A ROAD TO A MORE SUSTAINABLE AND VIGOROUS FINANCIAL SECTOR

Banking for society

Social responsibility of the Belgian financial sector.
2012 Report

febelfin

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BANKING FOR SOCIETY

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editorial

During the financial crisis, but also during the national debt crisis that followed it, financial institutions have found themselves constantly in the eye of the storm. This may be the reason why, both inside and outside of the financial sector, more and more requests are made for the social role of the financial institutions to be explained. A question that the sector could not and did not want to ignore.

We need not elaborate about the importance of the financial institutions for society. They are the guardians of the citizens' savings. They fulfil a crucial role in payment transactions. And, more than anywhere else in the world, Belgian financial institutions grant loans that provide families, authorities and companies, and in particular SMEs, with the necessary oxygen. Outside of Europe, companies and even authorities first look for funding to the capital markets and only in the second instance to financial institutions. Here, it is precisely the opposite.

Financial institutions are also important players in the field of employment (and, as a consequence, in social solidarity via the social security contributions), fraud prevention and taxation (e.g. via withholding tax and bank duties that are paid to the Treasury).

In brief: Belgian financial institutions are at the service of people and society.

That crucial role also entails obligations. Therefore, since the financial crisis broke out, the sector has frequently, if not continuously, held up a mirror to its face. We have listened to customers, reflected with trade unions and other partners on what went wrong and thought about remedies to make the sector more vigorous and more sustainable. That exercise has resulted in the following: a report that tries to map out the social responsibility of the financial sector.

The very first *Corporate Social Responsibility Report* of the Belgian financial sector discusses 22 themes that touch the heart of Belgian banking. The themes are formulated as questions that society might ask itself. They were defined after various consultations with stakeholders – from banks to employees and suppliers, consumer associations, NGOs, supervisors and academics. In this report we therefore wish to thank them very much for their input and commitment to help look for the building blocks for a more sustainable financial sector.

The report looks at the past, but must above all be a guideline for the future. A future in which the financial sector achieves its commitment to society and deepens it further. In which it maps out its achievements, but also identifies its challenges on the road to a more sustainable world and society.

Filip Dierckx Chairman Febelfin	Michel Vermaerke Chief Executive Officer Febelfin

introduction to THE BELGIAN FINANCIAL SECTOR

Economy[1]

5.8%
of the economy

Employment[1]

3%
of employment (including insurance)

100,000
direct jobs + 120 000 indirect jobs

Lending[2]

94.5 billion EUR
to the public authorities

181.7 billion EUR
to households

116.2 billion EUR
to enterprises

Financial savings of households

230.2 billion EUR
on savings accounts[2]

102.4 billion EUR
in investment funds[1]

Payments[1]

460 million
internet banking transactions

294.3 million
money withdrawals

1.2 billion
card payments for an amount of 63.3 billion EUR

1. end 2011 data
2. end September 2012 data

introduction to febelfin

Febelfin is the federation of the Belgian financial sector. It represents 259 members and reconciles their interests with those of policy makers, supervisors, professional federations and interest groups on a national and a European level.

Febelfin fosters the interests of all its members: large banks, smaller banks, niche players, non-bank financial institutions and organisations, financial infrastructure providers, etc. It communicates on behalf of the entire financial sector (except for insurance companies).
In that capacity it fulfils the following tasks:

- Taking on **points of view** for and by members.
- **Lobbying** on a national and European level, but also participating in **social negotiations**.
- Supplying **services**: informing, pointing out and giving advice, but also providing training via the Febelfin Academy.
- **Communicating** with members and the public at large and participating in debates in professional, political, social and educational areas.

approach

Context and objectives of the sustainability report of the financial sector

The degree of interconnection between the financial sector, the economy and society explains why the health of the financial sector undeniably has a major impact on the economy and on society at large. The sector plays an important role in lending to companies and private persons, and also employs about 100,000 people.

The sustainability report aims to present an overview of this impact in all its facets and show which initiatives the Belgian financial sector is taking to contribute to a sustainable society.

This report focuses on the impact and initiatives of the financial sector as a whole. However, a large number of institutions are also publishing their own sustainability report, in which they provide greater detail on the initiatives they are taking as companies.

This report is not a one-off initiative. At fixed times, the sector will publish an updated version so that the development of the sector in the various areas of sustainability can be followed up.

Support

In putting together this sustainability report, Febelfin was assisted by Business & Society, a Belgian network that brings companies and business federations from various sectors together around corporate social responsibility (CSR).

Besides making their many years' expertise and experience in the field of company sustainability available, Business & Society engaged in the moderation of working group meetings and stakeholders consultations. Moreover, it offered support in the drawing up of the survey for the members and the analysis of the answers.

Stakeholders

The financial sector continuously keeps in touch with its stakeholders. One example of this is the NGO dialogue platform[1]. This platform maps out issues in respect of socially responsible banking and investment and enters into a discussion about this with NGOs, civil society and the financial world.

The stakeholders have been closely involved in the making of this sustainability report, both for the selection of the issues that are being dealt with as for the actual editing of the text. By means of panel discussions and interviews they have made a contribution to the materiality matrix, the questionnaire for the banks and the report. The liability for the contents of the report lies with Febelfin, but the Federation wants to explicitly express its gratitude for the effort made by the stakeholders.

The group of stakeholders that participated in the panels is composed as follows:

- BASF-Deloitte chair on sustainability
- Belsif
- Business & Society Belgium
- Centre d'appui aux services de médiation de dettes de Bruxelles
- Festival van Vlaanderen
- Forum Ethibel
- Université de Liège
- Landelijke Bediendecentrale – Nationaal Verbond voor Kaderpersoneel (LBC-NVK)
- MIVB-STIB
- Onderzoeks- en Informatiecentrum van de Verbruikersorganisaties (OIVO-CRIOC)
- Réseau Financement Alternatif (RFA)
- Vigeo

A series of interviews with NGOs, sustainability experts, scholars, trade unions and supervisors have been useful for determining the materiality matrix.
An internal Febelfin working group consisting of CSR managers from several financial institutions was in charge of the follow-up of the drafting of the report as a whole.

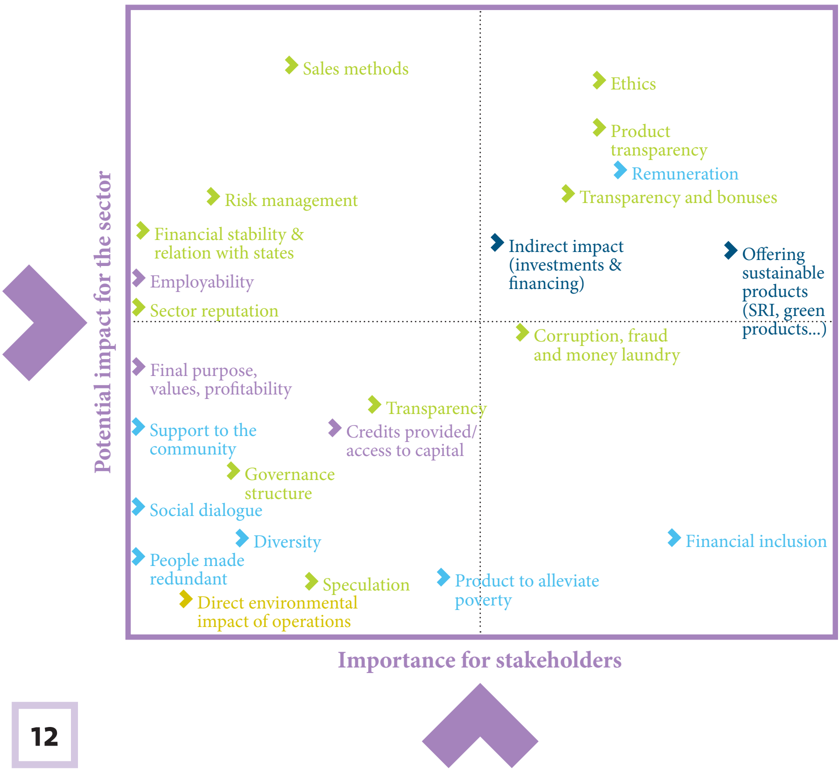
1. One of the three dialogue platforms that were established by Febelfin at the end of 2009. The others are the Consumers dialogue platform and the Corporate lending dialogue platform.

Selection of the appropriate themes

In a report that aims to give a correct picture of the extent of sustainability of a sector it is of great importance that the relevant subjects are raised. For the financial sector, reporting about themes like risk management, good governance, transparency and ethical sales techniques is essential. Environmental impact is a relatively less material theme. For sectors such as industry, it is the other way around.

To guarantee that the relevant subjects were included, the stakeholders were consulted. This consultation resulted in a matrix in which the themes that were most often mentioned by the stakeholders were weighed up against the impact for the sector.

The top right quadrant contains the most relevant themes on which we will focus in this report. However, this does not mean at all that the other themes are unimportant. They were simply considered to be less determinative by the stakeholders.



Structure

We chose to work around the most frequently used ESG structure (*Environment, Social and corporate Governance*) supplemented with the portion of the indirect social impact that is important for the financial sector via product offer. After all, via investments and lending the sector is able to specifically support sustainable companies and projects.

Sources

To measure the social impact of the financial sector, three types of sources were consulted:

> **Public and independent sources.**
These are mainly government bodies such as the National Bank of Belgium, the Federal Public Service Economy, the Federal Public Service Social Security, the Office of the Ombudsman for the financial sector, etc.

> **Closed and independent sources.**
For these we could call on the cooperation of Vigeo, a research institution specialised in the sustainability screening of financial institutions among others.

> **Closed internal sources.**
Naturally, the members of Febelfin were questioned in detail about the integration of the various dimensions of sustainability in their operational management.

The figures used are equally the result of samples, surveys and mandatory statistics.

Interpretation figures

When figures are used in this report that are based on the members' survey, they are always stated as:

- a percentage, weighted in accordance with the share of the balance sheet of the institutions in the sample, extrapolated to the whole market
- the number of institutions out of a total of 19

There is a large diversity between the participating institutions in respect of the number of employees and the size of the balance sheet (the 4 large banks, for instance, represent approx. 86% of the total balance sheet and of the number of employees). The size of the institution is important when we wish to decide something about its impact on society. Therefore, the weighted percentages seem most relevant to us.

Survey of the banks about the sustainability themes

For the collection of the qualitative and quantitative data we used public and independent sources.as much as possible. For a large number of themes that are very relevant for the sector, public sources are not available, however. We chose therefore to subject a representative sample of the Febelfin members to a very detailed survey. 19 credit institutions and financial groups, all members of Febelfin, participated in the survey held in May 2012. Together they make up more than 90% of the financial activities in Belgium, measured in terms of the size of the balance sheet.

The survey, which contained more than 90 questions, was discussed with the stakeholders beforehand to ensure correct and relevant questions.

The following 19 institutions filled in the survey:

- Argenta
- AXA
- Bank Delen & De Schaetzen
- Bank J. Van Breda & C°
- Banque CPH
- Belfius
- BNP Paribas Fortis
- Citibank Belgium
- Commerzbank Aktiengesellschaft
- Delta Lloyd Bank
- Euroclear Bank
- Europabank
- ING België
- JPMorgan Chase Bank N.A.
- KBC
- Santander Benelux
- Société Générale Private Banking
- The Bank of New York Mellon s.a.
- UBS Belgium

Scope

To draw up the numerical data and statistics, depending on availability the financial sector was delineated based on the European classification of economic activities, the NACE code. The financial economic activities that are relevant for this report fall within Section K – Financial and insurance activities: NACE 64 – 'Financial service activities, except insurance and pension funding', and part of NACE 66.2 – 'Activities auxiliary to insurance and pension funding'.
For figures originating from the National Bank, the Central Balance Sheet Office and the institute for national accounts (ICN/INR), we also worked with the sector category S12 – 'Financial institutions' and activity sector PU420 – 'Financial institutions'.

If possible, the figures for the financial sector are compared with the corresponding figures for the other commercial services sectors.

Where available, we decided for the various themes to give figures describing the situation in 2007, i.e. before the crisis, and in 2011, the most recent available situation.

Reporting standards

The *Global Reporting Initiative* (GRI) is a worldwide accepted standard for sustainability reporting by organisations. A supplement will be added to this standard for specific sectors such as the financial sector.

The GRI table shows and explains the place given in the report to the specific issue taken from the GRI standard. The GRI table can be consulted on the website under:
www.bankingforsociety.be

what do we mean by corporate social responsibility and socially responsible banking?

Corporate social responsibility

In its action plan[2] of October 2011, the European Commission defines corporate social responsibility (CSR) as "the responsibility of enterprises for their impacts on society".

"Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises must have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

> maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
> identifying, preventing and mitigating their possible adverse impacts."

2. COM(2011) 681 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A renewed EU strategy 2011-14 for Corporate Social Responsibility (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF)

"Corporate Social Responsibility (CSR) is the responsibility of enterprises for their impact on society".

European Commission, October 2011

The practical content of CSR will depend on the size of the enterprise and the sector in which it is active.

An adequate CSR policy is a full part of the core activities of a company. It results from the conviction that the integration of CSR aspects is a necessary pillar for the long-term profitability and the stability of the company. CSR is therefore not just important for society, but also for the shareholders. It covers more than just PR or communication.

The CSR policy focuses on the social impact of the company's core activities. Depending on the nature of these activities the policy will pay more attention to specific aspects of CSR and less to other aspects. CSR for companies in the chemical sector, for example, will focus more on the ecological impact. For financial institutions the emphasis will rather be on the impact on the economy and the interests of consumers.

Socially responsible banking

A socially responsible and sustainable banking sector accepts to take on responsibility for the impact of its activities on society and is prepared to be accountable for this.

The impact of the banking sector on the stability of the economy requires a sector managed with integrity and due diligence that:

> handles the risks inherent to its activity in a realistic and responsible manner;
> is transparent to customers and stakeholders about its operational management and the products offered;
> pays attention to its basic function as engine of the economy, by e.g. lending to private persons and companies.

Characteristic of the activities of the financial sector is that it also has an indirect impact on a sustainable society. Via the integration of CSR criteria in the policy regarding the funding of governmental bodies, companies and private persons, borrowers are motivated to take sustainability into account in their projects.

Also via the offering of sustainable products (e.g. sustainable saving products, ethical funds, green loans) a sustainable economy is indirectly stimulated.

In addition, the financial sector, as a large-scale employer, also has social responsibility. We are thinking here of attractive and challenging long-term employment, as well as a fair and balanced remuneration policy.

Finally, the sector also has direct ecological impact due to, e.g., power and paper consumption in the many branches and the mobility of the employees. Also in the future, Febelfin will draw the attention of its members to the importance of CSR for a vigorous financial sector.

