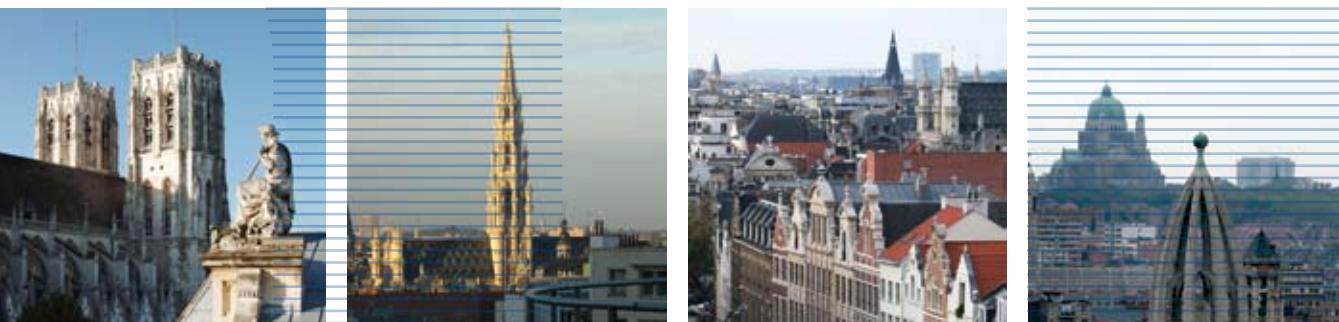


Report 2005

Part 2 Activities, governance and annual accounts



Foreword

by Guy Quaden, Governor



Although the National Bank was founded 20 years after the creation of the Kingdom of Belgium, the history of the institution is closely intertwined with that of the Belgian State. It was therefore natural that the Bank should join in the celebrations marking Belgium's 175th anniversary, and it did so by publishing a lavishly illustrated book about its own history⁽¹⁾. This book describes how, in parallel with the country's economic, political and social development, the issuing and discount institution set up in 1850 on the initiative of Minister Frère-Orban was gradually transformed into a modern central bank.

Over the years, the tasks entrusted to the Bank have taken on a more public character, and its activities have become international. Nowadays, the National Bank of Belgium performs its central bank functions in a European context: as a member of the Eurosystem, comprising the European Central Bank (ECB) and the twelve national central banks (NCBs) of the present euro area. Those functions consist in issuing banknotes, defining and implementing monetary policy, managing the country's foreign exchange reserves, supervising payment systems and contributing to the stability of the financial sector.

The Belgian legislature has also entrusted the Bank with various other tasks in the public interest, tasks which the Bank performs not only for the State but also for the financial community, for businesses, and for the population in general. Those activities are supported by advanced logistics.

In 2000, shortly after joining the Eurosystem, against the background of the increasingly widespread use of the new technologies in the business world, and concentration processes in the commercial financial sector, the Bank embarked upon a strategic review exercise to define the restructuring of its activities and of the resources allocated to them.

That exercise was updated in 2004, and master plans were devised for each of the Bank's departments in 2005. They provide a framework up to 2009. The aims are to adopt a more selective approach, to increase the specialisation of the Bank's activities within the Eurosystem, to maintain cost control and to continue improving the quality of the services provided.

(1) E. Buyst, I. Maes, W. Pluym and M. Danneel, *The Bank, the Franc and the Euro – A History of the National Bank of Belgium*, Lannoo, 2005.

Under the master plans, the total staff requirement – barring unforeseen events – can be assessed at 1,980 full-time equivalents at the end of 2009: 361 managerial and supervisory staff and 1,619 clerical staff (at the end of 1998, the figures were respectively 2,518, 318 and 2,200). The number of staff required is therefore expected to fall by 140 full-time equivalents, or 35 per annum, between now and 2009, which is a slower rate of reduction than in recent years. As before, these cuts are likely to be achieved by natural wastage.

The National Bank, created by a law dated 5 May 1850, has always been an atypical public limited liability company. The pre-eminence of the tasks in the public interest, present from the start and now anchored in the Treaty establishing the European Community, is reflected in a special form of governance the very objects of which are different from the governance of a company incorporated under ordinary law.

Today, as the central bank of Belgium and a founding member of the European System of Central Banks (ESCB), the issuing institution is governed first by the relevant provisions of the Treaty and by the Protocol on the Statutes of the ESCB and of the ECB annexed to it, and then by its Organic Law and its own Statutes, approved by Royal Decree. It is only additionally subject to the provisions on public limited liability companies.

The Belgian corporate governance code, which supplements the ordinary legislation on listed companies, itself affirms the code's character as a recommendation. That code is inappropriate to the special characteristics of the Bank, a company which does not aim primarily to maximise its profit, a company in which the State is involved both as a shareholder and as a sovereign State, and where the expression of the interests of the Belgian people in general dominates the composition and operation of the management and supervisory bodies.

However, the Bank considers that, as the country's central bank, it has a duty to provide the public with ample information. That is nothing new. But that is the spirit in which it is publishing, in this report, a governance statement and a description of the relevant events in the financial year 2005.

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.), part of which is imputed to the Bank via the right of issue shared between the ECB and the NCBs. This led to an increase in the volume of interest-earning assets held as the counterpart to the banknotes, and hence an increase in the income which they 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. In return for the right of issue which the State has granted the Bank, the State is indeed entitled to the part of the financial income on the net interest-earning assets which exceeds 3 p.c. of those assets. The dividend paid to shareholders is increasing in line with inflation, in accordance with a long-standing policy.

In recent years, a number of the Bank's shareholders have brought various legal actions against the Bank. All the judgments passed so far have confirmed the merits of the positions always defended by the Bank.

The Brussels Commercial Court recently passed two important judgments.

On 27 October 2005, it passed judgment in the legal action brought against the Bank and the State by a group of shareholders claiming that the Bank had lost its right of issue and should therefore distribute its reserve fund. The Court ruled that the Bank still held the right of issue and that it was therefore inappropriate to liquidate its reserve fund. Since the start of monetary union, the Bank in fact shares the right of issue with the ECB and the eleven other NCBs of the countries whose currency is the euro. That position, defended by both the Bank and the ECB, had already been confirmed in 2003 by a judgment of the Court of Arbitration, Belgium highest constitutional authority.

On 2 February 2006 the Commercial Court passed a judgment concerning the write-back from the provision for foreign exchange losses, effected at the end of the financial year 2003 and intended to adjust the amount of the provision in line with the foreign exchange risk. The Court ruled that, contrary to the claim of the applicant shareholders, the inclusion of the amount of the write-back in the allocation of the financial income between the Bank and the State was not in breach of either the Organic Law or the Statutes, that its subsequent attribution to the State was not contrary to the public interest, nor was it inequitable, and that it was therefore inappropriate to cancel the decision of the Council of Regency.

The Bank hopes that all these judgments will eliminate the confusion surrounding the special status justified by its tasks as the country's central bank. It also hopes that they will put an end to the arguments and the unjustified speculation over its action. It is high time for the Bank's action to regain its rightful position as a very low risk investment for prudent investors.



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1. Monetary policy

1.1 Institutional framework and strategy of the Eurosystem

The central banks of the Member States of the European Union (EU) whose currency is the euro and the European Central Bank (ECB) together form the Eurosystem. The European System of Central Banks (ESCB) comprises the ECB and the central banks of all the EU Member States.

The Eurosystem's primary objective is the maintenance of price stability. In addition, it lends support to the general economic policies in the Community. Its basic tasks are the definition and implementation of the monetary policy of the euro area, the conduct of foreign exchange transactions, the holding and management of the official foreign exchange reserves of the Member States and the promotion of the smooth operation of the payment systems.

Membership of the Eurosystem, and more generally of the ESCB, has enabled the Bank to reinforce its influence in the monetary sphere. It has also had a major impact on the activities of the Bank which has, for example, considerably expanded its analysis capability in the Eurosystem's areas of activity.

The Bank plays an active role within the Eurosystem. As a member of the Governing Council, the principal body of the Eurosystem, the governor participates in all the decisions taken. In addition, the Bank is involved in the preparation of those decisions. In that regard, it plays a key role via its representation on various ESCB committees and substructures in which the majority of the decisions are prepared. Finally, the implementation of the Governing Council's decisions is decentralised, which means that the Bank is the entity dealing with the financial institutions established in Belgium for the performance of the tasks of the ESCB.

Three bodies are involved in the decision-making of the Eurosystem: the Governing Council, the Executive Board and the General Council.

The Governing Council, the supreme body, comprises the governors of the twelve national central banks (NCBs) of the Eurosystem and the six members of the ECB Executive Board. It meets twice a month. It fixes the level of the key interest rates and adopts the necessary guidelines and decisions for the performance of the Eurosystem's tasks.

The Executive Board, the ECB's operational body, has a chairman and a vice chairman and four other members. It is responsible for managing the current business of the ECB and for preparing the meetings of the Governing Council. It is also responsible for implementing the monetary policy decisions laid down by the Governing Council, and in doing so it gives the necessary instructions to the euro area NCBs.

The General Council is composed of the President and the Vice-President of the ECB and the governors of all the NCBs of the European Union. Meeting four times a year, it examines inter alia the economic and monetary situation of the EU and prepares the process of accession to the Economic and Monetary Union. It also manages the exchange rate mechanism II (ERM II). The General Council will continue to exist so long as not all EU Member States have adopted the euro.

In its decision-making process, the Governing Council is assisted by various committees comprising representatives of the ECB and of all the NCBs. These committees may in turn enlist the aid of working groups. These committees and groups prepare the decisions of the Governing Council in their own field. In practice, they are a valuable forum for exchanging opinions and experience, where

sensitive subjects are discussed and where technical problems are resolved before submission to the Governing Council. The ESCB committees also take part in the implementation of decisions.

By their active participation, and by the contacts developed with the ECB and the other NCBs, the Bank's experts who are members of these committees and working groups enable the Bank to expand its influence and act as a driving force in the activities of the Eurosystem.

At the Bank, the ECB Coordination Unit coordinates the preparation of the Governing Council meetings and the monitoring of the committees' activities.

In January 2005, in order to emphasise the importance of close cooperation, the central banks of the Eurosystem published a joint mission statement (cf. section on Governance, point 1.6.2).

TABLE 1 EUROPEAN SYSTEM OF CENTRAL BANKS COMMITTEES

Accounting and Monetary Income Committee (AMICO)	Advises on all internal Eurosystem questions concerning accounting, financial statements and the allocation of monetary income.
Banking Supervision Committee (BSC)	Contributes towards the performance of the statutory tasks of the ESCB regarding the prudential supervision of credit institutions and the stability of the financial system.
Banknote Committee (BANCO)	Encourages cooperation within the Eurosystem on the production, circulation and handling of euro banknotes.
Budget Committee (BUCOM)	Assists the Governing Council in its assessment of the ECB's annual budget.
Communication Committee (ECCO)	Deals with both the internal and the external communication of the Eurosystem.
Cost Methodology Committee (COMCO)	Devises a common methodology for the calculation of the Eurosystem's costs and develops the framework for its implementation.
Human Resources Conference (HRC)	Promotes cooperation and a team spirit between the central banks in regard to human resources management.
Information Technology Committee (ITC)	Provides strategic support for the development, installation and maintenance of the information systems and the communication infrastructure serving joint operating systems.
Internal Auditors Committee (IAC)	Develops common standards for auditing the Eurosystem's operations and for auditing joint projects or operating systems developed at the level of the Eurosystem and the ESCB.
International Relations Committee (IRC)	Assists the ESCB and the ECB in their statutory tasks relating to international cooperation.
Legal Committee (LEGCO)	Provides legal support for the performance of the ESCB's statutory tasks.
Market Operations Committee (MOC)	Helps the Eurosystem to define the operational framework for the single monetary and foreign exchange policy, and to manage the ECB's foreign exchange reserves.
Monetary Policy Committee (MPC)	Conducts research on economic theory to support the implementation of the euro area's monetary and foreign exchange policy, the management of the foreign exchange reserves and the operation of the European exchange rate mechanism.
Payment and Settlement Systems Committee (PSSC)	Assists the Eurosystem in its task of promoting the smooth operation of payment systems.
Statistics Committee (STC)	Advises on the design and composition of the statistical information collected by the ECB and the NCBs

The primary task of the Eurosystem is determined by Article 105 of the Treaty establishing the European Community, namely to guarantee price stability. In 1998 the ECB Governing Council adopted the following quantitative definition: “price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2 p.c.”.

Following a review of the monetary policy strategy to be adopted, the Governing Council confirmed this definition on 8 May 2003, specifying that it will aim to maintain inflation rates below but close to 2 p.c. over the medium term. This clarification bears witness to the ECB’s desire to provide an adequate buffer to safeguard against the risk of deflation. It also makes allowance for any bias in the HICP reading and inflation differentials within the euro area.

In addition, the Eurosystem strategy is based on extensive arrangements for the analysis of economic information, structured as two pillars corresponding to complementary ways of examining inflation and its causes: real and monetary.

- Economic analysis aims to determine the short- and medium-term risks to price stability. It is based on a wide range of economic and financial advance indicators of the movement in prices in the euro area (unit labour costs, measures of real activity, price and cost indicators, business and household surveys) and those concerning financial conditions (effective euro exchange rate, slope of the interest curve, bond yields, etc.). The Governing Council also bases its diagnosis on the macroeconomic projections produced jointly by the members of the Eurosystem.
- Monetary analysis aims to assess the medium- and long-term inflationary trends in the light of the link between money and prices over long periods. It is based on several indicators, such as the monetary aggregate M3, its components (banknotes and coins, sight deposits and short-term deposits, short-term negotiable instruments) and its counterparts, particularly credit.

1.2 Preparation of monetary policy decisions

1.2.1 Research activities

Like the other Eurosystem members, the Bank is closely involved in the preparation and implementation of the common monetary policy of the euro area. It therefore devotes substantial efforts to research and analysis in order to enhance its understanding of the monetary policy transmission mechanisms, not only in the euro area in general but also in the national economy. In addition, it examines the interactions between the monetary and economic policies conducted by the public authorities, in particular the fiscal policy and the policies which influence the operation of the markets.

Thus, the Bank is represented on the ESCB Monetary Policy Committee. In that connection, it participates in the working groups on public finances, econometric modelling, the structural aspects of the member economies and the examination of the differences between the rates applied by financial and monetary institutions in the euro area. Finally, it takes part in the research initiatives launched jointly by the ECB and the other NCBs of the Eurosystem, in particular the Inflation Persistence Network and the Euro Area Business Cycle Network.

The first of these networks, dedicated to examining the degree of inflation persistence, was set up in 2003. Its work concluded with a seminar organised by the Bank and held in Brussels on 6 and 7 September 2005. The degree of inflation persistence is the speed with which inflation reverts to its long-term value in the event of an inflationary shock. This subject is also connected with price rigidity, i.e. the fact that, at microeconomic level, price adjustments vary in frequency and may display downward resistance. Price rigidity is in fact one of the determinants of the cost – in terms of economic growth – of stabilising inflation.

The Bank made a major contribution to the research of this network, as is evident from the many papers published on this subject by its staff in the Economic Review, the NBB Working Papers and the ECB Working Papers⁽¹⁾. This research could not have been successfully completed without the collaboration of FPS Economy, SMEs, Self-employed and Energy, which supplied numerous price data. The conclusions and general implications for monetary policy were presented in an article entitled “Inflation persistence and pricing: results of the Eurosystem Inflation Persistence Network” (Economic Review, December 2005). Several articles to which the

(1) These publications are available on the Bank’s website (www.nbb.be).

Bank's staff contributed were also presented at the annual conferences of the American Economic Association and the European Economic Association (EEA), held in 2005, and will appear in various scientific journals such as the *Journal of Economic Perspectives* and the *Journal of the European Economic Association*.

As a result of collaboration between the Eurosystem and the Centre for Economic Policy Research (CEPR), the Euro Area Business Cycle Network was set up in 2002. It promotes a better understanding of business cycles in the euro area. In that connection, the Bank acting jointly with the CEPR organised a seminar on 13 and 14 June 2005 on the subject: "Needed: a Real Time database for the Euro Area". Moreover, the real time database project made decisive progress during the year under review when network participants were given access to all the statistics published in the ECB Bulletin since 2001.

In close collaboration with the ECB, the Bank has also specialised for a number of years in developing dynamic stochastic general equilibrium (DSGE) models. These models constitute a rigorous theoretical framework for the analysis of the behaviour of households and enterprises. They permit a realistic approach to economic policy strategies – and, in particular, monetary policy strategies – in response to economic shocks. The importance of this work was highlighted by the EEA which, in 2004, awarded the Hicks-Tinbergen Medal to Rafael Wouters and Frank Smets, researchers at the Bank and the ECB respectively. New results were presented in 2005, including at the annual EEA Conference, and they were published in the *Journal of Applied Econometrics* and the *Journal of the European Economic Association*.

Finally, the Bank takes part in the macroeconomic projection exercises of the ECB and of the other Eurosystem members; a summary of these exercises is published at the beginning of June and December each year. The main results for Belgium and the euro area appear in the *Economic Review*. Since 2004, this periodical has presented, in addition to the estimates for the current year, the forecasts for the ensuing year in relation to variables such as economic growth, unemployment, inflation, the budget balance or the balance of payments current account surplus.

1.2.2 Statistical activities⁽¹⁾

The Bank supplies the ESCB with data relating to Belgium for the compilation of the euro area statistics. The Bank's activities in this area have continued to expand, and the monitoring of data quality has been refined.

For several years now, the ECB has drawn up a so called monetary presentation of the balance of payments, which offers a separate analysis of the monetary financial institutions sector. This presentation compiled for monetary policy purposes aims to identify the external factors influencing the money supply M3.

Based on the European System of National Accounts, ESA 1995, the financial accounts make it possible to calculate the financial balance of the various economic sectors and the way in which they invest their surpluses or finance their deficits. The improvement in the data collected and the greater level of detail on sectors and financial instruments have aroused keen interest: the financial accounts are increasingly used by the financial press, the world of banking and finance, and international institutions, including the ECB. In the light of that, the publication date has been brought forward by one month.

A new ECB guideline, applicable from April 2006, will permit the compilation of complete quarterly financial accounts at European level. Since the Bank currently has one of the most comprehensive systems of quarterly data, it will be able to fulfil these new requirements immediately.

(1) See also point 4.1.2.

Box 1 – Bank declarations and statistical returns relating to the financial markets

With effect from 1 January 2006, credit institutions are required to apply the International Financial Reporting Standards (IFRS) when compiling their consolidated annual accounts. In that connection, a standard format for the quarterly returns (A-IFRS format) has been drawn up and published in close collaboration with the CBFA and the Belgian Bankers' and Stockbroking Firm's Association.

In order to facilitate compliance with the IFRS and to foster international harmonisation, the Extensible Business Reporting Language (XBRL) was selected for the communication of data. In collaboration with the CBFA, the Bank therefore developed one of the world's first XBRL taxonomies. The Bank's reporting to international organisations has also undergone significant changes. Thus, the Bank complies fully with the new BIS requirements concerning the monitoring of country risks. In addition, with around sixty other countries, it takes part in the Coordinated Compilation Exercise organised by the IMF to define the Financial Soundness Indicators. The definition of these indicators, designed to assess the strengths and weaknesses of the financial system, requires close collaboration with the CBFA. Finally, the Bank supplied the ECB with the information on Belgium for the preparation of the new Blue Book on payment system statistics.

1.2.3 Implementation of monetary policy decisions

Like the eleven other NCBs in the Eurosystem, the Bank is responsible for the decentralised implementation of the monetary policy defined by the ECB managing bodies.

In that connection, in accordance with the harmonised conditions for the entire Eurosystem, it maintains relations with the credit institutions located in Belgium in order to implement the various instruments of monetary policy:

- the regular provision of liquidity via the main refinancing operations conducted weekly and the longer term monthly refinancing operations;
- special fine-tuning operations;
- the standing facilities whereby liquidity can be supplied (marginal lending facility) or withdrawn (deposit facility) overnight at the request of credit institutions;
- the minimum monetary reserve system.

Since its operational framework was modified in 2004 (cf. previous Annual Report, Part 2, page 17), the Eurosystem's monetary policy has demonstrated its effectiveness in a context of very stable short-term interest rates.

The average number of Belgian participants in the main refinancing operations increased from five in 2004 to six in the year under review. At the same time, the share of Belgian credit institutions in the total allotted by the ECB increased from 7.3 to 7.8 pc. In 2005, these institutions obtained between 17.6 and 27.9 billion.

The Belgian participants draw structurally more liquidity than is required to cover their needs. These surpluses are lent via Target to financial intermediaries in other countries.

The participation of Belgian credit institutions in the longer term monthly refinancing operations remained relatively marginal, though it did increase from 0.3 p.c. to 1.5 p.c. of the total amount allotted in the year under review.

Following the November 2004 decision to carry out fine-tuning operations more systematically on the final day of the reserve period, when the movements in the autonomous factors deviate too much from the forecasts, the number of these operations increased from three in 2004 to nine in 2005. The average spread between Eonia⁽¹⁾ and the weighted average rate of the main refinancing operation on the last day of the reserve period was therefore reduced, in absolute terms, from +19 to –3 basis points. During the year under review, the fine-tuning operations took the form of three liquidity injections and six liquidity withdrawals. The participation of Belgian credit institutions in the liquidity injection operations related on average to 16 p.c. of the total amount allotted. None of those institutions took part in the liquidity withdrawal operations.

(1) Euro OverNight Index Average. This is the reference rate for overnight loans in euro on the banking market.

The credit extended by the NCBs must be backed by appropriate collateral. The assets eligible for this purpose are divided into two separate lists. The first contains marketable debt certificates accepted throughout the euro area which satisfy the criteria set by the ECB. In the second list, each NCB is able to enter marketable or non-marketable assets of particular importance for the national financial market and governed by selection criteria approved by the ECB. Counterparties may use any of these assets domestically or on a cross-border basis.

The first stages in the programme aimed at establishing a single list of eligible collateral were completed during the year under review:

- acceptance of a new category of eligible assets, namely euro-denominated debt instruments issued by entities established in the G10 countries which do not belong to the European Economic Area (Canada, Japan, Switzerland and United States). However, the tax treatment applied to some of these assets has inhibited their use;
- publication of the list of non-regulated markets meeting the criteria defined by the Eurosystem (legal certainty, transparency and accessibility).

In the short and medium terms, the management of collateral lodged at Eurosystem level should be improved by the following changes:

- in the first half of 2006, use of the theoretical valuation of the assets lodged as collateral as soon as the market prices become obsolete;
- from January 2007, acceptance of bank guarantees as collateral, thereby extending the range of eligible assets.

In addition, on 30 May 2005 the Bank successfully launched a new collateral and credit management platform which minimises human involvement and improves the service provided (shorter response time). During 2006, counterparties will also be offered a secure connection enabling them to consult direct the details of the collateral lodged in favour of the Bank and the progress of the execution of their orders.

1.3 Management of the foreign exchange reserves

1.3.1 Basic principles

The foreign exchange reserves shown on the Bank's balance sheet are Belgium's official exchange reserves. They consist of gold, gold claims, claims on the IMF and foreign currencies. The Bank holds and manages these reserves, and its own share in the reserves transferred to the ECB under Article 30 of the Protocol on the Statute of the ESCB and of the ECB.

Decisions on the management of the exchange reserves are taken at three different levels: strategic, tactical and routine.

At strategic level, the Board of Directors defines the general policy and medium- and long-term preferences as regards balancing risk against yield. Thus, it essentially determines the total amount of the foreign currency reserves, the currency mix, the duration (average maturity) of the portfolios, the permitted instruments and transactions, the criteria for selecting counterparties and the credit risk limits. These decisions are reflected in the formation of reference portfolios, for the purpose of measuring the results of active management, both tactical and routine, within the limits defined by the Board of Directors.

At tactical level, an investment committee determines the choice of short-term investments (between 1 and 3 months) in the light of the current and predicted market situation.

Finally, the portfolio managers are in charge of the actual routine management of the portfolios.

The Middle Office maintains totally independent supervision over compliance with the instructions and directives issued by the Board of Directors and the investment committee. It also calculates the results of the active management.

