KBC amends **BLACKLIST** to include companies considered 'worst offenders' under the UN Global Compact

CIBANK wins prestigious **ENGAGE AWARD** in Bulgaria

KBC again ranks as one of the top ten **BEST EMPLOYERS** in Belgium

KBC Private Banking wins the *Euromoney* **BEST PRIVATE BANK BELGIUM** award for the second time in a row

### SECOND QUARTER 2014

KBC **PROMOTES ENTREPRENEURSHIP** in Belgium with its 'Room for Improvement' campaign

KBC updates strategy to be the **REFERENCE** in bank-insurance

KBC revises **SUPPLIER POLICY**

K&H MediMagic 'Story-telling doctors' programme wins prestigious **PR OSCAR** in Hungary

KBC wins the **BEST INVESTOR RELATIONS AWARD** in Belgium

K&H is announced **BEST BANK** in Hungary

ČSOB named **BEST EMPLOYER** of all Czech banks

DZI wins **INSURANCE COMPANY OF THE YEAR** award in Bulgaria

KBC arranges **STAKEHOLDER DEBATE** in Belgium

ČSOB named **BEST BANK** in the Czech Republic

2014



Further information is available at [www.kbc.com](http://www.kbc.com).

## THIRD QUARTER 2014

K&H Hungary publishes

### SUSTAINABILITY REPORT

KBC takes another step in **ENERGY-EFFICIENT CONSTRUCTION** and is to renovate its data centre premises in Mechelen

KBC **WELCOMES** extension of the anchoring agreements by core shareholders

KBC confirms listing on **FTSE4GOOD INDEX**

KBC joins **STOXX SUSTAINABILITY INDEX**

KBC launches **KBC TOUCH**, a new method for online banking and insurance

KBC launches

### CROWDFUNDING PLATFORM

where business people and investors can meet

*The Banker* names ČSOB

### BEST PRIVATE BANKER

in the Czech Republic

KBC and **SAFETY FIRST** join forces in Belgium to deliver a unique health & safety offering



## FOURTH QUARTER 2014

Remaining two CDOs in portfolio  
**COLLAPSED**

The sale of KBC Deutschland marks the **COMPLETION OF THE DIVESTMENT PROGRAMME**

KBC **RELEASED FROM** European Commission's **RESTRICTIVE CONDITIONS**

KBC further **OPTIMISES** its capital base

KBC **PASSES** European stress tests **WITH FLYING COLOURS**



# 2015



We always  
look to  
the future.

*Katka Garaleas*

I became a member of the BK Pardubice basketball club at the age of ten, when they were playing in the regional competition. The team attracts a wide range of people – the youngest player is 25 and the oldest 42. We used to play at a higher level, but now that we all have a job and a family it's more about the team spirit and enjoying sport and each other's company. Because we have been playing together for so long, we have become good friends rather than just members of a sports team.

Katka Garaleas works in Brussels, but still plays for the Pardubice basketball team in the Czech Republic from time to time.

## How did KBC do in 2014?

KBC is more than just a bank and insurance company: we are an integrated bank-insurer. This means we are able to provide a better response to all our clients' financial needs. We operate in five core markets – Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria – and Ireland.

Our core business – providing clients with advice that makes them want to establish a long-term relationship with us – remains constant year upon year. We achieved much in this regard in 2014, even though we continue to raise the bar.

This is the basis for the incentive scheme for our employees and for the remuneration paid to senior management. As a further guarantee of sustainability, the variable remuneration component of our CEO and members of the Executive Committee is capped at 30% of their total pay package, and payment of 50% of the variable component is spread over three years. In addition, our top management's pay is no higher than the average of other European financial institutions.

## Our results

KBC closed 2014 with a net profit of 1 762 million euros, as against 1 015 million euros in 2013.

The **Belgium Business Unit** posted a profit of 1 516 million euros, compared with 1 570 million euros a year earlier. The banking business accounted for 85% of the net profit, and the insurance business for 15%.

The **Czech Republic Business Unit** generated a net profit of 528 million euros, slightly less than the figure of 554 million euros in 2013. Its banking business accounted for 95% of that figure, and the insurance business for 5%.

The **International Markets Business Unit** recorded a slight net loss of 182 million euros, due primarily to the new Hungarian law on retail lending.

KBC retains a strong capital base, with a common equity ratio (Basel III) of 14.3%. Our cost/income ratio is 57% and we have an excellent combined ratio for non-life insurance of 94%.

## How did KBC do in the stress tests?

The European Central Bank (ECB) conducted an extensive assessment of banks with a view to enhanced transparency of bank balance sheets and more consistent banking supervision in Europe. 130 banks in the euro area were assessed. The assessment involved an analysis of the accounts (asset quality review or AQR) and a stress test to gauge the potential impact of two different scenarios over a period of three years. The tests revealed that KBC comfortably satisfies the strict solvency requirements. Even after the stress tests, we still have a considerable buffer (common equity tier-1 ratio of 8.3%) above the thresholds imposed by the ECB. This also serves as proof that KBC is in a position to continue to repay the state aid received in line with the schedule. The solvency ratio of KBC Insurance was an excellent 323% as at 31 December 2014, even better than the high 281% at the end of the previous year.



We  
believe  
in the future.  
*Claire Noonan*

We have been a satisfied client of KBC Bank Ireland for years now. When we began looking for a mortgage in 2007, it was KBC that provided a solution. Although my husband had beaten cancer and been given the all-clear, we still found it difficult to obtain a mortgage. That is until we approached KBC. Fortunately we didn't suffer as badly as some from the crisis in Ireland and are now able to pay back what we borrowed more quickly than planned. This means that our mortgage will be paid off by the time our two children go to university.

Claire Noonan worked at Philips in Ireland with Andrea Blomme, a colleague of Katka

Has KBC come  
to terms with the  
past?

We have turned the page. We have learned lessons from the crisis, and as a result have reduced our risk profile, simplified our structure, and strengthened our capital base and liquidity. The new-style KBC is more sustainable, less complex and more cost-effective, which stands us in good stead for the future.

We are now one of the best-capitalised financial institutions in Europe, with a return above the average for the sector.

By focusing on excellent client satisfaction and continuing to strengthen our bank-insurance model in our core markets, our aim is to become the reference among bank-insurers.



## How have we progressed with the European divestment plan?

KBC and the European Commission agreed on a recovery plan following the aid received by KBC from the Belgian Federal and Flemish Regional governments in 2008 and 2009. We have worked hard implementing this plan over the last few years. But now we can refocus on our core business of providing banking and insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Hungary, Slovakia, Bulgaria and Ireland.

The dismantlement of Antwerp Diamond Bank and the sale of KBC Deutschland in 2014 marked the end of our divestment programme. This means that the restrictions imposed by the European authorities – a ban on price leadership and acquisitions – no longer apply. However, we do not intend to change our geographical footprint significantly, but instead wish to continue to optimise and strengthen our current market presence through organic growth or attractive acquisitions in our core markets.

## How much does KBC still have to pay back?

KBC received state aid of 3.5 billion euros each from the Belgian Federal and Flemish Regional governments. We have already repaid 5 billion euros of the 7 billion euros received, i.e. the entire 3.5 billion euros received from the Federal Government and 1.5 billion euros to the Flemish Regional Government. We intend to repay the remaining 2 billion euros' worth of aid from the Flemish Regional Government ahead of schedule (by the end of 2017 at the latest) rather than at the end of 2020, the deadline set by the European Commission.

