CORPORATE GOVERNANCE & STRUCTURES

ING BELGIUM AND THE RULES OF CORPORATE GOVERNANCE

STATE OF AFFAIRS

In Belgium, corporate governance is currently regulated partly by the law and partly by the recommendations contained in the report prepared by an ad hoc committee set up by the Federation of Enterprises in Belgium, the Belgian Banking, Finance and Insurance Commission (BFIC), and Euronext Brussels in early 2004.

Chaired by Count Maurice Lippens, this committee was given the brief of drawing up a code of corporate governance to be used by Belgium-based listed companies that takes account of best international practices and recommendations of the European Commission.

The fruit of the committee’s labours, the Belgian Corporate Governance Code, entered into force on 1 January 2005. In accordance with the “comply or explain” approach adopted by the English-speaking world, its recommendations lack binding force, with companies being urged to provide reasons if they refuse to comply.

In the case of banks, specific measures aimed at keeping major shareholders separate from the decision-making processes are added to this dual approach.

ING BELGIUM’S POSITION AS REGARDS THE BELGIAN CORPORATE GOVERNANCE CODE

The shares representing ING Belgium’s share capital have not been listed on the Brussels Stock Exchange since 1 July 1998. Furthermore, following the public takeover bid launched on 8 April 2004, ING Belgium is now a wholly-owned subsidiary of ING Group.

However, ING Belgium continues to carry on all the permitted activities of Belgium-based financial institutions, including public issues. It also remains responsible for steering ING Group’s development in the seven countries making up the South West Europe region.

This is why the bank continues to meet the requirements applicable to listed companies, notably as regards corporate communication and governance.

The Board of Directors recently took a series of major decisions concerning the latter:
- on 14 November 2005, it extended the Audit Committee’s remit to cover all the South West Europe business units reporting to ING Belgium’s Executive Committee and also approved the charter setting out how the Audit Committee is run;
- it changed the Remuneration Committee into a Remuneration & Appointment Committee and issued it with a charter whose terms were approved on 9 March 2006;
- it also approved the Executive Committee’s charter on this date.

As such, ING Belgium satisfies the main recommendations of the Belgian Corporate Governance Code.

The bank diverges on the following points:
1. It still does not have an internal Corporate Governance Charter: this document is being finalised by the Board of Directors.
2. The term of Board mandates remains uniformly fixed at six years, including independent directors. In that respect, the bank thinks that it is essential for an outside key figure to keep a sufficient distance in order to obtain an overall picture of its activities. It bases this belief on the complex nature of banking matters and on the fact that the business lines co-existing in a major financial institution may react differently to the phases of the economic cycle and to interest-rate fluctuations.
3. The bank also thinks that it should not have to personalise the amount of remuneration it pays to its Chief Executive Officer. It has observed that the Belgian legislator is drafting a wording to clarify this matter. The bank will comply with the contents of this wording when it is published.

AUTONOMY OF BANKING INSTITUTIONS

Financial institutions established under Belgian law operate within a specific legal and regulatory environment, the origins of which date back to the Royal Decree of 22 August 1934, which imposed separation of the activities of the former so-called mixed banks. This Decree was supplemented on 9 July 1935, by Royal Decree No 185, which defined the status of deposit banks and established the Belgian Banking Commission (“Commission bancaire/Bankcommissie”), mainly to oversee prudential standards in the country’s banking sector.

While this ended the complex web of interests that characterised mixed banks, the Royal Decrees did not ensure the management autonomy that the Banking Commission meant to confer on deposit banks in relation to their major shareholders:

1 “Action plan on modernising company law and enhancing corporate governance in the European Union (2003)”; 2 See the section, “Issued share capital”, in the chapter, “General information”; 3 See the chapter, “Changes in equity and shareholding”, in the Management Report; 4 See the chapter, “ING Belgium within ING Group”; 5 The document was re-examined on 9 March 2006 without any modification being made; 6 See the note below on the Remuneration & Appointment Committee; 7 The latter had previously conferred a charter on each of the six advisory committees operating under its remit; 8 A list is given later in this chapter, in the section, “ING Belgium’s supervisory, executive and external audit bodies.”
this matter was settled by successive protocols, with which shareholders were required to comply.