2 PROSPERITY

IMPACT ON THE ECONOMY

in short

At present, the financial sector has a higher level of **solidity** than before the financial crisis. It has managed, for example, to achieve a deleveraging from 31,9 down to 18,3 between the summer of 2007 and march 2012.

Belgians are **savers** by nature: in september 2012, the amount outstanding on savings books was 230,2 billion EUR.

For **each euro** coming in from saving, one euro is **invested** in lending to households, companies and public authorities.

These last few months, credit demand has been on the decline and consequently, lending has reached a stable level.

In the long term, Basel III can have repercussions on the availability and the cost of long-term credit.

In 2011, there was a substantial increase of Belgian exports, thanks, among other things, to the easy way of corporate lending provided by the financial sector.

stable FINANCIAL SECTOR

What is the role of the financial sector in the economy?

The banks' core business consists in intermediating between those who have financial means at their disposal, and those who are in need of funds.
The first category of people lends money to the bank, which in its turn will use it for the funding of the second category.

How?

Customers (private persons/households, companies) can give their money to the bank 'as a deposit'. In this way, they are lending their money to the bank so to speak, and in return, they receive interest. There are several types of deposit, such as call deposits, savings deposits, term deposits and certificates of deposit.
Banks will then transform these deposits into credit for the funding of the needs of private persons and households, companies and the public authorities.
Anyone who borrows money from a bank, will have to pay interest , because the bank offers a service by putting at his disposal a certain amount of money during a certain period of time.

This kind of banking business allows for an optimal use of all funds, since the offer will meet the demand, and so it adds to the efficient organisation of the economy. However, a situation in which there is a perfect match between deposits and credits, is exceptional of course. So, this implies a transformation of deposits before they will become credits.

How?

- By a change of scale: small deposits will be grouped together for the purpose of offering 'big' credit amounts. The funds provided by the thousands of savers in Belgium, taken separately, have no economic usefulness whatsoever. By putting those savings together, the bank will be able to transform them into credits and to provide funds to those who are in need of money.
- By a transformation over time: short-term deposits are transformed into medium and long-term credit.
- By a change of currency: in some cases, deposits labelled into a particular currency will be transformed into credits labelled in an other currency.

The transformation of deposits into credit implies some costs for the banks. First, there is the cost of operating, which includes among other things the employees, the IT-systems and the distribution network.

Then, there is the cost inherent of the risks implied in the transformation process. There are three risk categories:

- Credit risk: the borrower may go bankrupt and lose his ability to reimburse. In some cases, it will be impossible for the bank to recover the whole of the credit amount.
- Liquidity risk: depending on the characteristics of their deposits, savers have the possibility to ask for their money at a particular point in time. However, at that moment, the bank must make sure that it will be able to reimburse its creditors.
- Interest rate risk: a bank has a certain interest rate margin it must try to keep at a positive level. This margin corresponds with the split between the yield generated by the credit interest rates and the cost of deposit interest rates. Anyone who borrows money, may opt for a fixed credit and hence for a fixed reimbursement amount all through the credit term. If the interest rate on deposits goes up however, banks cannot put the cost of this on the borrowers. So, the bank's interest rate margin may become negative.

A bank may opt to take the risks on itself. It will make sure that there is sufficient capital adequacy or a sufficiently high level of liquidity margin (i.e. the extent to which it can meet its short-term payment obligations).

In addition, the bank can opt for risk hedging, for instance by means of a swap transaction, such as an interest rate swap. This implies several transactions aimed at transforming the fixed interest rate into a variable interest rate, and thus an elimination of the interest rate risk. It goes without saying that this risk hedging also generates costs.

How does the Belgian financial sector work towards stability for the future?

Within Europe, Belgium has taken the lead to implement as soon as possible the various directives that must strongly reinforce the balance sheets of the financial institutions. Without stating that the new rules guarantee absolute security, the financial sector is nevertheless stronger today than before the financial crisis. However, although the financial system has become sturdier, the question may be raised whether the financial sector will shy away from risks too much. That might result in a delay in growth, a drop in employment or a reduction of lending.

Each year the National Bank of Belgium (NBB) publishes a Financial Stability Review, in which it reports about economic, financial and structural developments that may have an impact on the stability of the financial system. In the 2012 report, the Belgian financial sector received both a compliment and a warning. A compliment because the sector has continued to finance the economy in spite of difficult times, and a warning because the National Bank feared overvaluation of real estate prices. Therefore the NBB urged the Belgian system banks, which are the banks that in the event of bankruptcy could also seriously harm the rest of the economy, to be careful when granting mortgage loans. The somewhat ambiguous message perfectly shows the discord in which the financial sector finds itself.

After the fall of the American investment bank Lehman Brothers in September 2008, large financial institutions throughout the world experienced problems. At no time did the crisis that followed endanger the payment and settlement systems, however. Such systems act as intermediaries in financial transactions and guarantee that the buyer receives his financial products and the seller his money. In Belgium, international players such as SWIFT and Euroclear play a crucial role in this respect.

› New financial landscape

However, the crisis did have an impact on the financial system. Various institutions, including several large Belgian ones, had to request support from the government in various forms to survive the storm. In those stormy times, financial institutions however continued to fulfil their role as financers of the economy. Both saving banks and large banks did this. Between the end of 2007 and September 2012, loans to companies increased by 19.8%, to families by 30.4% and to government bodies by 37.4%.

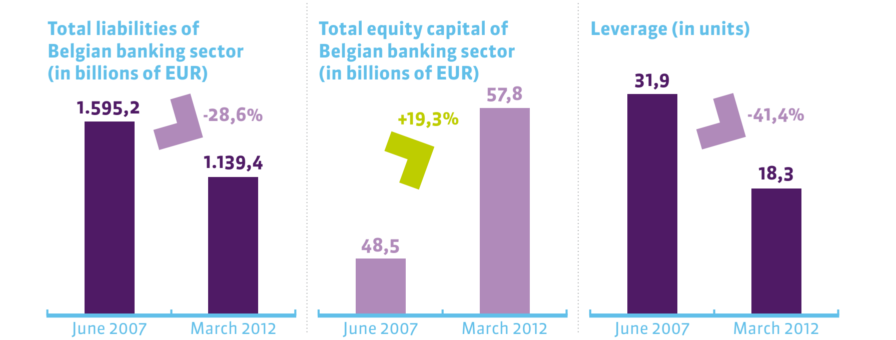
At the same time, the financial institutions worked on the reinforcement of their balance sheets (the total of their possessions or assets), for example by reducing their securities portfolios, reinforcing their financing from short to longer term and from market financing to deposit financing, or decreasing their leverage[3]. The reinforcement of the balance sheet is imposed via Basel III, the capital requirements as set by the Bank for International Settlements in Basel (BIS), an umbrella of the world's central bankers. These rules, which were translated for Europe in the CRD IV Directive, provide that financial institutions must maintain more capital and liquidity in respect of their outstanding investments and loans. The rules will be gradually implemented from 2013 and must be fully in force in 2018.

In Europe, the Belgian financial institutions have taken the lead to comply as quickly as

3. Leverage reflects the proportion between the equity of a financial institution and its balance sheet total. Deleverage means therefore the phasing-out of that leverage, for example by providing from the equity in proportion to the total balance sheet.

DELEVERAGING IN THE BELGIAN BANKING SECTOR

(SOURCE: NBB AND ECB)



possible with the Basel Accords: between the summer of 2007 and March 2012, the liabilities (the equity, part of which is the share capital, supplemented with borrowed capital such as saving deposits and debts on the interbank market) of the Belgian financial institutions has gone down by 28.6%. For that same period the hard basic equity (money that is available immediately, for example when losses would have to be accepted) increased by 19.3%. As a result, the leverage of the Belgian financial institutions dropped from 31.9 to 18.3. Financial institutions are therefore unmistakably more solid than before the crisis.

Due to the decrease in leverage, the banks also need less funding via the financial markets (wholesale funding). This is to the benefit of their liquidity position: banks have more money that is available to them immediately, due to which they experience fewer problems when they must fulfil various payment orders in the short term. Whereas in 2009 funding by the financial markets still amounted to €267 billion, this sum was reduced to 182 in 2011.

At the same time, the number of deposits is increasing. Traditionally, Belgians have always been savers. In the last few years, however, the amount deposited in saving accounts has increased spectacularly. In September 2012 there was a total of EUR 230.2 billion in Belgian savings accounts. Compared with end June 2007, this meant an increase of 54.7%. This deposit acquisition enables the financial institutions to provide cheaper loans and contributes to the stability of the Belgian financial institutions, in particular the savings banks. Financial markets, after all, are much more whimsical than savers. A larger share of saving deposits as compared to interbank debts increases the health of the banking balance sheets.

Future prospects

The challenge for the future will consist of reconciling the lower risk profile and the smaller scale of the Belgian financial sector with the demand for loans, which may increase strongly if the economy recovers. In this context, the question may be raised if the efforts to achieve banks that are as secure as possible and to achieve as little as possible risk will not nip economic growth in the bud (employment, lending, etc.).

The fact, also, that the Belgian financial institutions had no choice but to withdraw more within their national borders, could be a worrying issue in the future. This process of balkanisation or fragmentation of the European market, after all, could complicate lending to Belgian companies abroad.

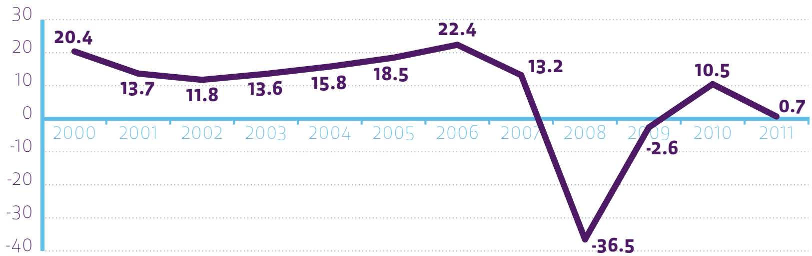
Although the financial sector advocates the new regulations (such as Basel III) that increase the stability of the financial institutions and of the entire financial system, it also expresses its fear that the funding of long-term loan and loans for relatively large transactions and projects could become more difficult.

Within this changed financial landscape the financial institutions with their new and more restricted business models must nevertheless be able to continue generating sufficient profitability. The return on equity (ROE) of the Belgian financial institutions has dropped strongly since the crisis. The ROE divides the net profit by the equity of the company. The result shows the profitability of the company.

During the financial crisis of 2007-2008 the profitability of the financial sector dropped considerably. Just before the crisis, ROE levels were sometimes achieved that fluctuated around 20%.

At present, however, the financial sector is achieving an ROE of 0.7% (figure from end 2011). Naturally, this percentage cannot be maintained either. The sector must therefore look for the right balance, in which sustainable but viable ROE levels have a central place: a percentage around 8 or 12% would be an viable *new normal*.

EVOLUTION OF THE PROFITABILITY OF THE FINANCIAL SECTOR (SOURCE: NBB)



The bank balance sheet

On the balance sheet	
Assets	**Liabilities**
Loans › Mortgages › Consumer loans › Lending to companies › Lending to governmental bodies	**Equity** › Share capital › Etc.
Liquid assets › Shares, corporate bonds › Government bonds › Interbank debt claims › Etc.	**Borrowed capital** › Deposits > Customer deposits > Certificates of deposits › Financial instruments > Bonds > Derivatives › Interbank market funding
Other assets › Real estate › Derivatives › Goodwill › Etc.	
Balance sheet =	**Balance sheet**

Assessing the social role and responsibility of a bank is not an easy task. A financial institution is by definition a complex organisation and for those who do not know its operation it is not easy to understand its role in society. Therefore we shall give a short introduction of the bank balance sheet.

As is the case with every company, the balance sheet of the bank consists of two parts. The left-hand side or the assets side shows the possessions of the institution, the right–hand side or liabilities side shows the debts. In the annual accounts, under those two sections, we find the profit and loss account, which specifies the profit or loss and shows how the result has come about.

On the assets side of a bank balance sheet the careful reader will see how many loans the institution has issued, which bonds it has in its portfolio and how many structured products it offers. The value of the buildings is also stated in it, as well as the goodwill. To put it simply, this last item tries to put a figure on the value of less material possessions like reputation, growth potential or a brand. The balance sheet total is the sum of all assets (as well as all liabilities).

To the right of the assets is the list of liabilities. At the top, the equity appears – i.e. the debts to the shareholders. In principle the equity is money that a bank can dispose of immediately.

Under the equity appears the borrowed capital. The savings (deposits) of the customers are part of this, but also the money, for instance, that a bank borrows from the central banks and on the financial markets to fund its balance sheet. The ratio between the equity and the balance sheet total (in fact, therefore, the number of times that a bank has lent its equity in the market) is called the leverage.

The balance sheet total of a bank is not by definition stable – not even if a bank does not purchase or sells assets. The reason is that the value of the assets is subject to change. A building may increase or decrease in value, the value of a brand may increase or decrease. The international IFRS accounting rules provide that a bank must take those fluctuations into account for a specific part of its possessions.

Shifts on the assets side

Broadly speaking, on the assets side of the bank balance sheet we find three categories of 'financial' possessions.

Long-term loans that will remain in the books until the maturity date (e.g. mortgages for thirty years) must, in accordance with the international accounting rules '*hold to maturity*'. That means that they will remain in the books at purchase price until they are paid. If, for instance, the house linked to the mortgage increases or decreases in value, that value fluctuation will not affect the balance sheet total of the bank in any way.

The assets in the trading portfolio, however, are meant to be resold as quickly as possible.
They appear in the books at day value. Usually no sustainable long-term funding is required to keep them in the books, because in principle they will be sold on quickly.

In-between those two categories there are financial possessions that are booked as '*available for sale*'. These are assets that the bank may maintain until maturity, but may also sell them before that. A major part of the assets of Belgian banks (for example. many government bonds) has been placed in the last category so that the financial institutions have their hands free should a buyer make an interesting bid.

Frozen financial markets

The consequences of that choice have become clear during the crisis. The market fluctuations of, for example, government bonds became (and become) immediately visible in the books of the bank because of the accounting rules. If the market price of Spanish government bonds collapses or if the banks decide to devaluate their Greek sovereign debt to 30% of its nominal value, this creates a problem for the banks

that have such bonds in their available-for-sale portfolio. Then the value of those bonds decreases in the assets column of their balance sheet and that value reduction must then be made up for from the bank's equity.
When a bank eats away at its equity from the right-hand side of the balance sheet, it must supplement that equity immediately so that it complies with the capital requirements and remains solvent. When the financial crisis caused the bottom to fall out of the share markets, the government was often the only party that was prepared to buy in the (share) capital of a financial institution in difficulty and thus to make up for the deficit that had come about in its equity due to the decrease in market value of the assets.

However, market value is by definition virtual: it reflects a price that the market players are willing to pay for a financial product at one specific moment, but does not necessarily reflect the real intrinsic value of such a product.