Since January 2005, the management of the ECB's foreign exchange assets has been shared among the NCBs so that each of them specialises in the management of a single currency. The Bank specialises in managing the dollar assets. This change has had no impact on the amount of the foreign exchange reserves which the Bank manages for the ECB: as in the past, this corresponds to its share in the ECB's capital.

In regard to the gold reserves, the Bank is a co-signatory to the Joint Statement on Gold of 8 March 2004, whereby fifteen European central banks agreed on the arrangements applicable to sales of gold effected between 27 September 2004 and 26 September 2009. During the past year, it sold 30 tonnes of gold under that agreement. This operation produced a capital gain of 299 million, which was recorded in a non-available reserve account (in accordance with Article 30 of the Organic Law).

1.3.2 Risk management

Management of the foreign exchange reserves exposes the Bank to market risks, credit risks and operating risks. The Bank has defined a policy which aims to limit these risks.

The Bank specifies the duration and currency mix of each portfolio by applying the "value at risk" method to assess the market risk (losses which could be generated by adverse movements in exchange rates and interest rates). It also conducts stress tests in order to estimate the potential losses in the event of a major market crisis.

In order to limit its credit risk (risk of losses which could result from payment default or deterioration in the credit quality of counterparties or issuers), the Bank gives preference to sovereign risk instruments and collateralised instruments, imposing strict limits on other investments, especially bank deposits. It also demands a high rating for instrument issuers and counterparties, while maximising the diversification of its investments. Here, its assessments are based on the Creditmetrics method.

In order to improve the return, a small part of the reserves is invested in corporate bonds. Specific rules have been drawn up for this type of issuer (minimum rating, diversification constraint, etc.) to limit the credit risk.

Finally, the Bank limits the operating risks by dividing its investment activities into three separate units: the Front Office is in charge of operations, the Back Office handles the settlement of transactions, and the Middle Office manages the risks.



2. Stability of the financial system

The Bank's financial stability activities can be divided into three main areas: supervision, prevention and crisis management.

In regard to supervision, the Bank focuses on systemic risks. It therefore concentrates on macroprudential analysis and the examination of the resilience of the large infrastructures enabling the financial markets to operate. For example, macroprudential supervision aims to detect behaviour which, even though it may sometimes be justified at individual level, is liable to generate systemic problems if adopted simultaneously by a large number of institutions. This work supplements the microprudential supervision relating to the soundness of individual financial institutions; in Belgium, this is the responsibility of the Banking, Finance and Insurance Commission (CBFA).

Close cooperation between these two authorities should permit cross-fertilisation between microprudential and macroprudential supervision. That is why one of the key aims of the law of 2 August 2002 on the supervision of the financial sector and on financial services is to step up the cooperation between the Bank and the CBFA.

Preventive measures are based on a series of rules and standards aimed at fostering the secure and efficient operation of the financial system. These rules and standards concern very diverse aspects: balance sheet structure of financial institutions, risk management techniques and instruments, rules on competition and market access, procedures for the circulation of financial information, and principles ensuring market transparency and sound corporate governance.

Close supervision of the financial markets and institutions and the existence of an appropriate set of laws and regulations does not relieve the authorities of the need to prepare for the possibility of financial disasters.

The arrangements and structures established for that purpose come under crisis management, the third major element of the policy for safeguarding financial stability.

In each of these three major areas of activity, the Bank tries to coordinate its work with that of the international bodies or committees contributing to the global maintenance of financial stability.

In view of the globalisation of the financial system, market supervision can no longer be designed on a purely national basis. Two leading international institutions with which the Bank maintains close contact – the IMF and the BIS – are devoting increasing attention to the examination of the main financial developments. The Bank collaborates on these analyses which are relevant to its own research.

As regards preventive measures, the rules and standards applicable to the financial markets and institutions are now essentially established at supranational level. A growing number of Belgian laws and regulations applicable to the financial markets and institutions thus transpose the EU directives or the regulations drawn up by the G10. The Bank contributes to this regulatory work.

Finally, the crisis management preparations cannot ignore the profound changes which have occurred in the financial world, giving rise to the creation of large international groups. From now on, any intervention required on the part of the authorities to prevent possible liquidity problems facing a large institution in difficulty or to contain the potential contagion effects of a crisis must take place within an international framework. That is particularly true within the Eurosystem.

In view of these various developments, the Bank's financial stability work is now closely linked to its international cooperation activities.

2.1 Supervision of financial stability

2.1.1 Macroprudential supervision

Published annually by the Bank since 2002, the Financial Stability Review⁽¹⁾ contains a regular article on the in-depth analysis of the determinants of overall financial stability in Belgium. In 2005, this study focused on recent developments and potential risks on the international financial markets, and on the changes in the financial situation of Belgian households and non-financial enterprises in 2004. The soundness of the banking and insurance sector was also assessed. In a macroeconomic context generally favourable to financial institutions, the Belgian financial system's profitability and ability to withstand shocks appear to have improved in 2004 and early 2005, partly thanks to limited losses on the private sector loan portfolio. These results were confirmed by stress tests conducted during the Financial Sector Assessment Program set up by the IMF (cf. box 2).

To supplement its Financial Stability Review, the Bank publishes a paper twice a year on the subject of "Recent developments in the Belgian financial system". In this paper, a set of tables and charts accompanied by a brief commentary describes the trends apparent in credit institutions, investment firms, investment consultancies, insurance companies, pension funds and the securities markets.

To underpin its macroprudential analyses, the Bank also carries out research on specific topics, namely the microprudential basis of risk-taking, structural developments in the financial system, the impact of the institutional environment and regulatory measures on the operation of the markets, and the development of new financial instruments and techniques.

A number of these studies have been published in the Financial Stability Review, the Working Papers or specialist international journals. This editorial policy aims to encourage discussion and cooperation between the prudential authorities and the financial markets.

During the year under review, the Bank's macroprudential research focused on the modelling of unspecified term deposits, the liquidity risk in securities settlement systems, the risk of sectoral concentration in bank loan portfolios, the challenges relating to the management of international financial institutions and financial conglomerates, and the role of ratings in structured finance markets.

2.1.2 Supervision of financial infrastructures

CONTRIBUTION TO THE PREPARATION OF STANDARDS

In 2005, the Committee on Payment and Settlement Systems published two reports to which the Bank contributed.

The first, entitled Central Bank Oversight of Payment and Settlement Systems, explains why central banks have to supervise securities payment and settlement systems, and how they carry out that task. After analysing the supervision systems in the G10 countries, it lists the ten principles of effective supervision. Five of them are applicable to both payment systems and securities settlement systems. The other five concern international systems which are subject to joint supervision.

The second report, entitled New Developments in Large-Value Payment Systems, describes how large-value payment systems have developed since the publication of the report on Real-Time Gross Settlement Systems in 1997. Its main conclusion is that current interbank payments are settled more quickly and require less liquidity, thanks to more flexible management of the various associated risks and costs.

SUPERVISION OF PAYMENT SYSTEMS

The Bank supervises two payment systems operated by the private sector: Banksys and MasterCard Europe. Banksys manages credit and debit card payment systems, and the Proton electronic purse. In addition, this company designs payment terminals, networks and security modules. Up to 1 July 2005 it was also responsible for part of the network of cash dispensers. During the year under review, while carrying out its normal task of supervising the security and operational reliability of that company, the Bank adopted a new working method, closer to the supervisory procedure applied to other systems and permitting better monitoring.

MasterCard Europe, the European branch of MasterCard International, is mainly responsible for processing cross-border payments effected by means of MasterCard products (particularly the MasterCard credit card and the Maestro debit card). During the year under review, the Bank continued the analysis begun in 2004 of the MasterCard Europe settlement activities on the basis of the Oversight standards for euro retail payment systems.

(1) Available on the Bank's website.

In addition, the Bank has been involved in the oversight of Continuous Linked Settlement (CLS) since it was set up. This system of settling foreign exchange transactions, which is based on the principle of "payment against payment", guarantees that both legs of a foreign exchange transaction are settled simultaneously at CLS Bank, substantially reducing the risks. This oversight is exercised jointly with the central banks whose currencies are processed by the system. Since the CLS Bank is based in New York, it is the local Federal Reserve Bank that carries primary responsibility for the oversight.

The Bank also oversees the ELLIPS and CEC systems which it operates. In particular, it has examined how the TARGET 2 developments will affect ELLIPS. In regard to the CEC, a harmonised version of the assessments of small value payments systems conducted at ESCB level on the basis of the Oversight standards for euro retail payment systems was published in the report entitled Result of oversight assessment of retail payment systems in euro.

In 2005, in regard to the oversight of Banksys, MasterCard Europe and the CEC, the Bank concentrated mainly on developments concerning the Single Euro Payments Area (SEPA) and its potential implications for the systems concerned.

OVERSIGHT OF SECURITIES SETTLEMENT SYSTEMS

The Bank also oversees the important securities settlement system, Euroclear. In 2005, it published in its Financial Stability Review its assessment of that system on the basis of the Recommendations for securities settlement systems, published by the ESCB-CESR working group (see table 2). It also monitors the implementation of the recommendations which it has made. In addition, the Euroclear group modified its organisational structure. It set up a new company, Euroclear s.a. (ESA), which acts as a joint service provider and is the parent company of Euroclear Bank, Euroclear France, Euroclear Netherlands and CrestCo. The Bank concluded a multilateral cooperation agreement with the central banks and securities commissions of the countries concerned, arranging the oversight of ESA, with the Bank and the CBFA as the lead coordinators. A detailed presentation of that agreement appeared in the Financial Stability Review in 2005. At the beginning of 2006, the Euroclear group also acquired control of the Caisse interprofessionnelle des dépôts et virements (CIK) which previously belonged to the Euronext group.

In 2005, as the entity responsible for oversight, the Bank also published an assessment of its own securities settlement system on the basis of the Recommendations for securities settlement systems. In addition, it updated its assessment of the CIK settlement system. The Bank monitors the implementation of its recommendations.

The Bank is also involved in the international joint oversight of LCH.Clearnet SA, the central counterparty in spot market transactions and trading in derivatives, e.g. via Euronext Brussels.

OVERSIGHT OF SWIFT

SWIFT offers highly secure services for the transmission of financial information between its members. This company provides a vital messaging service for the banking community throughout the world.

The oversight of SWIFT is organised jointly with other G10 central banks. Since SWIFT is based in Belgium, the Bank is the *lead overseer*. Its relations with SWIFT are governed by a specific protocol. The relationships between the Bank as lead overseer and the other G10 central banks were set out in memoranda of understanding which the Bank concluded with each of those institutions. The latest were signed in the spring of 2005. They are presented in the 2005 issue of the Financial Stability Review.

In 2005, FIN messages, SWIFT's main commercial application, was transferred entirely to the new SWIFTNet platform which uses the Internet protocol and permits substantial expansion of the range of services offered to the financial sector. In future, SWIFT will be responsible for handling Target 2 messages. The oversight which the central banks exercise over SWIFT also covers these developments in so far as they may have repercussions on the international systemic risk.

SWIFT is also an important forum responsible for drawing up standards for financial messages. It is coordinating the development of a protocol relating to the elimination of "Obstacle 1" identified by the Giovannini report. The introduction of a single protocol for the whole of the EU is intended to eliminate national variations in information technology and in the interfaces used for securities clearing and settlement.

2.1.3 Cooperation with the CBFA

The Boards of Directors of the Bank and the CBFA have adopted new measures to step up the collaboration between the two institutions in areas of mutual interest, in accordance with the law of 2 August 2002 on the supervision of the financial sector and on financial services. At operational level, this has made it possible to exploit synergies in some very specific areas, such as the participation in the work of various international bodies and organisations, the processing of the information supplied by financial institutions, information systems and general equipment and services.

In regard to financial stability, the conduct of the prudential policy has been aided by extensive interaction between the two institutions in the form of closer links between teams and the secondment of certain Bank staff to the CBFA.

The coordination provided by the Financial Stability Committee (FSC) has also improved the links between the microprudential supervision exercised by the CBFA and the macroprudential supervision which is the responsibility of the Bank.

The FSC also examined ways of stepping up the cooperation between the teams from the Bank in charge of the oversight of payment and settlement systems and those from the CBFA responsible for the prudential supervision of some of those systems. In addition, the FSC decided to strengthen the cooperation between the Bank and the CBFA in regard to the work on laws and regulations of interest to both institutions. The closer cooperation

between the Bank and the CBFA was reflected, more specifically, during the conduct of the IMF mission concerning the Financial Sector Assessment Program for Belgium. This detailed examination of the Belgian financial system revealed the need to extend the reforms, by developing a strategic vision and aligning the corporate cultures with due respect for the particular nature of each area of activity. Belgium will thus join the movement taking place within the EU, where the emergence of large cross-border groups is requiring a more unified approach to the supervision and management of financial crises.

2.2 Preventive measures

The Bank's preventive activities generally take place within an international framework: the Bank takes part in the work of various G10 and EU bodies and committees specialising in the regulation and monitoring of the financial markets.

At the European level, the Bank is a member of the Banking Supervision Committee set up by the ESCB, comprising the supervisors and central banks of the EU. This committee examines the macroprudential situation and structural developments within the European banking system. In particular, it contributes to the ECB's Financial Stability Review. In 2005, it examined the implications for financial stability of the new IAS-IFRS accounting standards and investigated certain questions relating to the activities of cross-border banking groups, such as the supervision of liquidation and the organisation of deposit guarantee systems. The Bank also took part in the activities of the CEBS, the committee which advises the European

Box 2 – IMF assessment of the stability of the Belgian financial system

Conducted as part of the Financial Sector Assessment Program, the IMF assessment of the stability of the Belgian financial system started in late 2004, with an initial mission devoted mainly to analysis of the organisation and operating methods of the financial markets and authorities in the light of international standards. This examination looked at compliance with five standards and codes, relating to such matters as the quality of the supervision of credit institutions and insurance companies, and adherence to international best practices for the settlement infrastructures (ESCB-CESR working group recommendations).

The second mission, completed in 2005, analysed the general structure of the financial system in order to assess its soundness and identify any vulnerabilities. To that end, the IMF used various macroprudential indicators and conducted shock simulations using scenarios defined with the prudential authorities. These stress tests were approached from two angles: top-down testing by the authorities on the basis of aggregate prudential data, and bottom-up testing by large individual financial institutions.

Commission on banking matters, in order to promote the convergence of supervisory practices in the EU and their joint implementation, as well as the proper application of Community legislation. In 2005, this committee prepared, in particular, the implementation of the directive laying down new requirements for the capital of credit institutions and investment firms. Finally, the Bank collaborated as in the past in the work of the ESCB-CESR group on the clearing and settlement of securities transactions.

In connection with the G10 (BIS), the Bank took part in the work of the Committee on the Global Financial System. One of the subjects covered was the impact for the financial markets of the new mortgage loans and new credit risk transfer and distribution techniques. It also took part in the Basel Committee on Banking Supervision, which concentrates mainly on the implementation of the revised international convergence framework for the rules on capital requirements and their calculation (Basel II). In connection with the Committee on Payment and Settlement Systems, it was involved in the work which led to the publication of three reports: Central bank oversight of payment and settlement systems, General guidance for payment system development and New developments in large-value payment systems.

At the IMF level, the year under review was devoted to the implementation of the standards and codes drawn up in preceding years. In 2004 and 2005 the Fund examined the soundness of the Belgian financial sector, and particularly its compliance with international standards. The findings will be published during 2006 (cf. box 2).

SUSTAINABLE GROWTH

During the year under review, and in collaboration with the World Bank, the IMF refined the framework for analysing the sustainability of the debts contracted by countries, seeking in particular to put the framework into operation for emerging and developing economies. While 2004 was spent mainly discussing the IMF's role in the developing countries, 2005 featured debate on the G8 proposal for remitting the debts of the poorest countries. The Fund's role in those countries is based on two pillars: the grant of advantageous loans under the Poverty Reduction and Growth Facility (PRGF), and debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. The discussions centred on the importance of treating countries equally, and on the financial impact of the PRGF for the Fund.

In addition, the IMF created a new instrument for low-income developing countries, called the Policy Support Instrument (PSI). The PSI does not comprise financial support but is intended to provide information, at the request of the countries concerned and for the benefit of their donors, on the quality and sustainability of the economic programmes being conducted there.

The Bank has also continued to provide technical support for the Central Bank of Congo, in close consultation with the IMF and FPS Foreign Affairs, Foreign Trade and Development Cooperation. During a working visit to Kinshasa, the governor emphasised the need to tailor this technical assistance as closely as possible to actual requirements. As in previous years, it was essentially a

TABLE 2 MAIN COMMITTEES SUPERVISING OR REGULATING THE FINANCIAL MARKETS

	At EU level	At world level
Macroprudential supervision	Banking Supervision Committee (BSC)	Committee on the Global Financial System (CGFS)
Banks	Committee of European Banking Supervisors (CEBS)	Basel Committee on Banking Supervision (BCBS)
Insurance companies	Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)	International Association of Insurance Supervisors (IAIS)
Securities markets	Committee of European Securities Regulators (CESR)	International Organisation of Securities Commissions (IOSCO)
Payment and settlement infrastructures	ESCB-CESR group	Committee on Payment and Settlement Systems (CPSS)

Box 3 – The IMF, the World Bank and the Belgian constituency

In the IMF and the World Bank, the Board of Governors comprises 184 governors (one for each member country) while the Executive Board has only 24 executive directors, the majority of them elected by a group of countries, the “constituency”.

In the IMF, Belgium has 2.13 p.c. of the total votes; since 1946 it has headed a constituency in which the other members – since 1992 – are Austria (0.87 p.c.), Hungary (0.49 p.c.), Turkey (0.45 p.c.), the Czech Republic (0.39 p.c.), Belarus (0.19 p.c.), Kazakhstan (0.18 p.c.), Slovakia (0.18 p.c.), Luxembourg (0.14 p.c.) and Slovenia (0.12 p.c.). Seven of these ten countries are members of the EU, and one is an accession candidate. With 5.13 p.c. of the total votes in the IMF and the World Bank, the Belgian constituency is the largest in terms of votes. Only three of the five countries which, owing to the size of their quota, have a seat without belonging to a constituency, have a larger number of votes: the United States (17.08 p.c.), Japan (6.13 p.c.) and Germany (5.99 p.c.).

Cooperation within the Belgian constituency is based on mutual consultation and consensus; the subjects tackled depend on the priorities of the institution concerned, but also on those of the constituency members, and on the developments taking place at European and global level. That cooperation was formalised in an agreement, renewed in October 2003 for a period of ten years.

Under that agreement, it is always Belgium that nominates a candidate for the constituency seat in the Fund, while the candidate for the World Bank seat is nominated alternately by Belgium and Austria. In collaboration with the State and in consultation with its partners, the Bank helps to prepare the positions defended by the Belgian executive director of the IMF.

In principle, Belgium also represents its constituency in the policy guidance bodies of the IMF and the World Bank, which are respectively the International Monetary and Financial Committee and the Development Committee.

matter of helping with the establishment of computer systems at the Kinshasa headquarters and the modernisation of the trading room. Great attention was also devoted to the handling of banknotes and coins, and the possible introduction of a cashless payments infrastructure. Finally, in collaboration with the Treasury Administration (FPS Finance), a course on the State Cashier’s function was held in Brussels for senior officials of the Central Bank of Congo and the Congolese Finance Minister.

FINANCIAL EMBARGOS

In line with the practice which it has followed for a number of years now, the Bank provided the Treasury with legal advice to assist it in its activity of monitoring the implementation of financial embargos: freezing of funds, other financial assets or economic resources of individuals or legal entities mentioned by the relevant legislation. In 2005, such embargos were applied within the framework of the United Nations and the EU to the Taliban of Afghanistan, the Al-Qaida network and other terrorist organisations, and to certain nationals of Burma/

Myanmar, the Ivory Coast, Iraq, Liberia, the Democratic Republic of Congo, Serbia-Montenegro, Somalia, Sudan and Zimbabwe.

2.3 Crisis management

The cornerstone of the structure for the supervision of the financial sector, the Financial Stability Committee (FSC) examines all questions of mutual interest to the Bank and the CBFA concerning the stability of the financial system, including the coordination of crisis management. This policy is implemented in various ways as a preventive measure, with due respect for the autonomy of each institution.

2.3.1 Financial crises

An interdepartmental unit comprising representatives of the various entities concerned with the stability of the financial system is responsible for managing financial crises (crises affecting the financial situation of a financial institution) within the Bank. Its work is intended to improve the Bank's operational and legal preparations for coping with this type of situation. A small crisis unit was set up within this unit to limit access to confidential prudential information originating from the CBFA or other prudential authorities, and to avoid any conflict of interests between the Bank's statutory duty – to contribute towards the stability of the financial system – and the preservation of its proprietary interests.

As regards collaboration and the exchange of information in the event of a financial crisis, practical arrangements were made at various levels. Thus, a memorandum of agreement was concluded between the Bank and the CBFA with the aim of establishing a general framework for collaboration and the exchange of information on the management of financial crises. In addition, the Bank, the CBFA and FPS Finance agreed a set of arrangements for the exchange of information and cooperation in the event of a financial crisis, in order to implement in Belgium the provisions of the Memorandum of understanding on cooperation between the banking supervisors, central banks and finance ministries of the European Union in financial crisis situations.

Finally, the Deposits and Financial Instruments Protection Fund is responsible for paying compensation, within certain limits, to savers and investors who suffer a loss as a result of the failure of a credit institution or investment firm. This Fund is directed by a Board of Directors comprising representatives of the State, credit institutions and investment firms. The Bank is in charge of its day-to-day management. It publishes an annual report on its activities, which is available on the Internet (www.fondsdeprotection.be).

2.3.2 Operational crises

On 18 October 2004 the FSC adopted a series of recommendations aimed at strengthening the stability of the financial system by ensuring that the operators and functions identified as critical from the point of view of the functioning of the Belgian financial system adopt the provisions necessary for the continuity of their activities. It entrusted their implementation to a Permanent Monitoring Entity (PME).

During 2005, the PME concentrated on developing escalation and communication procedures in case of an operational crisis, i.e. an operational event which could have a serious adverse effect on the smooth operation of the Belgian financial system (natural disaster, terrorist act, epidemic, etc.), both for a bottom/up scenario (crisis originating within the financial sector) and for a top/down scenario (crisis originating outside the financial sector but affecting the operation of the sector).

These procedures were approved following consultation with the critical players concerned. They were tested, and testing will continue on the basis of increasingly complex scenarios.

In addition, the PME is drafting a memorandum of agreement with the Government Coordination and Crisis Centre, specifying its role in the escalation procedure and in the allocation of tasks among the Bank, the police forces and the other decisive players. It has drawn up emergency plans in the event of prolonged interruption of the operation of certain critical functions, such as telecommunications, the electricity supply, the ELLIPS and CEC payment systems and the services performed by Banksys. Finally, it is developing ways of ensuring effective communication in all circumstances, both internally and with the outside world.



3. Means of payment and settlement

3.1 Banknotes and coins

3.1.1 Printing of banknotes

During the year under review, the Bank printed the quota of euro banknotes allocated to it under the Eurosystem production plan. These notes conformed fully to the ECB quality and security standards. They were supplied on time.

The Printing Works received confirmation of its ISO 9001:2000 quality management certification and the *High Security Printer* certification issued by the European Committee for Standardisation in respect of its security management.

3.1.2 Circulation of notes and coins

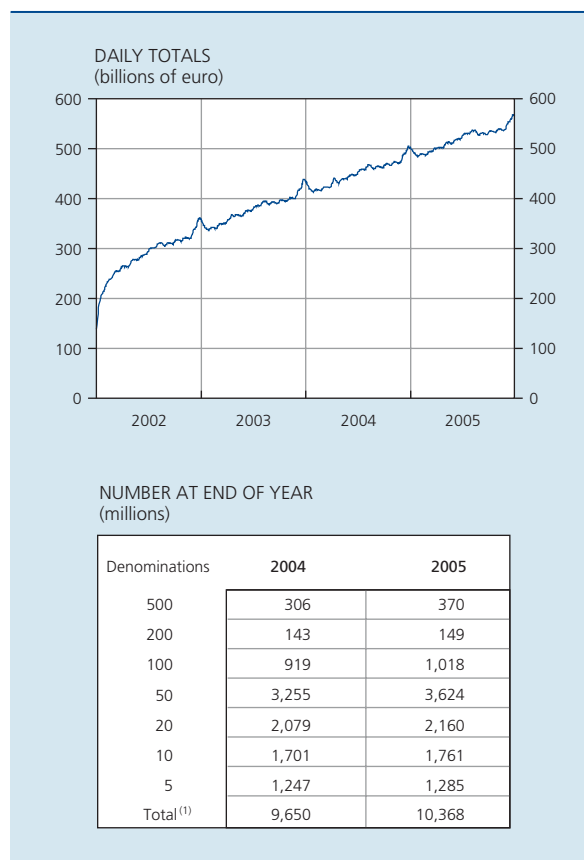
The twelve NCBs of the Eurosystem place the euro notes and coins in circulation. Since this currency is legal tender whichever NCB issued it, the amount in circulation in a country need not correspond to the amount placed in circulation by that country's NCB.