The version of the Protocol on the Autonomy of Banking Institutions currently in force dates from 1992. This text reaf-
firms the principle of a dual structure as defined in 1974: while the Board of Directors determines the general policy of the bank, day-to-day management is handled by the Executive Committee. It is the task of the Chairman of the Board of Directors to ensure that both bodies can exercise their respective prerogatives independently and without restriction. For this reason, the chairmanship of the Board of Directors and the presidency of the Executive Committee cannot be vested in the same person 1. As the sole shareholder of ING Belgium 2, ING Group adheres to the terms of this protocol.

BOARD OF DIRECTORS

Composition

Under the terms of Article 13 of the Articles of Association, the ING Belgium Board of Directors must comprise at least 12 members. Currently, the Board comprises 14 members.

There are no corporate bodies on the Board.

A list of the Board members is given later in this chapter, in the section, “ING Belgium’s supervisory, executive and external audit bodies”.

Responsibilities

The Board of Directors’ chief responsibility is to define the bank’s general policy. The Board has the authority to appoint and dismiss the Chief Executive Officer and members of the Executive Committee. It also delegates day-to-day management to the Executive Committee, ensures that this is carried out, and oversees the state of affairs. The Board of Directors convenes general meetings and decides on their agenda. It sets the date for payment of dividends. The Board may decide to pay interim dividends for the current period, subject to the conditions laid down by law. It also sets the amount and date of the payment.

Provisions in the Articles of Association relating to terms of office

The General Meeting of Shareholders appoints directors to sit on the Board and may dismiss them at any time. In accordance with Article 13 of the Articles of Association, the term of office of outgoing directors expires at the end of the Annual General Meeting. Outgoing directors are eligible to stand for re-election. The order of rotation of mandates is decided by the Board of Directors in such a way as to ensure that no term of office exceeds six years, and that at least one member leaves the Board each year.

Age limit

Article 13 of the Articles of Association stipulates that the term of office of a director expires at the end of the Annual General Meeting held the year following that in which the director in question reaches the age of 70. An ordinary or extraordinary session of a General Meeting of Shareholders may, on the proposal of the Chairman of the Board, extend or renew, for one additional term not exceeding two years, the mandate of a director who has reached the age limit. Under Article 18 of the Articles of Association, the term of office of a managing director expires at the end of the calendar year in which the person concerned reaches the age of 65 3.

Board decisions

The Board’s decision-making powers are laid down in Article 16 of the Articles of Association.

Except in the case of force majeure 4, the Board may only delib-
erate and reach valid decisions if most of its members are present or represented, on the understanding that any director present may not exercise more than two mandates by delega-
tion.

However, where the Board fails to reach a quorum at a ses-
sion, it may duly deliberate on the items on the agenda for the previous session, regardless of the number of members present or represented, at a follow-up meeting held within two weeks at the latest.

Board decisions are taken by simple majority vote.

Where there is a requirement, under Articles 523 and 529 of the Belgian Companies Code, for one or more members to abstain from voting, resolutions can be validly decided upon by a simple majority vote of all eligible members present or represented.

In the event of a tied vote, the presiding member has the cast-
ing vote.

Remuneration

The Annual General Meeting held on 25 April 2001 fixed the remuneration of each director at EUR 32,000. By decision of the Board, members appointed as honorary directors 5 are entitled to a pension of EUR 300 for each year served, subject to a maximum of EUR 7,500.

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1 In line with this reasoning, the Chairman of the Board of Directors is chosen by the Board from among the non-managing directors, after consultation and approval by the Belgian Banking, Finance and Insurance Commission. The dismissal procedure is identical / 2 See the chapter, “Changes in equity and shareholding”, in the Management Report / 3 In practice, an internal regulation requires managing directors to step down from the Board at the end of the calendar year in which they reach the age of 62 / 4 Resulting from war, riot or other public disasters / 5 Usually, after having served ten years on the Board.
The total remuneration allocated to the Board of Directors is indicated in Note 27 to the consolidated accounts and in Note 29 to the Parent Company accounts, the latter providing separate details of remuneration paid to serving and to honorary directors. These two notes to the accounts also detail any advances or other loans made available to directors. Interest on loans and advances is charged at the market rate.