Below is a summary of aid repayments already made, as well as penalties and coupon payments. The total amount paid currently stands at 9.8 billion euros. Moreover, the aid that we received has not cost the Belgian taxpayer a single cent, but has in fact generated a handsome gain.

### Overview of payments made by KBC to Belgian governments

(in euros)	Total 2008–2014
Federal Government	3 500 000 000
Flemish Regional Government	1 500 000 000
Penalty	1 275 000 001
Coupon paid to Federal Government	841 000 000
Coupon paid to Flemish Regional Government	892 500 000
Sub-total	8 008 500 001
CDO guarantee	1 874 069 120
<b>Total</b>	<b>9 882 569 121</b>

## Does KBC still have a presence in tax havens?

As reported on our website in 2013, we did in the past set up companies in the Cayman Islands and Jersey. The results of these companies are subject to tax, to be paid by the investor or in the country where the relevant KBC management company is located (the US or the UK), so there is no question of tax avoidance or tax evasion. These companies were set up purely on legal grounds as the local legislation provides for greater contractual freedom in establishing the terms and conditions of certain financial products (CDOs and options, for instance).

These companies specialise in financial transactions with US investment funds and in credit and equity derivatives. They are part of the KBC Financial Products business, which we have been winding down for some years now. The number of ongoing transactions and balance sheet totals of these entities were reduced to a minimum in 2014. Two companies have already been liquidated and the remaining companies will be liquidated as soon as legally possible.

### Tax paid by KBC

(in euros)	Income tax	VAT that cannot be claimed back and other miscellaneous taxes	Bank taxes and deposit guarantee payments	Total
Belgium	233 000 000	116 000 000	154 000 000	503 000 000
Czech Republic	92 000 000	38 000 000	34 000 000	164 000 000
Hungary	50 000 000	20 000 000	125 000 000	195 000 000
Slovakia	21 000 000	16 000 000	19 000 000	56 000 000
Bulgaria	–	6 000 000	3 000 000	9 000 000
Ireland	12 000 000	11 000 000	–	23 000 000
<b>Total</b>	<b>408 000 000</b>	<b>207 000 000</b>	<b>335 000 000</b>	<b>950 000 000</b>

## Does KBC make arrangements with the tax authorities?

In recent years, KBC has requested, and received, clarification from the tax authorities in various countries regarding the correct tax treatment of certain financial products and transactions. In practice, these requests are made through so-called rulings, which enable KBC to obtain certainty beforehand on the proper tax treatment of a particular financial product or transaction and be able to communicate transparently with the local tax authorities. Such rulings ensure that a company acts entirely in line with the tax legislation of the countries concerned, that the tax rules are clear to KBC and the clients and other parties involved in the transaction from the outset, and that there are clear rules for all market operators.

Most of the rulings obtained by KBC have little if any impact on the result, but provide all stakeholders with the certainty that the tax legislation relating to a particular financial product or transaction is duly applied.

Further information and a summary of all rulings obtained by KBC are available at [www.kbc.com/media](http://www.kbc.com/media).

## Is KBC involved in casino banking?

We have learnt from the past and our new strategy clearly states that we do not strive for high short-term returns, but rather for sustainable growth and profit.

Where does our profit come from? Most of it is generated by our day-to-day operations as a bank-insurer. In other words, from attracting savings, national and international payments, lending, insurance and asset management. The interest margins and fees charged for our services are determining factors.

We have a very clear standpoint on tax optimisation, i.e. KBC wishes to be a responsible taxpayer in the countries where it operates.

In practice, this means that:

- we do not set up any fiscal constructions for our clients.
- we pay all tax due in all the countries where we do business (as shown in the table on the previous page).
- we only carry out transactions for basic economic reasons, not for purely tax considerations.
- we adhere to a very stringent fiscal policy. We pay all tax owed duly and on time, we limit our tax risks beforehand and we take a proactive stance on resolving any tax disputes. We endeavour to make the tax treatment of all our products clear so that it cannot be questioned in the future.

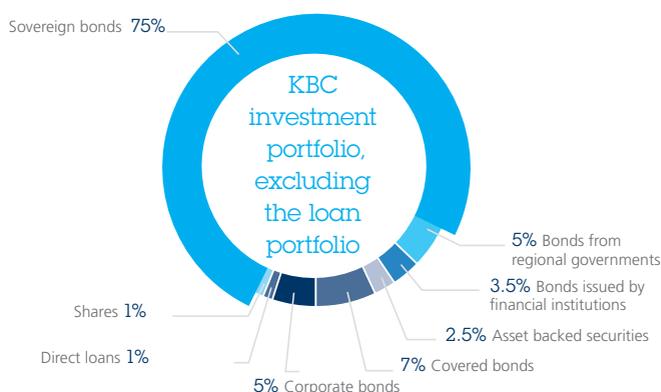
## What investments does KBC make itself?

In its own investments, KBC applies the principles of its overall investment policy, which means that we incorporate environmental, social and governance factors in our processes.

Our primary concern is not to invest in companies on our blacklist, more specifically companies that are involved in developing, testing, storing or manufacturing controversial weapons systems or components thereof or companies that are deemed to be worst offenders of the United Nations Global Compact principles. In addition, KBC does not invest in products based on the price movements of agricultural commodities.

KBC invests chiefly in sovereign bonds and those of regional public authorities. In fact, 80% of the total group portfolio is invested in this type of bond.

A summary of KBC's investment portfolio is given below.





## Year of decision.

Joaquin Heye

I'm now in my final year studying economics and modern languages, so I've lots of options open to me. At the moment I am considering communication, but I haven't decided yet. Outside of school, my main interests are music, rugby, football and the scouts. I want to become a scout leader next year, so I am also doing a training course in our AKABE (Anders KAn BEst) department for children and young people with a physical or mental disability. Next year we will be going on a group camp abroad. Is there still enough on my KBC savings account?

Joaquin Heye, the son of a cousin of Stefan and godfather to Stefan's son Alexander.

## What is KBC's current focus?

In 2014, we confirmed our ambition to become the reference in bank-insurance. Our entire industry is developing quickly. The skill is to combine rapid digitalisation with permanent security and at the same time to make the most of technological developments to become ever more client-focused.

To become the reference in this new world, our company needs to be a versatile, dynamic organisation that is quick to respond to clients' needs, while always remaining focused on the long-term. We are able to take up this challenge because we can count on our staff's commitment, creative approach and keen sense of responsibility.

We ask them to work together to develop solutions that make KBC a better bank-insurer while at the same time being relevant to society. But the key joint task of every employee is at the heart of our business, which is providing service on a daily basis that is so good that clients want to enter into a long-term relationship with us.

## KBC puts its clients centre stage: what exactly does that entail?

The financial crisis highlighted a number of issues in our sector. It soon became clear to us that the main lesson to be learnt from the crisis was the need to go back to basics and provide person-to-person banking and insurance. That principle has again become the very central point of our corporate culture. Every day brings the realisation that our clients do not dream of banking products; they dream of a house, a holiday, a car or their own business. These are things that require money and insurance. We can help them achieve these dreams and protect them, provided that we keep earning their trust, offer them enough convenience and surprise them with our proactive offering. In our world of rapid digitalisation, our clients expect more from us than ever before, and rightly so.