BANKNOTES

Thus, the amount of banknotes placed in circulation in Belgium is not shown as such under the "Banknotes in circulation" item on the balance sheet. This item records the Bank's overall share in the euro banknote issuance, namely 3.28 p.c. of the total value of banknotes issued in the Eurosystem⁽¹⁾. In 2005, as in previous years, the

difference between that share and the actual amount of banknotes placed in circulation was positive, and is shown on the assets side of the balance sheet in the item "Net claims related to the allocation of euro banknotes within the Eurosystem". The amount recorded in this item increased by more than 3 billion euro in 2005.

CHART 1 EURO BANKNOTES IN CIRCULATION



(1) This percentage is the coefficient representing the Bank's share in the paid-up capital of the ECB (currently 3.5672 p.c.) applied to 92 p.c. of the total value of the banknotes issued in the Eurosystem, the remaining 8 p.c. being allocated to the ECB.

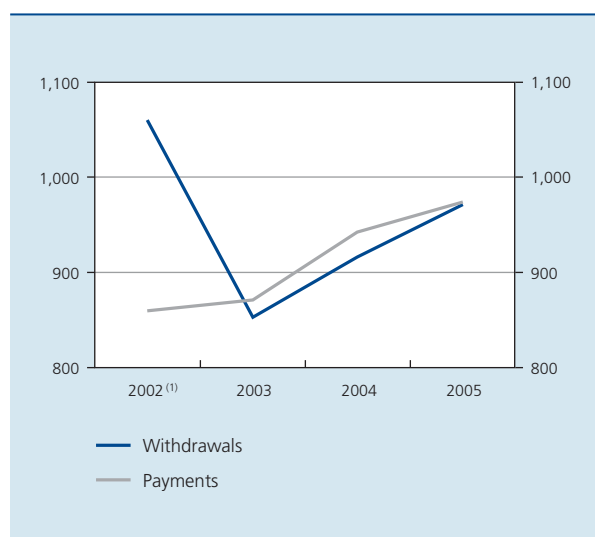
Source: ECB.

(1) The total may differ from the sum of the items, owing to rounding.

Leaving aside the seasonal fluctuations which occur in January and August, the amount of banknotes in circulation in the euro area has risen continuously. This growth is still particularly noticeable in December. Over the year 2005 as a whole, the average value of the banknotes in circulation increased from 450.5 to 519.5 billion euro, a rise of 15.3 p.c. The number of banknotes increased by 7.4 p.c. to 10.4 billion at the end of December. In 2005, demand for the 500 euro notes remained very strong: it increased by 20.9 p.c. to 370 million notes at the end of the year. The number of 100 and 50 euro notes in circulation also increased significantly, by 10.8 and 11.3 p.c. respectively. In contrast, demand for the other denominations grew by no more than 5 p.c. Demand for banknotes in connection with transactions within the euro area cannot account for the whole of this increase. One of the other likely factors which seems to be contributing to this rise is the growing demand from outside the euro area. Hoarding by the public, encouraged by the low level of interest rates, is another explanatory factor.

This year, the amount of banknotes placed in circulation by the Bank declined once again, in contrast to what happened in the Eurosystem as a whole. However, the fall was less marked than in the three preceding years. A net increase in notes placed in circulation was only seen in the case of the 50 and 5 euro notes. The reasons for these divergences were explained in Part 2 of the 2004 Report.

CHART 2 EURO BANKNOTE WITHDRAWALS AND PAYMENTS AT THE BANK
(Millions of banknotes)



(1) In 2002, the amounts withdrawn comprised "front-loading" of 266 million banknotes.

TABLE 3 BELGIAN FRANC BANKNOTES AND COINS NOT PRESENTED FOR EXCHANGE⁽¹⁾
(End of period)

Face value	Amounts (billions of Belgian franc)		2005 as p.c. of 2000
	2000	2005	
10,000	276.5	2.2	0.8
2,000	164.2	2.5	1.6
1,000	73.2	1.2	1.6
500	15.7	0.5	3.3
200	6.6	0.6	8.5
100	10.3	1.0	9.8
Total banknotes ⁽²⁾	546.6	8.0	1.5
50	9.6	2.2	22.6
20	8.1	3.0	37.3
5	3.5	1.3	36.3
1	2.0	0.9	41.8
0.50	0.3	0.3	83.9
Total coins ⁽²⁾	23.5	7.6	32.2
Overall total	570.1	15.6	2.7

(1) Ceased to be legal tender on 1 March 2002.

(2) The total may differ from the sum of the items owing to rounding.

The arrangements for withdrawing and paying in banknotes and coins are now set out in contracts between the Bank and the credit institutions. The free basic service which central banks in the euro area are required to offer as part of their task of supplying the economy with cash allows banks to withdraw or pay in banknotes free of charge in batches of single denominations. On payment of a charge, they can withdraw and pay in banknotes in packs containing different denominations.

In addition, individuals and non-financial enterprises can exchange euro banknotes at the public counters⁽¹⁾.

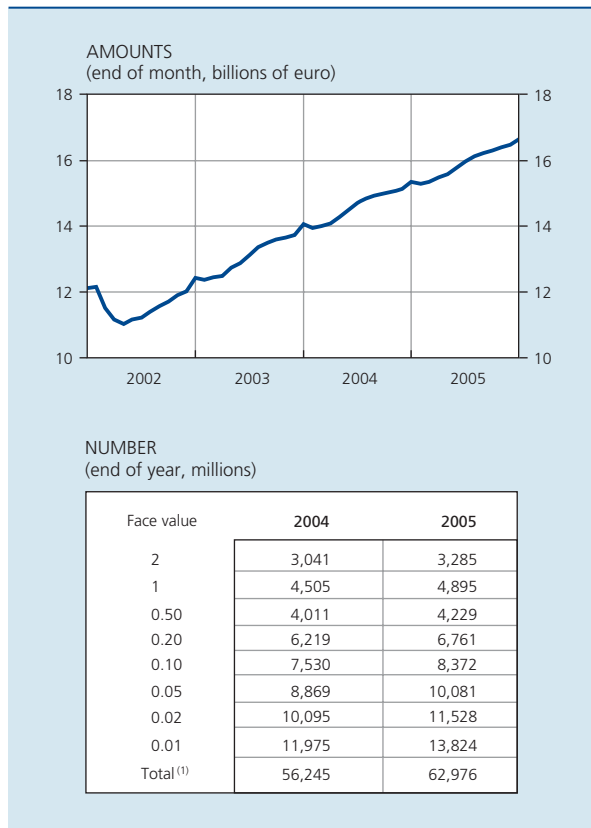
In 2005, a total of more than 1.9 billion banknotes were withdrawn or paid in at the Bank.

COINS

Following a slight fall in January, the total amount of coins in circulation in the euro area increased to 16.6 billion at the end of the period, against 15.4 billion a year earlier, a rise of 8.4 p.c. The number of coins in circulation

(1) The branch addresses and opening hours are listed on pages 135 and 136.

CHART 3 EURO COINS IN CIRCULATION
(End of period)



Source: ECB.

(1) The total may differ from the sum of the items owing to rounding.

increased by 12 p.c., from 56.2 billion at the end of 2004 to 63 billion at the end of 2005.

In 2005, the total coins placed in circulation by the Bank increased by 14.5 p.c. in value and 13.5 p.c. in terms of the number of coins. Financial institutions are able to withdraw and pay in coins at the Bank's counters free of charge in the form of standard cartridges containing coins of the same face value.

As in the case of banknotes, individuals and non-financial enterprises can exchange euro coins at the public counters.

In 2005, the Bank's transactions concerned a total of almost 600 million coins.

3.1.3 Control of the quality of banknotes in circulation and prevention of counterfeiting

All the banknotes deposited at the Bank undergo a quality check performed by sophisticated machines which analyse the banknotes, reject forgeries, destroy authentic notes deemed unfit for re-use, and repackage in standard units the notes which can be returned to circulation.

In 2005, of the almost 1 billion banknotes thus handled by the Bank, just under 200 million were found unfit for returning to circulation and were therefore destroyed. In addition, 22,538 forgeries were discovered in Belgium, against 20,751 in 2004. The 50 euro note represented 73 p.c. of the total forgeries and the 20 euro note accounted for 10 p.c.

The total number of forged euro banknotes discovered in 2005 – around 579,000 units – was 3.5 p.c. lower than in 2004.

3.2 Book money

3.2.1 Large-value payments

The Bank operates ELLIPS, an interbank system essentially handling large-value transfers. ELLIPS is the Belgian component of TARGET, the European cross-border gross settlement system for euro payments. TARGET handles large-value payments, often relating to financial market transactions.

In 2005, the daily average number of payments handled by ELLIPS increased by 0.9 p.c. to 10,937 payments. In value, these payments were up by 19.4 p.c., thus reaching a daily average of 120.1 billion euro.

The daily average of payments between institutions based in Belgium increased by 1.2 p.c. in 2005 to reach 3,218 transactions. These payments totalled 14.3 billion euro per day, representing an increase of 12.3 p.c. against 2004.

The daily average number of payments effected by ELLIPS with banks established abroad and participating in TARGET declined by 1.7 p.c. in the case of outgoing payments, and increased by 3.2 p.c. for incoming payments. The respective totals thus came to 3,660 and 4,059 units. In value, the daily average of these payments increased by over 20 p.c. to 52.9 billion euro, for both incoming and outgoing payments.

TABLE 4 ACTIVITY OF TARGET AND OF THE BELGIAN INTERBANK PAYMENT SYSTEMS

(Daily averages)

	Number in thousands		Percentage change	Amounts in billions of euro		Percentage change
	2004	2005		2004	2005	
Target						
Cross-border payments	65.0	68.8	5.8	564.2	641.3	13.7
National payments	202.2	227.5	12.5	1,150.0	1,261.0	9.7
Ellips						
Outgoing payments ⁽¹⁾	3.7	3.7	-1.7	43.9	52.9	20.4
Incoming payments ⁽²⁾	3.9	4.1	3.2	43.9	52.9	20.5
National payments	3.2	3.2	1.2	12.8	14.3	12.3
CEC	4,003.7	3,806.5	-4.9	2.3	2.5	9.0
Clearing house	5.2	2.3	-55.6	0.2	0.2	-17.1

(1) From Belgium to the rest of the EU.

(2) From the rest of the EU to Belgium.

In terms of the number of payments and the amounts, Belgium is the fifth largest user of TARGET for cross-border payments.

In 2005, TARGET handled an average of 296,306 payments per day, totalling 1,902.3 billion euro. These payments comprise national and cross-border payments. The daily average of national payments increased by 12.5 p.c. to total 227,500 transactions. In value, the daily average of these payments was 9.7 p.c. up at 1,261 billion euro. The daily average number of cross-border payments increased by 5.8 p.c. to 68,806 transactions. The daily average value of these payments was 13.7 p.c. up at 641.3 billion euro.

More detailed statistical information may be found in the ELLIPS annual report, available on the website www.paymentsystems.be. The ECB's website (www.ecb.int) gives additional information on TARGET.

The Eurosystem is currently developing TARGET 2, a single platform which is to replace the current system based on the interconnection of national real time gross settlement systems in euro. The decision to create this new infrastructure was made in response to market requirements, to prepare for the enlargement of the euro area, to enhance operational reliability and to reduce the costs while improving efficiency. This project is now in the development phase. The launch is scheduled for November 2007, from which date the banks will join in successive waves. The Belgian banks are scheduled to join in February 2008.

In 2005, important progress was made towards the completion of this ambitious project. Its functional characteristics were defined and agreement was reached on a range of questions relating to costs, funding, testing, organisation and management. The project is the subject of close collaboration with the banking sector, at both European and national level. Thus, the Bank is consulting the Belgian banking sector and the major market infrastructures, such as Euroclear, in order to take account of their concerns and ensure that the transition is effected as smoothly as possible.

3.2.2 Small-value payments

For the exchange and settlement of small-value payments (transfers, cheques, bank cards, domiciliations, etc.), credit institutions use a fully automated system operated by the Bank and managed by an interbank organisation, the CEC non-profit organisation. The Bank also operates a Clearing House which handles the physical exchange of a residual quantity of several thousand cheques.

During the past year, the CEC handled an average of 3,806,494 payments per day, totalling 2,529,910,877 euro. In 2005, the CEC thus handled 99.6 p.c. of the number of interbank payments representing 2.1 p.c. of their total value. The average number of payments handled per day declined by 4.9 p.c. The corresponding amounts increased by 9 p.c.

Box 4 – Steering Committee on the future of means of payment

As the chairman of the Supervisory Board of the Financial Services Authority (an institution comprising the Bank's regents and the members of the Supervisory Board of the CBFA), the governor was instructed by the Minister of Finance, Economic Affairs and Consumer Protection to set up a Steering Committee on the future of means of payment.

Comprising representatives of the government, the Bank, the Belgian Bankers' Association, Banksys, users, sales outlets and consumers, this committee set up two working groups. The first had the task of examining the costs and benefits of the various means of payment, partly on the basis of the surveys of the financial sector, sales outlets and households. The second was responsible for presenting initiatives for modernising the payment channels involving public authorities.

A summary of this work was published by the Bank at the end of 2005 (cf. point 4.1.1).

The Steering Committee also adopted a memorandum on the refusal of large denomination banknotes by certain sales outlets. A reasonable and pragmatic interpretation of the current law, this text will serve as a guide for the Directorate General of Supervision and Mediation of FPS Economy in the investigation of complaints on this subject.

The Steering Committee is now planning to incorporate certain aspects of the Single Euro Payments Area project (cf. box 5) in its activities. This project aims to harmonise the main payment instruments at European level and to make their use as easy, efficient and secure at the euro area level as they are at national level. Since all economic agents will ultimately be required to use the new European payment instruments, the various groups of end users must be consulted in due course. The organisation of this consultation is currently being examined.

The banks can now only use the Clearing House for exchanging cheques for large amounts. In 2005 the Clearing House handled 2,318 cheques per day, worth a daily total of 194,822,264 euro. This represents a decline of 55.6 p.c. in volume and 17.1 p.c. in value.

In May 2005, the CEC completed a project which has taken several years, totally renovating the technical infrastructure in order to guarantee the security and quality of the service.

Box 5 – Single Euro Payments Area

For a number of years now, the creation of a unified area for the cashless payments of the entire euro area has been one of the priorities of the Eurosystem and of the European Commission. European standards have been defined for the three main cashless payment instruments (transfers, domiciliations and card payments). These instruments will have to be available to the end user (consumers, enterprises and public institutions) in 2008. Ultimately, euro payments throughout the euro area have to match the efficiency of those currently effected by the most efficient national payment systems.



The European banking sector has therefore undertaken to create a Single Euro Payments Area (SEPA) and an interbank structure within the European Payments Council (EPC). The Eurosystem is encouraging and supporting the SEPA, while the national central banks are assisting their banking sector with the transition. In Belgium, a SEPA forum was set up in February 2005, under the chairmanship of the Bank's governor.

The Belgian migration plan is being drawn up by several working groups comprising representatives of the banking sector and of the Bank. This plan contains a strict definition of the stages in the transition to the European payment instruments, and deals with the implications of this process for infrastructures such as the CEC and Banksys. The Belgian banking sector is particularly go-ahead in its attitude to this matter: an initial migration plan which already contains a series of guidelines was completed at the end of 2005.

However, a degree of uncertainty and a number of difficulties still remain, especially at European level. While significant progress has been achieved in regard to European standards, clarification is still needed in order to take account, as far as possible, of the requirements of the Belgian banking sector and end users.

The Belgian banking sector and the Bank are particularly concerned to safeguard the efficiency of the Belgian cashless payments system, which is one of the best in Europe, particularly in regard to service, standardisation and costs. Maintaining that standard during the transition to the European standards and structures – or perhaps even improving it further – remains a major challenge.

3.3 Securities and commercial bills

3.3.1 Securities

The Bank manages a securities settlement system which permits the totally secure settlement, on the primary and secondary markets, of certain transactions relating to dematerialised securities issued mainly by the Belgian State. The system operates on the basis of the principles of double notification and delivery against payment, guaranteeing that movements in securities and cash take place simultaneously. In addition, an automatic securities borrowing mechanism with provision of a guarantee enables participants to meet their delivery obligations.

The nominal value of securities registered in accounts totalled 305.1 billion euro as at 31 December 2005. There was some decline in the system's overall activity, down from 768,776 to 737,633 notifications processed (a fall of 4 p.c.).

Primary market activity was down slightly overall, in the year under review, as the nominal value issued via the Bank's securities settlement system came to just over 231 billion euro. The decline concerns only issuers other than the Belgian State, as the latter significantly increased its gross short-term issues.

On the secondary market, there was a small increase in the nominal amounts handled, while the number of transactions was down slightly.

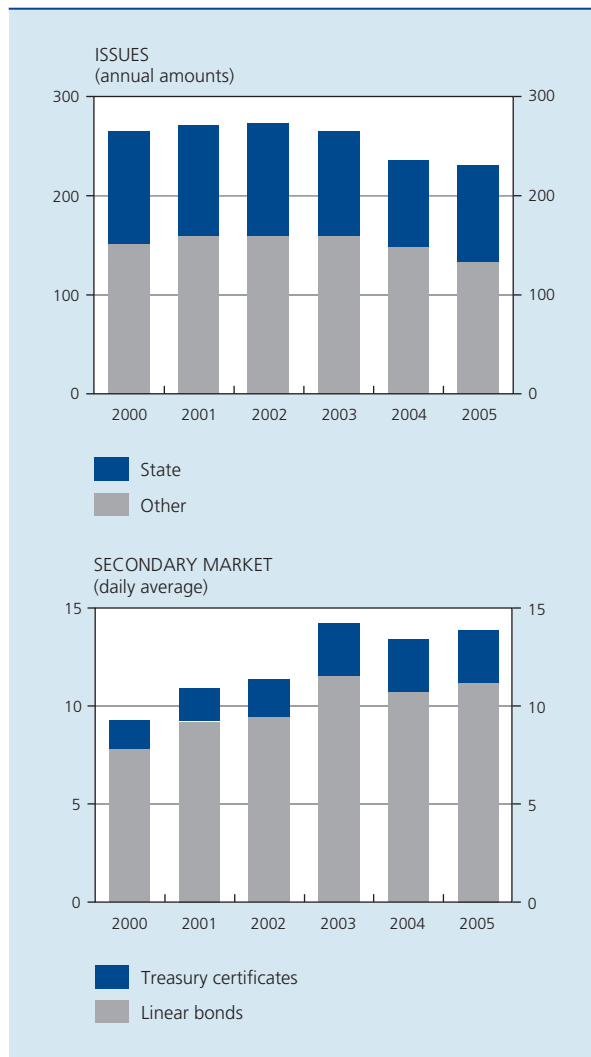
The pages of the Bank's website devoted to the system have been extended. They now include the rules and operating documentation, certain statistics on activities and the assessment report of the ESCB-CESR working group on the Recommendations for Securities Settlement Systems.

To gain a better idea of users' requirements and expectations, a satisfaction questionnaire was sent out in September to all the system's participants. They expressed their satisfaction with the operation of a facility which, in their view, is efficient and provides good support for its members.

In October 2005, the survey results were presented and discussed in a users' committee comprising a representative group of participants. Comments and suggestions focused mainly on two areas: the SWIFT messaging services and improved access to account transactions and statements.

In response to this consultation, the SWIFT messaging services will enable announcements of events and transactions (corporate actions) to be sent on request from the beginning of 2006. The possibility of sending other

CHART 4 ACTIVITIES OF THE SECURITIES SETTLEMENT SYSTEM
(Billions of euro)



types of message will also be examined jointly with the participants.

In 2006, the WIROW FIN' Markets system, which permits consultation of current account balances and transactions via the Internet, will be extended to securities accounts managed by the system. This will therefore give the participants secure access, more or less in real time, to all their transactions and statements of account.

3.3.2 Commercial bills

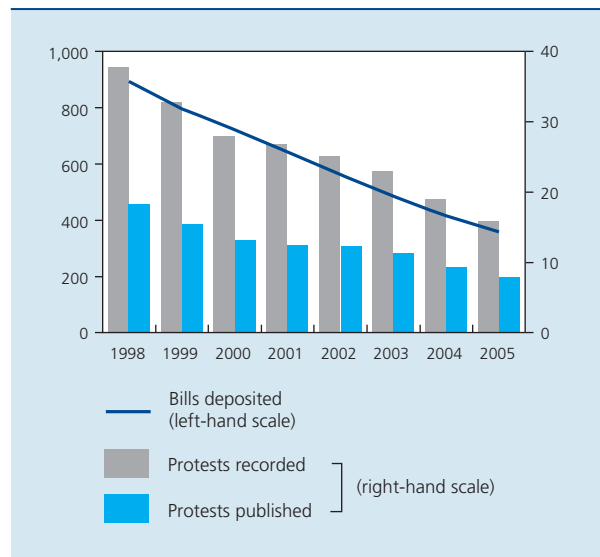
Commercial bills domiciled with credit institutions represented in the Clearing House are handled centrally by the Bank, which retains them and presents them for collection by an automated process on behalf of the creditors.

The number of commercial bills submitted for collection and processing by the system for the Centralised Processing of Commercial Bills has continued to decline, falling from 416,000 units in 2004 to 358,000 in 2005. The agreement between the Bank and the credit institutions, governing the operation of the system, will expire in September 2007. However, the system participants have already approved a new agreement, renewable annually until 2011.

Eventually, the national payment systems are intended to form a pan-European structure. In that context, the Bank will continue to specify the arrangements for dismantling the Centralised Processing of Commercial Bills system, in cooperation with the financial institutions, during 2006.

In accordance with the law which confers on it the role of central depository of documents of protest, the Bank also takes on the administrative work of preparing protests in cases of default on payment. In 2005, almost 4 p.c. of the bills presented for payment remained unpaid; thus, 16,000 protests were formally drawn up by the bailiffs. Of these, almost half were paid before the publication date, thus avoiding publication.

CHART 5 ACTIVITIES OF THE CENTRALISED PROCESSING OF COMMERCIAL BILLS SYSTEM
(Thousands)





4. Economic analysis and information

Box 6 – History of the Bank

On the 175th anniversary of Belgium's independence, Ivo Maes, Walter Pluym and Marianne Danneel, colleagues at the Bank, worked with Erik Buyst, professor at KULeuven, to write a book entitled *The Bank, the Franc and the Euro – A history of the National Bank of Belgium*. Intended for a broad public, this lavishly illustrated book covers the entire history of the Bank. It is published in French, Dutch and English by Racine and Lannoo.

The Bank also published four works relating respectively to the period 1939-1945 – Herman Van der Wee and Monique Verbreyt (KULeuven), *Oorlog en monetaire politiek: de Nationale Bank van België, de Emissiebank te Brussel en de Belgische regering*; 1944-1958 – René Brion (ULB) and Jean-Louis Moreau (UCL), *La politique monétaire belge dans une Europe en reconstruction*; 1958-1971 – Walter Pluym and Olivier Boehme (BNB), *Van de golden sixties tot de val van Bretton Woods*; 1944-1971 – Isabelle Cassiers and Philippe Ledent (UCL), *Politique monétaire et croissance économique en Belgique à l'ère de Bretton Woods*.

On 22 November 2005 it held a symposium to present these works.

