

ORDINARY GENERAL MEETING, 27 MARCH 2006

Introductory speech by Guy Quaden, Governor

Ladies and Gentlemen,

I would like to welcome you, both personally and on behalf of my colleagues on the Board of Directors, on the occasion of this ordinary general meeting of the shareholders of the National Bank of Belgium.

I also hope that this meeting can proceed smoothly and enable us to answer, in a calmer atmosphere than last year, the questions which you have submitted to us and any others that you raise. We want to answer as many questions as possible, but reasonably quickly and in an orderly way. In particular, this meeting is not the place to answer questions concerning the legal actions which are still pending before the courts, nor questions which do not concern the past financial year.

As last year, I would like to give you a brief account of the most significant events in the year under review, before handing over to the Vice-Governor who will present and comment on the annual accounts for 2005.

Various new projects entrusted to the Bank by the public authorities and the economic agents in general bear witness to the confidence which Belgian society as a whole continues to place in our institution. The principal project concerns the future of the means of payment. In 2004, the Ministers of Finance, Economic Affairs and Consumer Protection commissioned the Bank to organise a national dialogue on the efficiency of the payment systems in Belgium. To that end, the Bank set up a Steering Committee on the future of the means of payment, with representatives from all the parties concerned.

In 2005, that Steering Committee published two reports: the first concerns the costs, advantages and disadvantages of the various means of payment, and the second deals with the modernisation of the payment channels used by the public authorities. This Steering Committee has yet to address the question of the transition to the Single Euro Payments Area, in which the payment systems of various countries will be integrated, augmenting the efficiency of cross-border payments.

The establishment of synergies between the Bank and the CBFA, provided for by the law of 2 August 2002 on the supervision of the financial sector and on financial services, has continued, particularly in regard to financial stability, IT systems and crisis management. However, the only way of fulfilling the ultimate goal of the reform is by fostering still closer links and the spirit of cooperation, with due respect for the powers of each institution and the specific character of their respective areas of activity.

For our institution, the year 2004 had featured a new strategic review of the future of its activities. In 2005, that review led to the adoption of master plans which define the future pattern of activities and employment at the Bank. Those plans provide a stable medium-term framework up to the year 2009. For the Bank, it is a question of working within the Eurosystem, adopting a more selective approach with increasing specialisation, maintaining cost control and continuing to improve the quality of the services provided for the community.

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The progress of the various activities in 2005 is set out in the annual report which has been sent to you and which is also available on our website. In addition, that document contains the annual accounts for the year and describes the governance of our enterprise.

A number of questions have been sent to us by shareholders, particularly by the Deminor company, on the subject of the Bank's corporate governance statement. Why does it not conform to the Lippens code when the Bank is a listed company, and why does it not explain, for each of the code's provisions, the reasons for not conforming to it?

First, it must be remembered that the special legal framework governing our institution and its specific position as a central bank mean that we cannot systematically compare its governance with the "Lippens Code" recommendations. The Belgian corporate governance code, which supplements the ordinary legislation on listed companies, itself affirms the code's character as a recommendation. It cannot replace the existing laws and treaties, particularly those applicable to the Bank. The Bank is in fact governed first by the provisions of the Maastricht Treaty, and then by its Organic Law and its own Statutes, and finally – on a purely additional basis – by the companies code. The Bank is therefore not subject to the same legal rules as other public limited liability companies.

Furthermore, the Lippens code is inappropriate to the special characteristics of the Bank, a company which – unlike other listed companies - does not aim primarily to maximise its profit, but which, in accordance with the Treaty and the law, promotes monetary and financial stability in the public interest. It is the dominance of the public interest that caused the legislature to determine the composition and powers of the Bank's organs. These are different from those of the companies addressed by the Belgian governance code. While the organs of conventional companies are the administrative board, the general meeting and, perhaps the management board or chief executive, the organs of the Bank are the Governor, the Board of Directors, the Council of Regency and the Board of Censors. The special arrangements for the appointment of the members of these organs, the specific composition and role of the Council of Regency, and the provisions for the exercise of supervision are all examples of the way in which the dominance of the public interest is reflected in the Bank's special governance structure.

This is also the explanation for the quite specific role of the Belgian State, which is involved both as a shareholder and as a sovereign State. It is because it acts primarily as a sovereign State that it granted the Bank the right of issue and has a priority right to the resulting profits.

However, the National Bank has always been scrupulous in ensuring compliance with the ethical principles and values underlying the Belgian corporate governance code. It can be said that the system of governance and control imposed on us is just as exacting as that recommended by the Belgian corporate governance code, and in some respects even more so. In fact, as a member of the European System of Central Banks, the Bank is subject to special rules and obligations which do not apply to any other Belgian companies.

Moreover, I feel that there are few companies which publish such detailed information as that contained in Part 2 of the Bank's annual report, which you have all received and which is available on the Bank's website. That demonstrates our desire to act correctly in providing all possible information for the public, and more particularly for our shareholders, on the operation of our institution.

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As in 2003 and 2004, the judgments handed down in 2005 and early 2006 following the legal actions brought by certain shareholders found in favour of the Bank. Thus, on 27 October 2005, the Brussels Commercial Court confirmed, as the Court of Arbitration had already done in 2003, that the Bank has not lost its right of issue and that it therefore does not have to liquidate its reserve fund. Since the start of monetary union, the Bank has in fact shared the right to issue euro banknotes with the European Central Bank and the eleven other national central banks of the Eurosystem.

A second judgment passed on 2 February 2006, again by the Brussels Commercial Court, concerned a write-back from the provision for future foreign exchange losses, effected at the end of the 2003 financial year and intended to adjust the amount of the provision in line with the change in the currency risk. The amount of that write-back was included in the Bank's financial income shared between the Bank and the State. The Brussels Commercial Court rejected the demand made by certain shareholders to cancel that decision, and confirmed that the annual accounts for 2003 were perfectly legal.

In helping to clarify the status of our institution and shed light on its special characteristics, these court decisions should put an end to certain arguments and reduce the fluctuations in the Bank's share price. In the foreword to the Annual Report, when I mention unjustified speculation concerning these shares, I mean that these fluctuations originated because of legal arguments which we consider to be incorrect, and which the judgments so far have also refuted.

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In 2005, the Bank's profits improved, mainly as a result of the increase in the amount of euro banknotes in circulation (+15 p.c.), and hence the increase in the Bank's share of that issue. This expanded the volume of interest-earning assets held as the counterpart to the banknotes, and therefore increased the income which these assets generate. Moreover, the Bank earned a higher rate of interest on its dollar investments and did not have to constitute provisions, as it did in 2004, to cover losses incurred by the ECB.

The improvement in the return on the assets meant that the State was once again able to receive seigniorage income. It is in return for the right of issue which the State has granted the Bank that the State is entitled to the part of the income from the net interest-earning assets which exceeds 3 p.c. of those assets. The dividend paid to shareholders is, as usual, increasing in line with inflation

Thank you for your attention. I will now hand you over to the Vice-Governor for the detailed presentation of the annual accounts for 2005; it is the accounts that constitute the most important information for the general meeting and which have, as in previous years, given rise to the largest number of questions from shareholders.