The lack of capital, however, was not the only problem that certain banks had to cope with during the crisis. A serious liquidity problem also threatened because too many assets were refinanced over the long term in the balance with short-term loans on the financial markets. When the financial markets closed off the money supplies, this leverage caused serious problems for a number of banks.

Before the Basel III capital rules, the equity of a sound bank was between 3% and 6% of the balance sheet total. That means leverage between 17% and 33%. Now that the central bankers at the Bank for International Settlements in Basel have decided to tighten the capital rules for the banks, the equity will be increased significantly in the next few years and the leverage will be phased-out.

In Belgium that has already happened. The balance sheet total of the Belgian financial sector has been reduced by nearly 30% in the last five years. The dependence on the financial markets has decreased and the duration of the funding has been extended. There is therefore less to be refinanced, and the need to call on the financial markets is less frequent.

How does a bank earn its money?

In essence, a bank accepts short-term deposits and uses them for long-term loans. Whether the profit and loss account shows profit or loss in the end is determined by the difference between the interest that a bank charges to borrowers and the interest it pays to savers.

lending

How does the financial sector support the economy and society?

The financial sector supports the economy and society. It does that mainly by lending to families, companies and governmental bodies.
Without this funding, economic growth in Belgium would be lower.

Due to the fact that the volume of the financial sector has decreased and specific activities have been phased-out, the sector will especially have to generate added value in the future via the conversion of deposits into loans and via the supply of payment systems. As a result, the added value of the sector will most probably decrease.

The non-financial sectors have seen their added value in the economy decrease after the financial crisis. In the financial sector this downward movement is not so noticeable. After a slight decrease in 2008 and 2009, the added value has started to go up again.

Theoretically, the concept “added value” in the industrial sector denotes the difference between the market value of a product and the purchasing price of the raw materials. In the financial sector, the added value in accounting is the difference between the revenues from services and interests on loans, on the one hand, and the interest on deposits and funding via the financial markets, on the other hand.

In a broader sense, the added value of the financial sector consists in the extent to which it automatically converts savings into loans that promote economic growth.

In 2011, the added value of the financial sector in the entire economy was 5.8%. The share of the financial sector was even larger if we take the tradable services sector (all commercial services suppliers) as a benchmark.

Since the end of 2007, the financial sector has granted €87.3 billion in additional loans to companies, families and governmental bodies. That means that for each extra euro in savings, an additional euro has been invested in the economy. Research at the KU Leuven showed in 2011 that the funding of the economy by the banks has generated half a per cent of economic growth, or In other words, that the financial sector accounted for one fifth of the total economic growth that took place in Belgium in 2011.

Another important factor when calculating the added value of the financial sector is its number of staff. In 2012, the sector represents 100,000 direct jobs, and indirectly about another 120,000.

It is striking that the gross added value per employee increased between 2007 and 2010 by 23.3% to reach €160,000. This indicates that the sector pays great attention to the improvement of its efficiency. It is no coincidence that since 2008 improvement is noticeable in the relationship between the costs and the income of the sector. The financial crisis and the pressure on profitability has resulted in more efficient use by the financial sector of its resources, which also means that this has sometimes resulted in a decrease in the number of available jobs and greater work pressure.

"From now on the financial sector will have to focus on its core tasks. That way it will secure its indispensable link in economic life."

Luc Coene, NBB, September 2012

Significant changes

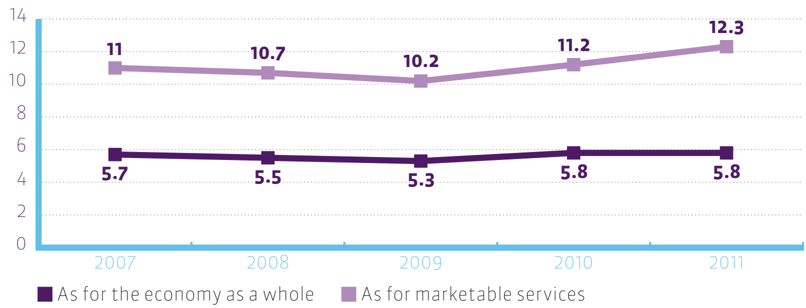
Due to the significant reforms in the financial landscape since the occurrence of the financial crisis, the sector has decreased in volume, amongst other things as a result of the phasing-out of foreign activities, restructuring, deleveraging, etc.

The share, in commercial trading, of financial products that, before the financial crisis, was important for the profitability of the financial institutions, had dropped by one half after the crisis. A recent survey showed that the share of proprietary trading (trading for one's own account, an activity through which Belgian banks mainly cover themselves against price fluctuations on the financial markets) in the trading volumes of the banks dropped sharply in the first six months of 2012. In 2009 that share was still 13%. This places Belgian banks far under the European average. The speculative element of proprietary trading, which further reinforced the crisis in 2007 and 2008, is currently hardly present within Belgian financial institutions.

As a result of the significant changes of the last few years, the added value of the sector will have to be based to a larger extent on the transformation function (the conversion of savings into loans) and on the offer of effective payment systems in the coming years. That implies that the added value may become lower than in the past, due to which the pressure on the financial sector and the stability of its various subsectors will increase.

ADDED VALUE OF THE FINANCIAL SECTOR IN THE ENTIRE ECONOMY AS A %

(SOURCE: NBB)



Will it still be possible to provide funding for sound projects upon reasonable conditions?

During the financial crisis, the financial sector has continued to lend to families, companies and government institutions. There is no threat of loan scarcity, therefore, for those who are able to submit a complete and sound credit file.
Nevertheless, the financial sector expresses some points of concern for the future. The new European legislation could have an impact on the availability and the price of the long-term loans. Therefore, the sector is looking for alternative sources of funding.

The financial sector is aware that specific entrepreneurs are under the impression that credit has become scarce and that the financial institutions are imposing stricter demands on those requesting a loan. This impression is also reinforced by the Belgian media. Nevertheless, the figures show that the financial institutions continue to loan in the event of complete and sound credit files.

Since 2007, lending in Belgium has grown steadily. At the end of September 2012, both the market of loans to families and that of corporate loans had grown by 30.4% and 19.8%, respectively, which means that both categories of lending reached a historic high point.

> *"Lending is keeping up well in Belgium, but for specific activities such as export funding there are funding challenges. The financial sector can be a structural partner in this respect to encourage international enterprise."*

Pieter Timmermans, FEB, August 2012

Requests for loans

In the last few months, the market has stabilised, especially in respect of requests for loans. This has taken place both in lending to private persons and lending to companies and can be ascribed partially to the current economic situation. Moreover, on the mortgage market, the abolishment of the governmental measures in respect of green loans, the announced discontinuation of the tax deductibility of energy saving measures and the implementation of VAT on notary fees have acted as a brake on applications.

Stricter requirements

A study of Eurostat of October 2011 shows that only 5.7% of the loan requests that SMEs submit are rejected compared to, for example, 26.6% of the requests in Ireland, or 22.5% in the Netherlands, our northerly neighbour. In other words, Belgium comes fourth among the best of all countries in Europe.

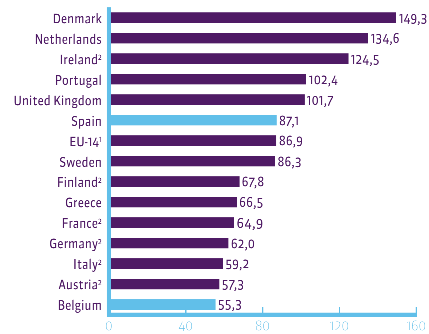
The Bank Lending Survey, a survey of financial institutions about their conditions for acceding to requests for loans shows that their granting conditions did not become stricter between 2009 and the beginning of this year. At present, however, a change is noticeable. In the third quarter of 2012, the requirements became stricter for the second time in a row (Bank Lending Survey of October 2012).

We expect that these stricter conditions will also continue in the near future.
That would be the result of, amongst other things, an increase in their funding costs, the general economic reality, the prospects for some branches of industry or companies, the prospects for the housing market, the more unfavourable sureties and the pressure on the margins.

Debt burden

Not only do the financial institutions grant sufficient loans, they also make sure that they maintain a proper balance between lending and the prevention of an excessive debt burden. Due to this policy, our country is one of the European countries where the debt burden is relatively low. In Belgium, family debt

EUROPEAN COMPARISON OF HOUSEHOLD'S DEBT RATIO (HOUSEHOLD'S FINANCIAL DEBT AS A % OF THE GDP, 2011)



Source: Febelfin presentation and calculations on Eurostat data.
1. EU-14: unweighted arithmetical mean of the 14 EU Member States included into the European comparision.
2. Data 2010.

represented 55.3% of the gross domestic product (GDP) in 2011. The European average was 87.1%.

That the Belgian consumer does not take out loans without thinking twice is also clear from the loan percentage. According to the

National Bank of Belgium (NBB), the ratio between the loan and the value of the real estate (the so-called loan proportion) is about 65%. Mortgage loans of more than 100% of the value of the property are rather rare, which shows that people first use their savings before taking out a loan from their financial institution.

Cost

In September 2012, the average weighted interest on new bank loans to Belgian companies was 2.98%. This interest therefore once again approaches the earlier historic low of 2.97%, which was reached in July 2012.

In Belgium, both private persons and companies may take out a loan at competitive interest rates. Compared to the Netherlands, the interest rates for all available mortgage loans and corporate loans are considerably lower (in some cases nearly 2%).

Reshaping the financial landscape

That, despite the decrease in demand and the considerable vigilance, the number of loans that have been granted has continued to increase has much to do with the reshaping of the financial landscape. Since 2007 the financial institutions have phased out their international activities and in this manner strongly reduced the exposure of the Belgian financial sector to international risks. Whereas funding via the financial markets was phased out, funding via Belgian saving accounts was increased. Due to these changes, lending in Belgium could grow continuously.

Sound lending is the engine of a well running economy. In that context, the financial sector expresses its concern about the Basel III legislation. One of the things it determines is that the capital requirements that are imposed on the financial institutions will become approximately twice as strict by 2013. This implies that, if they want to issue the same volume of loans, they must double their equities. At present, an immediate problem has not yet been established in Belgium, but in the long run Basel III may have an impact on the availability and price of the long-term loans. The financial sector and the government will have to think of solutions that can guarantee ways of continuously supplying oxygen to the economy.

Alternative sources of funding

A number of alternative sources of funding for companies and projects on a term of more than seven years, are being studied. The project bond, which the financial institutions have discussed with various government institutions, could offer a solution for long-term funding.

Project bonds are liquid investments that are used to fund projects that are known beforehand. That may be the construction of a motorway or of a hospital. The sector is convinced that a public can be found that is prepared to fund sustainable social investments. Both insurers/pension funds and private persons may be interested in such a product: the tranche of 1 to 7 years can be sold to private customers, and the tranche of 7 to 30 years to insurance companies. It offers the investor a possibility to diversify. The realisation of such projects may also contribute to reactivating the economy.

Transparency and lending

Important areas of concern in corporate lending are the speed at which the loan requests are handled and the communication in relation to them. In the past few months it has become clear that the few entrepreneurs whose loan requests are rejected would like to know why.

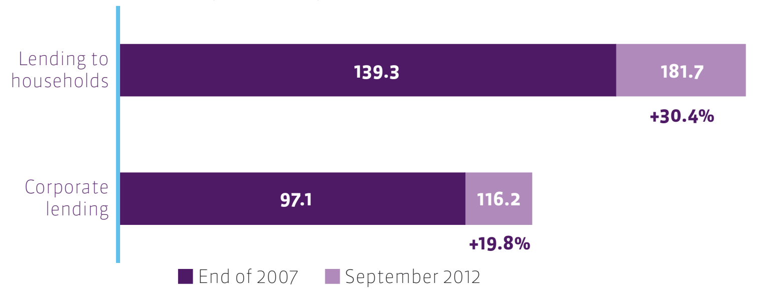
Therefore the financial institutions have undertaken within the Business Financing Platform, a discussion group of financial institutions and companies within Febelfin, to answer a well-documented loan request within fourteen bank office days.

Both for private loans and for consumer loans, granting a loan and the associated criteria are very strictly regulated. Those criteria are stated in the "Principles to handle and grant consumer and mortgage loans in a responsible manner". For corporate lending there is the "Code of conduct between banks and companies in the framework of lending".

The financial sector fulfils its role as the economy's sponsor. At the end of 2011, the market of lending to households and that of corporate loans had grown by respectively 30.4% and 19.8% as compared with the end of 2007.

DEVELOPMENT OF THE LOAN VOLUME IN BILLION EUR

(SOURCE: NBB)



How does the financial sector stimulate Belgian exports?

The funding of the export activities of Belgian SMEs is a significant part of the investment bank activities of Belgian financial institutions.
Partially due to the smooth manner in which financial institutions fund companies, Belgian exports rose considerably in 2011. In the future, however, the financial sector will have to constantly pay attention to the new international rules and the extent to which they may impact export funding.

The Belgian economy is strongly dependent on exports. According to figures of the Belgian Foreign Trade Agency, a federal public service, exports from Belgium amounted to €343.4 billion in 2011.That is 10% more than in 2010, which indicates that Belgian exports barely suffered from the national debt crisis of 2011. In 2011, Belgian foreign trade even showed better results than before the bank crisis of 2008.

That is certainly partially due to the fact that financial institutions also continued to smoothly carry out company funding during the crisis. Since the crisis of 2008, the volume of outstanding corporate loans has risen by 19.8% from €97.1 to €116.2 billion. The funding of the export activities of Belgian SMEs is therefore also a significant part of the investment bank activities of Belgian financial institutions.

In Belgium, investment banking has little to do with the so-called speculation that is so heavily criticised. Belgian investment banks look to collect money for large projects, bring companies to the stock exchange or advise

"If higher risk coverage makes export loans more expensive, this will affect SMEs."

Steven Vanackere in De Tijd of 3 May 2012 companies about how they can receive optimal loans. The funding of export activities is, of course, also part of that. The so-called speculative activities that form an important part of the activity of American investment banking rarely still occur in Belgium.

Regulations

But even the traditional investment banking of the Belgian banks risks coming under pressure. In the framework of the transposition of Basel III, the European Commission proposes that banks must reserve more capital for their trade funding. This higher risk coverage will probably make export loans more expensive. During the Ecofin meeting of 2 May 2012, Finance Minister Steven Vanackere was willing to admit that a more flexible risk weighting for export loans may be determined. That way, internationally oriented companies would continue to enjoy affordable export funding. Together with Finance Minister Steven Vanackere and Flemish Prime Minister Kris Peeters, the sector develops many initiatives to guarantee that.

80%

is the share of exports in the Belgian gross domestic product (GDP).

Supporting initiatives

The Business Financing Platform, the dialogue platform of the financial sector that aims to reinforce the confidence of entrepreneurs in the sector, also works according to the principle that export funding is required to maintain our level of prosperity. The Platform considers therefore how the funding of exports can be facilitated and which legislation may pose a threat. With the new international banking rules, this is definitely an important issue.