4.1 Macroeconomic aspect

4.1.1 Research and analysis

The Bank's analysis and research activities largely concern the study of monetary policy transmission mechanisms in Belgium and in the euro area (cf. point 1.2.1). However, its expertise also includes other economic and financial questions, enabling it to provide advice, information and opinions for national and international official bodies.

During the year under review, the federal government thus asked the Bank to take part in the Social Security Financing group set up by the Minister of Social Affairs. With the aid of its econometric model, the Bank simulated the effects of various methods of financing social security.

It also helped the National Labour Council to draw up the technical report on the financing of social security, circulated on 7 July 2005.

In addition, in response to a request from the social partners, it examined the changes affecting industry in Belgium and the impending challenges. The main results of this work were published in the Economic Review in September 2005 under the title "Industry in Belgium: past developments and challenges for the future", at the same time as an in-depth analysis of the determinants of potential economic growth.

The Bank continued its work on the future of means of payment, begun in May 2004 at the request of the federal government (cf. box 4). During the year under review, particular progress was achieved in the identification

and estimation of the costs of means of payment, partly on the basis of the surveys covering the financial sector, sales outlets and households. In order to gain a clearer idea of the advantages and disadvantages of the various means of payment, the assessment criteria were extended beyond just the cost factor. After submission to the Federal Ministers of Finance, Economic Affairs, Small Firms and Traders, and Consumer Protection, the final report of the Steering Committee responsible for this matter was published on 16 December 2005. It is available on the Bank's website under the title "Costs, advantages and disadvantages of the various means of payment".

The Bank is also represented on the High Council of Finance and the High Council of Employment. It contributes to the Central Council for the Economy's group on wage setting, and to the National Labour Council's Joint Committee on the Social Balance Sheet. In addition, it is represented on the Scientific Committee on National Accounts and the Scientific Committee on the Economic Budget of the National Accounts Institute.

As well as maintaining close contact with the economic and financial world, the Bank makes its expertise available in the service of the community in its relations with international institutions – such as the IMF, the OECD, the EU and the BIS – on the occasion of consultations or meetings of their committees and working groups. Thus, in November 2005 it assisted the IMF at the time of the annual consultation conducted in Belgium under Article IV of the Fund's Statutes. The staff's provisional conclusions were published on 21 November 2005. In the OECD, the Bank takes part in the Economic Policy Committee and in the associated working groups, which discuss the economic outlook and international economic issues. It also assists the government in the conduct of the OECD's economic study, carried out by that organisation in Belgium every two years (the latest one appeared in March 2005).

In regard to the EU, its participation in the Economic and Financial Committee and the Economic Policy Committee gives it a say in the discussion of important European macroeconomic questions. These two committees prepare analyses and formulate advice for the Ecofin Council and the Eurogroup. In addition, the Bank contributes to the working groups which the EU's Economic Policy Committee has set up to study the output gap, the labour market, the state of public finances, and the progress of the structural reforms. Furthermore, its macroeconomic expertise is sought by the BIS, particularly at the time of the six-monthly meetings of central bank economists. Finally, in the G10, it took part in the high level monetary experts group and helped to finalise the report entitled

Ageing and pension system reform: implications for financial markets and policies.

In developing its macroeconomic research and analysis capability, the Bank is supported by close cooperation with the academic world, which enables it to take account of the latest theoretical and empirical developments. One useful form of cooperation is the organisation of a biennial international scientific symposium where the results of a research programme conducted jointly by the Bank and the leading Belgian universities are presented. At the end of 2004, the Bank launched a new programme entitled "Price and wage rigidities in an open economy", with a view to the international symposium to be held on that subject in 2006. In this connection, eight projects have been selected on which the Bank is working closely with the academic world. In addition, for the second year running it organised an internship programme for young Belgian researchers wishing to build up their knowledge of macroeconomic, monetary and financial questions: it selected four projects for this programme.

At the same time, in collaboration with several Belgian universities – KULeuven, UCL and ULB – it has continued to organise specialist seminars on monetary and macroeconomic questions. Launched in 2003, this initiative aims to stimulate economic research in these areas, both at the Bank and in Belgian universities, by the presence of internationally renowned speakers. Six seminars will be held in 2005.

This desire to stimulate macroeconomic research and analysis is accompanied by an active publication policy, notably concerning Part 1 of its Annual Report, the Economic Review and the Working Papers⁽¹⁾. The Bank also publishes Belgian Prime News, in collaboration with FPS Finance and a number of primary dealers. In addition, it encourages its researchers to present their work at national and international conferences, and to publish their findings in leading journals.

The Economic Review, which is to be reduced from four to three issues a year from 2006, provides information on economic, financial and monetary developments. Apart from the articles already mentioned, concerning the activities of the Eurosystem, industry, and potential growth in Belgium, this review addressed a range of international questions in 2005: the United States current account deficit, the history of the stability and growth pact, and the movements in the prices of shares and property, and their implications for monetary policy. A number of

(1) Available on the Bank's website.

topics specific to Belgium were also covered: the social balance sheet of enterprises, social security finances, and the economy's sectoral interdependences and cost structure. The Economic Review has also been available in English since 2004.

The Working Papers are intended for a more specialist readership than the Economic Review. They comprise a series entitled Research, presenting the results of theoretical or empirical economic research, and a series entitled Documents, containing more general and descriptive information or analyses. They contain studies conducted by the Bank's researchers and published by them personally. Papers produced jointly by the Bank's economists and researchers from other institutions may also be published here, as well as articles presented by third parties at conferences held under the auspices of the Bank. Thirteen issues were published in 2005, five of which contained contributions to the Inflation Persistence Network (cf. point 1.2.1) and three the results of macroeconomic research. Among these, the first presents the latest version of the Bank's econometric model for the Belgian economy. The second deals with the study of the links between stock market prices, corporate profits and the long-term yield on government bonds. The third concerns the link between households' consumption and the uncertainties concerning their income situation.

During the year under review, the Bank also conducted research published by other institutions at conferences organised by them or in their scientific journals. This work concerned analysis of the business cycle, public finances, the history of European monetary integration and the labour market.

In 2005, the *Vereniging voor Economie*, an association of economic graduates of Dutch-speaking Belgian universities, awarded its biennial prize to Maarten Dossche and Gerdie Everaert, researchers at the Bank and at Ghent University respectively. They were given this award for their article entitled Measuring inflation persistence: a structural time series approach, published in June 2005 in the Bank's Working Papers and in the ECB Working Papers, in connection with the work of the Inflation Persistence Network.

In addition, in May 2005 one of the research projects funded by the Bank for the international scientific conference held in 2004 was awarded the Josph de la Vega prize for science, conferred by the Federation of European Stock Markets. This study, entitled Volatility regimes and the provision of liquidity in order markets, was conducted by Alain Durré, who was then an economist at the Bank,

and by two other economists, Hélène Beltran of the *Université catholique de Louvain* and Pierre Giot of the *Facultés universitaires Notre-Dame de la Paix*.

4.1.2 Macroeconomic statistics

The Bank has always paid close attention to efficiency in the collection of the statistical information which it needs to fulfil its obligations.

As part of the balance of payments reform which modified the collection methods, the Central Server for Statistical Reporting (CSSR – application used by credit institutions for a number of years to transmit their statistical returns and prudential reports to the Bank and the CBFA) was modified so that all declarants could use it. Since the CSSR is a generic application, it will soon also be possible to use it to collect Intrastat declarations and – on behalf of the CBFA – prudential information on the insurance and pension fund sectors. Ultimately, this application will become the sole channel for the collection of statistics by the Bank, which is entirely in accordance with the e-government policy of the Belgian authorities.

NATIONAL ACCOUNTS AND SURVEYS

The Belgian national accounts, like those of several other EU countries, underwent fundamental revision in 2005. In particular, the level and composition of certain key macroeconomic aggregates, such as GDP, were modified to bring them into line with the new methodological rules issued by Eurostat. Another series of changes was made in response to comments by the European Commission concerning certain calculation methods.

The Bank also took advantage of the opportunity to use new information sources now available and to improve the calculation methods. Thus, the method of estimating the wage bill in the national accounts was revised to permit optimum use of the information obtained from firms' social balance sheets.

To support the work of the Steering Committee on the future of means of payment, two special surveys examined the cost of means of payment, one covering the financial sector and the other considering sales outlets. The monthly and quarterly business surveys and the monthly consumer confidence surveys were also conducted as in the past.

FOREIGN TRADE

The intra-Community trade declaration was simplified on 1 January 2005 with the entry into force of new European and national legislation. The latter simplifies the Intrastat declaration in Belgium, particularly on the subject of repairs and maintenance.

The new European legislation permits a significant reduction in the number of declarants, while maintaining the quality of the foreign trade statistics. Since the mandatory coverage rate for the total value of intra-EU trade has been cut from 99 to 97 p.c., the declaration thresholds in Belgium will be raised from 250,000 euros to 1,000,000 euros for exports and from 250,000 to 400,000 euros for imports with effect from January 2006.

The Intrastat manuals have also been made more user-friendly.

BALANCE OF PAYMENTS

In the balance of payments field, the statistics to be produced by EU Member States are specified in a Regulation of the European Council and Parliament, supplementing a guideline adopted by the ECB in 2004. Under these rules, since June 2005 the Bank has supplied a limited breakdown by currency of the portfolio investments included in the balance of payments and in the overall external position.

In the second half of 2005, the Bank launched a massive publicity campaign to prepare both financial and non-financial enterprises for the entry into force, in January 2006, of the new system of collecting the data needed to compile the balance of payments, the overall external position and other related statistics. Presentations were arranged and manuals on the various surveys were made available to declarants, including via the Bank's website.

The new data collection system conforms to the guidelines agreed by the EU countries, and to the recommendations of the ECB and the European Commission (Eurostat). Abandoning the exhaustive method used up to the end of 2005, it opts for a selective approach consisting mainly of sample surveys.

CIRCULATION

The Bank publishes the following statistics:

- Weekly: indicators relating to the Belgian economy; during 2005 this publication was redesigned to make it better suited to the users' requirements;

- Monthly: press releases on the findings of its flagship product, the business surveys;
- Quarterly: a statistical bulletin in which some of the tables are updated monthly. This bulletin also contains data previously published by the CBFA;
- At various intervals: the (national and regional) foreign trade statistics and the national and regional accounts (this information is circulated on behalf of the National Accounts Institute).

It also responds to requests for statistical data submitted (usually by the academic world) via its Datashop.

All the Bank's publications can be consulted on its website, which also offers facilities for taking out subscriptions in electronic form or on paper. This website gives access to Belgostat, a statistical database offering multiple functionalities, updated daily and regularly adjusted in line with new technologies and users' requirements.

The website updates certain key variables several times a day and provides a facility for consulting statistics relating to the euro area and, via a multidimensional circulation tool, the foreign trade yearbook and the uses-resources tables of the national accounts.

4.2 Microeconomic aspect

4.2.1 Central Balance Sheet Office

The majority of Belgian companies are required to publish their annual accounts each year (balance sheet, profit and loss account, notes on the treatment of the results and social balance sheet). It is a functional unit of the Bank, the Central Balance Sheet Office, which is responsible for making sure that these annual accounts are collected, processed and made available to the public, in line with the current legislation. In certain cases, other documents also have to be filed: auditor's report, annual report and structural survey.

A Royal Decree of 8 December 2004 postponed from 2006 to 2007 the obligation to file annual accounts in the case of large and very large non-profit organisations and private foundations.

The number of sets of annual accounts lodged with the Central Balance Sheet Office was considerably higher than in 2004, thus setting a record for the fourth consecutive year. This situation has prevailed since the introduction of administrative fines, rather than penal sanctions, in cases of failure to submit annual accounts on time. Companies

subject to this obligation file their annual accounts more promptly: 317,454 sets were filed in 2005, against 308,018 in 2004.

Since March 2005, the enterprise identification data which the Central Balance Sheet Office uses in the course of its statutory duties have been transferred automatically to the Central Enterprise Data Bank. This new method of working guarantees the authenticity and validity of these data.

Since May 2005, companies have been able to file standardised annual accounts via the Internet. To be eligible for this option, companies have to use a digital certificate of the Isabel, Certipost or Globalsign type. These are the same as the certificates accepted for e-government applications such as Intervat (VAT return), Finprof (statement of income tax deducted at source), Dimona (immediate reporting to the NSSO), Dmfa (quarterly reporting to the NSSO) and Drs (notification of social risk to the NSSO). These digital certificates ensure the secure transmission of data over the Internet and make it possible to detect any file alteration. The submission fees are paid on line by means of a debit or credit card. In 2005, the proportion of accounts filed via the Internet had already reached 12 p.c. in the busy months (June to October).

In 2006, the possibility of paying by transfer or by deposit will encourage more companies to file their annual accounts via the Internet. This method of filing accounts will therefore gradually become widespread, particularly in view of its convenience.

During 2005, the number of subscriptions to the application permitting consultation of the images of the annual accounts via the Internet stabilised at around 1,800 units. Nonetheless, the actual number of users increased sharply since, this year, supplementary access to the image files of the Central Balance Sheet Office was made available to members of both the Institute of Accountants and Tax Advisers and the Professional Institute of Certified Accountants and Tax Advisers, and to the agents of the regional authorities. On average, the agents of the federal and regional authorities download 1,500 image files a week, which confirms that on-line consultation of the annual accounts fulfils a real need.

In addition, the introduction of the IAS/IFRS accounting standards will mean greater flexibility in the format and content of the annual accounts. In order to carry out its work with optimum efficiency, the Central Balance Sheet Office is therefore developing a data exchange system in the XBRL format, which is particularly suitable for financial data. Convenience and security are the keynotes of this new application.

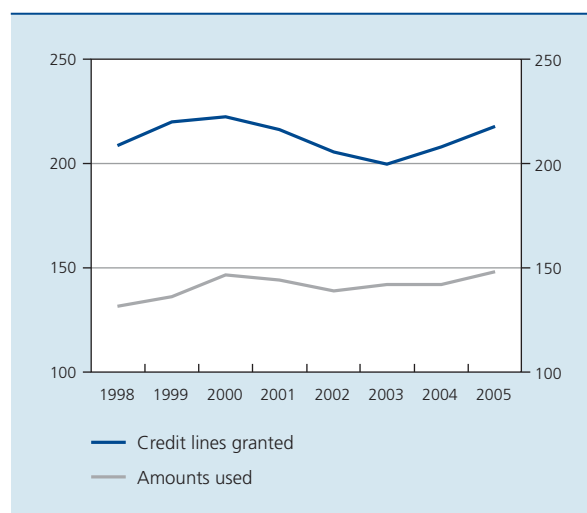
4.2.2 Central Corporate Credit Register

The Central Corporate Credit Register records, by beneficiary (resident and non-resident natural and legal persons), credit facilities of 25,000 euro or more granted for business purposes by credit institutions, and supplier credit and guarantees granted by insurance undertakings with approval for these activities. For the participants, this information is important for the assessment of their credit risk.

At the end of December 2005, this central register had recorded 326,607 credit beneficiaries (of whom 3 p.c. were non-resident) and 689,712 loans or credit lines. Chart 6 shows the movement since 1998 in the credit lines opened by credit institutions for resident enterprises, and the amounts used. On 31 December 2005, the total amount of credit facilities opened stood at 217.6 billion euro, against 207.8 billion euro at the end of the preceding year, an increase of 4.7 p.c.

In June, as part of the cooperation between central credit registers in the EU, the Bank initiated the computerised exchange of data with the central banks of the six other countries concerned (Austria, France, Germany, Italy, Portugal and Spain). These exchanges led to the receipt of information on the debts of almost 1,500 Belgian companies granted credit in 2005 by institutions based in those countries. In addition, the Bank sent data on more than 2,500 enterprises from those countries, granted credit by Belgian institutions. This information, exchanged quarterly, is intended for the institutions participating in the central registers. Moreover, since October 2005, all

CHART 6 CREDIT LINES GRANTED TO RESIDENTS BY CREDIT INSTITUTIONS AND AMOUNTS OF CREDIT USED
(End of period, billions of euro)



Belgian participants have been able to contact the Bank to find out the total debts of an enterprise located in any of the six countries for which the register keeps a central record of the data.

In 2006, the project concerning the functional and technical renovation of the central register will continue, in consultation with the participants.

4.2.3 Central Office for Credits to Individuals

Under the Law of 10 August 2001 on the Central Office for Credits to Individuals, promulgated as part of the policy on the prevention of excessive debt, the Bank records all consumer credit contracts and mortgage loans granted to individuals for private purposes. Since 1 June 2003, the Central Register has recorded not only instances of default on payment, but also current credit contracts without any arrears of payment.

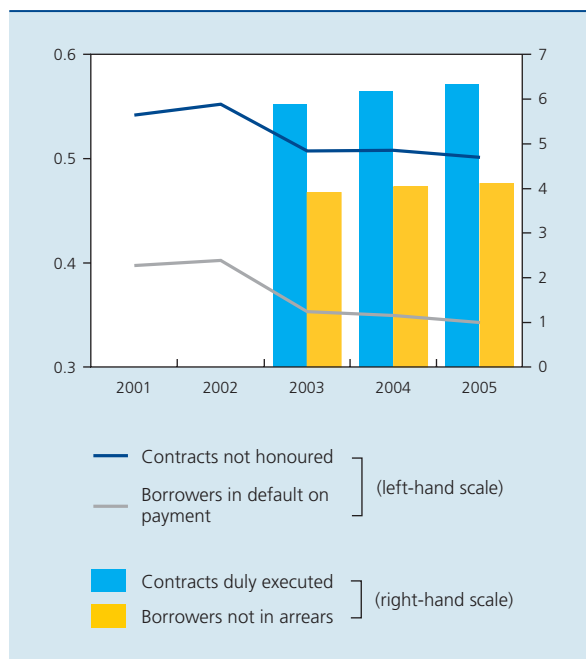
At the end of 2005, the Central Register contained data on over 6.8 million credit contracts (+2.3 p.c. compared to 2004) concluded by over 4.4 million consumers (+1.6 p.c.). At the same time, and for the third year running, the number of instances of default not yet repaid and the number of defaulting borrowers declined, falling to 427,450 contracts (-1.7 p.c.) and 343,020 persons (-1.9 p.c.).

Mortgage loans were the form of credit which produced the strongest rise in 2005 in absolute terms. Compared to the previous year, there was a 6.9 p.c. increase in the total number of contracts, and – with over 2 million contracts recorded as at 31 December 2005, or 29.9 p.c. of the total – mortgage loans rank second in the total number of credit facilities recorded, after the opening of credit lines. Almost one in three adults now has a mortgage loan, making this the most popular form of credit.

In 2005, lenders consulted the register on 9 million occasions. This 50 p.c. increase is due partly to a new functionality developed for lenders, namely the group consultation facility. In 76.7 p.c. of cases, the checks concerned persons who were actually recorded on the Central Register; in 7.2 p.c. of cases, the record showed at least one instance of payment arrears.

Since 1 September 2004, the Bank has also been managing the Database of non-regulated registrations, on the basis of an agreement concluded with the participant lenders. This database records individuals' arrears of payment in the case of current accounts, cards, and consumer credit or mortgage loan contracts, if they are

CHART 7 ACTIVITIES OF THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS
(Millions)



not covered by the law of 10 August 2001⁽¹⁾. At the end of 2005, these data concerned 109,493 persons and 115,750 cases of payment arrears.

More detailed statistical information is available on the Bank's website, and in an annual publication.

In line with the trend over the past three years, requests for access to their personal data on the part of consumers increased in 2005, reaching 115,956. In 2006, in response to the constantly growing demand and in order to simplify the exercise of the right of consultation, the Bank will evaluate the feasibility of allowing debtors access, via the Internet, to the personal data which concern them.

4.2.4 Microeconomic analysis

By developing microeconomic research activities, the Bank is contributing towards the assessment of the economic importance of various branches of activity. At the same time, it makes available to professional organisations or other specialists, and to a wider public, information which would otherwise be difficult or impossible to obtain.

(1) This mainly concerns:
 – unauthorised debit balances of 620 euro or more, either on current accounts not provided with a credit line, or on authorised credit lines of up to 1,250 euro, repayable within a maximum of three months;
 – unauthorised withdrawals exceeding the maximum limit on these credit lines by 620 euro or more.

In 2005, the studies intended for external publication covered a wide range of subjects. The analysis of the liberalisation of the electricity sector continued in a European perspective. The study of consumer credit on the basis of the information supplied by the Central Credit Office was extended. These two projects were published at the beginning of 2006. A specific analysis of ways of dismantling the dominant players in the electricity sector was presented at the seventh conference of the International Agency for Energy Economics. A methodological study concerned the economic impact analyses frequently used in microeconomics. The Bank's technical expertise was also deployed for a methodological study as part of the ECB project on the acceptance of bank loans as guarantees. Finally, last year saw the launch of a survey in the pharmaceutical industry, intended to serve as the basis for studies concerning the research and development efforts of this sector.

As every year, the Bank also analysed developments in non-financial corporations on the basis of the annual accounts, and examined the situation of the Flemish sea ports and the Autonomous Port of Liège. In the context of the port studies, a temporary cooperation agreement was concluded with Antwerp University in order to provide, with the aid of the available microeconomic data, a more detailed picture of the creation of value added.

During 2006, the research mentioned above concerning the pharmaceutical industry, the creation of value added by the port enterprises, consumer credit and the second part of the analysis of the electricity sector will give rise to publications. The same applies to the recurrent studies concerning ports and non-financial corporations. In addition, new projects will be set up: definition of consumer profiles, analysis of the effects of the liberalisation of the electricity sector in Belgium (third and final part of this project), and update of the analysis of the motor vehicle industry.



5. State Cashier and Securities Regulation Fund

5.1 State Cashier

As the State Cashier, the Bank centralises the State's current revenue and expenditure each day in a single account. Following addition of the balance of the Post Office transactions and in consultation with the Treasury, surpluses are allocated to investments and deficits are covered by short-term borrowings.

The Bank also plays an important role in the issue of State loans, and is responsible for the financial service in respect of these loans. The Bond Centre payment agency enables bank branches to submit redeemable securities and coupons due directly for encashment, without first collecting them centrally at their head office. In addition, the securities settlement system handles dematerialised securities.

The Bank also looks after securities on behalf of the Caisse des Dépôts et Consignations.

5.2 Securities Regulation Fund

The Bank is responsible for the daily management of the Securities Regulation Fund, which ensures the liquidity of public loans, essentially for the benefit of non-professional investors, when the daily fixing takes place on Euronext Brussels. The turnover on the fixing market continued to decline, falling from 283.7 million euro in 2004 to 201 million euro in 2005, following the transfer of fixed-rate linear bonds to the continuous market from 4 April 2005. Euronext commissioned two liquidity providers⁽¹⁾, the companies Van der Moolen and Binck, to stimulate the continuous market in linear bonds, which is active from 09.00 to 17.25 hrs. The volume of linear bonds traded on the continuous market came to 53.7 million euro in 2005.

At the end of March 2005, in connection with its supervision of the off-exchange market, the Securities Regulation Fund submitted to the CBFA the report and findings of its survey on the transactions effected on 2 August 2004 by Citigroup Global Markets Limited. The same circumstances are being investigated in other European countries.

Finally, the Securities Regulation Fund is examining the regulatory and practical implications, for the off-exchange market, of European Directive 2004/39/CE on the Market in Financial Instruments (MiFID) which is to be transposed into Belgian law for entry into force in 2007.

(1) A liquidity provider concludes a contract with Euronext for placing buy and sell orders within certain price ranges in order to promote a security's liquidity.

6. Management of resources

6.1 Strategic guidelines

In 2005, master plans were drawn up for each department, in order to translate the findings of the 2004 strategic exercise into practical objectives and action plans for the period 2005-2009. These plans place the main emphasis on increasing the specialisation of the ESCB's activities, improving the services provided and controlling the costs.

The optimisation of the Accounting service activities was examined with a view to augmenting the productivity of the activities. A similar study is in progress regarding the administration of the Equipment and Techniques service.

The year 2005 also saw the introduction of a new IT management system, called IT Governance. On the basis of a combination of microeconomic and technical criteria, this system determines the extent to which each IT project meets the Bank's requirements and conforms to its strategic options. The system makes it possible to optimise human and technical resources while maximising value added. In this connection, a consultation body has been set up, covering all the departments concerned.