### **How do we go about creating this client experience?**

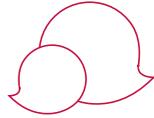
By ensuring seamless communication among our different channels of distribution: bank and insurer, branches and agencies, contact centre and digital channels. Such communication ensures that we recognise clients regardless of the channel they use and don't have to ask them for the same details over and over again.

Moreover, we wish to manage available client details intelligently, so that we gain a better understanding of our clients and can make them proposals with surprising added value. In this regard, total respect for client privacy is essential. Otherwise we would lose our clients' trust and confidence very quickly.

We also want to become more open and cooperate far more with our clients and external partners. That will enable us to keep our view of client focus fresh and to develop a broader view of this.

We already have the first results of this kind of cooperation in KBC Touch (the successor to KBC-Online), which we developed in close consultation with clients.

## SMART DATA



## MEDIUM: DATA MANAGEMENT

Like other financial institutions, KBC holds large amounts of client data. At a time when we don't meet our clients as often in person, data management helps us gain a better understanding of our clients so that we can provide them with a better service. A thorough analysis of general (and anonymous) client data will also help us to further strengthen our day-to-day risk management and gain a better insight into market and business trends in the financial sector and other industries.



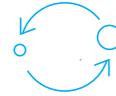
### GOAL: PROACTIVE OFFERING

Who wouldn't want to be offered the right solution at the right time? Who wouldn't want to be surprised with a tailor-made solution? Life is busy, so clients appreciate it when their financial expert keeps them in mind.



### BASIC PRINCIPLE: SEAMLESS INTEGRATION

Clients can call into our branches and agencies, write to us or phone us, e-mail us or contact us on Facebook. We collate all the information from these systems so that they waste less time and we can provide them with better, quicker solutions.

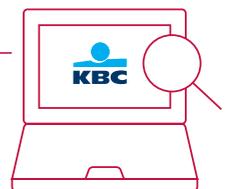


### AMBITION: CLIENTS CHOOSE THEMSELVES

We are aware that our clients value their privacy and we want to respect that. Transparency is of prime importance, and that is why we take a proactive approach to informing clients and leaving them to make their choice.



We aim to provide our clients with the best possible **ADVICE** in order to meet their **INDIVIDUAL NEEDS** in terms of financial products and services. To ensure this happens, we analyse a raft of information in our databases. We do not divulge **ANY INDIVIDUAL CLIENT DETAILS TO THIRD PARTIES**. We want to allow **CLIENTS DECIDE** for themselves whether they want a more personalised approach and the resultant offering. Clients who so wish can then **CHANGE** their privacy requirements **AT ANY TIME**.



## How does KBC help dreams come true?

We help clients realise their dreams by, for instance, helping them to buy or build their own home.

In 2014, the number of **new home loans** at KBC was 35% higher than in 2013. This surge was due mainly to the announced change to tax deductions for mortgage loans in Belgium, but also to the low rate of interest. The combination of both factors was a strong incentive for people with plans to buy, build or renovate to speed up those plans. We succeeded in providing all our clients with a quick, high-quality service so that they could carry out their plans on time.

22% of our portfolio of home loans was **refinanced** in 2014. In addition, 18% of borrowers benefited from an automatic, contractually agreed review of their interest rates because they had opted for a variable rate for their home loan when they first took it out.

However, we have other benefits to offer our clients, such as the KBC FlexTime option which clients can choose when taking out a variable-rate home loan. This is useful for **investments** like **energy-friendly** ones (e.g. installing energy-saving techniques) where clients have to have the necessary financial resources upfront. However, the

investments made will free up resources for them within a relatively short term, by reducing their energy bill, for example. And they can put that surplus aside. Next time their interest rate is reviewed, they can use the amount saved to pay back part of their loan early, thus repaying the loan over a shorter period and paying less for it overall.

Research we conducted among clients shows that clients who have plans for their home, and sometimes even before they get to that stage, are greatly interested in the things that other clients with the same profile have done. That's why we developed the online simulation tool '**What do other KBC clients do in similar situations?**'. By answering a few simple questions about their age, joint net income, etc., clients can find out in the blink of an eye roughly how much other KBC clients with a similar profile to them borrowed, how much they contributed themselves, how much they have to pay off every month, and so on.

Besides that simulation, our website also contains the **KBC Housing Guide**, a step-by-step guide for anyone planning to buy, build or renovate their home, a loan calculator, and a tool that allows clients to plan an appointment with an adviser in their bank branch. All of which are tools that clients really appreciate.



Cronos  
wants to be  
your trusted  
adviser.

*Sven Van Cleemput*

I have been working for Cronos since 2010. This is an IT consultancy with a distinct philosophy that fosters creativity, innovation and enterprise. Cronos is ultimately an umbrella company providing 200 or so businesses set up by young entrepreneurs with financial and professional support until they become a fully-fledged Cronos company and can in turn share their expertise with other young entrepreneurs. It was a no-brainer for us to get involved in KBC's 'Start it' initiative for helping young entrepreneurs.

Sven Van Cleemput, one of Stefan's basketball friends

## How does KBC stimulate the local economy?

In our operations as a bank and insurer we provide the economy with a structural stimulus, but we also support the economy in another way. At the end of 2013 we set aside office space and provided coaching for innovative start-ups in Antwerp. There was such an enthusiastic response that we have since freed up twelve storeys in our head office building in Antwerp and also provided space in Hasselt, Ghent and Leuven to house young start-ups. We have so far helped more than 100 businesses to set up their first business plan.

Our coaching partners – Flanders DC, Antwerp University, iMinds, Mobile Vikings, Accenture and Cronos – share our enthusiasm for these projects.

The logo features the word 'STARTIT' in a bold, black, hand-drawn font. Above the 'I' in 'STARTIT', there is a small blue circle containing the letters 'KBC'.

[www.startit.be](http://www.startit.be)

## How much does KBC invest in the economy?

We want to stimulate the local economy in all our core markets.

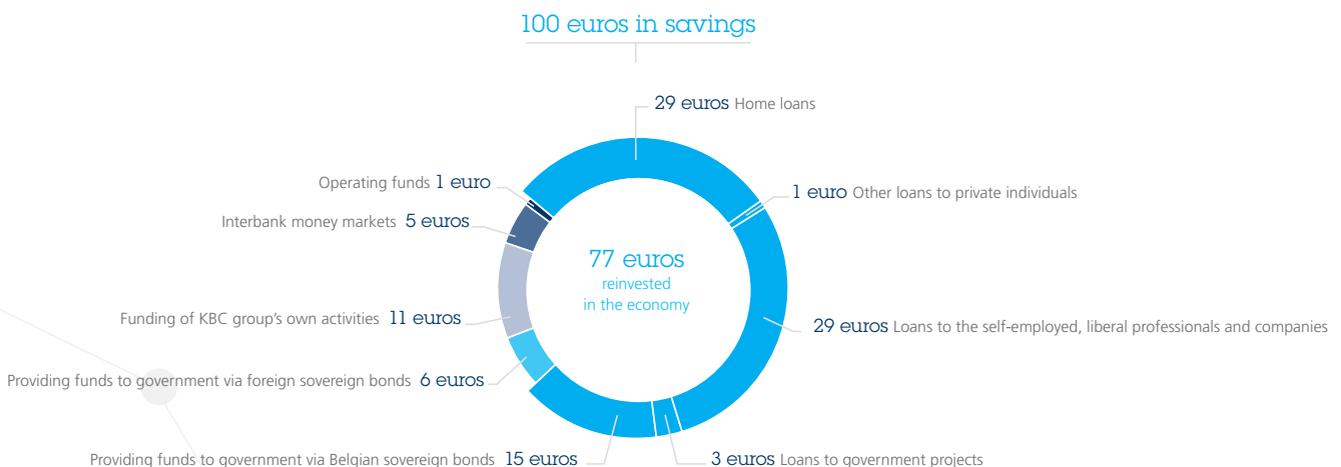
### What does that mean in terms of absolute figures?