GOOD GOVERNANCE

IMPACT OF POLICY

in short

According to the European Banking Authority, Belgium is doing well when it comes to corporate governance.

Since the financial crisis, the attention for efficient risk management has been growing constantly.

Most of the financial institutions offer training programmes and e-learning dealing with their risk management mechanisms.

In laying down its policy, the financial sector takes into account economic, social, ethical and ecological factors.

Several financial institutions put a limit on their lending to specific sectors. The approach as for the decision about lending will be different for companies belonging to controversial sectors.

An ethical way of doing business is a strategically important priority issue for each financial institutions.

Within a strong economy, employment is vitally important. Currently, the number of direct jobs in the financial sector amounts to about 100,000 and that of indirect jobs to about 120,000.

In 2011, the financial institutions reported a total of 3,831 suspect transactions.

financial STABILITY

How is good governance translated with regard to the financial sector?

Good governance is also called corporate governance. The concept covers all processes and regulations that relate to the manner in which a company is managed and monitored internally.

Whoever speaks of corporate governance immediately thinks of the shareholders of a company, its management and its board as the main actors. However, the employees of a company, the suppliers, the customers, the environment and society in the broadest sense are also important elements of corporate governance. This also applies to the financial sector.

The financial crisis of 2007-2008 exposed numerous shortcomings in the manner in which specific financial institutions were governed worldwide. The supervision of the institutions and the regulatory framework appeared to fall short too. Certain financial institutions, for example, paid insufficient attention to the long-term risks, and they were too big in proportion to their equity. At the end of June 2007, the Belgian financial sector had a balance sheet total (total of possessions or assets) of €1,595.2 billion. The equity amounted to only €48.5 billion.

In addition, the conviction was that, on the international financial stage in particular, the remuneration policy stimulated rather than restricted risky behaviour.

One of the major aspects of corporate governance is proper risk management. In the last few years, many initiatives and pieces of legislation have been introduced to encourage companies to adopt better corporate governance and more controlled behaviour with regard to risk. This tendency, for that matter, is not only perceivable in the financial sector but in all kinds of sectors in this country and abroad.

Some examples for the financial sector:

> The Basel III-regulations [4] provided that the Belgian financial sector had to phase down its liabilities (the equity, such as share capital, plus the borrowed capital, such as deposits and debts on the interbank market) by more than a quarter from €1,595.2 billion at the end of June 2007 to €1,139.4 billion at the end of March 2012. Over that same period, its equity was raised by approximately 20% (from €48.5 billion to €57.8 billion).

> It was laid down in the federal coalition agreement of 1 December 2011 that Directors and Board Members of the financial institutions that enjoy governmental support are not entitled to share options, free shares, bonuses or any other benefits. The agreement also stipulates that it will be ensured that the remuneration policies of institutions that enjoyed governmental support are linked to long-term results. A number of institutions have implemented, for example, so-called claw-back systems on a voluntary basis: Board Members and specific senior managers are paid bonuses, if any, which are not just spread in time, but their reimbursement may also be demanded if the results appear not to justify them in the long term.

> On 27 September 2011, the European Banking Authority (EBA), the supervisor of the financial institutions in the EU, published its Guidelines on Internal Governance. These state for instance that within every lending institution, internal control mechanisms must be in place to identify, manage and report risks. On 19 December 2011 that same EBA published a document that shows that Belgium complies well with the guidelines.

> The financial institutions make significant efforts to install better risk management

4. The Basel III regulations require that banks maintain much more capital and liquidity in relation to their outstanding investments. The rules will be gradually implemented from 2013 and must be fully in force in 2018.

and to further increase the importance of ethics in the decision-making process. Febelfin Academy, the training institute of the financial sector, for example, pays special attention to ethical arguments in decision-making. The course "Integriteitsmanagement: Voor een gezonde bedrijfsvoering" [integrity management: for sound operational management] is a good example in this respect. Moreover, ethical principles are now more than ever crucial ingredients in internal training sessions that employees of financial institutions are obliged to attend repeatedly.

78%

of the banking sector (8 of the 19 institutions participating in the survey) includes in its management boards (and/or committees) more independent, external members than mandatory in order to counter abuse of power.

Good governance in the EU

In various European consultations on good governance, Belgian financial institutions had themselves represented by Febelfin. The Federation, for instance, took part in discussions in September 2010 when the European Commission debated about Corporate Governance in the Financial Institutions. In July 2011, they also worked on the Green Paper on the EU Corporate Governance Framework, in which the regulatory framework for good governance in banks is described.

Based, amongst other things, on those initiatives, the European Commission is developing a plan of action on corporate governance. One of the recommendations in this respect is thought to be that all EU Member States must have a body that verifies if regulations imposed in respect of good governance are duly complied with. At the beginning of 2013, the plan of action will be published. The Commission is expected to develop a series of additional legislative initiatives based on its plan.

Is the sector giving enough back in exchange of the support it has received?

The government has saved the financial sector to prevent the Belgian economy from suffocating and the savings of the citizens from being jeopardised. As a result, the sector has been able to pursue its primary tasks: lending, offering payment systems and generating employment.
Part of the governmental support is meanwhile being repaid at a high interest rate.

During the financial crisis, the government pumped €20 billion in capital increases into financial institutions in trouble. Moreover, guarantees were offered due to which the liquidity requirements (in other words the extent to which they can meet their short-term payments) of a number of financial institutions could be bridged and the savings of Belgian savers could be protected. Part of those contributions is currently being repaid via a penalising interest rate up to 8%. This exceptionally high interest rate has the unintended effect that it demands returns from the financial institutions that are unrealistic in the present economic climate.

Safeguarding the financial system

The financial efforts made by the government were not so much made to keep the financial institutions alive but mainly to safeguard the financial system and keep the economy going, objectives that were effectively met. The financial sector has been able to continue its tasks and to play its role in the framework of the lending and payment systems. Moreover, it has continued to play the part of a major employer.

Since the end of 2007, it has granted €87.3 billion in additional credits to companies, families and governmental bodies. Those credits are continuing to contribute to economic growth. A piece of KU Leuven research showed in 2011 that the financial sector accounted for one fifth of the total economic growth that took place in Belgium last year.

The payment systems also play a large role in the proper operation of the economy. It is of crucial importance that the financial sector can offer innovative and secure payment transactions at any time. At no time, not even after the crisis broke out, has the sector failed to do so.

In a strong economy, employment has a central place. At present, the financial sector employs about 100,000 jobs people and indirectly also creates about 120,000 jobs, especially for highly qualified people. This does not alter the fact that the employment climate is under pressure: the financial sector has trouble attracting new employees and keeping on people within a sector with a heavy workload and an image of rigidity.

Contributions

In the last few years the financial sector has contributed even more than before to the Treasury. In 2011, the sector paid corporate tax, withholding tax, VAT, etc. amounting to €2.3 billion.

On top of these customary taxes imposed on all companies, specific contributions are requested from the financial sector. The non-deductible VAT for financial institutions is an example, but also the bank tax. This tax is made up of four components: the contribution for a deposit guarantee scheme (DGS) to the special Deposit Guarantee Fund, the contribution for the Financial Stability Committee (FSC), the subscription tax on regulated saving deposits and the annual tax on lending institutions. In 2012, the total bank tax is costing the financial institutions €1.3 billion.

"Recognising one's share of the responsibility and participating in change while reaffirming the honour of the profession."

Etienne De Callataÿ, Bank Degroof, September 2012

Mediator

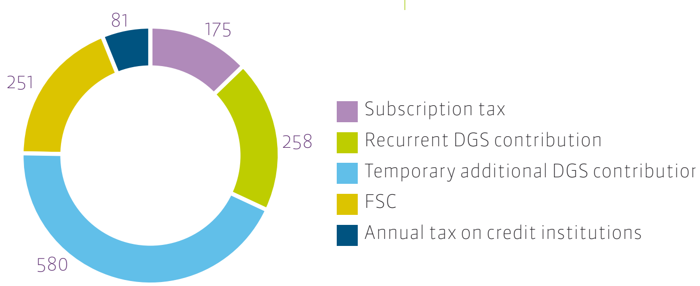
As mediator between the financial and the economic actors, the citizens and the governmental bodies, the financial sector also has to play an important part in the field of taxation. It deals with most financial flows, which means it is in a position to facilitate the collection of a number of taxes such as the deduction of the withholding tax on securities or the withholding tax on professional income. In total an amount of €2.5 billion is collected via the financial sector.

More and more often, the financial institutions are called on to help the tax authorities collect the various taxes. In the past few years, more information has been exchanged with regard to tax objectives. This exchange takes place automatically (for example due to the fact that citizens are being obliged to declare their foreign accounts to the National Bank of Belgium) or at the request of competent bodies (for instance if banking secrecy is cancelled on suspicion of fraud).

The financial sector is currently developing a number of proposals to simplify the procedures in this matter.

BANK TAX ELEMENTS IN 2012
IN MILLION EUR

(SOURCE: FEBELFIN/NBB)



risk management

What will be the impact of the new rules on the sector?

As a result of the financial crisis, various additional pieces of legislation were imposed on the financial institutions with a view to making the institutions more secure and in many cases smaller and to enable consumers to enjoy better protection. The financial sector welcomes this new legislation but is calling for attention to be paid to the impact on financial services, in particular on lending.

> *"Stricter capital rules are the cornerstone of a more stable banking system."*
>
> *Ivan Van De Cloot, Itinera, September 2012*

In the past few years, the financial sector has become the first target. The financial institutions were accused of irresponsible risks, such as overleverage[5] and short-term planning.

In 2008, the crisis caused various financial institutions to gasp for breath in financial terms. They had to make up for the declining value of their assets (loans, shares, corporate bonds, debt claims on the interbanking market)[6] from the equity. Subsequently they were forced to increase this equity. In the frozen markets during the financial crisis this was only possible with financial support from the government.

Capital requirements: Basel III

Due to the crisis, the regulatory framework also became a target. The Basel II legislation that had to guarantee the soundness of the financial system appeared to have worked insufficiently during the crisis: various institutions that fulfilled all the rules perfectly also lost their balance when the crisis gained speed.

The Bank for International Settlements in Basel (BIS), where the governors of the central banks discuss the stability of the financial system at fixed times, quickly came with proposals to tighten the regulatory framework in order to increase the stability of the balance sheets of the financial institutions. The Basel III legislation, which will be implemented in various phases between 2013 and 2018, must reduce the leverage on the equity of financial institutions and reinforce their funding. This should reinforce their balance sheets both quantitatively and qualitatively.

In European law, the Basel III legislation is converted into European law via the so-called CRD IV package. This will apply to all lending institutions and investment firms throughout the European Union.

Although the financial sector advocates the Basel III legislation, it will be a challenge to continue to reconcile the capital rules with the growing (social) demand for long-term loans, for example to fund large projects such as the construction of hospitals. Definitely when the

5. Leverage reflects the proportion between the equity of a financial institution and its balance sheet total. An institution that is overleveraged has therefore too little capital in proportion to its total balance sheet.
6. Loans, shares, corporate bonds, debt claims on the interbank market.

economy will recover again and the demand for loans will increase significantly, it will not become easier for financial institutions to continue to fulfil their role as funder of the economy within the Basel III framework. After all, if the financial institutions must phase out too much, this will also directly affect their added value and the extent to which they can satisfy the demand for loans.

Consumer protection: MiFID

Basel III, for that matter, is not the only legislation that intervenes in the social role of the financial institutions. Four years after the MiFID Investment Directive was issued, the European Commission tightened these rules in the MiFID II in October 2010. The suitability test that indicates whether or not an investment product corresponds with a customer's investment profile must, for example, be executed each year from now on, even if the customer's investment profile has not changed in the meantime.

Supervision

Banking supervision has recently been going through a number of profound changes. According to the Twin Peaks regulation, in which the Belgian supervisory structure has been laid down, the supervisory authority (NBB) for example has the power to block strategically important decisions taken by systemic banks, if one fears that they may jeopardize financial stability.

Furthermore, on a European level yet more new initiatives are still in the pipeline. One of them provides for the creation of a European banking union. This union would be under the supervision of the European Central Bank. In this way, European banking supervision will reach a higher level of uniformity.
The banking union would have one deposit guarantee system and dismantle financial institutions in trouble in a similar manner, for example with the help of a previously drawn up living will for banks.

The proposals in respect of crisis management aim to give the authorities the power to intervene at an early stage when a bank or group of banks gets into trouble. They also must ensure that, if the bank can no longer be saved, the restructuring and liquidation costs can be shifted to the bank's owners and creditors (shareholders, bondholders, etc.) instead of to taxpayers.

The European DGS system must ensure that the savings of the Belgian citizens remain guaranteed if a bank gets into trouble. Before the crisis, savings were guaranteed up to €20,000. As a result of the events in 2007-2008, the amount has been raised to €100,000. To guarantee this, the financial institutions must of course pay higher DGS contributions.

Within the creation of a European bank union, a system is currently being developed that must put all national DGS regulations on an equal footing. We must be careful therefore with national regulations that may go against international legislation. The financial world is by definition a very international world, which is preferably regulated internationally in a coherent manner. That argument applies in the Belgian financial landscape even more than elsewhere. The Belgian landscape, after all, is very diversified and 82% of the institutions have their headquarters abroad. Regulations that reason merely nationally might therefore sometimes have an opposite effect.

The concept of a bank union also offers another perspective on the security of financial institutions. The optimal size of a financial institution is currently mainly tested against the national budget and the gross domestic product (GDP) of the country to which the institution belongs. However, the European bank union will unlink the financial institutions from the national budgets and GDPs. The question may be posed therefore if we should not anyway test the best possible size of a bank against other criteria.

Phasing down of balance sheets in Belgian financial sector

The Belgian financial institutions have reinforced their balance sheets considerably, especially due to the phasing out of their foreign activities. At the end of March 2012, they had phased out their leverage by 41.4% compared to end June 2007. At the same time they raised their equity by 19.3% and reduced their liabilities by more than a quarter. The Belgian financial sector seems ready, therefore, to comply with the new Basel III legislation.

BELGIUM TAKES THE LEAD IN 'DELEVERAGING' - TRANSFORMATION ONGOING

	Total liabilities of Belgian banking sector (in billions of EUR)	Total equity capital of Belgian banking sector (in billions of EUR)	Leverage (in units)
End of June 2007	1,595.2	48.5	31.9
End of Dec. 2011	1,139.4	57.8	18.3
% change	**-28.6%**	**+19.3%**	**-41.4%**

Belgium is a quick learner when it comes to deleveraging

Are the risks taken by banks socially responsible?

The definition of risky behaviour is not always easy. It is a fact that every financial institution will aim for some return so that it will be able to perform its services fully and to achieve sustainable growth. The higher it aims in respect of return, the more risks it will have to take.