The IT Governance results were used to draw up the IT budget, demonstrating the integration of these two instruments.

6.2 Human resources

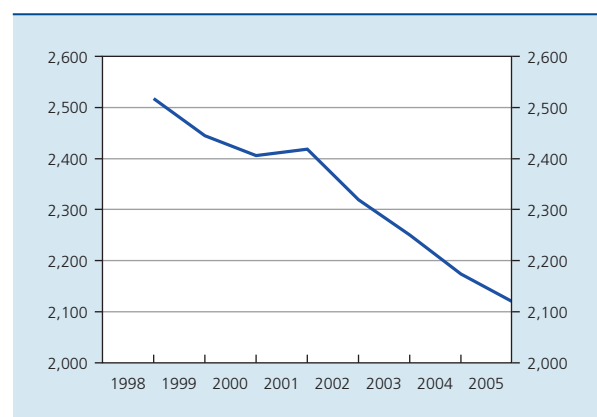
The Bank is operating in a constantly changing environment. In that context, the human resources policy has, in recent years, sought mainly to make the reorganisations socially acceptable, on the basis of a mobility policy in which continuous training is of vital importance to maintain employability. Its "skills management" aspect

encourages personnel to acquire the knowledge and skills required for optimum performance of their duties. Job appraisal interviews have led to a marked improvement on this point.

On 31 December 2005, the Bank employed 2,120 people in terms of full-time equivalents, of whom 368 were managerial and supervisory staff, and 1,752 clerical staff. The workforce declined by 54 units compared to 2004. This reduction resulted mainly from the restructuring of certain activities and from productivity gains. Increased use of information technologies is helping to reduce the labour requirement, especially the need for low-skilled workers.

The Bank reaffirms its commitment to the social dialogue: a collective labour agreement was concluded at the end of 2005 with the workers' representatives. This document formalises key agreements concerning job security, training and retirement. The Bank will set up transitional arrangements for gradual compliance with

CHART 8 PERMANENT STAFF
(End of period, full-time equivalent)



Box 7 – Master plans and changes in employment

The master plans adopted by the Board of Directors set stable medium-term parameters marking the path of the Bank's activities and employment up to 2009. The keywords of this strategic exercise are selectivity, specialisation within the Eurosystem and improvements to services.

In this connection, the Bank intends to give priority to the activities regarded as crucial since 2000 (particularly financial stability, economic research and the collection and processing of macroeconomic and microeconomic data). At the same time, it is managing the decline in certain activities with optimum care, and continuing to control its costs, particularly where support activities are concerned.

According to the master plans, total personnel requirements up to the end of 2009 can be assessed at 1,980 full-time equivalents (361 managerial and supervisory staff, and 1,619 clerical staff). The reduction in the number of staff needed between now and 2009 should therefore be 140 FTEs, or 35 FTEs per annum, which is a slower rate of reduction than in recent years. As before, natural wastage will be sufficient to attain that objective.

the Supplementary Pensions Act, which will prohibit retirement before the age of 60 years with effect from 1 January 2010.

In the years ahead, the Bank intends to continue modernising the assessment and promotion systems applicable to managerial, supervisory and clerical staff. In that context, negotiations have already begun with the workers' representatives. The Bank wants its managerial and supervisory staff above a certain level to pursue their career development either as line managers or as experts. Development centres will define the leadership potential of those staff, and suitable training will be offered. For clerical staff, a new promotion system is under consideration. It will be based on a balanced set of criteria, such as seniority, performance and skills.

In addition, personnel management will be rationalised using Enterprise Resource Planning (ERP) software. In accordance with the law of 2 August 2002 on the supervision of the financial sector and on financial services, the Bank will also examine the scope for synergy with the CFBA in regard to human resources management.

6.3 Information technology resources

The majority of the projects developed by the Bank in 2005 required substantial IT resources. The IT aspect of the payment systems, statistics and central offices was addressed in points 3.2, 4.1.2 and 4.2 respectively.

In addition, the Bank launched the installation of a portfolio management package and completed the first phase of an application intended to manage the collateral provided by credit institutions in connection with monetary policy. As regards procurement administration, it decided to develop ERP modules for the management of orders and incoming invoices. Using an integrator, it will launch these projects at the beginning of 2006. It is also examining the possibility of sharing with other central banks its infrastructures and applications for the management of banknote and coin encashment.

The Infocentre helped to renovate the Bank's website, prepared the general introduction of a document management system, and created or enhanced data warehouses, e.g. for the CEC, the balance of payments, the Central Office for Credits to Individuals, the national accounts and the "Cash" application.

Finally, as every year, the contingency arrangements intended to guarantee the continuity of operation of the computer systems were tested. The back-up centre was transferred to the premises of a service company specialising in IT back-up facilities. At the head office, the entire infrastructure of the main IT centre was assembled in a single room with enhanced security and fire protection.

6.4 Communication tools

In 2001, the communication activities had been restructured and rearranged to improve both the internal and the external presentation of the Bank. Following the new strategic exercise, a further reorganisation took place in 2005, to take advantage of synergies with the secretariat activities. Channels which are proving to be both more effective and more economic were created, notably in the field of publications.

Communication projects require both a long-term approach and regular updating. The new website has been designed to offer two types of access to the information, so that the data provided can be differentiated according to the target public. This innovation seems to be exactly what was wanted: visits to the website are 35 p.c. up compared to 2004. The specific data most frequently requested are the statistics produced by the Bank and the data supplied by the central offices which it operates.

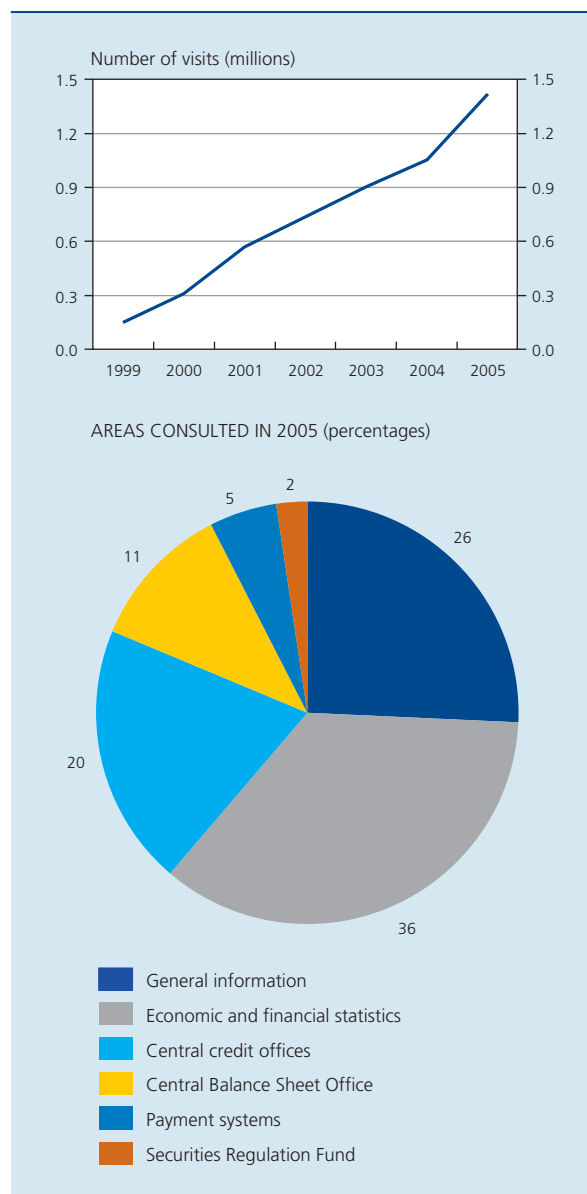
Relations with the press are one of the priorities of the new communication policy. In 2005, no less than eight press conferences were held, plus thirty or so interviews with the governor or another member of the Board of Directors. Contact with the press or the general public by telephone or by mail takes place dozens of times a day.

In addition, the Bank manages a scientific library which is open to the public, specialising in economic, financial and legal subjects. It has over 100,000 books and 1,300 periodicals available for consultation in its recently refurbished reading room. The library also has direct, central access to the electronic versions of the leading economic and financial publications. In 2005, its collection was augmented with part of the CBFA's documentation in connection with the strengthening of the links between the Bank and that institution. The catalogue can be consulted on the website, via a particularly efficient search module.

During 2005, the Bank's museum – a constantly developing facility – received over 23,000 visitors, which was 1,840 more than in 2004, representing an 8.5 p.c. increase. The space devoted to the still very popular subject of money and the imagination was extended. Other new developments are planned for 2006.

The process of modernisation and computerisation also affected the circulation and classification of internal information and documentation.

CHART 9 VISITS TO THE WEBSITE



Finally, in the European context which is so important to the Bank from now on, various communication projects are in progress at Eurosystem level. Thus, the Bank collaborated on the preparation of the publicity campaigns relating to the security of the euro banknotes and price stability.

In 2006, a new medium-term communication plan will be developed, focusing on the Bank's activities and tasks in the public interest. In collaboration with the financial sector, a crisis communication network will also be perfected in accordance with the FSC's recommendations. Finally, the process of rationalising and computerising the administrative work will continue.

6.5 Equipment and premises

The Bank has begun considering how to make best use of the office space at its central headquarters, the ultimate aim being to cut its operating costs. A medium-term plan for the renovation of its equipment and buildings will be drawn up. The emphasis will be on cutting energy consumption and on limiting greenhouse gas emissions. The Bank's head office is among the establishments in the Brussels Capital Region covered by the legislation relating to the Kyoto Protocol.

During 2005, the Bank proceeded with the public sale of the buildings of its former branches in Louvain (the "Round Table" building) and Charleroi. In the latter case, the public sale was followed by negotiations with the purchaser (the Town of Charleroi), resulting in better terms.



1. Governance statement

1.1 Introduction

The National Bank of Belgium, established by the law of 5 May 1850 to take on tasks in the public interest, has always had a special governance structure, deviating from ordinary law, despite its form as a public limited liability company. Designed from the start to enable the Bank to perform its tasks in the public interest, this special system of governance has changed in line with the objectives assigned to the Bank as the country's central bank.

Today, as the central bank of the Kingdom of Belgium the Bank is one of the components of the ESCB, set up by the Treaty establishing the European Community (the Treaty), alongside the central banks of the other EU Member States.

By that token, it is governed first of all by the relevant provisions of the Treaty (title VII of the third part), the Protocol on the Statute of the ESCB and of the ECB which is annexed to the Treaty, and then by the Law of 22 February 1998 establishing the organic statute of the National Bank of Belgium (Organic Law), and its own Statutes, approved by Royal Decree.

The provisions relating to public limited liability companies are applicable only additionally, i.e. in respect of subjects not governed by the Treaty, the Protocol annexed to it, the Organic Law and its Statutes, and provided the provisions on public limited liability companies do not clash with those higher level rules.

As a central bank, it shares the main objective which the Treaty assigns to the ESCB, namely the maintenance of price stability. It contributes towards the performance of the basic tasks of the ESCB which consist in defining and implementing the monetary policy of the European Community, conducting foreign exchange operations in

accordance with Article 111 of the Treaty, holding and managing the official foreign exchange reserves of the Member States, and promoting the smooth operation of the payment systems.

In addition, it is entrusted with the performance of other tasks in the public interest, on conditions laid down by the law or its implementing regulations, subject to compatibility with the tasks which come under the ESCB.

The pre-eminence of its tasks in the public interest, present from the start and now anchored in the Treaty establishing the European Community, is reflected in a system of governance whose very objectives are different from those of the governance of a company incorporated under ordinary law.

First, in accordance with the Treaty, it has to ensure that the rules which govern it are compatible with those of the Treaty itself, and with the Statute of the ESCB, including the requirement concerning the independence of the Bank and of the members of its decision-making bodies in the exercise of their powers and the performance of their tasks, assigned to them by the Treaty and the Statute of the ESCB, in respect of the institutions and bodies of the European Community, governments and all other institutions.

Next, in its governance it has to reserve a dominant position for the expression of the interests of Belgian society as a whole. That explains, in particular, the arrangements for appointing members of its organs, the specific composition and role of its Council of Regency, the reduced powers of the general meeting of shareholders, the special arrangements for the exercise of supervision, including the powers of the Finance Minister's representative and those of the Board of Censors, and the way in which the Bank reports on the performance

of its tasks. That also explains the provisions governing the financial aspects of its activities, intended to give it a sound financial basis and to provide the State, as a sovereign State, with a share of the revenue – known as seigniorage – which the Bank obtains from its activity as a central bank, while allowing remuneration for the capital provided by all the shareholders.

The Bank's special tasks and its specific, unique role in Belgium caused the legislature to give this institution its own particular legal framework and a special form of governance. The values – transparency, efficiency, integrity and commitment – underlying the concern for good governance nonetheless form the basis of the structures and operating rules which govern the Bank.

The Belgian corporate governance code, which complements the legislation and contains provisions which can never be interpreted in a manner contrary to the law, itself points out that it is a recommendation, and affirms its flexibility, implying that its principles can be adapted to the specific characteristics of each enterprise. However, the majority of the code's principles and recommendations cannot be strictly applied to the Bank, in view of the legal framework which governs it, and its position as the country's central bank, responsible for tasks in the public interest, and an integral part of the ESCB.

Nevertheless, the Bank considers that the system of governance imposed on it partly by its own Organic Law and Statutes, and partly by the European rules, is just as exacting as the system advocated by the Belgian corporate governance code, or even more so in various respects, such as supervision.

It believes that, even though the Belgian corporate governance code is inappropriate to the Bank, it is its duty, in view of its dual status as a central bank and a listed company, to accept an obligation to provide extensive information and report on its activities to the public in general. That is the spirit in which it is publishing this governance statement together with a description of the relevant events in this field during the 2005 financial year.

1.2 Organisation, governance and supervision of the Bank

1.2.1 Comparison of the allocation of powers at the Bank and in public limited liability companies governed by ordinary law.

Table 5 shows the atypical character of the Bank's organisation.

1.2.2 Presentation of the Bank's organs and other institutions

The Bank's organs are the governor, the Board of Directors, the Council of Regency and the Board of Censors (cf. Article 17 of the Organic Law and Article 27 of the Statutes).

The other institutions of the Bank are the general meeting, the Government Commissioner, the auditor and the Works Council.

The Bank's organs and their respective powers are fundamentally different from those of conventional public limited liability companies (see table 5).

1.2.3 Organs of the Bank

a. Governor

Powers

The governor exercises the powers conferred on him by the Statute of the ESCB, the Organic Law, and the Bank's Statutes and internal regulations.

He directs the Bank and its staff with the assistance of the directors. He presides over the Board of Directors and the Council of Regency, arranging the implementation of their decisions, and chairs the general meeting. He exercises direct authority over the members of staff, whatever their grade and their function.

At the general meeting, he presents the annual report on the operations and the accounts, approved by the Council of Regency. He submits to the presidents of the Chamber of Representatives and the Senate the annual report referred to in Article 113 of the Treaty establishing the European Community. He may be heard by the competent committees of the Chamber of Representatives and of the Senate, at the request of those committees or on his own initiative.

TABLE 5 ALLOCATION OF POWERS AT THE BANK AND IN PUBLIC LIMITED LIABILITY COMPANIES GOVERNED BY ORDINARY LAW

The Bank		Public limited liability companies governed by ordinary law	
King	Appointment of the governor Appointment of the directors (on the proposal of the Council of Regency)	Appointment of the directors	General meeting
General meeting	Election of the regents (from a dual list) Election of the censors Appointment of the auditor (on the proposal of the Works Council and with the approval of the EU Council of Ministers, on the recommendation of the ECB Governing Council) Hearing of the administration's report Amendment of the Statutes except for Council of Regency prerogatives	Appointment of the auditors Hearing of the directors' report and auditors' report Discharge of the auditors Amendment of the articles of association	
Council of Regency	Amendment of the Statutes to bring them into line with the Organic Law or international obligations which are binding on Belgium Discussion and approval of the annual accounts Appropriation of the profits Discharge of the Board of Directors Setting the remuneration of the members of the Board of Directors Proposal for the appointment of the directors Approval of the budget and the administration's report	Discussion and approval of the annual accounts Appropriation of the profits Discharge of the directors Setting the remuneration of the Administrative Board	
Board of Directors	Definition of company policy Administration and management Drawing up of the annual accounts Preparation of the administration's report Management and routine operation	Definition of company policy Administration and management Drawing up of the annual accounts Drawing up of the directors' report	Administrative Board
Board of Censors	Supervision of the preparation and implementation of the budget	Optional delegation of the management (management board) or the routine operation (chief executive)	Management board or chief executive
Government Commissioner	Monitoring of the Bank's operations, except for those which come under the ESCB (right to oppose any measure which is contrary to the law, the Statutes or the interests of the State)		

He represents the Bank in legal proceedings.

He submits proposals to the Board of Directors on the allocation of the departments and services among the board's members, and on the representation of the Bank in national and international organisations and institutions.

He also has a seat on the ECB Governing Council, which decides inter alia on the monetary policy for the euro area.

Appointment

The governor is appointed by the King for a renewable term of five years. He may be removed from office by the King only if he has been guilty of serious misconduct or if he no longer fulfils the conditions required for the performance of his duties. An appeal may be lodged with the Court of Justice against such a decision, on the initiative of the governor or of the ECB Governing Council.

Thus, the European and Belgian legislation ensures the personal independence of the governor, both by the length of his term of office and by the restrictions on his removal from office.

b. Board of Directors

Powers

The governor and the directors jointly exercise their powers as members of the Board of Directors.

The Board of Directors is indeed a collegiate body, responsible for the administration and management of the Bank in accordance with the Organic Law, the Statutes and the internal regulations, and is in charge of the direction of its policy.

The governor and the directors each have authority over one or more of the Bank's departments and services. They ensure that the latter implement, within the framework of their respective duties, the decisions taken by the governor, the Board of Directors and the Council of Regency.

The Board of Directors appoints and dismisses the members of staff. It determines their salaries and the allocation of the share of the profits assigned to the staff.

It has the right to make settlements and compromises. It exercises regulatory power in the cases laid down by law. It pronounces on all matters which are not expressly reserved for another organ by law, the Statutes or the internal regulations of the Bank.

It draws up the budget and prepares the annual report of the administration and the annual accounts, which it submits to the Council of Regency for approval.

It decides on the investment of the capital, the reserves and the amortisation accounts after consultation with the Council of Regency and without prejudice to the regulations adopted by the ECB.

It proposes the Bank's internal regulations for the approval of the Council of Regency.

The Bank's Board of Directors therefore exercises the powers of administration and strategic direction of the enterprise which are delegated to the administrative board in public limited liability companies governed by ordinary law, as well as the actual management powers.

It is not accountable for its activities to the general meeting, which has no power to give it a discharge; instead, it is accountable to the Council of Regency to which it submits the annual report of the administration and the annual accounts, as the approval of the accounts by that body constitutes a discharge for the administration.

Pursuant to the law of 2 August 2002 on the supervision of the financial sector and on financial services, and the Organic Law, three members of the Board of Directors have a seat, in a personal capacity, on the Board of Directors of the CBFA. To avoid any danger of a conflict of interests, they do not take part in the deliberations in cases where a decision to be taken by the said Board of Directors concerns the Bank as an issuer of financial instruments admitted to trading on a Belgian regulated market. In its judgment of 10 December 2003, the Court of Arbitration confirmed that there are adequate safeguards surrounding the composition and functioning of the CBFA Board of Directors to facilitate impartial decisions.

Composition

The Board of Directors is composed of the governor and five to seven directors. It includes an equal number of French and Dutch speakers, with the possible exception of the governor. The members of the Board of Directors must be Belgians.

The directors are appointed by the King, on the proposal of the Council of Regency. The method of nominating the directors was specifically designed by the legislature of 1948 to emphasise the character of the Bank's activities as tasks performed in the public interest.

The directors are appointed for a renewable term of six years.

The King confers the title of vice-governor on one of the directors. The vice-governor replaces the governor if the latter is unable to perform his duties, without prejudice to Article 10.2. of the Statute of the ESCB.

In order to avoid any conflict of interests, the Organic Law stipulates that, except in a limited number of specified instances, the members of the Board of Directors may not perform duties in commercial companies or companies which are commercial in form, or in public institutions engaged in industrial, commercial or financial activities. They are also prohibited from taking on certain political posts (as members of a parliament, government or cabinet).

The members of the Board of Directors may be removed from office by the King only if they have been guilty of serious misconduct or if they no longer fulfil the conditions required for the performance of their duties.

Thus, the Organic Law ensures the personal independence of the members of the Board of Directors, both by the length of their term of office and by the restrictions on their removal from office.

Activities

The Board of Directors meets whenever circumstances dictate, and at least once a week. Its activities are governed by internal regulations, which are available on the Bank's website.

c. Council of Regency

Powers

The Council of Regency discusses general questions relating to the Bank, monetary policy and the national and international economic situation. Once a month it takes cognisance of the Bank's financial situation.

It has power to lay down the accounting rules for all aspects of the annual accounts which are not covered by the provisions of the Bank's Organic Law and are not mandatory for the compilation of the consolidated balance sheet of the Eurosystem. It approves the expenditure budget and the annual accounts, and finally determines the distribution of the profits proposed by the Board of Directors.

It approves the Annual Report on the Bank's operations.

It amends the Statutes of the Bank in order to bring them into line with the Organic Law and the international obligations which are binding on Belgium.

On a proposal from the Board of Directors, it lays down the internal regulations, containing the basic rules for the operation of the Bank's organs and the organisation of its departments, services and outside offices, and the code of ethics which must be respected by the members of the Board of Directors and the staff.

It may specially delegate some of these powers to the Board of Directors.

The Council of Regency fixes the individual salaries and pensions of the members of the Board of Directors. It also fixes the amount of the allowance received by the censors.

In regard to the budget and remuneration, the Council of Regency is assisted by the Committee for the budget and the directors' remuneration. This committee has power to examine the Bank's budget before it is approved by the Council of Regency and to issue recommendations to the latter on the remuneration and pensions of the members of the Board of Directors. It is chaired by the director responsible for the Controlling department and is otherwise composed of two regents, two censors and the Government Commissioner. The head of the Secretariat service is responsible for its secretariat. Its composition ensures its independence and State control, which is justified by the public character of the enterprise.

The Council of Regency therefore exercises certain powers which, in companies governed by ordinary law, are reserved for the administrative board, and others reserved for the general meeting of shareholders. This is a very special organ which introduces an element of duality into the Bank's governance structure. Composed predominantly of non-executive members, the Council of Regency plays a key role in appointments, remuneration and supervision, and does so on a more continuous basis than the special committees of ordinary companies, in view of the frequency of its meetings.

Pursuant to the law of 2 August 2002 on the supervision of the financial sector and on financial services, and the Organic Law, three regents have a seat, in a personal capacity, on the Supervisory Board of the CBFA.

Composition

The Council of Regency is composed of the governor, the directors and ten regents. It includes an equal number of French- and Dutch-speaking regents.

The regents are elected by the general meeting for a renewable term of three years, on the basis of dual lists of candidates. Two regents are chosen on the proposal of the most representative labour organisations, three on the proposal of the most representative organisations from industry and commerce, from agriculture and from small and medium-sized enterprises and traders, and five on the proposal of the Minister of Finance.

The method of appointing the regents has been organised in a special way. In the preparations for the law of 28 July 1948 which amended the Organic Law and reorganised the Bank, the legislature expressed its desire that the method of appointing the directors and regents should ensure both the Bank's total independence vis-à-vis individual interests and the technical competence of the candidates. The procedure for proposal of the regents was designed to ensure that the various Belgian socio-economic interests were fairly represented.

In order to avoid any conflict of interests, the Organic Law stipulates that the regents may not hold office as managing director, director or manager in a credit institution, nor may they take on certain political posts (as members of a parliament, government or cabinet).

The regents may be dismissed by the general meeting of shareholders deciding by a majority of three-quarters of the votes of the shareholders present, holding at least three-fifths of the shares.

Activities

The Council of Regency meets at least twice a month and passes its decisions by a majority of the votes.

d. Board of Censors

Powers

The Board of Censors' task is to supervise the preparation and implementation of the Bank's budget. In that context, it regularly takes cognisance of the activities of the Internal Audit service. Its chairman informs the Council of Regency of those activities each year and answers its questions on the subject.