In 2014, KBC managed 136 billion euros in savings. We granted loans worth 125 billion euros to individuals and businesses. To give business people the opportunity to expand their operations abroad, KBC also granted some 12 billion euros' worth of trade finance.

**In Belgium**, we invested 62 euros of every 100 euros of our clients' savings in the economy in 2014, through loans to individuals and businesses and government projects. We also invested 15 euros in Belgian government bonds – giving a combined total of 77 euros. Moreover we are committed to continue to invest in the social profit sector, with outstanding loans to this sector totalling 7 billion euros in 2014. We also fund the economy indirectly by actively subscribing to government bonds. Our investments in such bonds came to 18 billion euros in Belgium and 6 billion euros in the Czech Republic in 2014.

Insurance also plays a major economic role. Indeed insurance is the ideal instrument for our clients to protect their investments. For example, without public liability insurance, businesses could not be run, and without industrial accident insurance, people would not be protected at work. The basic role of an insurer is ultimately to reallocate the premiums it collects to clients, insured parties or third parties who sustain (insured) loss or damage.

**What does that boil down to in figures?** In its capacity as a non-life insurer, KBC paid out 2.1 billion euros in 2014, including the costs associated with claim payments, such as taxes, legal costs, and doctors' and loss assessors' fees and expenses. Lastly, we would point out that KBC is a long-standing banking and insurance partner of hospitals, retirement and nursing homes, educational establishments and local government bodies.





There is no planet B.

Jesse Sels

The dream began ten years ago in my sitting room – to start up a business specialising in hiring out durable plastic pallets. Today Contraload has an international presence, managing more than 650 000 load carriers in 27 countries. Doing sustainable business is our motto. Our principal bank, KBC, has provided us with financial support from the outset. And when we recently started looking for new shareholders, KBC continued to believe in our future.

Jesse Sels, CEO of Contraload and basketball friend of Stefan

How is KBC contributing to tomorrow's world?

The world as we know it is changing constantly. There are many challenges in store, such as the increasing and ageing population, energy and mobility, climate change and housing.

Addressing these new challenges will require creativity, innovation and flexibility. In addition to these major changes, there is also a shift from large governing bodies to individuals. The world is moving towards a less hierarchical structure and networks are becoming increasingly important. People are becoming more critical all the time and it is easier for them to express their opinions through social media. Companies that stick rigidly to their traditional approach will not be ready for this new world. We are changing and we wish to contribute now to the world of tomorrow.



## What products is KBC launching to finance this transition?

In this case, the transition involves a change to a new society with fresh challenges, new problems and a new environment, all of which call for a new approach. As a company, we want to think creatively so that we can prepare solutions today for the problems of tomorrow. More specifically, we want to focus on areas such as care provision and the ageing population, energy and mobility, innovation, urban development and housing.

- **People are living longer.** Although that is something to celebrate, we must also bear in mind the increasing need for care provision that it entails. That is why we continue investing in the social profit sector and developing new forms of funding and insurance for hospitals, schools, care homes and serviced flats, to name but some. We also provide individuals with financial peace of mind. The KBC Care Plan, for example, is a means for clients to insure against the high costs of physical or mental care.
- **As concerns energy and mobility,** we finance and insure projects that contribute to a sustainable society. For instance, clients could subscribe to Green Bonds issued by the World Bank through KBC. Furthermore, we offer a number of investment funds that invest in themes relating to sustainability or in socially responsible countries or companies.
- We can only meet other social challenges through **innovative cooperation** with our clients. That was the thinking behind Bolero, our online stock trading platform, launching a crowdfunding platform on which start-ups and existing businesses can seek funding. In this way, interested investors can support companies' growth for a relatively small outlay.
- We also started a **new form of investment** that combines a positive social impact with achieving a financial return. Through our Impact Investing Fund, clients can invest in companies that bring a product or service to market that is designed to solve certain social problems such as the ageing population, climate change, youth unemployment or mobility. This is a way for our clients to win on two fronts – they obtain a financial return and contribute towards social improvement.



## What does KBC require of its suppliers?

We also see our relationship with suppliers as an opportunity to work towards a better society. The first step is to ensure that we only work with suppliers who share our convictions. We therefore ask them to sign a code of conduct when entering into a contract with us that sets guidelines concerning human rights, child labour, environmental impact, discrimination, fraud and so forth in accordance with the UN Global Compact principles. We will not consider working with suppliers who refuse to sign the code.

The next step is to conduct periodic checks to ensure that our suppliers satisfy the agreed social responsibility requirements. If there are any infringements that cannot be remedied within an appropriate deadline, KBC is entitled to terminate all its contracts with the supplier concerned. To ensure an objective assessment, we call upon a third party – an international company that has already established a reputation for sustainability screening – to screen suppliers. By imposing our code of conduct and checking that it is complied with, we endeavour to work with our suppliers in having a more positive impact on society.

## Is KBC itself ready for this new society?

As a company, we also take account of the changing society in which we live.

In recent years, we have made great efforts to achieve a simpler structure and a dynamic corporate culture so that we can respond quickly to changing circumstances.

The rapid digitalisation that is occurring in our industry is a prime example of a change we wish to incorporate. We will invest 500 million euros in this area between 2014 and 2020. To limit this increase in expenses, we are already working hard on simplifying our organisation and processes. At the same time, more simplicity also supports our focus on clients and helps make our company more versatile and efficient.

We have also ensured that our personnel policy is appropriate to the increased pension age. We have developed a package of options for older employees in which they may (but don't have to) opt for a less high-powered job or fewer working hours, or choose to make their knowledge and experience available to non-profit organisations. This package, which is known as Minerva, is a unique scheme on the Belgian labour market and yet another example of how we work together with other social operators.

## What does KBC do for the environment?

Although, as a bank-insurer, we only have a minor impact on the environment, we are constantly looking at ways to reduce our ecological footprint and increase environmental awareness among our staff.

Some examples of this are:

- our energy-efficient (Bamboo) branches in Belgium;
- our environmentally-friendly head offices in the Czech Republic, Hungary and Belgium;
- our variable pay system in Belgium, which is partially linked to environmental targets.

Our constant focus on the environment has yielded some fine results:

- Electricity consumption is down by 18% (2009–2014)
- Water consumption is down by 25% (2009–2014)
- Paper consumption is down by 39% (2009–2014)
- Use of fossil fuels is down by 16% (2009–2014).

Teleworking, which is becoming increasingly common at KBC, meant our staff clocked up 13 million fewer kilometres in work-related travel in 2014.

These efforts have also resulted in us obtaining environmental certification such as ISO 14001 and EMAS in Belgium and LEED (Leadership in Energy and Environmental Design) for our head offices in the Czech Republic and Hungary. Not only do we want to reduce our own footprint, but we also participate in external projects and initiatives such as *Leuven Klimaatneutraal 2030* and *Stadslab 2050*. In addition, we have also further extended our partnership with environmental unit, ARGUS.