The attention for efficient risk management has increased steadily since 2008. In the first place because the regulations for and the control of risk management have become much stricter. Since the implementation, in 2006, of the Basel II agreement on capital requirements for financial institutions, the supervisors have paid increasingly more attention to the risk profile or the so-called risk appetite of lending institutions and investment firms. They are trying to map out the risk profile of an institution carefully and to raise the quality of the risk management.

The National Bank of Belgium (NBB), one of both Belgian supervisory authorities, has developed a range of instruments for this. There is, for example, the *Internal Capital Adequacy Assessment Process* or ICAAP where every institution must work out an internal capital assessment process and must lay down capital targets that correspond with its risk profile and the quality of its internal control. This internal control is in the hands of the effective management of a bank or investment firm. They must report their assessment of the internal control to the NBB.

In the last few years, the financial institutions have heavily invested in better risk management, tighter internal control and better reporting.

The number of staff in the Risk department, which identifies, assesses and manages risks, rose by a quarter (24%) between 2008 and 2011. The number of people in Compliance, the department that ensures that all rules are respected within the institution, even increased by 70%. Only in the Audit department, which is responsible for ex post control, the number of effective employees dropped by 15%. The total staff in the three departments rose at the four large banks from 978 in 2008 to 1,178 in 2011, an increase of 21%. These figures show that the institutions have chosen in full awareness to place more focus on prevention instead of control after the facts and that they are heavily investing in it.

What is risky behaviour?

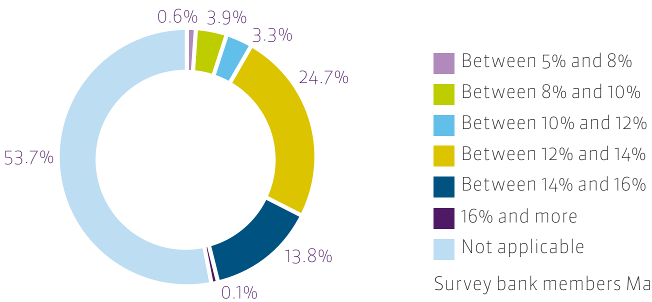
The definition of risky behaviour is not always easy to determine. Which policy can be described as risky and which not? Before 2007, the illusion existed that zero risk was possible, for loans to governmental bodies for instance. The events of the past few years, however, have shown that investments that were described as safe and non-risk can also carry a risk.

Due to the financial crisis, the financial institutions are paying more attention to the quality of their risk management to prevent the same problems from occurring again.

More than half of the sector (54% or 7 of the 19 surveyed institutions) no longer sets targets based on Return on Equity, and 38% (6 of the 19 surveyed institutions) sets targets of over 12%. This target is strongly dictated by the international character of the Belgian financial sector. 82% of the institutions have their headquarters abroad and therefore feel more pressure from the financial markets and their foreign shareholders to achieve a higher return. It is obvious that the higher the return target, the higher the likelihood that more risk will be taken to achieve this return.

RETURN TARGET BASED ON ROE

(SOURCE: FEBELFIN)



Survey bank members May 2012

How do the banks identify and communicate their risks?

Each financial institution is individually responsible for the suitable manner in which it identifies its risks and communicates about them.
All institutions have an open structure and clear processes for the identification of risks. This always takes place in dialogue with top management.

Identification

Nearly every financial institution has a written risk charter in which the institution's position in respect of risk-taking is stated. 75% of the sector (14 out of the 19 institutions surveyed) systematically publishes this charter on the intranet and, in addition, it is often disseminated via e-mail. Some institutions go even further and provide training sessions (72% of the sector, i.e. 10 out of the 19 institutions surveyed) and/or *e-learning* (61% of the sector, i.e. 8 out of the 19 institutions surveyed) about their risk charter. Often, such training sessions or e-learning modules are mandatory for staff.

Febelfin Academy, the training institute of the financial sector, also offers various courses in respect of risk management. A few examples: Basel II and the transfer to Basel III, Enterprise Risk Management, Financial Risk Management or Professional Certificate in Risk Management.

"If a risk appetite merely becomes a statement that you dust off every year with a perfunctory review process, it is a wasted effort. It has to become a living document that you can relate to in everything you do."

E&Y, Progress in financial services risk management, 2012

Within the financial institutions, risks are continuously monitored and identified. All surveyed institutions have an open structure and clear processes for the identification of risks – in dialogue with the top management. This is usually done using quantitative analyses of information based on mathematical risk models. In 51% of the sector (8 out of the 19 institutions surveyed) external experts are also consulted for the identification of risks.

Communication

All the surveyed institutions have set up transparent communication mechanisms where top management, the business lines and the risk manager meet to discuss the risks. During these communication moments, both the identification and the follow-up of the risks are discussed. In nearly all the surveyed financial institutions, risk measurements are also discussed. In addition, 13 out of the 19 institutions surveyed (96% of the sector) have a risk committee that operates at the level of the Belgian management board. Three fourths of the risk committees include external and independent members, and in some cases these members even constitute a majority.

78% of the banking sector (8 out of the 19 financial institutions surveyed) include in their management boards (and/or committees) more independent, external members than are mandatory. This way, conflicts of interest and abuse of power are countered. Ensuring that these independent members also have all relevant information available to perform their job properly is a constant point for attention.

100%

of the institutions surveyed has an open structure and clear processes for the identification of risks. This always takes place in dialogue with the top management.

ethical ENTERPRISE

Is the sector involved in Corporate Social Responsibility?

The financial sector adjusts its policy to economic, social, ethical and ecological factors. Precisely what that strategy should look like is different for each financial institution. What is the same for each institution is that the entire organisation must support the strategy and give priority to ethics and integrity in decision-making.

Companies that have incorporated Corporate Social Responsibility (CSR) into their policy, do not just focus their business on economic achievements, but also have respect for social, ethical and ecological factors. Responsibility towards society therefore takes a central place in a CSR policy.

The rolling out of various regulations in respect of good governance has made various financial institutions also develop a Corporate Social Responsibility strategy. Social, ethical and ecological factors are becoming increasingly important when developing business plans. For each financial institution there is a different CSR strategy. Each of them places its own emphasis and has its own mix of various CSR elements. Each institution must make sure that its strategy has the support of the organisation as a whole and that ethical concern and integrity will prevail when it comes to taking decisions.

71% of the sector (11 out of the 19 institutions surveyed) has drawn up specific procedures to evaluate the social and ecological risks of the decisions. These procedures are tested in an internal dialogue with top management but also in consultations with for instance employees and trade unions, customers, consumers or commercial partners, investors or non-governmental organisations (NGOs). That way, the possible risks of specific decisions come to light immediately.

A CSR strategy looks nice on paper, but is of course only effective if the commitments that are made are put into practice. A CSR strategy only stands a chance of success if it can trickle down through all parts of a company and if everyone gives ethics and integrity a central role. A manager who implements the CSR strategy may take on the role of propagating that message.

"This report provides a good overview of how the sector sees social responsibility. This is extremely important for a sector that in the last few years has lost credibility, especially because this sector plays a critical role in our economy. I hope that this report can be worked on in greater depth in the future and be supplemented with concrete goals and figures."

Sabine Denis, Business & Society, October 2012

In 90% of the sector (9 out of the 19 institutions surveyed), such a specific manager has been appointed. In 1.4% of the sector (4 out of the 19 institutions surveyed) the person responsible for the CSR reports directly to the CEO, which means that he or she can influence matters up to the highest level. In 2013, this direct reporting to the CEO will be adopted by a larger number of banks. There is 1 institution in which he reports to a member of the Executive Committee, in 60% (4 out of the 19 institutions surveyed) to the head of a department.

90%

of the sector (9 out of the 19 institutions surveyed) has appointed a specific manager who implements the CSR projects within the institution. This concerns mainly the large institutions with more than 5,000 employees, which have such a manager. That does not mean, however, that smaller institutions do not attach importance to CSR.

Are banks selective in what and whom they fund?

In each financial institution a clear policy has been developed about which products may be sold to which customers. Requests from controversial sectors are therefore not handled in the same manner as those from companies with an irreproachable track record.

In various financial institutions, a "limiting" loan policy was developed. That means that additional CSR criteria are used to assess credit files of companies from the following sectors:

- producers of biological weapons, land mines, cluster bombs or weapons with depleted uranium
- weapon trade
- palm oil companies
- nuclear companies
- coal industry
- electricity industry
- etc.

Sectors or companies that practice corporate governance, are promoted. For example, the institutions support projects that promote the generation of renewable energy or green loans are placed on the market at lower rates and better conditions.

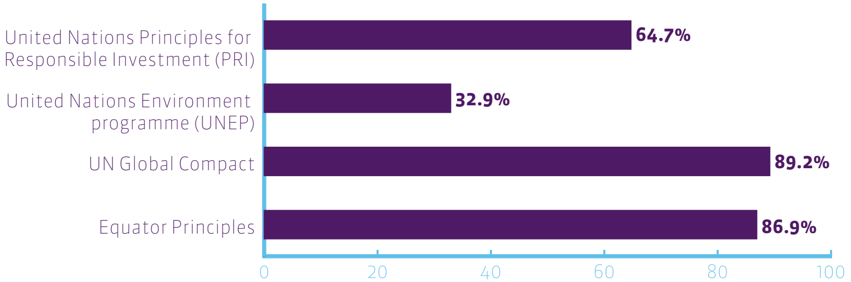
On an international level, various voluntary initiatives exist, such as the *United Nations Global Compact* or the UNEP (*United Nations Environment Programme*) Financial Initiative, two policy initiatives of the United Nations to promote socially responsible and environmentally-friendly enterprises. They also state guidelines for the funding of specific controversial sectors.

Only half of the surveyed institutions appear to have effectively signed one or more of these CSR initiatives effectively. Smaller institutions, in particular, dread the red tape this entails. However, this does not imply by definition that they do not comply with the CSR principles.

To what extent does the Belgian banking sector support or endorse international CSR initiatives?[7]

INTERNATIONAL INITIATIVES SUPPORTED BY THE BELGIAN BANKING SECTOR

Survey bank members May 2012 – (SOURCE: FEBELFIN)



7. As for Belfius, the initiatives supported by former Dexia were taken as a basis.

Does the banking sector pay excessive bonuses?

During the financial crisis, the salary policy of specific financial institutions, and in particular the bonuses of specific traders and top managers, was highly criticised. Large foreign institutions, in particular, appeared to sometimes pay bonuses to traders and management that society considered to be "excessive". In the Belgian institutions, such high amounts were never paid. This does not mean, however, that the financial sector in Belgium has not adapted its remuneration policy where necessary.

Bonuses

In the coalition agreement of 1 December 2011, it was stated that directors and members of management boards are not entitled to stock options, free shares, bonuses or any other benefit if their financial institution receives governmental support. In various large Belgian banks no such benefits were granted to the members of the management board, therefore.

In the next few years also, the bonus policy will be subject to tough conditions. Any additional bonuses, for instance, and we mean here the extras on top of the customary salary, not the variable remuneration that for example people with a sales profile receive, must be paid over a certain amount of time. Moreover, they may not be granted based solely on financial criteria, but an important criterion will also be customer and employee satisfaction. In addition, performance that is remunerated must also be tested in terms of sustainability and linked to long-term results.

A number of institutions has implemented so-called claw back systems on a voluntary basis: Board Members and specific senior managers are paid bonuses, if any, which are not just spread in time, but their reimbursement may also be demanded if the results appear not to justify them in the long term.

For 74% of the sector (4 out of the 19 institutions surveyed), half the remuneration committee is made up of independent directors. For another 18% (10 out of the 19 institutions surveyed), there is at least one independent person.

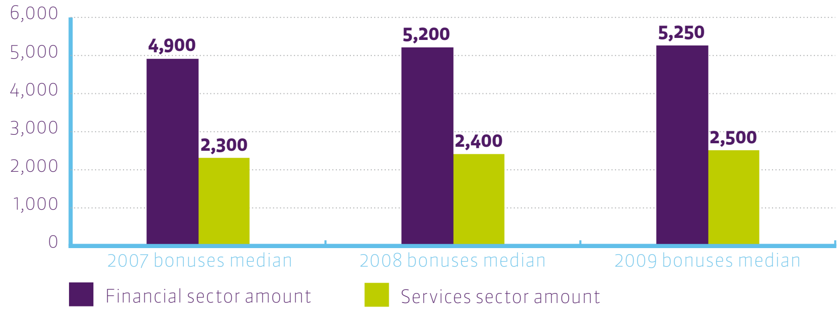
Pay gap

Compared with the salaries that the highest management members of financial institutions receive abroad, the Belgian salaries are much lower. As a result the differences in earnings in the Belgian financial sector are smaller than abroad because the Belgian financial institutions pay all their employees significantly better than the average in the services sector. This does not mean, however, that there is no pay gap. The difference between the remuneration of a manager and a front desk employee is significant.

The remuneration system is also discussed at regular intervals at the level of the sector and the trade unions.

The average bonus in the financial sector was a little over €5,000 gross in 2009. These bonuses were mainly granted to top management and certain specific profiles. In the entire services sector that was somewhat more than €2,000.

AVERAGE BONUS IN EUR (SOURCE: FPS ECONOMY)



Do the banks' sales strategies sufficiently take the customer into consideration?

The relationship between a customer and a financial employee is based on trust. If the employee does not want to damage that relationship, he should sufficiently take into consideration the wishes of his customer. Moreover, the Belgian customer is well protected by all kinds of legislation.
It is not always easy to find a balance between the interest of the customer and the commercial goals of the financial institution. The trade unions, for example, are of the opinion that financial institutions should not only measure the performance of their employees on the basis of sales figures.

When selling a product or service, a relationship of trust between customer and financial employee is central. Due to the fact that, in the past few years, the customer database within the financial institutions has clearly been segmented, the financial advisors have also specialised in a specific customer profile. The quality of the advice to the customer benefit from this.

Knowing what is suitable for the customer

In Belgium and Europe, the investor is protected by various pieces of legislation. The moratorium on the commercialisation of especially complicated financial products is an example of this. The financial sector has voluntarily endorsed the moratorium , which obliges it not to commercialise any structured products that are defined as especially complicated by the Financial Services and Markets Authority (FSMA).

The MiFID Directive also aims for better protection of the investor. MiFID provides that a financial advisor should not sell investment products to a customer if they do not match the customer's investor profile. There is no discussion about the objective of MiFID. The question may arise, however, whether the manner in which the investor profile is drawn up does not leave too much room for interpretation. Each financial institution, after all, can prepare the questionnaire freely that determines in which profile a customer is categorised.