**Business activities**
The Board of Directors met five times during 2005.

Apart from preparing the accounts for 2004 and the interim results for 2005, the items on the agenda essentially related to the 2006-08 medium-term plan, the restructuring of ING Bank (France) and the planned disposal of its private banking arm, operational problems at stockbrokers Williams de Broë, the planned acquisition of Eural2, the consequences for ING Belgium of the plan to improve ING Group’s operational efficiency, and contingency measures to safeguard the bank’s operations should a serious event occur. The Board also looked at the annual reports prepared by the Auditor General and the Global Compliance Officer, in addition to the report on Audit Committee meetings.

**Special committees**
The Board of Directors has set up, from among its members, an Audit Committee and a Remuneration & Appointment Committee.

The Audit Committee’s remit extends to all the South West Europe business units reporting to ING Belgium’s Executive Committee. The Audit committee met four times in 2005. Matters dealt with included examination of the bank’s financial statements for 2004 and the interim results for 2005. It looked into the operational problems encountered at Williams de Broë and the external functions exercised by directors and senior management of the bank. The Committee also analysed the reports prepared by the Auditor General and the Global Compliance Officer and reviewed the loans placed under special monitoring and legal disputes. The Audit Committee reports to the Board of Directors at the meeting following each of its own meetings.

The Remuneration & Appointment Committee has the task of presenting the Board of Directors with proposals concerning the appointment of Board members and the President and members of the Executive Committee. It is also responsible for formulating recommendations for the Board of Directors, concerning:

• the principles governing the terms and conditions of appointing Executive Committee members, including their remuneration;

• the objectives and performance required of Executive Committee members;

• the succession planning of Executive Committee.

The Remuneration & Appointment Committee holds at least two meetings a year, one of which must be prior to the meeting during which the Board of Directors prepares the annual accounts and decides on the agenda for the General Meeting of Shareholders.

**Secretariat**
The Company Secretary of the bank is also the Secretary of the Board of Directors.

**EXECUTIVE COMMITTEE**

**Composition and responsibility**
Currently comprising six members, the Executive Committee is responsible for conducting the bank’s day-to-day management in line with the general policy set by the Board of Directors. Its members are managing directors and its president is the bank’s Chief Executive Officer.

**Assignment of responsibilities & decision-making**
Each member of the Executive Committee is directly in charge of a number of the bank’s entities: these responsibilities are detailed in the section of ING Belgium’s supervisory, executive and external audit bodies later in this chapter.

All decisions of the Executive Committee are, however, taken on a collective basis: each decision is binding on all members of the Committee.

The Executive Committee in turn delegates the management of areas of the bank’s business to a number of individuals whose rank, responsibilities, authority and remuneration are determined by the Committee: a directory, which forms part of this report, provides a list of all members of senior management and their areas of responsibility.

**Remuneration**
Article 18 of the bank’s Articles of Association stipulates that the Board of Directors determines, on the advice of the Chief Executive Officer, the remuneration of Executive Committee members. The Board of Directors has delegated this responsibility to the Remuneration & Appointment Committee.

The total remuneration paid to Executive Committee members is shown in Note 27 to the consolidated accounts.

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1 See the chapter, “International network”, in the Review of Operations / 2 See the section, “Record Group”, in the chapter, “Retail & Private Banking”, in the Review of Operations / 3 See the introductory section in the chapter, “Operations & Information Technology”, in the Review of Operations / 4 See the above section, “ING Belgium and the rules of corporate governance” / 5 See the fourth chapter in the Management Report / 6 The Remuneration & Appointment Committee carries out an annual appraisal of this performance / 7 These plans include a crisis scenario. They must be re-examined at least once a year.
Business activities
The Executive Committee generally meets once a week; additional meetings are convened if there is a large number of items or an urgent matter to be discussed.

In addition to specific decisions relating to the day-to-day management of the bank, the Executive Committee reviews a detailed annual account of the performance and prospects of each of the bank’s central units (profit centres and support services), and of all the main Belgian and international subsidiaries. The Executive Committee studies the bank’s monthly results, broken down by business line. It studies the periodic report drawn up by the Auditor General every other month. At the closing dates of 30 June and 31 December, the Executive Committee and the senior managers of the Credit Department review loan facilities requiring special attention. It regularly looks into issues affecting personnel management.