Further information on ARGUS projects is available at [www.argusmilieu.be](http://www.argusmilieu.be).



Some of the projects launched by ARGUS in 2014:

- Publication of the ARGUS report entitled 'Energy for tomorrow – guidelines for a sustainable energy system'. This report was based on wide-ranging dialogue with various stakeholders in the energy debate, and was presented to the Flemish Parliament, the Flemish Energy Agency (VEA), political parties and others involved in the energy debate. The suggestion of an energy pact resulted in the Elia initiative and introduced the idea to the political agenda.
- Together with some major players in the construction sector, ARGUS made a series of recommendations for the new Flemish Regional Government to make sustainable construction or renovation affordable and fundable. These recommendations were sent to the relevant ministers, the VEA and the Flemish Parliament.
- ARGUS made a commitment to *Stadslab 2050* for drafting alternative funding and a new approach to make it possible for underprivileged groups to thoroughly renovate their homes. As part of a preliminary project, 30 000 euros will be made available for an insulation project for and by people in poverty. This is a collaborative project with Samenlevingsopbouw Antwerpen, Levanto and the FRGE (fund for the reduction of the global energy bill).
- ARGUS is making 50 000 euros available for a pilot project starting in Beerse, aimed at cutting the energy bills of poor people and increasing their living standards by purchasing sustainable household electrical goods. This is a joint project with OCMW Beerse, Samenlevingsopbouw Antwerpen province, energy saving advisers, Bosch, KBC and Cera. ♻️



Music  
is all  
about  
teamwork.  
*Orsi Horvath*

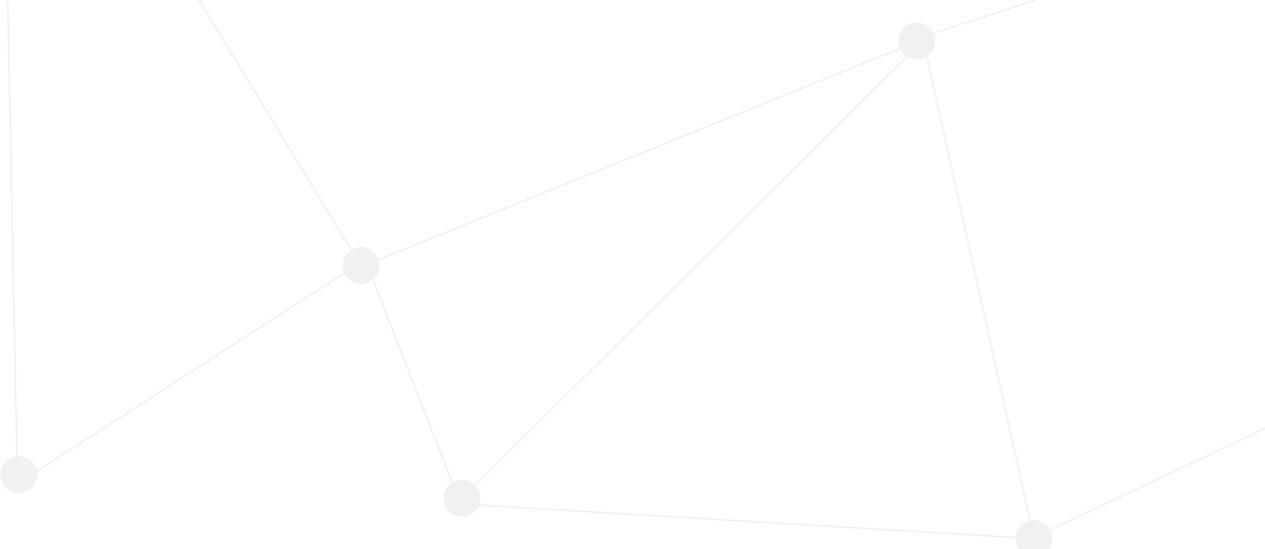
After completing our studies in Budapest and Amsterdam, my husband Tamàs passed the strict auditions for the Flemish Philharmonic Orchestra. Now he is working in London and I play for the philharmonic orchestra, as lead second violin. But my real passion is chamber music. Playing in small orchestras like 'Trio Tooten' or 'Scalda' gives me and my fellow musicians the opportunity to get close to the audience, which is an intense but deeply personal way to make music. What's my connection with KBC? Well, I'm covered by their insurance!

Orsi Horvath, a neighbour of Stefan's parents and violinist from Hungary. Discover the passion for classical music for yourself at [www.defilharmonie.be](http://www.defilharmonie.be) and [www.triotooten.com](http://www.triotooten.com).

## How does KBC deal with its environment?

Taking account of its environment means that a company focuses on all its stakeholders and doesn't only endeavour to create value for itself and its shareholders. At KBC, this means engaging in dialogue with our various stakeholders and taking their feedback into account. In this way we strive to create added value for all concerned.

Our staff in our bank branches and insurance agencies get to know what is going on among our clients in their daily dealings. There are also our advisory centres, where clients can bring their problems after office hours. To establish where and how KBC can contribute to resolving societal problems, we are also involved in regular dialogue with NGOs and we have set up a Sustainability Advisory Board, whose members are external experts and business leaders.



## How does KBC go about dialogue with its stakeholders?

We remain in dialogue with our stakeholders, firstly to find out what is important to them and secondly to discover whether we – as a bank-insurer – meet their requirements and expectations. With this in mind, we again conducted a survey among various groups – clients, employees, suppliers and politicians – in 2014. This year our survey was not restricted to Belgium, but also involved our stakeholders in the Czech Republic. In total, 12 850 stakeholders took part. In this report, we only include the results of the survey in Belgium, but the results from the Czech Republic can be found on [www.kbc.com](http://www.kbc.com) and in the ‘Our business model and strategy’ section of our Annual Report.