> *"Loyal, fair and professional treatment of clients is essential to restore trust in the sector."*
>
> *Jean-Paul Servais, FSMA, September 2012*

Knowing what you sell

All the surveyed institutions train their sales staff on their range of products. 72% of the sector (11 out of the 19 institutions surveyed) also train staff in the prevention of an excessive debt burden, and 37% (3 out of the 19 institutions surveyed) offer training sessions to assess the mental capacity of customers when they take a financial decision. 60% (6 out of the 19 institutions surveyed) of them provide training sessions about sustainable products, such as socially responsible investments or green loans.

Febelfin Academy, the training institute of the financial sector, has a course on offer that focuses on ethics in sales techniques: "How to build a sustainable relationship of trust with your customers in the new financial world?"

Remuneration depending on sales

In the past, a number of financial institutions stimulated the sale of investment products with remuneration for the sellers. The financial crisis has forced the institutions to go back to basics and placed the focus on saving deposits again. However, there are still investment products backed by a sales strategy.
97% (17 out of the 19 institutions surveyed) pay their sales staff a variable remuneration. The proportion of this variable remuneration in relation to the total salary depends on the employee's position. For someone working within the Retail department, in 87% of cases (6 out of the 17 institutions surveyed) the variable part of the salary will be less than 10% and in 4% (5 out of the 17 institutions surveyed) between 10 and 25%. When an employee of the Trading department receives a variable salary, in 22% of cases (5 out of the 17 institutions surveyed) this will be less than 25% of his total salary package. In 70% (5 out of the 17 institutions surveyed) of the cases the variable portion amounts to between 25 and 75% of the total package. One surveyed institution indicated that the variable salary could be as high as 150%.

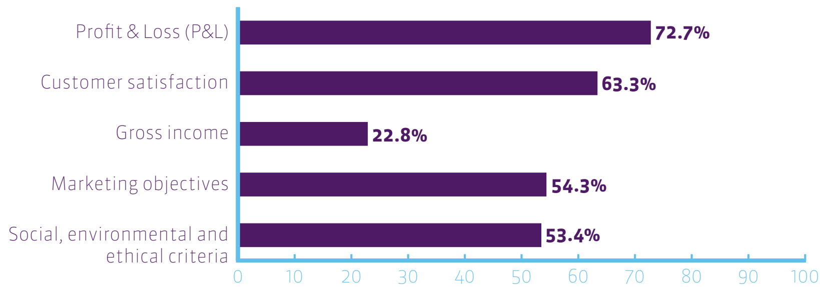
A variable salary is mainly defined by the P&L (*profit and loss account*) of the bank. This does not mean, however, that social aspects, such as customer satisfaction, cannot play a part. Within 53% of the sector (5 out of the 19 institutions surveyed) social, ethical and green values are also taken into account for the payment of a variable salary.

The challenge for the future will be to ensure that the sales strategy within the financial institutions will no longer result in excesses.

Variable remuneration is mainly based on financial results, followed by customer satisfaction. The gross salary of the employee may also be the decisive factor, just like marketing-oriented targets.

CRITERIA FOR CALCULATING VARIABLE PAY

Survey bank members May 2012 – (SOURCE: FEBELFIN)



How does the sector make its ethical codes work?

Various codes of conduct were reworked after the financial crisis because the question arose whether they had been sufficiently worked upon and complied with. The control of the conversion of the codes was also made stricter in practice.
A code of conduct is communicated to all employees via the electronic channels and training sessions.

GOEDE BANKRELATIE.BE
febelfin

BONNE RELATION BANCAIRE.BE
febelfin

Most financial institutions had already drawn up a code of conduct for their employees long before 2007. It specifies principles that determine which conduct is acceptable and which is not. A code of conduct often goes further than what is mandatory.

During and after the financial crisis, however, the question arose whether the codes of conduct were sufficiently complied with everywhere. In response to that criticism, the financial sector reworked various codes of conduct. Moreover, the financial institutions have tightened control over the way in which the codes are put into practice.

Within the financial sector, various codes of conduct are available at sector level:

> the code of conduct for (savings) banks, which aims at a good relationship between bank and customer;
> the code of conduct between banks and companies in the framework of lending;
> the code of conduct in respect of bank mobility (moving of the bank);
> 10 principles for issuing and providing consumer and mortgage loans in a responsible manner, etc.

The various codes of conduct are part of the sector-level study packages of Febelfin Academy, the training institute of the financial sector.
Ethical conduct is also one of the strategic priorities of each individual financial institution, and the bar has been set at the highest level: responsible and ethical banking is therefore a commitment of the financial institution at the level of the CEO, who will have the idea implemented at all levels of the organisation.

Usually all employees sign the code of conduct, after which it is placed on the intranet. In 94% of the sector (15 out of the 19 institutions surveyed) training or e-learning sessions are organised on this subject, which are repeated at fixed times.

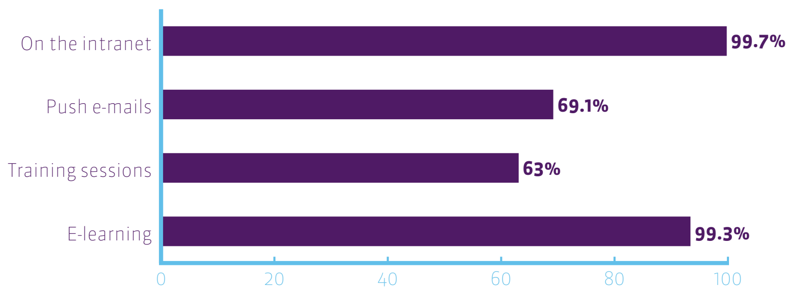
Whistleblowing system

All the surveyed institutions that have drawn up a code of conduct also have a whistleblowing system that makes abuses known. 97% of the sector (16 out of the 19 institutions surveyed) has an internal system; one institution calls on an independent external body. 30% of the sector (7 out of the 19 institutions surveyed) has gone one step further and has founded an ethical committee that employees can contact if they are confronted with a conflict between the values of the institutions and the instructions they receive, or the imposed objectives.

Financial institutions communicate mainly about their code of conduct via the intranet, e-mails and training.

COMMUNICATION CHANNELS FOR CODES OF CONDUCT

Survey bank members May 2012 – (SOURCE: FEBELFIN)



What do banks do to fight fraud?

The financial institutions have an important signal function in the fight against suspicious transactions, tax evasion and money-laundering practices. The institutions in bordering countries do not fulfil this function. It also wishes to emphasise the difference between financial fraud, which by definition is illegal, and tax optimisation, a service to its customers that remains within the limits of the law.
In the fight against internet fraud, the financial sector tries to encourage public opinion to be on its guard when spreading personal and financial data.

Reporting suspicious transactions

The financial institutions have an important signal function in the fight against fraud and money-laundering practices. They are obliged to report suspicious transactions and persons to the Cell for Financial Information Processing (CFI), an independent administrative authority with legal and financial experts and a high officer of the federal police who must prevent and fight money-laundering.

In 2011, the financial institutions sent 3,831 reports, representing 19.2% of the total number of received reports. The exchange bureaus reported the largest number of suspicious transactions: 12,364 or 61.8%.

It is also mandatory for the financial institutions to keep banking data and to set up internal procedures to facilitate the detection of suspicious transactions.

In the coming years, the Belgian money-laundering legislation will be examined by various international institutions. In the next two years, the Financial Action Group (FAG) will evaluate how Belgium has implemented its recommendations to counter money-laundering. Next the European Union will come with a new anti-money laundering Directive (the fourth already) to stop the phenomenon. The new Directive will mainly focus on the vigilance of financial institutions towards their customers, the investigation into the real beneficiaries and the mutual business relationships.

NUMBER OF SUSPECT TRANSACTIONS REPORTED PER PERSON OR BODY WITH A DUTY TO REPORT (SOURCE: CTIF-CFI)	2009	2010	2011	%2011
Exchange offices	9.973	11.491	12.364	61,82
Credit institutions	3.628	3.870	3.831	19,15
Casino owners[9]	1.055	912	952	4,76
The Mail –bpost	584	471	634	3,17
Notaries	251	163	319[10]	1,59
Life insurance companies	82	76	81	0,40

Tax evasion

In Belgium, the financial sector acts as a mediator between the financial and economic actors, the citizens and the governmental bodies. It deals with most financial flows, which means it is in a position to facilitate the collection of a number of taxes such as the deduction of the withholding tax on securities or the withholding tax on professional income.
In neighbouring countries, the financial sectors do not have this role and therefore they need not act in the event of tax evasion. The financial sector wishes to develop into a system in which tax collection is done via alternative channels (for example via the tax return). That way, it will have to make additional efforts in the field of information exchange, but it will be able to release operational funds that can be used for financial services.

Tax optimisation

The financial institutions help their customers to optimise their financial flows in such a manner that the latter can enjoy the best possible conditions in respect of taxes. It is important, however, to point out that a clear difference is made between this tax optimisation and tax fraud.

Secure internet banking

The financial sector does not only endeavour to prevent and fight money-laundering practices, it also undertakes to attack fraud via internet banking.

For years the financial institutions have cooperated intensively with the National Bank of Belgium (NBB) and the Federal Computer Crime Unit (FCCU within the Federal Police) in all aspects of secure internet banking. Within Febelfin specific working groups were set up that meet regularly to discuss internet banking and card payments.
In the tracing and prosecuting of money mules (persons who act as intermediaries for criminal organisations by transferring fraudulently obtained money for criminal organisations) the financial agencies work closely together with the competent authorities. They

always take action against these money mules so that they can be prosecuted in criminal courts. This means that the mule will be less able to get a loan or other service from their own bank.

www.safeinternetbanking.be aims to make the consumer aware of the dangers that careless surfing behaviour may cause when the consumer is internet banking. The site informs about the most frequent fraud techniques and the protection mechanisms of the banks, it shows the latest figures and also gives many safety tips.

Dave campaign

To encourage people to be on their guard and take care when transferring personal information via the internet, Safeinternetbanking.be set up a fun campaign. In the campaign, Dave has a central place, a medium with "paranormal" gifts. Accidental passers-by could go to him for free and personal advice. A service that was sure to be received well. However, behind Dave some hackers were hiding who whispered all kind of information in the medium's ear that the customer had left on public websites. What are the names of his children? How much was his house? How much does he have in his bank account? How much did he spend last month on clothes? And what is the number of his bank account? The video has turned into an international success.

It has been viewed more than 6 billion times on YouTube and has become one of the most popular viral campaigns ever.


Do you know your bank account number?


How's your torn muscle?

transparency

Are bank products sufficiently transparent?

Since 2008, making bank products more transparent has been high on the agenda of politics, society and the financial sector. Various measures were issued to improve transparency. The products were also examined carefully, but despite many good intentions it turned out not always to be so easy to simplify them. The financial markets are already very complex by nature, and financial products reflect that to some extent by definition.
However, much progress has been made in more transparent explanations of the operation of financial products.

Due to the fact that, in the past few years, the customer database within the financial institutions has clearly been segmented, a greater trend has come about for more relationship banking. Financial advisors have been able to specialise in a specific customer profile. That must enable them to explain the products and services they propose in a clear and understandable manner adapted to the customer.

Saving products

On 13 July 2012 an agreement in principle was concluded between Johan Vande Lanotte, Deputy Prime Minister and Minister for the Economy, Consumers and the North Sea, Steven Vanackere, Deputy Prime Minister and Minister for of Finance, the FSMA supervising body and Febelfin. One of the things the agreement provides for is that for each regulated savings account a standardised information sheet must be drawn up on which all essential information appears. That way the consumer will be able to compare the saving products of the various financial institutions easily.

Investment products

An information sheet must be provided not only for the savings account but also for investment products , which may only supplied with such a sheet, the KIID (*key investor information document*). This sheet provides information on the key aspects of the investment product as well as the risks and costs associated with the product. Each KIID is subject to the same standard in terms of the structure, content and presentation. This will allow consumers to compare various investment products and ultimately choose the product that best meets their needs.

The MiFID directive also aims for better protection of the investor. MiFID provides that a financial advisor cannot sell investment prod-

"The most remarkable outcome of the new dialogue within the Consumer Platform is the fact that for all parties – the banks and the consumer organisations, academics and civil society – the awareness has increased that there is a "large common interest" to work on the understandability and accessibility of financial products and services."

Ine Mariën, Febelfin Consumer Platform, October 2012

"According to a study made by OIVO-CRIOC at the end of 2011, consumers have a mixed perception of banks that is both positive and negative: positive, as for accessibility and counseling; negative as for costs and transparency. So, the banking sector has to go on making efforts..."

Anaïs Deville, OIVO-CRIOC, October 2012

ucts to a customer if they do not match the customer's investor profile. Each year a test must be done to see if a customer's investment products match his profile.

In the framework of the simplification of products, great progress was made via the moratorium on the commercialisation of especially complicated financial products. The financial sector has voluntarily endorsed the moratorium, which obliges it not to commercialise any structured products that are defined as especially complicated by the Financial Services and Markets Authority (FSMA).

Loan products

The Consumer Credit Protection Act imposes the use of the "JKP" (*jaarlijks kostenpercentage* or annual percentage rate of charge, which denotes how much a loan costs on an annual basis). This provides the consumer with the possibility to compare various offers easily and prevents him from being confronted with "unclear calculation keys".

The legislation also provides that advertisements about loans (in which an interest rate is not mentioned) must be accompanied with the message "Pay attention: borrowing money also costs money".

Both for corporate loans and for private loans, a code of conduct exists in which transparency is stated as one of the values.

The 2004 the Code of conduct for lending was signed between banks and businesses[8]. Improvement of transparency is one of the most important assignments of the Business Financing dialogue platform, which

8. The Code of Conduct can be viewed on www.financieringvanondernemingen.be.

was established to re-establish confidence in the sector. The Platform does this for instance via the Business Financing website.

On this site, entrepreneurs can find information and tips to give their loan application the best possible chance. On the site they can also find information about governmental initiatives in respect of funding, information about ratings, etc.

When a loan request is rejected, the banks, in accordance with the Code of Conduct, must explain the main factors that affected their loan decision. Giving a second chance is a crucial point for attention: when a loan is not granted but the proposed project is viable, the banks will consider on their own initiative how the proposal may be adjusted.

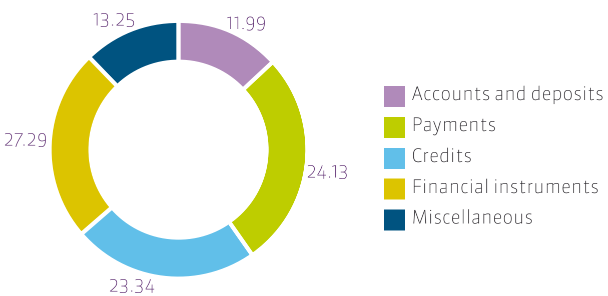
Since the beginning of 2000 the Consumer Loan Guide, the corresponding budget table and the brochure about home loans have been available[9]. On the site of the Professional Association of Credit Providers (Beroepsvereniging van het Krediet –BVK/Union Professionnelle du Crédit - UPC), a sub-association of Febelfin. These instruments offer private individuals a complete overview of loans and help them to make a proper assessment of their payment capacity.