Special committees
Six main committees report directly to the Executive Committee: these include the Assets and Liabilities Management Committee (ALMAC), the Financial Markets Committee, the ING Belgium Commercial Committee, the Human Resources Management Committee, the Resources Allocation Committee, and the Security and Operational Risk Steering Committee. Charters are conferred on these various committees to govern their operation. The charters of the Financial Markets Committee, the ING Belgium Commercial Committee, the Human Resources Management Committee, and the Resources Allocation Committee were approved by the Executive Committee on 8 August 2005. The Executive Committee approved the charters for the ALMAC and the Security and Operational Risk Steering Committee on 7 November 2005.

The ALMAC, chaired by the Managing Director responsible for credit and risk management, meets once a month and is made up of the members of the Executive Committee, the senior General Managers of the Financial Markets and Finance South West Europe entities. Meetings are also attended by one of the senior General Managers in charge of the Belgian networks, the Chief Economist, and the Manager in charge of the bank’s portfolio of government securities. The ALMAC makes proposals to the Executive Committee on policy regarding the overall management of the bank’s assets and liabilities. The Risk Management Department prepares all the required analyses and a monthly document relating to the assets and liabilities concerned, their sensitivity to interest-rate fluctuations and market valuation. The department also acts as the secretariat for the ALMAC.

The Financial Markets Committee is chaired by the Managing Director responsible for this department. The committee also comprises the Managing Director responsible for risk management, and Senior Managers from the Global Treasury, Equity Markets, Debt Markets and Risk Management Departments. The Financial Markets Committee meets once a week. It analyses the use of Value at Risk trading limits and the results of front-office banking and trading business in the financial markets. The committee examines all matters concerning the responsibilities of Financial Markets and its support departments (Risk Management and Financial Markets Support). The Risk Management Department acts as the committee’s secretariat.

The ING Belgium Commercial Committee is chaired by the Managing Director responsible for the Retail & Private Banking business line and the Marketing Department. He is assisted by the Retail Distribution Manager, the Product Management Retail Manager, and the Private Banking Manager. The committee also comprises the Managing Director responsible for Wholesale Banking and his direct assistants in charge of Global Wholesale, Domestic Wholesale, and Product Management Wholesale. The composition of the ING Belgium Commercial Committee is completed by the Marketing Director. The committee meets once a week. It oversees the implementation of the strategy applicable to the bank’s Belgian networks. Against this background, it essentially takes specific decisions concerning problems associated with the networks’ segments, products, channels or staff.

The Human Resources Management Committee is chaired by the Personnel Managing Director and comprises the Senior Managers of the Personnel and Human Resources Department. The committee brings together the representatives of all the banking, insurance and asset management business lines in which ING Group operates in Belgium. In principle, the committee meets four times a year. Its aim is to act as a forum for exchange between personnel specialists and the Senior Managers of the commercial business lines, operational units, and support departments to promote consistent human resources management in all of ING Group’s Belgian entities.

The Resources Allocation Committee (RAC) is chaired by the Managing Director responsible for operational and IT activities. The committee also comprises the Managing Director responsible for Finance South West Europe, one of the senior General Managers responsible for the Belgian networks, and the heads of Financial Markets Support, Facility Management, Business Information Systems, Management Consulting Services, Personnel and Human Relations, Marketing, General Banking Operations, Securities, Record Group, and ING Insurance. The committee meets five times a year. Its remit is...
to centralise and optimise the flow and allocation of resources, particularly in relation to purchasing and general overheads. The committee is mainly concerned with ongoing cost control and compliance with the performance standards set by ING Group.

The Security and Operational Risk Steering Committee, chaired by Robert Van Hoofstat, Managing Director, for matters relating to security, and by Michael Jonker, Managing Director, for matters relating to operational risks, comprises representatives of all the bank’s bodies. Its objectives are to examine, in general, operational and security-related incidents, to manage those which occur and, based on their analysis, to ensure that such events do not recur.

**MISCELLANEOUS**

Details relating to policy on the appropriation of profits are given in the chapter, "Comments on the financial statements", in the Management Report.

Information on the bank’s shareholdership is provided in the relevant section of the Management Report, as well as in the chapter headed "General information".