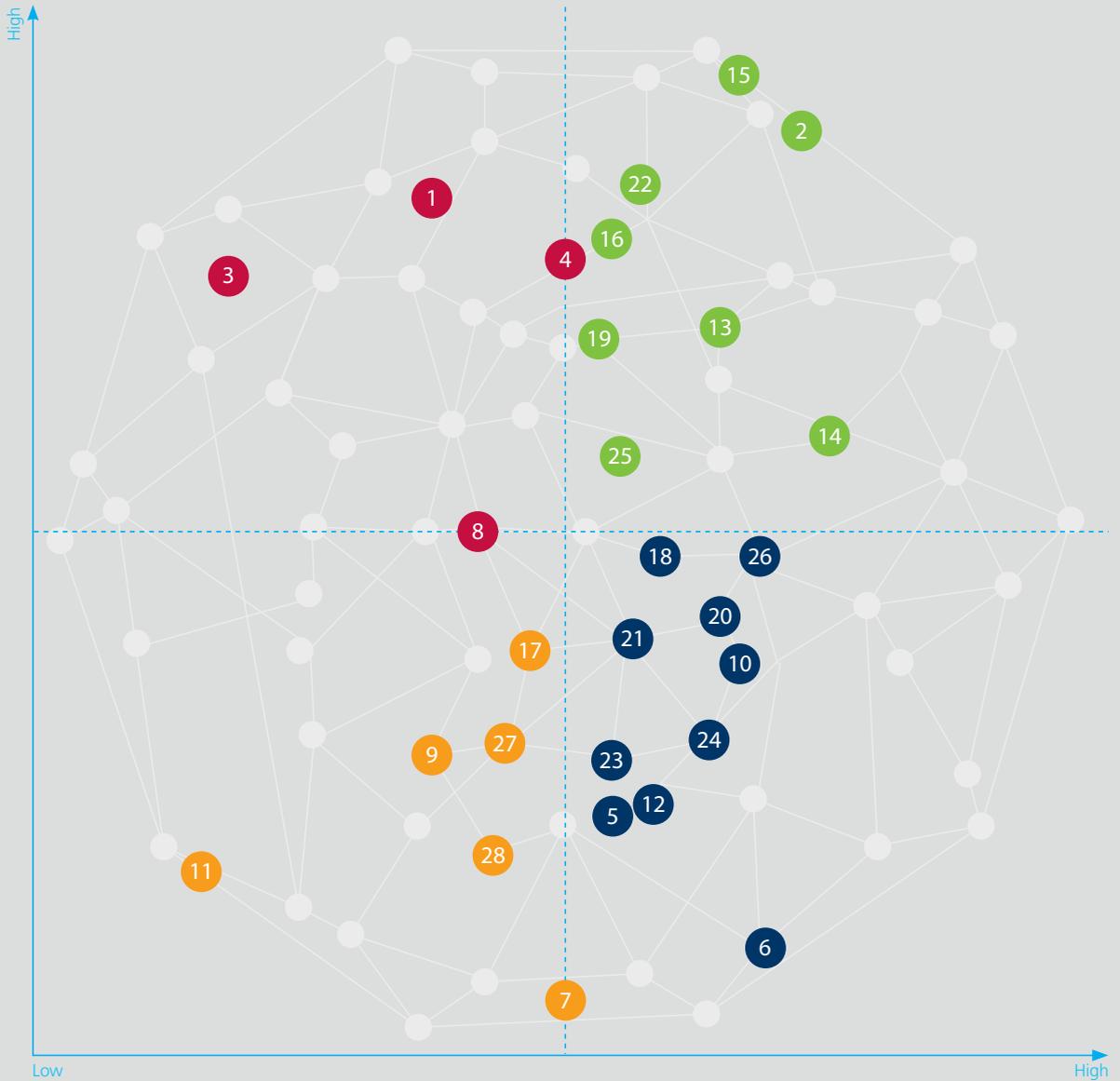
Respondents in our survey were asked to rank certain items in order of importance and to assess KBC on those items. The results are placed in a matrix (see next page), which distinguishes between four groups:

- **Foster:**  
items our stakeholders consider important and for which they gave KBC a high score.
- **Improve:**  
items our stakeholders consider important but for which they gave KBC a lower score.
- **Monitor:**  
items our stakeholders consider less important and for which they gave KBC a lower score.
- **Maintain:**  
items our stakeholders consider less important but for which they gave KBC a high score.

To obtain a better understanding of what is important to our stakeholders, this year’s survey also involved asking our Belgian stakeholders to compare KBC with other operators in the financial industry. This allowed us to assess whether certain points for attention relate to the industry or are specific to KBC. The results showed, for example, that 97% of the clients surveyed believe that KBC does equally well or better in terms of financial stability and profitability, and 95% think that the physical presence of our branches is as good as, or better than, our competitors. The price/quality ratio (value for money) of the products and services offered is the major point for attention.

Our management and Board of Directors also expressed their opinion. If we compare the importance of certain topics for the stakeholders and for KBC in the matrix, we see a clear correlation between the two: what is important to KBC is also important to our stakeholders, making it possible to work together with our stakeholders towards a sustainable future.

# Level of importance for our stakeholders



## Level of satisfaction with KBC

### Improve

These are the items that our stakeholders consider important but on which KBC scored less well.

### Foster

These are the items our stakeholders consider important and on which KBC was scored well.

### Monitor

These are the items that our stakeholders consider less important and on which KBC did not score highly.

### Maintain

These are the items on which KBC scored well, but which our stakeholders consider less important.



## Stakeholders' views

A comparison of the results of the five groups of stakeholders yields the following results.

### Foster:

- 15 Financial stability
- 02 Quality of products and services
- 22 Responsible risk management
- 16 Short and long-term strategy
- 13 Bank-insurance with respect for all stakeholders
- 19 Combating corruption, fraud and money laundering
- 14 Profitability
- 25 Funding and insurance of the (local) economy

### Maintain:

- 18 Offering of products in line with risk profile
- 26 Funding and insurance of the social profit sector
- 20 Measures taken relating to the rise in the ageing population
- 21 Products tailored to each stage of life
- 10 Training opportunities
- 24 Relationship with government
- 23 Attention to the environment
- 12 Job security
- 05 Access to financial services for everyone
- 06 Proximity of branches

### Monitor:

- 17 Offering of socially responsible investment products
- 27 Support for combating poverty
- 09 Pay policy
- 28 Support for charities
- 11 Bonus policy
- 07 International presence

### Improve:

- 01 Transparency of products and services
- 03 Price/quality ratio
- 04 Consumer protection
- 08 Equal opportunities for all employees

More detailed information for each group of stakeholders is given on the next page.



I'm not  
thinking of  
calling it a  
day just yet.

*Ann Wauters*

At the same time as I started playing professionally in France as an 18 year-old, I became a client at KBC. I was given guidance and advice on financial planning and management. That was a great thing, because I was too young at the time to realise the importance of it. After six years I took up a fresh challenge in Russia. Luckily Lot decided to go with me. We have travelled extensively and had the opportunity to experience and appreciate many different cultures. After the birth of our third child, Dree, we decided I should pursue my career closer to home. I now play in Villeneuve d'Ascq, close to Lille.

Ann Wauters, top sportswoman who knows Stefan from her basketball background.

## Our clients

Our clients attach great importance to the quality of our products and services, KBC's financial stability and responsible risk management. They scored KBC highly on these points, too. They also believe we should foster our short and long-term strategy, consumer protection, the provision of banking and insurance products and services with respect for all stakeholders and our offering of products tailored to their risk profile.

Our clients consider that the following points require attention: the price-quality ratio (value for money), the transparency of our products and services, KBC's profitability, and combating corruption.

Besides this stakeholder survey, we also conduct client satisfaction surveys. In 2014, that survey showed that 82% of our clients are satisfied with their KBC bank branch. And with 83% of clients giving their agency a score of 8, 9 or 10 out of 10, the results for our agencies are similar. Unsurprisingly, claims handling is a decisive factor for insurance, and at KBC, 82% of clients are satisfied with the service we provide in that area.

We also hear our clients asking why interest on savings is so low. That is not something that we have control over, but is determined by the low long-term market rates and the fact that there are costs involved in having savings available for immediate withdrawal and protecting savers. What's more – and this is a choice made by KBC – we have a rigorous risk management policy and avoid any form of casino banking involving our clients' savings.