9. For the guides and brochures see www.upc-bvk.be.

27.9% of the complaints submitted by private persons in 2011 at the Mediation Service dealt with financial instruments, 24.13% with payments and 23.34% with loans. Complaints often relate to communication problems about the product and the associated consequences and execution modalities.

ADMISSIBLE COMPLAINTS PER THEME AS A %

(SOURCE: OMBUDSFIN)



4

PEOPLE

SOCIAL IMPACT

in short

The men/women ratio of bank employees amouwnts to roughly 50/50. However, the number of women executives, being 25%, is not the same as that of male executives.

More than 30% of bank employees is over 51 years old.

The financial sector spends 2.6% of its gross total amount of wages on training. The other sectors achieve an average of 1.52%.

The workload in the financial sector is high. In combination with the rigid image of the sector, this is often the reason why sometimes it is difficult to attract young people and keep them in service.

Many financial institutions actively promote voluntary work.

The financial sector often lends its support to artistic projects as well as to projects in the field of financial education and sports.

sustainable HR POLICY

Are financial institutions good companies to work for?

The financial sector is an interesting and informative sector that offers opportunities to ambitious people. Opportunities for further growth, training and coaching are available for the employees. The remuneration policy (salary and benefits in kind) is often more attractive than in some other sectors. Nevertheless, the sector has to cope with an image problem due to which it is often difficult to attract and keep young people. The heavy workload and the resulting difficulty to combine work and family life may also be a decisive factor not to choose the financial sector as an employer.

Diversity

On 1 January 2012, the personnel database of the banking sector consisted of 50.4% men and 49.6% women. This proportion is gradually reaching approaching 50-50. The operational staff is made up of a majority of women

(64.82% of the total). However, we are still far from a balance between men and women in higher positions (management and executives): at present the percentage of female executives is 39.72%, the percentage of women with a management position is approaching 25% (23.31%).

The average age of employees in the banking sector is between 43 and 44; the average seniority is 18 years. More than 30% (30.14%) of employees in the banking sector are 51 years old or more.

The financial institutions also aim to design a policy in which the employment of people with a handicap and people of foreign origin has a central place. Concrete figures for the sector are not available but for the future there is definitely room to recruit more employees from these disadvantaged groups.

On 2 July 2007, a Diversity Charter came into force in the financial world. Two key lines are central in the Charter: more diversity and mutual respect on the work floor. The Charter provides for example that the Human Resources departments of the financial institutions must pay attention to the recruitment of persons with a handicap.
In 2009 and 2010, together with the trade unions a small-scale pilot project was set up targeting highly educated persons of foreign origin who arrived in this country recently. Other inflow channels than the traditional recruitment agencies were involved to reach these people. Some ten people worked in the financial sector for a year and received additional counselling and training during that time. Eight of them were offered a permanent job at the end of the project.

Working environment

The financial sector aims to offer its employees a healthy working environment. 86% of the sector (16 out of the 19 institutions surveyed) allows its employees to work with flexible working hours. 27.7% of the administrative staff works part-time and 13.4% of the total number of employees uses some form of time credit.

98% of the sector (14 out of the 19 institutions surveyed) offers its employees the possibility of working from home. That number is very

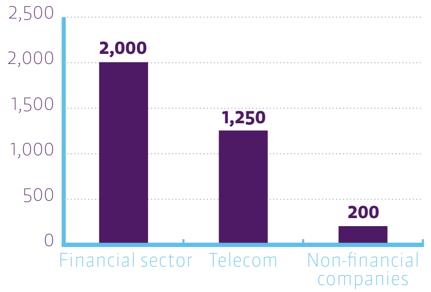
> *"To attract and keep talent, the incorporation of job flexibility and the recognition of work life balance are musts!"*

Ann Van de Perre, Febelfin Strategic Working Group, September 2012

high compared to other sectors. Working from home does not just have a positive effect on mobility; it also ensures that employees can better combine their workload with family life.
Employees of the financial sector enjoy a series of social benefits, depending on each financial institution's policy. Examples include: access to healthy food (mainly via the company canteen), the availability of sports facilities at no or at a reduced charge or the possibility to follow programmes to learn to deal better with stress. Some financial institutions also provide international exchange programmes, activities for children during the school holidays or a crèche.
In addition to the 20 mandatory days of leave and the 10 mandatory public holidays, the financial sector offers a number of additional days of leave.
Many financial institutions encourage their employees to change positions every 5 to 7 years In order to try to keep the motivation of their employees up and their productivity intact. In the collective labour agreements (CLAs) of the banking sector, the aim is to achieve an HR policy in which broad deployability of the employees during their entire careers has a central place. The CLAs also provide that the employees who change positions are given guidance.

ANNUAL EXPENSE ON TRAINING PER EMPLOYEE IN 2009

(SOURCE: FPS ECONOMY)



Training

Training is a constant point for attention for the financial sector. The figures show that the number of training days hardly decreases as staff ages. The most recent figures of the National Bank of Belgium (from 2010) indicate that the financial sector spends 2.75% of the total of gross salaries on training. The average for Belgian companies is 1.64%. The target described in the Generation Pact is 1.9%.

Per employee the financial sector spends €2,000 on average on training annually. In the other sectors that amount is far below €500.

Due to the crisis, training courses are made available in a more selective manner. For instance, more internal training courses are given, and the courses given by external parties are limited. In addition, new methods are more often used, such as e-learning, to reduce cost and nevertheless have the possibility to offer training.

Workload

Despite the efforts of the financial institutions to offer their employees healthy working conditions, we cannot deny the workload. Reaching targets and sales figures, the restructuring and soft dismissals of the last few years, etc., many employees have to cope with additional pressure in the working environment.

In addition, work security is no longer a given in the financial sector. Whoever wants to build a career has to work hard.

Attractiveness of the sector

The financial sector is also particularly complex. For the outside world this creates an impression of incomprehensibility, a sector of grey suits with a rigid image. On the other hand, this may be a stimulus for young talent who see this complexity as an intellectual challenge.
Nevertheless, in the last few months it has proven to be increasingly difficult for the financial sector to attract and hold on to young people.
This is also reflected in the extent to which young people consider the financial institutions to be attractive employers. In the last three years, not a single financial institution has reached the top 20 of the Award for Most Attractive Employer of the Randstad temping agency. In 2009, KBC, ING and Dexia still appeared on the list. Which are the companies that do appear in the top 20? In 2012, the highest places were dredging company Deme, pharmaceutical giant GSK and technology giant Techspace Aero.

The fact that the Belgian banks have limited their international activities or that they were taken over by a foreign concern has reduced the opportunities of their employees for an international career. This may be why the sector has lost part of its attractiveness for young talent. The stern image does not help either.
A good basic salary no longer suffices for the youngest generation of employees. A good work-private life balance is increasingly central in their search for the ideal job. If the sector wishes to attract and hold on to talented youngsters, it has every interest therefore to keep work pressure bearable and to provide flexibility.

Which salary for a new financial sector employee?

Minimum basic package for someone engaged as commercial adviser in the financial sector and having no experience :

- Salary: €2,165.26 gross (remuneration in accordance with sectorial scale)
- Non-mandatory benefits, depending on each individual institution, but often applied in the entire sector: life insurance, hospitalisation insurance, group insurance, possibility to take time credit, meal vouchers, training, etc.

support to THE COMMUNITY

How does the financial sector contribute to social projects?

The financial sector supports many social projects at various levels: sports, culture, education, support of underprivileged groups, etc. Because the involvement of their employees is important, many financial institutions also promote the idea that every employee be involved in a social project on a voluntary basis.

Part of what is now called *Corporate Social Responsibility* used to be done by patrons (sponsors who provide financial support without any benefit for themselves), the foundations and the charity work of the financial institutions. General figures of how important these were for society do not exist.

Recently the patrons, the foundations and the charity work of the financial institutions were centralised within a professional CSR policy, as we know it today, that coordinates all financial support and contributions in kind, but also volunteer work.

Volunteer work

97% of the sector (14 out of the 19 institutions surveyed) allow their employees to do volunteer work during working hours. That figure is much higher than the average of all companies in Belgium (55%)[10].

In addition, some institutions also actively promote specific volunteer work. Employees are encouraged, for example, to set up fund-raising campaigns, the institutions double the amount that their employees have donated to a charity, or a solidarity prize is created to support the favourite charities of the employees.

One of the Febelfin members has also set up a coaching plan in which Febelfin employees act voluntarily as coaches for female entrepreneurs from Africa, Asia, Latin America and the Middle East. The idea is that they help these women with advice on how to draw up their business plan.

10. Barometre 2011 on Social Responsability, produced by Business & Society Belgium.

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Art and sports

Among all social projects, art projects are most often supported by financial institutions, for instance by supporting or facilitating an exhibition. In addition, many financial institutions also practice sponsoring (for example of sports matches or cultural projects).

Financial education

Financial institutions that wish to support financial literacy do so in various manners: a well-organised website with information that is explained in a clear manner, study packages for children, financial workshops for older and young people, information sessions, etc.

The FSMA is legally qualified for financial education. Febelfin maintains close contacts with the financial supervisor in the development of a portal site where the consumer can obtain all kinds of financial information. Meanwhile, the Federation is also developing its consumer-oriented financial pages “My money and I” further. Consumers will receive an explanation there in language they can understand about payments, loans, investments and saving products.

All surveyed institutions also work for better accessibility of their products and services for a vulnerable public. Attention is above all paid in this respect to older people, persons with a handicap or persons that are visually challenged. The larger institutions make the most efforts in this area. A few examples:

> installation of wider door entrances for wheelchair users
> printing statement of accounts in Braille
> installation of ATMs in self banks where the text on the screens can be enlarged
> etc.

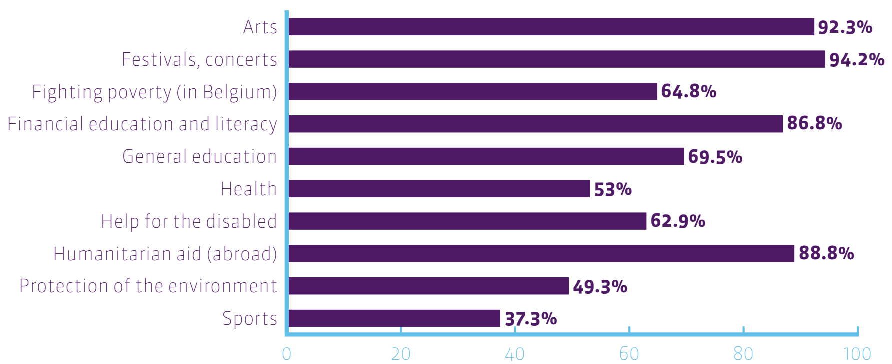
Various financial institutions also focus on a vulnerable public (ill people, handicapped persons, children, etc.) within a broad social framework. A few examples:

> provision of a temporary call centre staffed by employees who take care of donations for *Kom op Tegen Kanker* (Stand up to Cancer)
> setting up savings campaigns where money is donated to projects in the field of foster care, caregiving and care networks
> the sponsoring of a restaurant where long-term unemployed people can find a job
> setting up an emergency aid fund that provides financial support when a disaster occurs
> the organisation of a Christmas donation campaign for the benefit of UNICEF
> etc.

For the future, the financial sector aims to offer its permanent support to education, innovative projects and social economy. This can only be realised if there is also room to finance projects that will not necessarily succeed.

PROJECTS WITH SUPPORT FROM THE FINANCIAL SECTOR

Survey bank members May 2012 – (SOURCE: FEBELFIN)



How does the financial sector ensure that nobody is excluded financially?

The financial sector pays special attention to people who have financial problems in society.

The basic bank service ensures that everybody has at least a current account. Micro-financing tries to open up lending to people for whom the traditional avenues are closed.

The financial sector must ensure that the increase in the digitalisation of products and services will not make people fall behind in the future.

Basic bank service

It may occur that a customer cannot open a current account because of his financial situation, or because his previous accounts have been closed. Without a current account, however, it becomes difficult to pay bills, for example, or to withdraw money. To give everybody an opportunity to make payments, the basic bank account has been legally regulated since 2003. This service ensures that every consumer in Belgium is entitled to a current account, at a maximum cost of €13.97 per year.

This basic bank account is subject to a couple of conditions: a consumer is not, for example, allowed to have more than €6000 in savings or loan contracts and must not have committed any crimes.

In 2011, 12 financial institutions registered 1095 new basic bank services, and since 2003, this figure has amounted to 8,605. In all those years, a basic bank account was refused only

BASIC BANK SERVICES 2011 STATISTICS	
Number of banks having registered basic bank services	12
Number of basic bank services opened	1,095
Total number of existing basic bank services	8,605
Number of refused openings of basic bank services[11]	8
Number of basic bank services cancelled[12]	981

11. For most of the refusals to open an account, the reason was that the applicant already had an account.
12. The most frequent reason for cancelling is a request made by the account holder himself.

> *"The law introducing a basic banking service: a big step forward. Ten years later: time to take stock: has exclusion from banks been abolished?"*

Françoise Deboe, Combat Poverty Service, September 2012

8 times, because the requester already had a current account.

In 2011, the Mediation Service did not receive any complaints about the basic bank service.
Belgium is considered to be a standard in the field of the basic bank service. On 18 July 2011, the European Commission issued a non-binding recommendation to encourage EU countries to offer a basic bank service to every EU citizen. This recommendation was largely based on the Belgian model, and many provisions from Belgian legislation were adopted integrally.

Micro-financing

Via micro-financing, people who wish to start up a business and have difficulty obtaining a loan via the normal channels (unemployed people, for example) can nevertheless be helped along with small loans, typically up to approx. €10,000. Besides financial support, micro-financing institutions (MFIs) also provide training courses and advice to budding entrepreneurs.

In Belgium, but also abroad, start-up businesses and small-scale local initiatives are supported this way. MFIs abroad mainly aim to fight poverty, whereas in Belgium they wish to grant loans to persons who are excluded from the traditional banking system.
Banks do not offer micro-loans, but they support these initiatives via a partnership with micro-financing institutions.

Digital gap

The product and services offer that the financial sector provides is increasingly digitalised and automated. Internet banking, self-banking, etc., have the major advantage that everything is faster, cheaper and often easier. Nevertheless there is a growing group of people who cannot handle this technology. It will be a challenge, therefore, for the financial sector to prevent the digital gap that is coming about from excluding these people financially.

Customer guidance

Some unforeseen circumstances such as losing one's job or being ill for a long time, may affect someone's financial resources. All of a sudden, a mortgage credit or any other credit will bear on the person's budget to a far bigger extent.

Also in that case, the bank will look for a solution together with the person concerned.

One of the possibilities consists in reducing the monthly instalment. As for mortgage credit for example, several possibilities exist.