Composition

The Board of Censors is composed of ten members. It includes an equal number of French and Dutch speakers. The censors are elected by the general meeting of shareholders for a renewable term of three years. They are chosen from among persons with particular expertise

in auditing. In order to avoid any conflict of interests, they may not take on certain political and parliamentary duties.

The censors may be dismissed by the general meeting of shareholders deciding by a majority of three-quarters of the votes of the shareholders present, holding at least three-fifths of the shares.

Activities

The Board of Censors meets at least twice per quarter. Its resolutions are adopted by a majority of the votes.

e. Remuneration policy

Board of Directors

Pursuant to the Organic Law, the Council of Regency fixes the individual salaries and pensions of the members of the Board of Directors. It is assisted in that by the Committee for the budget and the directors' remuneration, which issues prior recommendations.

Since the Bank, unlike the majority of other listed companies, does not have as its main object the maximisation of its profits, the remuneration of the governor and of the other members of the Board of Directors consists solely of a fixed element, with no variable component. There is no bonus, as the law expressly stipulates that these salaries may not comprise any share in the profits, and that no other remuneration may be added to them. However, the Bank's Statutes do provide for the Bank to pay the governor's accommodation expenses.

For a great many years, the Council of Regency has adopted a policy of setting the remuneration of each new governor, vice-governor or director at the level of his predecessor.

The remuneration of the members of the Board of Directors is index-linked (since 1994 it has been linked to the health index).

In addition, the members of the Board of Directors hand over to the Bank any remuneration which they receive in respect of the various external duties which they perform in consideration of their position at the Bank. However, the majority of these duties attract no remuneration, or only negligible amounts, the principal exception being the post of BIS director assumed by the governor, who hands over the whole of the remuneration to the Bank.

Council of Regency

Pursuant to the Organic Law, the regents receive attendance fees and, if necessary, a travel allowance, depending on their actual attendance at the meetings. The amount of these allowances is set by the Council of Regency under the supervision of the Minister of Finance, exercised via the Government Commissioner.

Board of Censors

Like the regents, the censors receive attendance fees pursuant to the Organic Law, and – if appropriate – a travel allowance, depending on their actual attendance at the meetings. The amount of that allowance is set by the Council of Regency under the supervision of the Minister of Finance, exercised via the Government Commissioner.

1.2.4 Other institutions of the Bank

a. General meeting

Powers

The ordinary general meeting hears the administration's report on the past year's operations and elects the regents and the censors for the offices which have become vacant, in accordance with the stipulations of the Organic Law. It appoints the auditor on the proposal of the Works Council. It amends the Statutes in cases where that power is not reserved for the Council of Regency.

The general meeting deliberates concerning the matters mentioned in the convening notice and concerning those submitted to it by the Council of Regency or by the Board of Censors.

The Organic Law does not confer organ status on the general meeting, whose powers are limited.

Composition

The general meeting of the Bank is composed of the shareholders owning registered shares or bearer shares deposited at least five days before the meeting. It represents the totality of the shareholders.

Activities

The general meeting is chaired by the governor. The ordinary general meeting is held on the last Monday in March or, if that is a public holiday, on the next bank working day. An extraordinary general meeting may be convened

whenever the Council of Regency deems fit. A meeting must be convened if the number of regents or of censors falls below the absolute majority, or if it is requested either by the Board of Censors or by shareholders representing one tenth of the capital stock.

Before the meeting is opened, the shareholders sign the attendance register.

The two shareholders present who hold the largest number of shares act as tellers, provided they are not members of the administration and subject to acceptance of that office.

Each share confers entitlement to one vote.

All resolutions are passed by an absolute majority of the votes. If the votes are equally divided, the proposal is rejected. Elections or dismissals take place by secret ballot. The vote is held by roll call on all other proposals or matters. If, in the first round of the ballot, the members to be elected have not all obtained an absolute majority, a list is drawn up of the persons obtaining the most votes. This list contains twice as many names as there are members yet to be elected. Votes may be given only for these candidates. In all cases where the votes are evenly divided, the older candidate takes precedence.

Decisions passed in accordance with the rules are binding on all the shareholders.

Minutes are drawn up in respect of each meeting. They are signed by the tellers, the chairman and the members of the Council of Regency. They are published on the Bank's website. Exemplified copies and extracts to be issued to third parties are signed by the secretary.

b. Government Commissioner

The Government Commissioner represents the Minister of Finance. Except as regards the tasks and operations within the domain of the ESCB, he supervises the Bank's operations, and he suspends and brings to the attention of the Minister of Finance any decision which is contrary to the law, the Statutes or the interests of the State. If the Minister of Finance has not given a decision within one week of the suspension, the decision may be implemented.

The representative of the Minister of Finance attends, ex officio, in an advisory capacity, the meetings of the Council of Regency and the Board of Censors.

Except as regards operations within the domain of the ESCB, the Government Commissioner has the right to take cognisance at any time of the state of business and to check the accounts and cash holdings. He attends the general meetings when he deems fit. The Board of Directors is required to provide him, whenever he so requests, with a certified copy of the Bank's financial statement.

He reports to the Minister of Finance each year on the performance of his duties.

Via the Government Commissioner, the Minister of Finance thus exercises, on behalf of the sovereign State, supervision over the Bank's activities in regard to tasks in the national interest.

The Government Commissioner's salary is set by the Minister of Finance in consultation with the management of the Bank, and is paid by the Bank.

c. Auditor

The auditor performs the auditing functions prescribed by Article 27.1 of the Protocol on the Statute of the ESCB and of the ECB and reports to the Council of Regency on those activities. He certifies the annual accounts. He performs specific supervision and certification functions on behalf of the ECB auditor. In addition, he performs a specific supervision and information role in relation to the Works Council. He provides technical assistance for the Bank on particular points relating to the supervision of compliance with the code of ethics. For this aspect of his duties, he is specifically subject to the professional secrecy referred to in Section 458 of the Penal Code.

Since the Bank is subject to the legislation on public contracts, the auditor is selected by a public tender. The auditor is then appointed by the general meeting of the Bank on the proposal of the Works Council. He must be approved by the EU Council of Ministers, on the recommendation of the ECB.

d. Works Council

Pursuant to the law of 20 September 1948 on the organisation of the economy, the Bank has a Works Council, a joint consultation body composed of representatives of the employer and representatives of the staff, elected every four years.

The main function of the Works Council is to give its opinion and formulate any suggestions or objections in regard to all measures which could change the working arrangements, working conditions and efficiency of the enterprise.

Specific economic and financial information is made available by the Board of Directors, in accordance with the law.

The Bank's auditor reports to the Works Council once a year on the annual accounts and the management report. He certifies the accuracy and completeness of the information supplied by the Board of Directors. He analyses and explains, particularly for the members of the Works Council appointed by the employees, the economic and financial information submitted to that Council, in terms of its significance in relation to the financial structure and the assessment of the Bank's financial position.

1.2.5 Mechanisms for controlling the activities

A series of control mechanisms ranging from operational to external controls govern the Bank's activities and operations, ensuring that they proceed smoothly with due regard for the set objectives and in accordance with the dual concern for security and the economical use of resources.

The control requirements applicable to the Bank on account of its tasks as the country's central bank and its membership of the ESCB differ from, and extend beyond, those laid down in the Belgian corporate governance code recommended for public limited liability companies governed by ordinary law.

From the point of view of the general management of the enterprise, the Board of Directors is responsible for establishing an internal control system.

The persons in charge within the hierarchy and their staff take on primary responsibility for the actual operation of the internal control system.

The Internal Audit service takes on secondary responsibility for assessing the internal control system, with the following specific objectives:

- in all operating units, to raise awareness of the risks of the enterprise and improve risk identification and measurement;
- to formulate an independent appraisal of these risks and the control measures, checking their application;

- to issue the Board of Directors and the heads of departments and services with opinions and to propose measures for improving the internal control system;
- to provide assistance where necessary in the implementation of these measures.

In order to guarantee its independence vis-à-vis the departments and services, the Internal Audit service comes directly under the governor, and does not carry any direct operational responsibility. It reports to the Board of Directors.

The head of the Internal Audit service is a member of the Internal Auditors Committee (IAC) of the ESCB (cf. table 1). The Internal Audit service conforms to the methodology, objectives, responsibilities and reporting procedure laid down within the ESCB, including the ESCB Audit Policy approved by the ECB Governing Council.

Certain control functions are performed by specific administrative entities (e.g. the management of access to computer systems), while structural conflicts of interest are resolved by segregating the activities concerned (system of Chinese walls): thus, for example, the operation and oversight of the payment systems are entrusted to two different departments.

The Council of Regency approves the annual accounts, the annual budget, the accounting rules and the rules on the Bank's internal organisation.

The Board of Censors supervises the preparation and implementation of the budget and takes cognisance of the activities of the Internal Audit Service. Every year its chairman informs the Council of Regency and answers its questions.

The Bank is also subject to various external controls.

The first form of control is provided by the auditor, who verifies and certifies the Bank's accounts.

Except as regards the tasks and operations within the domain of the ESCB, the Government Commissioner supervises the Bank's operations on the behalf of the Minister of Finance. The latter in fact has the right to monitor those operations and to oppose the implementation of any measure which would be contrary to the law, the Statutes or the interests of the State.

In addition, the governor may be heard by the competent committees of the Chamber of Representatives and of the Senate, at the request of those committees or on his own initiative.

Finally, pursuant to the Statute of the ESCB and of the ECB, the Bank acts in accordance with the directions and instructions of the ECB. The Governing Council takes the necessary measures to ensure compliance with those directions and instructions, and requires all necessary information to be supplied to it.

1.2.6 Rules of conduct

A code of ethics imposes strict rules of behaviour on all the Bank's employees⁽¹⁾. This code also contains specific provisions applicable to the members of the Board of Directors and to the persons involved at all levels in the hierarchy in the execution of monetary policy transactions, foreign exchange transactions and the management of the financial assets of the Bank or of the ECB, or those who might have regular access to confidential information which may influence prices.

The members of the Board of Directors maintain the highest standards of professional ethics.

The members of the Bank's organs and staff are subject to strict professional secrecy pursuant to Article 35 of the Organic Law.

The members of the Board of Directors, and the regents and censors, are subject to the obligations of the laws of 2 May 1995 and 26 June 2004 concerning the disclosure of posts held and of assets.

1.3 Shareholders

1.3.1 Capital and shares

The Bank's share capital totals ten million euro. It is represented by four hundred thousand shares of no face value. Two hundred thousand registered, non-transferable shares are held by the Belgian State. The two hundred thousand other registered and bearer shares are held by the public and listed on the Euronext Eurolist.

The share capital is fully paid.

Except for those belonging to the State, the shares can be converted to registered or bearer shares, free of charge, at the owner's request.

⁽¹⁾ This code is available on the Bank's website.

Ownership of the registered shares is established by entry in the register. The person registered receives a certificate which does not constitute a transferable instrument.

1.3.2 Shareholder structure

Since 1948, and pursuant to the Organic Law, the Belgian State has held two hundred thousand of the Bank's shares, or 50 p.c. of the total voting rights.

The Bank has not received any declaration pursuant to Article 1 § 1 of the law of 2 March 1989 on the disclosure of substantial holdings in listed companies, drawing attention to other holdings of 5 p.c. or more of the voting rights.

1.3.3 Dividends

The setting of the dividends is organised by the Organic Law.

In view of the special nature of the Bank and its tasks in the public interest, including the primary objective of maintaining price stability, the dividend is largely unconnected with the movement in the profits, or any losses. The policy adopted by the Council of Regency ensures that the nominal dividend continues to increase steadily, even in less favourable times, and thus protects the shareholders against the volatility of the Bank's results, which are influenced by the monetary policy of the Eurosystem and exogenous factors such as demand for banknotes or exchange rate movements.

1.4 Communication with shareholders and the public

1.4.1 Principles

As the country's central bank, the Bank performs special tasks in the public interest, on which it has to render account to the democratic institutions and to the public in general, and not only to its shareholders and employees.

1.4.2 Annual reports

Every year, the Bank publishes a report in two parts. Part 1 supplies the public with extensive information on recent economic and financial developments in Belgium and abroad. The summary presented by the governor on

behalf of the Council of Regency focuses on key events in the past year and delivers the Bank's main messages concerning economic policy.

In Part 2, the Board of Directors presents for the attention of the shareholders and the public the report on the Bank's activities and the annual accounts for the preceding year. It also explains the organisation and governance of the Bank.

The two parts of the annual reports are made available in printed form to the shareholders and the public prior to the ordinary general meetings. They are also published on the website, which offers all the reports issued since 1998.

1.4.3 Report to Parliament

Pursuant to the Organic Law and the Statutes, the governor may be heard by the competent committees of the Chamber of Representatives and of the Senate, at their request or on his own initiative.

1.4.4 General meetings

The Bank's ordinary general meeting provides an opportunity for shareholders and the Bank's management to meet. Every year at the meeting, the Board of Directors presents the report on the Bank's activities and the accounts for the past financial year

1.4.5 Website

On its website, the Bank offers the public and the shareholders a large quantity of regularly updated information on its activities and operations, available at all times.

1.5 Representation of the Bank

The governor represents the Bank in legal proceedings.

All acts which are binding upon the Bank, and all powers of attorney relating to those acts may be signed either by the governor or by a director and the secretary without any need to substantiate their authority to third parties.

Routine administrative acts may be signed by the governor, the vice-governor or a director, or by one or two members of the staff delegated for that purpose by the Board of Directors.

The governor and the Board of Directors may expressly or tacitly grant special authority to represent the Bank.

1.6 The Bank's specific responsibility

The Bank issues and abides by its own mission statement. In addition, as a member of the Eurosystem, it has adopted that system's mission statement.

1.6.1 The Bank's mission statement

"The National Bank intends to be an independent, competent and accessible institution which carries out tasks in the public interest, providing added value for the economy and for Belgian society. It aims to be a valued partner of the Eurosystem, to which it contributes at multiple levels."

1.6.2 Eurosystem mission statement

"The Eurosystem, which comprises the European Central Bank and the national central banks of the Member States of the European Union whose currency is the euro, is the monetary authority of the euro area. We in the Eurosystem have as our primary objective the maintenance of price stability for the common good. Acting also as a leading financial authority, we aim to safeguard financial stability and promote European financial integration.

In pursuing our objectives, we attach utmost importance to credibility, trust, transparency and accountability. We aim for effective communication with the citizens of Europe and the media. We are committed to conducting our relations with European and national authorities in full accordance with the Treaty provisions and with due regard for the principle of independence.

We jointly contribute, strategically and operationally, to attaining our common goals with due respect to the principle of decentralisation. We are committed to good governance and to performing our tasks effectively and efficiently, in a spirit of cooperation and teamwork. Drawing on the breadth and depth of our experiences as well as on the exchange of know-how, we aim to strengthen our shared identity, speak with a single voice and exploit synergies, within a framework of clearly defined roles and responsibilities for all members of the Eurosystem."



2. Governance in 2005

2.1 Governor

Mr Guy Quaden has held the office of governor since 1 March 1999. Mr Quaden's term of office was renewed for a further five years by Royal Decree dated 22 December 2003, taking effect on 1 March 2004. The governor's curriculum vitae is available on the Bank's website (www.nbb.be).

The governor can prove ownership of fifty registered shares in the Bank, as required by Article 34, 3° of the Statutes. He holds no share options and no rights to acquire shares. During the past year he has not purchased or sold any Bank shares or other financial instruments relating to such shares.

In consideration of his position at the Bank, the governor holds the following offices:

- Member of the Governing Council and of the General Council of the ECB;
- Director of the Bank for International Settlements;
- Governor of the International Monetary Fund;
- Alternate Governor of the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation;
- Chairman of the Financial Stability Committee, the Supervisory Board of the Financial Services Authority and the Professional Association of Public Credit Institutions;
- Member of the High Council of Finance and of its "Public sector borrowing requirements" section, member of the Board of Directors of the National Accounts Institute and of the Carnegie Hero Fund Administrative Committee.

2.2 Board of Directors

The Board of Directors is composed as follows:

	Term of office expiry date
Mr Guy Quaden Governor	28 February 2009
Mr Luc Coene Vice governor – Secretary	3 August 2009
Mr Jean-Pierre Pauwels Director	31 August 2006 ⁽¹⁾
Mrs Marcia De Wachter Director	28 February 2011 ⁽²⁾
Mr Jan Smets Director	28 February 2011 ⁽²⁾
Mrs Françoise Masai Director	28 February 2011 ⁽²⁾
Mr Jean Hilgers Director – Treasurer	28 February 2011 ⁽²⁾
Mr Peter Praet Director	29 October 2006

(1) By Ministerial Decree of 5 August 2005, the directorship of Mr Jean-Pierre Pauwels was extended for a period of one year from 1 September 2005 to 31 August 2006.

(2) By Royal Decree of 4 March 2005, the directorships of Mrs Marcia De Wachter, Mr Jan Smets, Mrs Françoise Masai and Mr Jean Hilgers were renewed for a period of six years from 1 March 2005.

The curriculum vitae of the directors is available on the Bank's website (www.nbb.be).

The Board of Directors met 57 times in 2005.

Each of the directors can prove ownership of twenty-five registered shares in the Bank, as required by Article 34, 3° of the Statutes. They do not hold any share options or any rights to acquire shares. During the past year they have not purchased or sold any Bank shares or other financial instruments relating to such shares.

In consideration of his position at the Bank, the **vice-governor** holds the following offices:

- Member of the EU Economic and Financial Committee, the ECB International Relations Committee and the Financial Stability Committee;
- Alternate member of the Governing Council and General Council of the ECB, the G10 Committee of Governors and the International Monetary and Financial Committee.

The directors hold the following offices in consideration of their position at the Bank:

Mr Pauwels

Member of the Financial Stability Committee, the High Council of Finance and its Bureau and the Council's "Public sector borrowing requirements" section.

Mrs De Wachter

- Member of the Board of Directors of the CBFA, the Financial Stability Committee, the High Council of Finance and its "Public sector borrowing requirements" section, and of the Belgian Institute of Public Finances;
- Alternate member of the General Committee of the Professional Association of Public Credit Institutions;
- Adviser to the BIS Financial Stability Institute.

Mr Smets

- Chairman of the Belgian Financial Forum Steering Committee and the Irving Fisher Committee on Central Bank Statistics;
- Vice chairman of the High Council of Employment;
- Director of the Belgian Institute of Public Finances;
- Alternate director of the BIS;
- Member of the Financial Stability Committee, the Securities Regulation Fund Committee, the Board of Directors of the Deposits and Financial Instruments Protection Fund, the Administrative Board of the National Accounts Institute, the Study Group on Ageing (High Council of Finance), the OECD Economic Policy Committee and the Editorial Board of the International Journal of Central Banking.

Mrs Masai

- Head of the High Council of Finance permanent section "Financial markets and institutions" and of the Administrative Board of the Credit and Debt Observatory;
- Member of the CBFA Board of Directors, the Financial Stability Committee, the High Council of Finance, the Administrative Board of the Ageing Fund and the Administrative Board of the Royal Institute of International Relations.

Mr Hilgers

Member of the Financial Stability Committee, the Securities Regulation Fund Committee, the Board of Directors of the Deposits and Financial Instruments Protection Fund and the Belgian Institute of Public Finances.

Mr Praet

- Member of the CBFA Board of Directors, the Financial Stability Committee, the Working Group n° 3 of the OECD Economic Policy Committee, the ECB Banking Supervision Committee, the Committee of European Banking Supervisors, the Committee on the Global Financial System, the Basel Committee on Banking Supervision and the Committee on Payment and Settlement Systems;
- Alternate director of the Bank for International Settlements;
- Co-chairman of the Basel Committee on Banking Supervision Research Task Force;
- Alternate member of the G10 Board of Governors and the International Monetary and Financial Committee;
- Member of the board of the Brussels European and Global Economic Laboratory (BRUEGEL) and the European Policy Center.

Council of Regency



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- 7 **Guy Quaden**, GOVERNOR
- 9 **Luc Coene**, VICE-GOVERNOR
- 10 **Jean-Pierre Pauwels**, DIRECTOR
- 3 **Marcia De Wachter**, DIRECTOR
- 14 **Jan Smets**, DIRECTOR
- 18 **Françoise Masai**, DIRECTOR
- 4 **Jean Hilgers**, DIRECTOR
- 5 **Peter Praet**, DIRECTOR

- 17 **Noël Devisch**, REGENT
- 15 **Christian Dumolin**, REGENT
- 8 **Gérald Frère**, REGENT
- 13 **Jacques Forest**, REGENT
- 11 **Luc Cortebeek**, REGENT
- 6 **Martine Durez**, REGENT
- 1 **Christian Van Thillo**, REGENT
- 2 **Didier Matray**, REGENT
- 12 **Rudi Thomaes**, REGENT
- 16 **André Mordant**, REGENT
- 19 **Jean-Pierre Arnoldi**, GOVERNMENT COMMISSIONER

2.3 Council of Regency

From 1 January to 29 March 2005, the Council of Regency was composed as follows:

	Term of office expiry date
Mr Guy Quaden	28 February 2009
Mr Luc Coene	3 August 2009
Mr Jean-Pierre Pauwels	31 August 2006
Mrs Marcia De Wachter	28 February 2011
Mr Jan Smets	28 February 2011
Mrs Françoise Masai	28 February 2011
Mr Jean Hilgers	28 February 2011
Mr Peter Praet	29 October 2006
Baron Tony Vandeputte	29 March 2005 ⁽¹⁾
Mr Philippe Wilmès	29 March 2005 ⁽²⁾
Mr Noël Devisch	27 March 2006 ⁽¹⁾
Mr Christian Dumolin	27 March 2006 ⁽²⁾
Mr Gérald Frère	26 March 2007 ⁽²⁾
Mr Jacques Forest	29 March 2005 ⁽¹⁾
Mr Luc Cortebecq	27 March 2006 ⁽³⁾
Mr Jean-Pierre Hansen	29 March 2005 ⁽²⁾
Mrs Martine Durez	26 March 2007 ⁽²⁾

The terms of office of Messrs Philippe Wilmès, Jacques Forest and Jean-Pierre Hansen, regents, expired at the ordinary general meeting on 29 March 2005. Pursuant to Article 40 of the Bank's Statutes concerning the age limit, the term of office of Mr Philippe Wilmès could not be renewed. Baron Tony Vandeputte wished to resign his post as regent on the date of the meeting. Mr Jean-Pierre Hansen did not wish to be re-elected. The post held by Mrs Mia De Vits had become vacant on 20 July 2004 when she became a member of the European Parliament.

The ordinary general meeting on 29 March 2005 renewed the term of office of Mr Jacques Forest. It elected as regents Messrs Rudi Thomaes⁽¹⁾, Christian Van Thillo⁽²⁾, André Mordant⁽³⁾ and Didier Matray⁽²⁾.

The term of office of Mr Rudi Thomaes, who will complete that of Baron Tony Vandeputte, will end at the close of the ordinary general meeting in 2006. The term of office of Mr André Mordant, who will complete that of Mrs Mia De Vits, will end at the close of the ordinary general meeting in 2007. The terms of office of Messrs Jacques Forest, Christian Van Thillo and Didier Matray will end at the close of the ordinary general meeting in 2008.

(1) On the proposal of the most representative organisations from industry and commerce, from agriculture and from small and medium-sized enterprises and traders.

(2) On the proposal of the Minister of Finance.

(3) On the proposal of the most representative labour organisations.

In view of their many years as members of the Council of Regency, the title of honorary regent was conferred on Baron Tony Vandeputte and Mr Philippe Wilmès. As is customary, Mrs Mia De Vits and Mr Jean-Pierre Hansen, who were only members of the Council of Regency for a short time, have been authorised to adopt the title of former regent.

The Bank is grateful to these people for their commitment and their contribution to the efficient operation of the institution.

In practice, the Council of Regency meets at least three times a month, except during July and August, when it meets at least once. It met 35 times in 2005.