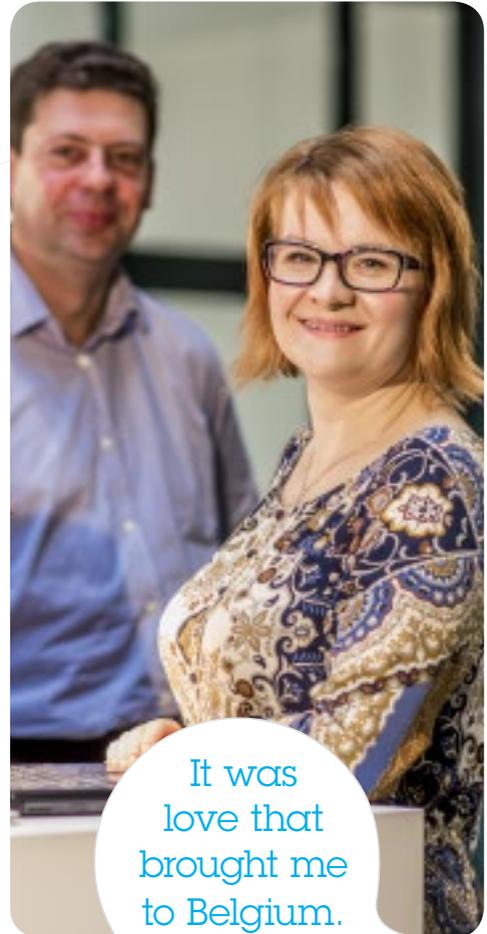
We do, however, understand savers' frustration, especially as it seems like interest rates will remain low for some time yet. That's why, in 2014 we launched the Start2Safe account with special terms and conditions, making it possible to offer a slightly higher interest rate. Anyone who can invest their money for a slightly longer term might be advised to opt for alternative long-term savings products and investments or investment insurance.

## Our staff

Our staff's survey results are comparable with those of our clients, although their focus is slightly different. At company level, they particularly appreciate KBC's financial stability, the responsible risk management, profitability, short and long-term strategy and measures for combating corruption. In their work with clients, they particularly appreciate the quality of the products and services offered, consumer protection and respect for all stakeholders. As employees, they appreciate the job security and training opportunities. Areas in which they believe improvements could be made are pay policy, promotion, equal opportunities for all employees, the price-quality ratio and the transparency of the products and services offered.

The survey of our staff in Belgium is part of our annual Finger on the Pulse survey of employee satisfaction. The results reveal that 97% of employees are satisfied, highly satisfied or extremely satisfied with KBC as an employer. A new management model based on coaching and an all-round (360-degree) assessment for the appraisal of managers was introduced in 2014. This assessment is designed to provide more clarity on thorny issues so that we can address these constructively.

Because we wish to have a long-term relationship with our staff as well as our clients, we make significant investment in skills and talent development and encourage a healthy work-life balance. A practical tool like teleworking is an enormous step in promoting a better work-life balance. That appears to be a major condition for the development of women, and helps to reduce stress, among men, too.



It was  
love that  
brought me  
to Belgium.

*Andrea Blomme*

Hans and I were working for Philips in Ireland, and it was there that Cupid struck. Our careers took us around Europe. We moved to Poland, got married in Slovakia, and then went to work in Sweden. In 2008 we started to look for more permanent jobs. Hans applied for a job at KBC. With his economics degree and work experience in Central and Eastern Europe, he had the ideal profile for the position. And mine was too when I applied for a vacancy because I also speak Slovak and Czech. So now we are colleagues again.

Andrea Blomme and her husband, Hans, got to know Stefan and Katka at KBC, and the colleagues ended up as friends.



## Our suppliers

The results of the survey of our suppliers were comparable to those for our clients and staff, but our suppliers believe that KBC could do even more to support the local economy. That is important for us to know, because ultimately those same suppliers are a major factor in the local economy. More details of our dealings with suppliers are given on page 22.

## Politicians

We asked 350 politicians to take part in our survey, but unfortunately only a small number (22) had the time to do so. It is difficult to draw any general conclusions from these results, but politicians appear to attach importance to the broader role of KBC in society and in their assessment of KBC the focus is on the general interest, which is only logical.

Politicians consider the following items as very important:

- Quality of the products and services offered;
- KBC's financial stability;
- Transparency of the products and services offered;
- Price-quality ratio;
- Combating corruption;
- Responsible risk management;
- Banking and insurance with respect for all stakeholders;
- Short and long-term strategy;
- Funding of the local economy.

## Our shareholders and Board of Directors

As far as members of the Board of Directors and Executive Committee are concerned, the major priority is the long-term survival of KBC.

The survey shows that they consider the following items to be highly important:

- Financial stability;
- Quality of the products and services offered;
- Transparency of products;
- Responsible risk management;
- Consumer protection;
- KBC's short and long-term strategy;
- Combating corruption;
- Banking and insurance with respect for all stakeholders;
- Funding of the local economy.

In recent years, our core shareholders have confirmed their belief in KBC. They never lost faith, even at the depths of the crisis. The shareholder agreement entered into in 2004 was extended for a further ten years in 2014. This means that Cera and KBC Ancora, along with MRBB and the other core shareholders, will ensure the stability of the shareholder base and the ongoing development of the KBC group.

This stable, firmly rooted shareholder base will help us to achieve sustainable, profitable growth, maintain our particular focus and create value for all our stakeholders. The extension of the shareholder agreement is also a signal that our core shareholders continue to believe in our new strategy: a slimmed-down business that focuses on its clients in the local economies of our core markets.



▲ Desmond Tutu, ambassador for Close the Gap

Close the Gap celebrated its tenth anniversary this year, and it did not go unnoticed. Close the Gap collects used computers from companies and makes them available for re-use in developing countries. KBC has been a strategic partner of this NGO for many years and will continue to support it in the years ahead.

Close the Gap has come a long way. It started with small-scale projects in developing countries, but has now supported more than 2 500 projects worldwide. Worldloop was set up, providing environmentally-friendly e-waste solutions, so that second-hand PCs don't cause any further pollution. Close the Gap and Worldloop have become a prime example of how enterprise, enthusiasm, environmental protection and creativity can combine to close the digital divide.

And the story continues, with the unveiling of the new 'digitruck' programme at the anniversary celebrations, under the approving gaze of Archbishop Desmond Tutu. A digitruck is a solar powered mobile ICT classroom with 20 computers. The Flanders Red Cross, for instance, will use these trucks in social projects in Burundi. This mobile classroom makes it possible to provide lessons in areas where electricity is scarce. Close the Gap is working with its strategic partners and other NGOs to increase the number of digitrucks.

And there was yet more. Close the Gap announced a new partnership with Deloitte University, which will involve organising boot camps for business people in Tanzania, with the aim of increasing knowledge of e-waste and ICT in education in various African countries. By investing in projects involving educating people, Close the Gap can make a sustainable contribution to supporting local economic development.

🌐 [www.close-the-gap.org](http://www.close-the-gap.org)



▲ Belgische Raiffeisenstichting (BRS)

In 1992, the Belgische Raiffeisen Stichting (BRS or Belgian Raiffeisen Foundation in English) began supporting microfinancing and microinsurance projects in the southern hemisphere, so fostering a lasting improvement in the quality of life of poorer people. Thanks to its partnership with KBC, BRS is able to provide practical know-how on banking and insurance through a unique coaching model in which retired KBC staff advise their colleagues in the southern hemisphere on a voluntary basis, and KBC employees also provide advice (half in their leisure time and half in working time). Thanks to this system, BRS provided 430 days of advice in 2014.

Some examples of BRS projects:

**Agricultural financing in Rwanda**

Duterimbere is a Rwandan microfinancing organisation that focuses primarily on businesswomen. Its microloans for small businesses or trades have proved successful.