'Prevention is better than cure' is a saying that also applies to financial matters. There is a vast array of guidance programmes for people in financial trouble. These programmes make it possible to take action in order to prevent the situation from getting worse.

The public authorities also provide the possibility of a free insurance in case of loss of income. Especially when someone raises a credit, it may be wise to take out such an insurance.

5 PRODUCTS

IMPACT VIA OTHERS

in short

The Febelfin recommendation wants to make sure that a number of **minimum standards** for **‘sustainable’ products** are met.

At the end of 2011, 6.7% of all **investment funds** was of the **sustainable** type.

Green loans have turned out to be a big success: especially when the measure was about to be cancelled, people still tried to obtain a green loan. In 2011, the number of additional new loans amounted to 140,000, for a total amount of 2.3 billion EUR.

sustainable PRODUCTS

How does the sector provide high-quality sustainable products?

There are various forms of sustainable financial products. The best known are the ethical or sustainable investment funds. In addition, there is also a number of sustainable insurance products, sustainable saving products and sustainable loans (the so-called "green loans"), although there are indeed less of them.

Febelfin has drafted a recommendation for its members stating which financial products may be qualified as sustainable.

Recommendation

The concretisation of the "sustainability" of a specific product is determined to a large extent by the distributor or the promoter of the product. As a result, it is not always clear to the consumer which products are "really" sustainable, all the more so because 'sustainable' and 'ethical' mean different things to different people. Nuclear energy, tobacco or genetically modified organisms are examples of so-called controversial activities whose funding via a sustainable product is a matter for discussion.

Some minimum norms must be met, therefore. The extensive funding of the weapon industry or of companies that blatantly violate human rights is hard to justify with regard to the social norms. It is of great importance to the consumer to easily and clearly identify if the interpretation given to the sustainability of a product matches his personal vision in this respect. Besides, he will have to be sure that the product he has purchased also effectively, directly or indirectly, supports sustainable objectives.

In that framework, Febelfin has drawn up a recommendation for its members. For all information about this, go to www.febelfin.be/nl/duurzame-producten.

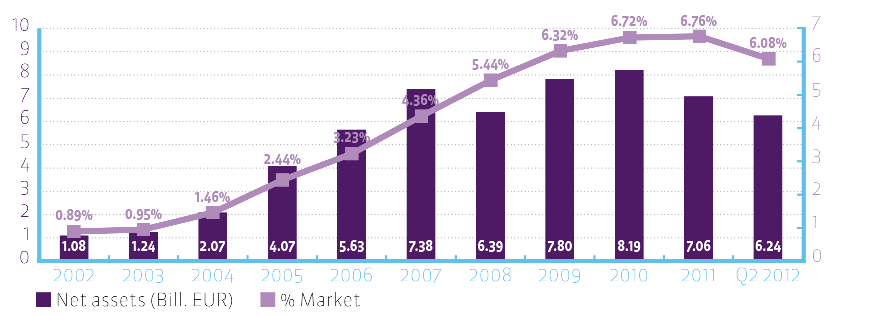
Sustainable investment funds

Since 2001, BEAMA, the association for investment products, has been supervising the quality of undertakings for collective investment (UCIs) that invest sustainably and in a

> *"Febelfin's recommendations and its references to best practices are a perfect basis for a quality standard, the force of which may even become bigger thanks to strict enforceability,independent control and possibly a regulation in the long term. An active social dialogue and agreements about liability undoubtedly add to the effectiveness and integrity of sustainable investment."*

Herwig Peeters, Forum Ethibel, September 2012

EVOLUTION OF NET ASSETS OF SUSTAINABLE FUNDS (SOURCE: BEAMA)

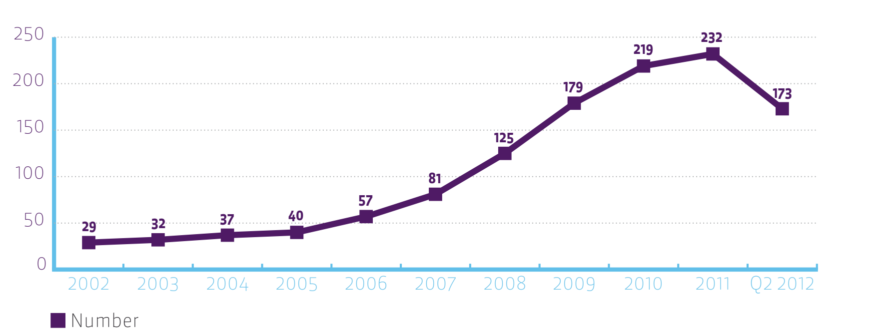


socially responsible manner (DMVI). Initially the share of the UCIs in the Belgian market was limited: the sustainable investment funds (DMVI-UCIs) represented 1% of all UCIs commercialised in Belgium. Between 2004 and 2010, the share of the sustainable investment funds increased in the Belgian market to 6.72% at the end of 2010 (i.e. an amount of €8.19 billion). Between 2004 and 2006 especially, a clear rise was noticeable, largely due to the fact that UCIs that satisfied the conditions received the label of sustainable investment fund in that period.

In addition, the managers of sustainable investment funds strongly promoted these products.

In the period between 2007 and 2009, nearly a quarter of the growth could be realised annually thanks to fresh capital invested in

EVOLUTION OF THE NUMBER OF SUSTAINABLE FUNDS (SOURCE: BEAMA)



funds that were brought on the market in the course of that particular year. In 2009, 54 new sustainable investment funds arrived on the Belgian market for an amount of more than €2 billion.

Sustainable savings products

Currently, the number and volume of sustainable savings products are much smaller than those of the same type of investment funds. At present, there are only some institutions that offer this kind of products. However, sustainable saving may become for more popular in the future thanks to the commitment from a number of institutions and the recent recommendation as for the minimum standard.

Green loans

At the end of 2008, the government decided to implement the system of green loans with a view to supporting the Belgian economy and the building sector. The government provided an interest rebate of 1.5%, which meant that it funded 1.5% of the interest on a green loan. As a result, Belgian consumers could make energy-saving investments at an advantageous rate, such as the installation of solar energy panels, roof insulation, double glazing, etc.

> *"Sustainable investments have grown strongly in the last ten years, but they remain a marginal phenomenon: in Europe they are estimated at 1.4% of the invested capital. Sustainable lending is a greater challenge, but that may be interpreted in a more daring manner. It is not only about environmentally friendly loans and definitely not about exclusion of specific dossiers, but about the ambition to fund economic and social progress."*

Jan Vandenhove, Vigeo, October 2012

In the first few months after the measure took effect the number of green loans with an interest rebate remained limited. In the course of 2010 that number rose strongly, especially because the measure became better known due to the promotion by the lenders.

Between August 2009 and the end of 2010, about 77,000 green loans were granted for a total amount of €1.2 billion. When the announcement was made in 2011 that the measure would not be extended, the number of loans increased considerably: an extra 140,000 loans in 2011, worth €2.3 billion.

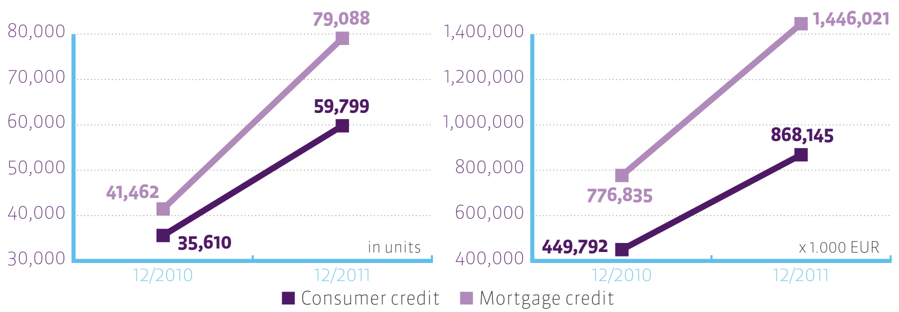
With the termination of this governmental measure, the tax benefit of a green loan in personal taxation was cancelled, but the financial sector did not yet stop its contribution to sustainable and socially responsible investments. Most banks, therefore, still offer green loans at an improved rate, whether or not they are partially supported by a governmental subsidy.

Regulation obliges people and companies to think in a more ecological manner. Brussels, for example, has issued new ecological and energy norms for corporate buildings. Those rules will require billions in investments to have office buildings adapted to the new norms towards 2015, which will oblige financial institutions, on their part, to conceive new funding methods.

It is, after all, not only about the funding of the buildings, but also about the residue value thereof, which determines the guarantees that have to be demanded for the loans.

DEVELOPMENT OF GREEN LOANS 2009-2011

(SOURCE: UPC-BVK)




investments
sustainable financial products
loans
savings

6

LIFEWORLD

IMPACT ON THE ENVIRON-MENT

in short

Many financial sector employees opt for **public transport** and leave their car at home.

The financial sector tries to limit is ecological footprint also by offering **flexible employment**. For every 10 employees, there are only 8 desks available and working at home is promoted.

An electronic payment produces much less CO_2 than a cash payment and this is is one of the reasons why the sector promotes electronic payments.

In the future, the financial institutions' intention is reduce CO_2 emissions even further: they have put forward a number of ambitious goals to be reached.

ecological FOOTPRINT

How green is the financial sector?

The ecological footprint of the financial sector is mainly determined by its paper and energy consumption. The financial institutions try to reduce this consumption as much as possible. In respect of green mobility they also try to make a contribution. More than in other sectors, the car is banned as a commuting vehicle. For the future, various challenges to reduce the CO_2 emissions remain open.

Mobility

The number of employees that travel to work by tram, train, bus or underground is much higher in the financial sector than in the rest of the services sector. The train is especially frequently used. A strong contributing factor in this regard is probably that each employee is 100% reimbursed for his/her public transport pass(es).. In addition, the headquarters of the largest financial institutions are in the large cities, mainly in Brussels, which are more easily accessible by public transport. This is a development that has become clear especially in the last decade. Before that, a larger proportion of staff was deployed in the regional branches of the financial institutions. Besides a bicycle bonus for those who come to work by bicycle, various financial institutions also provide (covered) bike parking, repair kits and showers.

Despite these endeavours to encourage employees to leave the car at home as much as possible, the car nevertheless remains the most popular mode of transport. Nevertheless, the percentage of car users is still much lower in the financial sector than outside of it.

The sector is also trying to limit its ecological footprint by promoting "flexible workplaces". In this system, there are for example 8 workplaces available for 10 employees, or employees can work from home, etc.

Paper and energy

The ecological footprint of the financial sector consists to a great extent of paper and energy consumption. By various measures, the individual institutions are trying to reduce this consumption:

> setting the heating at a lower temperature during the winter and reducing the air conditioning during the summer
> replacement of old, energy-guzzling electric equipment

"Implementing energy-neutral bank buildings and environmentally-friendly commuting is a priority for the financial sector. But also via its services, the sector has important leverage to stimulate green investments."

Danny Jacobs, Federation for a Better Environment, August 2012

> installation of water boilers and solar panels
> participation in the Earth Hour of the World Wildlife Fund, during which the lights are switched off for one hour
> printing on sustainable paper (paper with an ECO label of an FSC label, denoting that the paper originates from responsibly managed woods)
> awareness-raising of employees not to print e-mails and, if necessary after all, to print them on both sides of the paper
> etc.

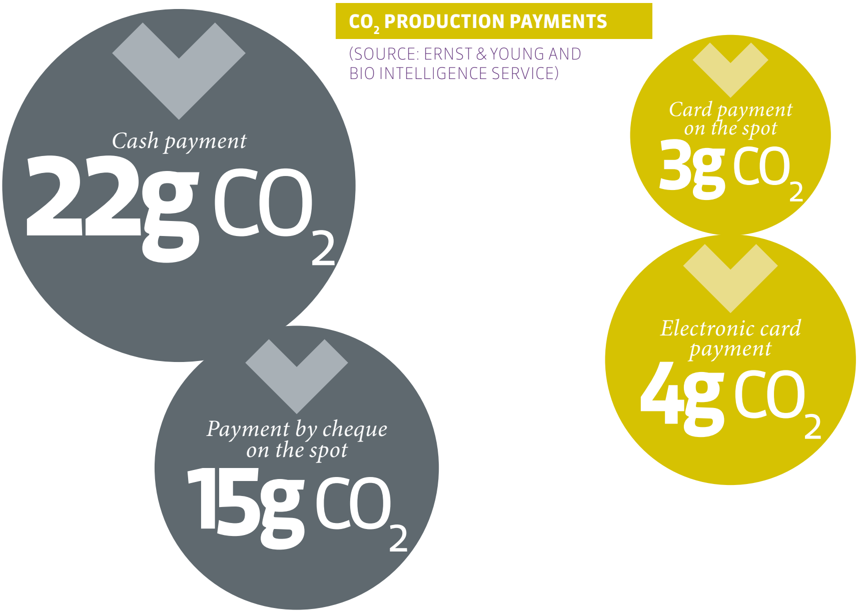
Objectives

For the future, all the financial institutions want to make an extra effort. Some have undertaken ambitious goals for reducing CO_2 emissions:

> 13% less energy consumption by 2015 or 20% less by 2020
> a share of 20% renewable energy compared with total energy consumption
> 10% less paper per customer by 2013 (in kilogrammes) or 5% less paper consumption in general

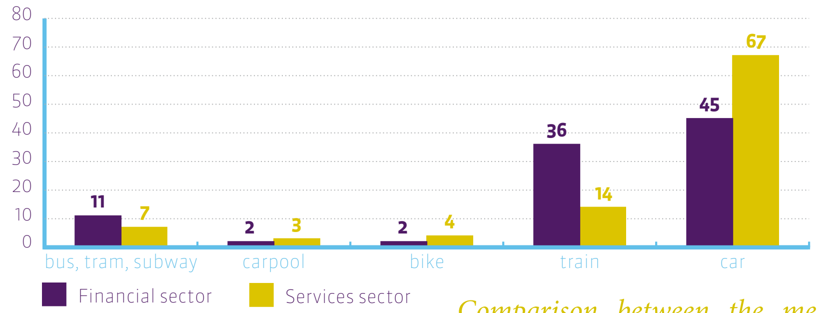
CO_2 PRODUCTION PAYMENTS

(SOURCE: ERNST & YOUNG AND BIO INTELLIGENCE SERVICE)



COMMUTING TO WORK IN THE FINANCIAL SECTOR 2008 AS A %

(SOURCE: FPS MOBILITY)



Comparison between the means of transport by which employees reach their workplace in the bank sector and in the entire services sector.

> 20% less greenhouse gases from the institution's own motorcar fleet
> reduction of the number of business trips
> etc.

Moreover, the financial sector promotes electronic payment transactions. E-payments have the smallest ecological footprint of all means of payment. An electronic payment using a card, for instance, produces 3 grams of CO_2, against no less than 22 grams for a cash payment.

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