2.4 Board of Censors

From 1 January to 29 March 2005, the Board of Censors was composed as follows:

	Term of office expiry date
Baron Paul Buysse	26 March 2007
Mr Philippe Grulois	27 March 2006
Mr Maurice Charlotiaux	26 March 2007
Mr Paul-F. Smets	29 March 2005
Mr Rik Branson	29 March 2005
Mr Jean-François Hoffelt	27 March 2006
Mr Guy Haaze	29 March 2005
Mr André Duchêne	29 March 2005
Mr Bernard Jurion	27 March 2006

The terms of office of Messrs Paul-F. Smets, Rik Branson, Guy Haaze and André Duchêne, censors, expired at the ordinary general meeting on 29 March 2005.

That of Mr Smets could not be renewed owing to the age limit provisions laid down in Article 40 of the Statutes. Messrs Rik Branson and Guy Haaze were eligible for re-election. Mr André Duchêne did not wish to be re-elected.

The meeting noted that Mr Herman Verwilt tendered his resignation as censor with effect from 31 December 2004.

It renewed the terms of office of Messrs Rik Branson and Guy Haaze. It elected as censors Mrs Michèle Detaille and Messrs Michel Moll and Luc Carsauw. The terms of office of the first four persons named will end at the close of the ordinary general meeting in 2008. That of Mr Luc Carsauw, who will complete the term of office of Mr Herman Verwilt, will end at the close of the ordinary general meeting in 2007.

Board of Censors



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- 5 **Baron Paul Buysse**, PRESIDENT
- 6 **Philippe Grulois**, SECRETARY
- 3 **Maurice Charloteaux**
- 8 **Rik Branson**
- 1 **Jean-François Hoffelt**
- 2 **Guy Haaze**
- 4 **Bernard Jurion**
- 7 **Luc Carsauw**
- 10 **Michèle Detaille**
- 9 **Michel Moll**

The meeting conferred on Messrs Paul-F. Smets and Herman Verwilt the title of honorary censor. As is customary, Mr André Duchêne was authorised to adopt the title of former censor.

The Bank is grateful to these people for their commitment and their contribution to the efficient operation of the institution.

The Board of Censors met eight times in 2005.

2.5 General Meeting

At the ordinary general meeting held on 29 March 2005, the governor reported on the operations of the financial year 2004 and read out the report of the Works Council on the annual information. The members of the Board of Directors also answered numerous questions from shareholders. The shareholders present then conducted the necessary elections to fill the offices of regent and censor which had become vacant. The general meeting also appointed a new auditor. The minutes of this general meeting are available on the Bank's website.

2.6 Government Commissioner

The Government Commissioner was replaced during the year. From 1 January to 31 August 2005, the post was filled by Baron Grégoire Brouhns, who was then appointed Director General of the European Council. Since 1 September 2005, the post has been held by Mr Jean Pierre Arnoldi, Treasury director general.

The Government Commissioner attended the general meeting on 29 March 2005.

2.7 Committee for the budget and directors' remuneration

In 2005, the Committee for the budget and directors' remuneration was composed as follows:

- Chairman: Mr Luc Coene, vice-governor;
- Mr Christian Dumolin, regent;
- Mr Gérald Frère, regent;
- Baron Paul Buysse, censor;
- Mr Philippe Grulois, censor;
- Baron Grégoire Brouhns, Government Commissioner, replaced from 1 September 2005 by Mr Jean-Pierre Arnoldi.

It meets whenever circumstances dictate.

2.8 Auditor

The appointment of the board of auditors formed by KPMG and Deloitte & Touche terminated at the general meeting on 29 March 2005.

The firm Ernst & Young Reviseurs d'Entreprises represented by Mr Marc Van Steenvoort, auditor, was appointed by the ordinary general meeting on 29 March 2005 for a renewable term of three years. This appointment was made on the proposal of the Works Council following a public tender.

The firm Ernst & Young Reviseurs d'Entreprises was approved by the EU Council (Decision of 10 May 2005 published in the Official Journal of the EU on 18 May 2005), on the recommendation of the ECB (Recommendation of the ECB of 7 April 2005 to the EU Council on the external auditor of the National Bank of Belgium, published in the Official Journal of the EU on 15 April 2005).

2.9 Disclosure of posts held and assets

The members of the Board of Directors and the regents and censors are subject to the obligations arising from the laws of 2 May 1995 and 26 June 2004 concerning the disclosure of posts held and assets.

Under these laws, they lodged with the registry of the Court of Audit of Belgium a written statement disclosing all the offices, directorships or professional posts held in 2004 and, in a sealed envelope, a statement of their assets, certified on their honour as accurate and truthful.

Box 8 – Legal proceedings

On 2 March 2005, the Brussels Court of Appeal rejected an appeal lodged by a group of the Bank's shareholders against the order of 7 July 2004 passed by the vice-president of the Brussels Commercial Court. Accepting an appeal in third party proceedings, lodged by the Bank, this order had cancelled the order of 26 March 2004 permitting the lawyer acting for a group of shareholders to speak at the Bank's general meeting on 29 March 2004 and have the arguments placed on record by a process server. This dispute was thus finally resolved.

On 27 October 2005, the Brussels Commercial Court passed judgment in an action against the Bank and the State, brought by a group of shareholders claiming that the Bank had lost its right of issue and that it should therefore have distributed its reserve funds. The court confirmed that the Bank still holds the right of issue and that it is not therefore necessary to liquidate its reserve fund. Considering that it was appropriate to apply Belgian law, which is clear about the maintenance of the Bank's right of issue, the Court rejected the request for referral to the European Court of Justice of the question of the maintenance of the right of issue. It rejected all the shareholders' demands and ordered them to pay the costs.

Since the start of monetary union, the Bank has in fact shared the right of issue with the European Central Bank and the eleven other national central banks of the countries whose currency is the euro. This position, defended by both the National Bank and the European Central Bank, was confirmed by the Commercial Court, as it had been in 2003 by the Court of Arbitration, Belgium's supreme constitutional authority, responsible among other things for ensuring equality of treatment between citizens.

Some of the applicant shareholders lodged an appeal against the judgment of 27 October 2005.

Two other legal actions continued during 2005 before the Brussels Commercial Court.

One, brought by a group of shareholders on 8 January 2004, seeks a judgment ordering the Bank and the State jointly, or *in solidum*, to pay the applicants the sum of € 7,466 per share in the Bank, plus interest⁽¹⁾. The shareholders claim that, between 1990 and 2002, the State wrongfully appropriated the capital gains realised by the Bank on the sale of gold reserves. The hearing is scheduled for 9 June 2006.

The other, brought against the Bank by a group of shareholders on 8 July 2004, sought cancellation of the decision by the Council of Regency which, at the end of the 2003 financial year, approved an additional write-back on the provision for future exchange losses, and approved its inclusion in the calculations under the rule on allocation between the Bank and the State, laid down in Article 29 of the Organic Law and in Article 53 of the Bank's Statutes, known as the 3 p.c. rule. The case was heard on 7 December 2005. Judgment was pronounced on 2 February 2006.

The Commercial Court declared the action unfounded and dismissed the applicants' claims

It confirmed that the additional write-back, intended to adjust the amount of the provision for future exchange losses, does indeed constitute financial income which should be included in the calculation of the rule whereby the net financial income in excess of 3 p.c. of the Bank's interest-bearing assets accrues to the State. Considering that the State is indeed acting as a sovereign State and not as a shareholder in claiming part of the income from the financial assets held by the Bank as a central bank, the court ruled that the inclusion of the amount of the write-back on the provision in the sharing of the financial income between the Bank and the State is not in breach of either the Organic Law or the Statutes. Contrary to what the applicant shareholders claimed, the court considered that the resulting allocation to the State is not against the interests of society nor is it inequitable, and stated

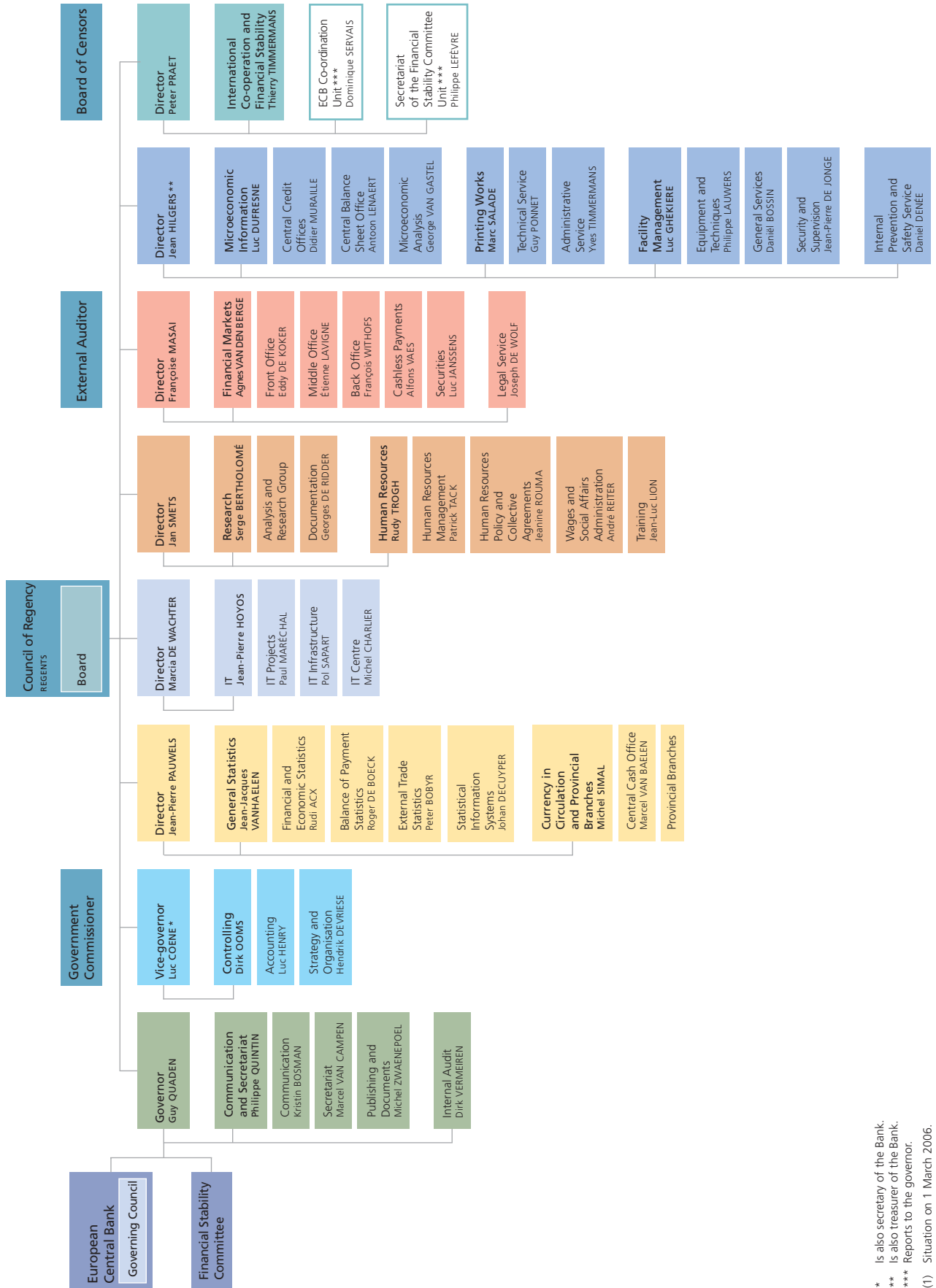
(1) The amount claimed in the initial citation was € 5,784 per share. The applicants put it up to € 7,466 during the proceedings.



that the resulting imbalance alleged by the applicants is due essentially to the special rights and corresponding obligations which the Bank derives from its historical status as a bank of issue, and from the tasks entrusted to it as a member of the ESCB. In its summing up, the Commercial Court concluded that it was inappropriate to cancel the Council of Regency's decision.

These three judicial decisions confirm, as have previous ones, that the Bank respects the principles and rules applicable to it and that the arguments which it supports in legal actions brought against it by some of its shareholders are well-founded.

2.10 Organisation Chart ⁽¹⁾



* Is also secretary of the Bank.
** Is also treasurer of the Bank.
*** Reports to the governor.
(1) Situation on 1 March 2006.

Departments and services ⁽¹⁾

Communication and Secretariat Department – Mr Ph. QUINTIN, Inspector General

Department Advisor	Mr L. AELES
Communication	
Head	Mrs K. BOSMAN, Head of division
Heads of division	Messrs Y. RANDAXHE, J.-P. GILLIJNS
Publishing and documents	
Head	Mr M. ZWAENEPOEL, Inspector General
Secretariat	
Head	Mr M. VAN CAMPEN, Inspector General
Heads of division	Mrs G. VAN HOVE, Messrs J. CALLEBAUT, S. ESSIQUE

Controlling Department – Mr D. OOMS, Department Advisor

Head of division	Mr R. VAN KEYMEULEN
Central Procurement Administration Unit	
Heads of division	Messrs P. MOUS, M. JOOS, T. PLASSCHAERT
Accounting	
Head	Mr L. HENRY, Inspector General
Head of division	Mr M. HINCK
Strategy and Organisation	
Head	Mr H. DEVRIESE, Inspector General
Inspector General	Mr R. COLSON
Heads of division	Mr Ph. BOGAERT, Mrs A.-M. LEJEUNE, Messrs R. VANDEN EYNDE, É. CHARTIER, H. MARENNE

(1) Situation as at 31 December 2005.

Currency in Circulation and Provincial Branches Department – Mr M. SIMAL, Advisor to the Board of Directors

Department Advisor	Mr J. HELFGOTT
Central Cash Office	
Currency coordinator	Mr M. VAN BAELEN
Heads of division	Messrs M. VANVOOREN, G. PIROT, S. VAN DE VELDE
Provincial Branches	
Antwerp	
Administrator	Mr L. MUYLAERT, Inspector General
Heads of division	Messrs M. DE GEYTER, F. VAN NIEUWENHOVE
Courtrai	
Agent	Mr J. VICTOR, Inspector General
Head of division	Mr J. PANNEEL
Ghent	
Manager	Mr W. SCHEPENS, Principal Editor
Hasselt	
Agent	Mr A. VERHELST, Inspector General
Liège	
Administrator	Mr R. HAENECOUR, Head of division
Head of division	Mr A. BEELE
Mons	
Agent	Mrs J. DE BEER, Inspector General
Namur	
Manager	Mr Ph. LAMBERT, Chief clerk

Facility Management Department – Mr L. GHEKIERE, Advisor to the Board of Directors

Equipment and Techniques	
Head	Mr Ph. LAUWERS, Inspector General
Heads of division	Messrs J.-M. DE VOS, H. DE TROYER, R. VAN CAUWENBERGE, D. VANDE PUTTE
Security and Supervision	
Head	Mr J.-P. DE JONGE, Inspector General
Head of division	Mr E. MAES
General Services	
Head	Mr D. BOSSIN, Head of division

Financial Markets Department – Mrs A. VAN DEN BERGE, Assistant Director

Securities Regulation Fund Inspector General	Mr H. SMISSAERT
Intervention Fund Department Advisor	Mr H. DEBREMAEKER
Back Office Head Head of division	Mr Fr. WITHOFS, Inspector General Mr Ch. STAS
Front Office Head Heads of division	Mr E. DE KOKER, Inspector General Messrs N. VANDECAN, Y. PIRLET, M. RUBENS, P. DEMARSIN, A. JACQUES, S. LONGUEVILLE
Middle Office Head Heads of division	Mr É. LAVIGNE, Inspector General Mrs M. HUART, Mr J. DHONDT
Cashless Payments Head Heads of division	Mr A. VAES, Inspector General Mrs S. MASKENS, Messrs J. VERMEULEN, P. LAGAERT
Securities Head Heads of division	Mr L. JANSSENS, Inspector General Messrs J.-M. BRAET, L. EICHER

General Statistics Department – Mr J.-J. VANHAELEN, Assistant Director

Inspector General	Mr Gh. POULLET
Research and Development Unit Head of division	Mr J. PALATE
Balance of Payments Statistics Head Heads of division	Mr R. DE BOECK, Inspector General Messrs M. EECKHOUT, Ph. LAMBOT, P. D'HAVÉ, B. VEREERTBRUGGHEN, P. SPELEERS, A. PETERS
External Trade Statistics Head	Mr P. BOBYR, Inspector General
Financial and Economic Statistics Head Heads of division	Mr R. ACX, Inspector General Messrs B. DEKEYSER, M. MATTENS, D. GOSSET, J. LIBENS, G. DETOMBE, J. WIELEMANS, H. SAUVENIÈRE, O. COENE, C. MODART, Mesdames A. MULKAY, O. BIERNAUX, Messrs P. CREVITS, E. DEBISSCHOP, Mesdames M. LEJEUNE, I. BRUMAGNE
Statistical Information Systems Head	Mr J. DECUYPER, Head of division

Human Resources Department – Mr R. TROGH, Assistant Director, Head of personnel

Wages and Social Affairs Administration Head Head of division	Mr A. REITER, Inspector General Mr P. VAN GYSEGEM
Human Resources Policy and Collective Agreements Head Department Advisor Heads of division	Mrs J. ROUMA, Inspector General Mr R. VAN KEYMEULEN Messrs G. VAN CAMP, J. DEVARREWAERE, F. MARANNES
Training Head Heads of division	Mr J.-L. LION, Inspector General Mr L. LAGAE, Mrs S. ZONIOS
Human Resources Management Head Head of division	Mr P. TACK, Inspector General Mrs M. LIEVENS

International Cooperation and Financial Stability Department – Mr Th. TIMMERMANS, Assistant Director

Department Advisors	Mr J. PISSENS, Mrs J. MITCHELL
Inspector General	Mr B. GROETEMBRIL
Heads of division	Mrs G. BIRON, Messrs B. BOURTEMBOURG, G. TEMMERMAN

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Head of division	Mr G. DUMAY
IT Planning Unit	
Head of division	Mrs C. SWARTENBROEKX
Data Security Management	
Head of division	Mr L. DELAISSE
IT Centre	
Head	Mr M. CHARLIER, Inspector General
Heads of division	Mr L. ESPAGNET, Mrs A. VANDERBUSSE
IT Projects	
Head	Mr P. MARÉCHAL, Head of division
Inspectors General	Messrs P. LAUWERS, J. FRANCOIS, Mrs H. VAN HECKE
Heads of division	Messrs J.-M. PLISNIER, E. DE SMET, M. DUCHATEAU, Mrs J. MERTENS, Messrs R. MARTIN, D. KERSCHIETER, Mrs S. PIETTE, Mr L. D'HAESE
IT Infrastructure	
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Heads of division	Messrs P. DEHOORNE, S. PIERLOT, R. LEYBAERT, E. WILKIN, J. VANDOORNE, Y. VANDENBOSCH

Microeconomic Information Department – Mr L. DUFRESNE, Assistant Director

Microeconomic Analysis	
Head	Mr G. VAN GASTEL, Inspector General
Head of division	Mr F. COPPENS
Central Balance Sheet Office	
Head	Mr A. LENAERT, Inspector General
Heads of division	Mesdames C. BUYDENS, C. DÜMM
Central Credit Offices	
Head	Mr D. MURAILLE, Inspector General
Head of division	Mr P. BISSOT

Printing Works Department – Mr M. SALADE, Assistant Director

Administrative Service	
Head	Mr Y. TIMMERMANS, Inspector General
Head of division	Mr D. LOZET
Technical service	
Head	Mr G. PONNET, Inspector General
Head of division	Mr L. BODRANGHIEN

Research Department – Mr S. BERTHOLOMÉ, Chief Advisor to the Board of Directors

Chief Advisor	Mr H. FAMERÉE
Deputy Head of Department	Mr I. MAES, Head of division
Department Advisors	Mrs F. DONKERS, Messrs V. PÉRILLEUX, M. MARÉCHAL, Ph. DELHEZ, L. AUCREMANNE, L. DRESSE, R. WOUTERS
Heads of division	Mrs E. DE PREST, Messrs Ph. MOËS, Ph. JEANFILS, P. BUTZEN, Mrs C. RIGO, M. H. GEEROMS, Mrs P. HEUSE, Mr K. BURGGRAEVE
Documentation	
Head	Mr G. DE RIDDER, Inspector General

Services reporting directly to a member of the Board of Directors

Internal Audit	
Head	Mr D. VERMEIREN, Inspector General
Heads of division	Mrs J. SIMAR, Messrs Ph. DE PICKER, D. VANDEN BROECK, R. MAES, F. PIRSOUL, D. CASIER
ECB Coordination Unit	
Inspector General	Mr D. SERVAIS
Head of division	Mrs D. CAPPUYNS
Secretariat of the Financial Stability Committee Unit	
Secretary	Mr Ph. LEFÈVRE, Department Advisor
Heads of division	Mr J.-M. VAN ESPEN, Mrs D. GRESENS
Internal Prevention and Safety Service	
Head	Mr D. DENÉE, Inspector General
Head of Medical Supervision	Mr A. DE LANDTSHEER
Doctor	Mr Ch. VAN LAETHEM
Legal Service	
Head	Mr J. DE WOLF, Assistant Director
Department Advisor	Mr Ph. LEFÈVRE
Head of division	Mr C. RUBENS

Seconded to the Office of Mrs Onkelinx, Deputy Prime Minister and Minister of Justice:
Mr J. MONT, Head of division

On mission at the Belgian Permanent Representation with the European Union:
Mr Ph. VIGNERON, Inspector General

On mission at the Belgian Permanent Representation with the OECD, Paris:
Mr D. SLAATS, Head of division

Seconded to the Office of Mr Reynders, Deputy Prime Minister and Minister of Finance:
Mr X. HAWIA, Head of division

2.11 Obituaries and retirement

The Bank was saddened by the death of four members of its staff in 2005: Mesdames J. Jacobs and N. Patriarche, and Messrs H. Van Daele and F. Van Lierop.

They will always be remembered.