**Microinsurance in Ghana and Burkina Faso**

The organisation CIF Assurance Vie in Burkina Faso and the network of rural banks in Ghana developed packages appropriate for their clients in the dry savannah region. The culturally important funeral insurance and micro health insurance are made-to-measure packages and have premiums of less than 5 euros a year.

🌐 [www.brs.coop](http://www.brs.coop)

## OUR AMBITION:

# TO BE THE REFERENCE IN BANK-INSURANCE



### OUR BUSINESS MODEL

Although banking and insurance are our core businesses, we are more than just a bank and insurer – we are a bank-insurer. With this integrated model, we can provide clients with an excellent service in both banking and insurance products.

Our structure is also based on our model as an integrated bank-insurer, with the vast majority of our services being offered group-wide and the group being managed as an integrated unit.

### OUR STRATEGY

Client satisfaction is our primary focus. In a world that is experiencing rapid digitalisation, this means, for example, having flexibility in adapting to changing client requirements. We wish to offer our clients more user-friendly services and a wider range of channels, quicker service and a more proactive offering. Client satisfaction is a basic condition of sustainable growth, along with cost efficiency, profitability of all services, and sound risk, capital and liquidity management.



### OUR MARKETS

We operate in five core markets – Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria – where we have a presence with both banking and insurance businesses. We also have a banking arm in Ireland that is being developed into a fully-fledged retail bank.



### OUR RESULTS

We closed 2014 with a profit of 1 762 million euros, compared with 1 015 million euros in 2013. We achieved a return on equity of 13%. We maintain a strong capital base and keep our cost/income ratio under control.



## OUR CULTURE

Our business culture is summed up in the acronym PEARL, where the letters stand for:

**Performance:** we endeavour to achieve excellent results and ongoing improvements to quality.

**Empowerment:** we give our employees the scope to develop their professional skills.

**Accountability:** we take individual responsibility.

**Responsiveness:** we anticipate queries and suggestions from clients and employees.

**Local embeddedness:** we respond to the diversity of our core markets.

The foundations for this culture are our three core values:  
to be respectful, responsive and results-driven.



## OUR STAKEHOLDERS

We have made the conscious decision to engage in dialogue with all our stakeholders:

clients, employees, shareholders, the government, suppliers, NGOs, the media, the community, etc.



Respectful

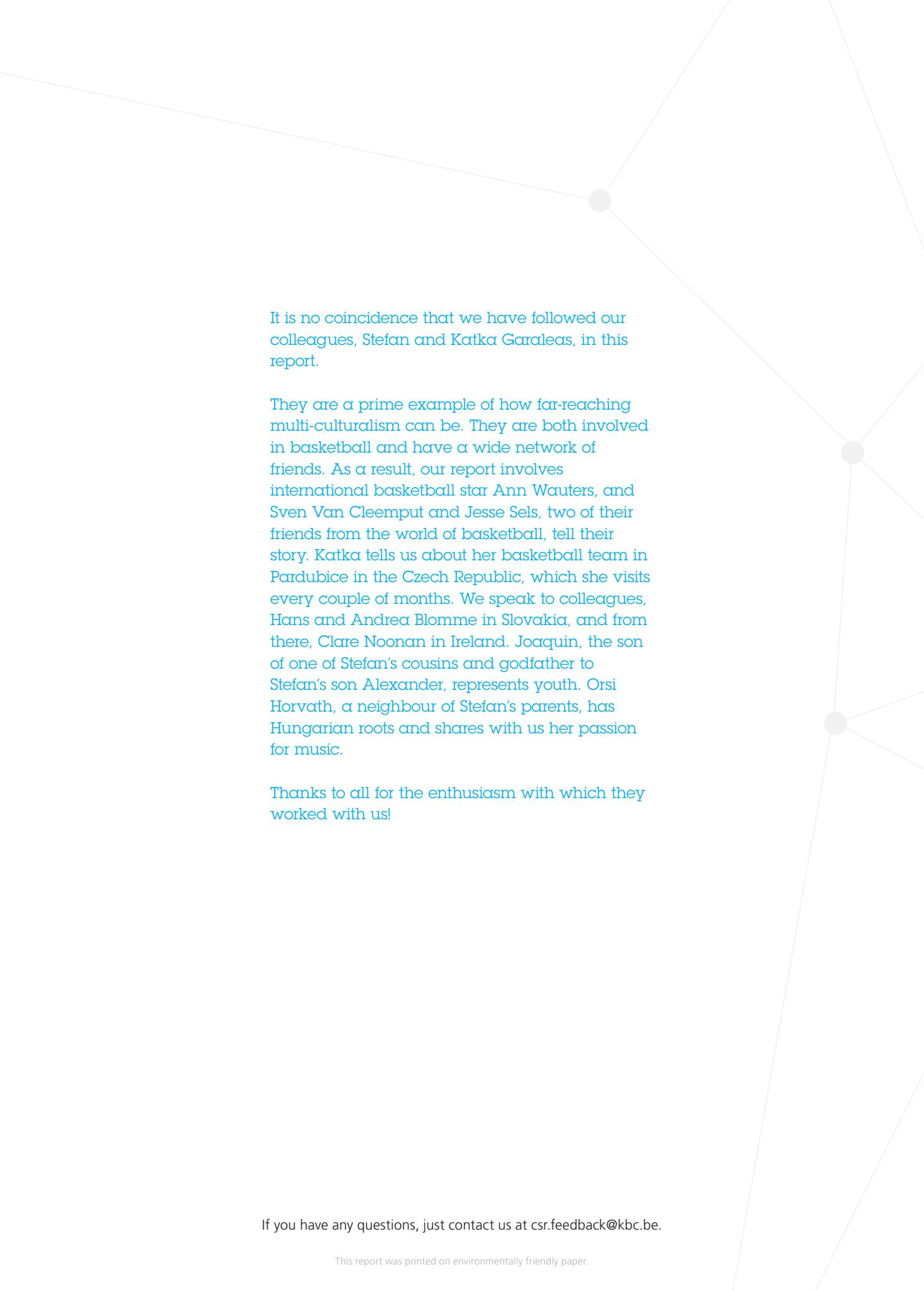
WE TREAT ALL  
OUR CLIENTS  
WITH RESPECT.

Results-driven

WE DO WHAT WE  
PROMISE TO DO.

Responsive

WE LISTEN TO CLIENTS AND  
EMPLOYEES AND TRY TO FIND  
A SOLUTION FOR THEIR NEEDS.



It is no coincidence that we have followed our colleagues, Stefan and Katka Garaleas, in this report.

They are a prime example of how far-reaching multi-culturalism can be. They are both involved in basketball and have a wide network of friends. As a result, our report involves international basketball star Ann Wauters, and Sven Van Cleemput and Jesse Sels, two of their friends from the world of basketball, tell their story. Katka tells us about her basketball team in Pardubice in the Czech Republic, which she visits every couple of months. We speak to colleagues, Hans and Andrea Blomme in Slovakia, and from there, Clare Noonan in Ireland. Joaquin, the son of one of Stefan's cousins and godfather to Stefan's son Alexander, represents youth. Orsi Horvath, a neighbour of Stefan's parents, has Hungarian roots and shares with us her passion for music.

Thanks to all for the enthusiasm with which they worked with us!

If you have any questions, just contact us at [csr.feedback@kbc.be](mailto:csr.feedback@kbc.be).

This report was printed on environmentally friendly paper.