The Bank wishes to express its gratitude to the members of the managerial and supervisory staff who reached the end of their career:

Messrs	Chr. Dekeyser	Messrs	R. Roothans
	Y. Leblanc		P. Sarlet
	E. Jacobs	Mrs	M.-F. Baeken
	E. Colman		

It also thanks the following members of the clerical staff whose careers came to an end in the past year:

Messrs	L. Ackermans	Mrs	G. Hancisse	Mrs	C. Tielemans
	W. Baele	Messrs	R. Hendrickx	Messrs	W. Uitterhaegen,
	L. Beliën		M. Herroelen		A. Van Den Abbeele
	C. Bernard		J.-P. Hoffelincx		L. Vanden Berghe
	A. Bral	Mrs	J. Kaux		E. Van Den Broeck
Mrs	E. Bureau		M. Lefort	Mrs	M. Vandenbussche
Mr	G. Callebaut		C. Maes	Mr	P. Van De Plas
Mrs	N. Carion	Mr	J. Mainil	Mrs	C. Van Der Borght
Messrs	J. Cassauwers	Mrs	M. Martens	Mr	L. Van Der Borght
	L. Debooserie	Mr	D. Meersschaut	Mrs	M.-J. Vandergucht
	A. De Buysscher	Mrs	C. Meganck	Mr	A. Van Grootven
	E. De Looze	Messrs	J.-C. Nazé	Mrs	S. Van Hoof
	R. Dentant		J. Neiryndck	Mr	R. Van Laer
Mrs	J. Denolf		J.-P. Outmanns	Mrs	D. Vansteenwinckel
Messrs	L. De Regter	Mrs	H. Poncin		J. Verstappen
	M. De Waele		J. Selvais		C. Walravens
Mrs	L. François		A. Smets		M. Weckhuysen
Mr	J. Haerigs	Mr	J. Sterckx		C. Willems



1. Presentation of annual accounts as at 31 December 2005

1.1 Balance Sheet

(before distribution of profit)

Assets	(thousands of euro)	
	31-12-2005	31-12-2004
1. Gold and gold receivables	3,183,132	2,664,670
2. Claims on non-euro area residents denominated in foreign currency	7,030,957	7,515,315
2.1 Receivables from the IMF	1,497,732	2,217,927
2.2 Balances with banks and security investments, external loans and other external assets	5,533,225	5,297,388
3. Claims on euro area residents denominated in foreign currency	471,093	419,888
4. Claims on non-euro area residents denominated in euro	431,299	333,755
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	28,950,433	22,695,205
5.1 Main refinancing operations	27,895,000	22,391,000
5.2 Longer-term refinancing operations	1,055,433	304,205
5.3 Fine-tuning reverse operations	–	–
5.4 Structural reverse operations	–	–
5.5 Marginal lending facility	–	–
5.6 Credits related to margin calls	–	–
6. Other claims on euro area credit institutions denominated in euro	51,157	318
7. Securities of euro area residents denominated in euro	4,672,397	4,604,179
8. Intra-Eurosystem claims	22,034,183	18,671,519
8.1 Participating interest in ECB capital	142,816	142,816
8.2 Claims equivalent to the transfer of foreign currency reserves	1,419,102	1,419,102
8.3 Net claims related to the allocation of euro banknotes within the Eurosystem	20,472,265	17,109,601
8.4 Other claims within the Eurosystem (net)	–	–
9. Other assets	2,542,385	2,510,272
9.1 Coins of euro area	10,021	12,749
9.2 Tangible fixed assets	391,471	392,435
9.3 Other financial assets	1,806,975	1,682,542
9.4 Off-balance-sheet instruments revaluation differences	–	84,015
9.5 Accruals and prepaid expenditure	189,646	192,723
9.6 Sundry	144,272	145,808
Total assets	69,367,036	59,415,121

Liabilities

(thousands of euro)

	31-12-2005	31-12-2004
1. Banknotes in circulation	18,550,389	16,451,255
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6,785,900	5,416,413
2.1 Current accounts (covering the minimum reserve system)	6,785,900	5,416,413
2.2 Deposit facility	–	–
2.3 Fixed-term deposits	–	–
2.4 Fine-tuning reverse operations	–	–
2.5 Deposits related to margin calls	–	–
3. Other liabilities to euro area credit institutions denominated in euro	50,854	–
4. Liabilities to other euro area residents denominated in euro	48,254	144,781
4.1 General government	37,369	135,150
4.2 Other liabilities	10,885	9,631
5. Liabilities to non-euro area residents denominated in euro	320,960	422,841
6. Liabilities to euro area residents denominated in foreign currency	155,763	74,996
7. Liabilities to non-euro area residents denominated in foreign currency	377,936	1,011,421
8. Counterpart of special drawing rights allocated by the IMF	587,099	552,986
9. Intra-Eurosystem liabilities	35,592,396	29,997,845
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–
9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–
9.3 Other liabilities within the Eurosystem (net)	35,592,396	29,997,845
10. Other liabilities	667,914	179,403
10.1 Off-balance-sheet instruments revaluation differences	22,695	–
10.2 Accruals and income collected in advance	26,243	15,500
10.3 Sundry	618,976	163,903
11. Provisions	852,268	931,082
11.1 For future exchange losses	188,719	289,019
11.2 For new premises	–	–
11.3 For contingencies	663,549	593,549
11.4 For loss from the ECB	–	48,514
12. Revaluation accounts	3,203,584	2,348,907
13. Capital and reserve fund	1,814,789	1,714,529
13.1 Capital	10,000	10,000
13.2 Reserve fund:		
Statutory reserve	276,196	175,209
Extraordinary reserve	1,150,543	1,150,492
Amortisation accounts in respect of tangible fixed assets	378,050	378,828
14. Profit for the year	358,930	168,662
Total liabilities	69,367,036	59,415,121

1.2 Profit and Loss Account

(thousands of euro)

	2005	2004
I. Proceeds of net interest-bearing assets	433,003	355,194
1. Interest income	1,300,993	990,564
2. Interest expenses (-)	-831,607	-616,410
3. Capital gains (losses (-)) on securities	-39,929	23,302
4. Allocation of monetary income from the Eurosystem	3,546	6,252
5. Income from the ECB	-	-
6. Appropriation to the provision for covering losses from the ECB (-)	-	-48,514
II. Foreign exchange difference results	529,065	-50,750
1. Foreign exchange difference results	428,765	-269,950
2. Use and write-back of provision for future exchange losses (appropriation (-))	100,300	219,200
III. Commission	3,425	4,665
1. Commission received	7,458	8,665
2. Commission paid (-)	-4,033	-4,000
IV. Amounts recovered from third parties	65,224	63,692
V. Proceeds from statutory investments	86,318	93,611
VI. Other proceeds	8,901	1,850
VII. State share (-)	-140,064	25,473
1. Proceeds from net interest-bearing assets (art. 29)	-70,127	-
2. Proceeds fully assigned to the State	-30,463	-25,976
3. Foreign exchange difference results	-39,474	51,449
VIII. Transfer to the unavailable reserve of capital gains on gold (-)	-298,904	-
IX. General expenses (-)	-231,941	-233,376
1. Remuneration and social costs	-183,014	-188,138
2. Other expenses	-48,927	-45,238
X. Exceptional costs (-)	-	-
XI. Depreciation of tangible fixed assets (-)	-9,761	-12,025
XII. Provisions	-70,000	-66,000
1. Use and write-back of provision for new premises (appropriation (-))	-	-
2. Use and write-back of provision for contingencies (appropriation (-))	-70,000	-66,000
XIII. Taxes and dues (-)	-16,285	-13,672
XIV. Transfer to the tax-free reserves (-)	-51	-
Net profit for the financial year	358,930	168,662

1.3 Off-balance-sheet Items

(thousands of euro)

	31-12-2005	31-12-2004
Forward transactions in foreign currencies and in euro		
Forward claims	3,833,644	2,065,928
Forward liabilities	3,871,416	1,981,904
Forward transactions on interest rate and fixed-income securities	602,102	96,909
Liabilities which could lead to a credit risk		
Commitments towards international institutions	423,465	398,860
Commitments towards other institutions	1,095,746	103,814
Valuables and claims entrusted to the institution		
For encashment	166	220
Assets managed on behalf of the Treasury	88,027	71,420
Assets managed on behalf of the ECB	1,571,898	1,291,873
Custody deposits	402,737,649	380,279,407
Capital to be paid up on shares of the BIS	227,310	203,748

1.4 Allocation of Profit

(thousands of euro)

	2005	2004
Profit for the year	358,930	168,662
The profit is distributed as follows:		
Allocation to the extraordinary reserve	–	–
Allocation of the balance in accordance with Article 49 of the statutes:		
1. To the shareholders a first dividend of 6 %	600	600
2. Of the amount in excess of this:		
a) 10 % to the statutory reserve	35,833	16,806
b) 8 % to the staff or to institutions in its favour	28,666	13,445
3. Of the amount in excess of this:		
a) to the State, one fifth	58,766	27,562
b) to the shareholders, a second dividend	26,788	26,068
c) the balance to the statutory reserve	208,277	84,181

In accordance with the decision of the general meeting of 26 March 2001, the dividend will be payable from the second bankworking day following the general meeting namely 29 March 2006, on presentation of coupon No. 204:

(euro)

	Gross amount	Withholding tax	Net amount
Dividend per share	68.47	17.12	51.35

1.5 Social balance sheet

1. Statement of persons employed

A. Workers entered on the staff register

1. In the financial year and the previous year	1. Full-time	2. Part-time	2005		2004	
			3. Total (T) or total in full-time equivalents (FTE)		4. Total (T) or total in full-time equivalents (FTE)	
Average number of workers	1,628.73	815.83	2,274.13 (FTE)		2,347.95 (FTE)	
Actual number of hours worked	2,427,593	960,732	3,388,325	(T)	3,496,328	(T)
Staff costs (<i>in thousands of euro</i>)	136,391	46,616	183,007	(T)	181,230	(T)
Value of benefits granted in addition to wages (<i>in thousands of euro</i>)	–	–	1,577	(T)	1,037	(T)
<hr/>						
2. At the end of the financial year	1. Full-time	2. Part-time	3. Total (T) in full-time equivalents			
a. Number of workers entered in the staff register	1,585	819	2,232.05			
b. By type of contract of employment						
Permanent contract	1,528	814	2,172.25			
Fixed-term contract	57	5	59.80			
Contract for the execution of a clearly defined project	–	–	–			
Substitution contract	–	–	–			
c. By gender						
Male	1,226	283	1,468.85			
Female	359	536	763.20			
d. By occupational category						
Management personnel	15	–	15			
Non-manual workers	1,570	819	2,217.05			
Manual workers	–	–	–			
Other	–	–	–			

B. Temporary staff and persons made available to the enterprise

During the year	1. Temporary staff	2. Persons made available to the enterprise
Average number of persons employed	8.59	32.67
Actual number of hours worked	13,701	52,109
Costs to the enterprise (<i>in thousands of euro</i>)	332	3,208

2. Table of staff movements during the year

A. Staff entering service

	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of workers entered in the staff register during the year	352	7	355.80
b. By type of contract of employment			
Permanent contract	13	1	13.50
Fixed-term contract	339	6	342.30
Contract for the execution of a clearly defined project	–	–	–
Substitute contract	–	–	–
c. By gender and standard of education			
Male: Primary	–	–	–
Secondary	144	–	144
Higher non-university	9	–	9
University	13	1	13.80
Female: Primary	2	–	2
Secondary	165	6	168
Higher non-university	8	–	8
University	11	–	11

B. Staff leaving

	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of workers whose contract termination date was recorded in the staff register during the year	396	20	409.91
b. By type of contract of employment			
Permanent contract	53	18	65.91
Fixed-term contract	343	2	344
Contract for the execution of a clearly defined project	–	–	–
Substitute contract	–	–	–
c. By gender and standard of education			
Male: Primary	3	–	3
Secondary	168	3	169.90
Higher non-university	13	1	13.95
University	14	1	14.80
Female: Primary	2	3	3.96
Secondary	175	10	181.90
Higher non-university	14	1	14.60
University	7	1	7.80
d. Reason for termination of contract			
Retirement	42	14	51.71
Early retirement	–	–	–
Dismissal	6	2	7.60
Other reasons	348	4	350.60
of which: number of persons continuing to perform services for the enterprise on a self-employed basis, at least 50 p.c. of normal hours	–	–	–

3. Statement of the use of employment promotion measures during the year

	2005		
	Number of workers concerned		3. Amount of the financial advantage (In thousands of euro)
	1. Number	2. In full-time equivalents	
1. Measures comprising a financial advantage⁽¹⁾			
1.11 "First job" agreement	29	11.03	48
2. Other measures			
2.2 Successive fixed-term contracts of employment	4	4.00	
Number of workers concerned by one or more employment promotion measures:			
– total for the year	33	15.03	
– total for the previous year	35	23.02	

(1) Financial advantage for the employer concerning the job-holder or his replacement.

4. Information on training for workers during the year

	1. Number of workers concerned	2. Number of hours' training attended	3. Cost to the enterprise (In thousands of euro)
Total worker training initiatives paid for by the enterprise			
Male	1,052	36,551	5,483
Female	566	18,168	2,725

2. Notes to the annual accounts

Box 9 – Composition and appropriation of the results

Although the Bank was established in the form of a public limited liability company, the pursuit of profit is, in its case, subordinate to the performance of its tasks in the public interest. By far the largest component of its income is that derived from issuing banknotes. For central banks, banknotes are non-interest-bearing liabilities. As the counterpart, they hold assets which produce a return. The income from these assets is called “seigniorage income”, and is pooled at Eurosystem level and redistributed among the central banks of the Eurosystem on the basis of their respective shares in the issue of euro banknotes.

In return for the right of issue which is granted to the Bank, the State is entitled to a priority share in its profits. In order to cover, in particular, its operating expenses and the interest on its capital, the Bank retains the first three per cent of the income on net interest-earning assets, which form the counterpart to the banknotes. After that, the seigniorage income accrues to the State. This allocation rule, called the 3 % rule, implies that the variability in the income on net interest-earning assets is borne first by the State, which receives the return in excess of 3 %, and only then by the Bank, when that return is less than 3 %.

The country's official gold and foreign exchange reserves represent a substantial part of the Bank's income-generating assets. Their management is subject to the aims of monetary and exchange rate policy. For example, these resources must be capable of being easily mobilised in the event of an additional call on the foreign exchange reserves by the ECB, or in order to respect commitments connected with international treaties, particularly towards the IMF. The official foreign exchange reserves are therefore held mainly in the form of short-term deposits and liquid, fixed-income securities, restricting the scope for the Bank to maximise the return on them. Moreover, the management of the official exchange reserves exposes the Bank to an exchange rate risk, which means that it has to form provisions to cater for exchange rate fluctuations.

The Eurosystem accounting rules are based on the principle of prudence whereby foreign exchange losses are recorded in the profit and loss account even if they are not realised. Conversely, unrealised gains are recorded in the revaluation accounts of the balance sheet which, with the provision for future foreign exchange losses, form a buffer fund.

It is this same principle of prudence that caused the State to leave at the Bank's disposal the gains realised on foreign currencies which could have accrued to the State under the 3 % rule, on condition that they are allocated to a provision to cover any future foreign exchange losses.

Box 10 – Performance

The Bank's good performance was due largely to the more than 15 % increase in banknote circulation in the Eurosystem, which affects the net interest-earning assets of the System and hence of the Bank.

The percentage of euro-denominated assets in the net interest-earning assets increased. However, their average yield declined, mainly owing to the lower capital gains realised on the securities portfolio. The average return on the assets in foreign currencies increased as a result of the rise in interest rates on dollar investments. In addition, in contrast to the previous year, the Bank did not have to constitute any provision to cover an ECB loss.

Dollar sales permitted the realisation of foreign exchange gains totalling € 90 million which, after tax, were added to the provision for future foreign exchange losses. In view of the current estimate of the foreign exchange risk and the reduction in the net foreign exchange position, an amount of € 160 million was written back from that same provision.

Together, these factors contributed towards an increase in the return on net interest-earning assets, so that the State once again received seigniorage income in accordance with the 3 % rule.

As usual, the Bank will pay the shareholders a dividend which keeps pace with the rate of inflation.

2.1 Legal framework

The annual accounts are drawn up in accordance with Article 33 of the Law of 22 February 1998 establishing the Organic Statute of the National Bank of Belgium, which provides that:

“The accounts and, if appropriate, the consolidated accounts of the Bank shall be drawn up:

- 1° *in accordance with this Act and the mandatory rules drawn up pursuant to Article 26.4 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank;*
- 2° *and otherwise in accordance with the rules laid down by the Council of Regency.*

Articles 2 to 4, 6 to 9 and 16 of the Act of 17 July 1975 on business accounting and their implementing decrees shall apply to the Bank with the exception of the decrees implementing Articles 4 (6) and 9, § 2.”

The accounts for the financial year under review have been drawn up in accordance with the above-mentioned provision and the accounting rules approved by the Council of Regency on 8 January 2003.

They are presented in thousands of euro unless otherwise stated.

2.2 Accounting principles and valuation rules

General

The accounts, which are drawn up on an historical cost basis, are adjusted to take account of the valuation at market prices of negotiable instruments – other than those belonging to the statutory portfolio –, of gold and of all the elements, both on-balance-sheet and off-balance-sheet, denominated in foreign currencies.

Transactions relating to financial assets and liabilities are recorded in the accounts on the settlement date.

Assets and liabilities in gold and in foreign currencies

Assets and liabilities in gold and foreign currencies are converted into euro at the exchange rate in force on the balance sheet closing date. Proceeds and costs are converted at the exchange rate prevailing two working days before the accounting date.

Foreign currencies are revalued on a currency-by-currency basis; the revaluation includes both on-balance-sheet and off-balance-sheet items.

Securities are revalued at market prices separately from the revaluation of foreign currencies at their market exchange rates.

Gold is revalued on the basis of the price in euro per fine ounce as derived from the quotation in US dollars established at the time of the London fixing on the last working day of the year.

Securities

Fixed-income negotiable securities denominated in foreign currencies and in euro are valued at the market price prevailing on the balance sheet date. Securities are revalued individually, apart from securities held in the statutory investment portfolio, recorded under sub-item 9.3 “Other financial assets”, which are treated as a separate portfolio and valued on the basis of their actuarial yield.

Participations

The participations, which the Bank holds in the form of shares representing the capital of various institutions, are recorded in the balance sheet at their acquisition price.

(Reverse) Repurchase agreements

A repurchase agreement is a sale of securities in which the transferor expressly undertakes to repurchase them and the transferee expressly agrees to sell them back at an agreed price and on an agreed date.

The transferor records, on the liabilities side of the balance sheet, the amount of the liquidity received as a debt to the transferee and values the securities ceded in accordance with the accounting rules applicable to the securities portfolio in which they are held.

The transferee, for his part, records on the assets side of his balance sheet a claim on the transferor corresponding to the amount paid out, while the securities acquired are not recorded in the balance sheet but off-balance-sheet.

The above-mentioned transactions are regarded by the Bank as repurchase agreements or reverse repurchase agreements depending on whether it acts as transferor or transferee of the securities.

Repurchase agreements and reverse repurchase agreements, which relate to securities denominated in foreign currencies, have no effect on the average cost price of the position in the currency in question.

Income recognition

1. The recognition of income is determined in accordance with the following rules:
 - income and expenses are recognised in the financial year in which they are earned or incurred; with effect from the 2006 annual accounts, the portion attributed to the staff or to institutions in its favour in the Bank's profits for the year, pursuant to Article 49 of the Statutes, will also be recognised in the financial year in which it is earned⁽¹⁾;
 - realised gains and losses are taken to the profit and loss account;
 - at the end of the year, positive revaluation differences (on securities and foreign reserves) are not shown in the profit and loss account but are recorded in the revaluation accounts on the liabilities side of the balance sheet;
 - negative revaluation differences are first of all deducted from the corresponding revaluation account, any balance then being taken to the profit and loss account. In the latter case, exchange losses are covered by a transfer from the provision for future exchange losses;
 - losses included in the profit and loss account are not offset during subsequent years by new positive revaluation differences; negative revaluation differences on a security, currency or asset in gold are not netted either against positive revaluation differences on other securities, currencies or gold;
 - for gold, no distinction is made between the price and currency revaluation;
 - in order to calculate the acquisition cost of securities or currencies that are sold, the average cost method is used on a daily basis; at the end of the year, if any negative revaluation differences are taken to the profit and loss account, the average cost of the asset in question (gold, currency or security) is adjusted downwards to the level of the current exchange rate or market price value thereof.
2. Premiums or discounts arising from the difference between the average acquisition cost and the redemption price of securities are presented as part of interest income and amortised over the remaining life of the line of securities in question.

(1) The share in the profits of the financial year 2005 is recognised in that same year for a total of € 14.2 million, and the balance is recognised in the financial year 2006.

Post-balance-sheet events

Assets and liabilities are adjusted to take account of events occurring between the balance sheet date and the date on which the annual accounts are adopted by the Bank's Board of Directors if such events have a material effect on the assets and liabilities items of the balance sheet.

Treatment of tangible fixed assets

Land, buildings, plant, machinery, computer hardware and software, furniture and vehicles are recorded at their acquisition value.

Buildings under construction are recorded at the cost actually paid.

Apart from land, investments, including ancillary costs, are written off entirely within the year in which they are acquired.

Valuation of stocks

Stocks are valued at their acquisition value, except for stocks of banknote paper for the Bank's own use which are taken directly to the profit and loss account.

Intra-Eurosystem balances related to the allocation of banknotes in euro

The intra-Eurosystem balances related to the allocation of banknotes in euro, in circulation within the Eurosystem, are shown as a single net asset or liability under the sub-item "Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem" (see "Banknotes in circulation" below).

Banknotes in circulation

The ECB and the twelve participating NCBs, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002⁽¹⁾. The total value of the euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key.

Since 2002, 8 % of the total value of the banknotes in circulation has been allocated to the ECB, while the remaining 92 % has been allocated to the NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item "Banknotes in circulation".

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that is actually put into circulation by each NCB gives rise to intra-Eurosystem balances. These claims or liabilities, which incur interest⁽²⁾, are disclosed under the sub-item "Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem".

From 2002 to 2007, the intra-Eurosystem balances resulting from the allocation of euro banknotes are adjusted to avoid significant changes in the NCBs' relative income positions compared with previous years. The adjustments are effected by taking account of the differences between the average value of the banknotes in circulation of each NCB during the period July 1999 to June 2001 and the average value of the banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are progressively reduced in annual stages until the end of 2007, after which the income on the banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital.

(1) ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15), OJ L337 of 20/12/2001.

(2) ECB decision of 6 December 2001 on the allocation of the monetary income of the national central banks of participating Member States from the financial year 2002 (ECB/2001/16), OJ L337 of 20/12/2001.

The whole of the seigniorage income of the ECB arising from the 8 % share in euro banknotes allocated to it is payable to the NCBs in the financial year in which it arises. The ECB distributes that income to the NCBs on the second working day of the next financial year. However, that income may be reduced by decision of the Governing Council if the ECB's net profit for the financial year in question is less than its income on banknotes in circulation. In addition, the Governing Council may decide, before the end of the financial year, on the principle of transferring all or part of the ECB's income relating to banknotes in circulation to a provision for foreign exchange rate, interest rate and gold price risks⁽¹⁾.

Off-balance-sheet instruments

Foreign exchange instruments such as forward foreign exchange transactions, the forward leg of currency swaps and any other foreign currency instruments involving the exchange of one currency for another at a future date, are included in the net foreign exchange position for the purpose of calculating exchange gains and losses. In the case of foreign exchange swaps, the forward position is revalued at the same time as the spot position. Since spot and forward amounts in foreign currencies are converted to euro at the same exchange rate, they do not influence the "Revaluation accounts" item on the liabilities side. Interest-rate instruments are revalued individually. The outstanding amounts of forward interest rate contracts are recorded under the off-balance-sheet items. From 2005 onwards, daily margin calls are recorded in the profit and loss account. Profits and losses arising from off-balance-sheet instruments are recognised and treated in the same manner as those appearing in the balance sheet.

(1) ECB decision of 17 November 2005 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2005/11), OJ L311 of 26/11/2005.

2.3 Notes to the Balance Sheet

ASSETS

1. Gold and gold receivables

Under this item the Bank records the gold and gold receivables which it holds in the form of actual gold or gold receivables.

Gold holdings

	31-12-2005	31-12-2004
in ounces of fine gold	7,319,966.9	8,286,644.2
in kg of fine gold ⁽¹⁾	227,676.5	257,743.5
at market price (millions of euro)	3,183.1	2,664.7

(1) One kilo of fine gold is equivalent to 32.15074 ounces of fine gold.

The reduction in the gold stocks is due to arbitrage operations against foreign currencies concerning 30 tonnes of gold, and the sale of 62 kg of gold to the Belgian Royal Mint.

The capital gains resulting from the arbitrage operations of gold against dollars come to € 298.9 million. They correspond to the difference between the value at market price and the value at the average purchase price of the gold in question. In accordance with Article 30 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, these capital gains were recorded in a special non-available reserve account (under sub-item 10.3 on the liabilities side of the balance sheet "Other liabilities, sundry"). The implementing procedures relating to these provisions are governed by an agreement dated 30 June 2005 between the State and the Bank, published in the *Moniteur belge/Belgisch Staatsblad* of 5 August 2005.

Pursuant to Article 37 of that same law, the capital gains realised on the sale of gold to the Belgian Royal Mint were handed over to the State. Sales of gold to that Institution with a view to the issuance by the State of numismatic or commemorative coins may not exceed the balance of 2.75 % of the weight of gold shown under the assets of the Bank as at 1 January 1987. As at 31 December 2005, 0.70 % of that weight of gold remained available, namely 9.3 tonnes of gold.

On the balance sheet date, gold is valued on the basis of the euro price per fine ounce derived from the quotation in US dollars established at the London fixing on 30 December 2005.

This price, notified by the ECB, amounts to € 434.856 per ounce of fine gold (€ 13,980.94 per kilogram of fine gold), against € 321.562 per ounce of fine gold (€ 10,338.46 per kilogram of fine gold) as at the end of the previous year.

The Bank lends part of its gold assets against a guarantee covering the credit risk.

2. Claims on non-euro area residents denominated in foreign currency

Under this item are recorded claims in SDR and foreign currencies on counterparties situated outside the euro area (including international and supranational institutions, and central banks that are not members of the Eurosystem).

This item is broken down into two sub-items:

- receivables from the International Monetary Fund (IMF);
- balances held on accounts with banks which do not belong to the euro area as well as loans made to non-residents of the euro area, securities and other foreign currency assets issued by the latter.

2.1 Receivables from the IMF

This sub-item is broken down as follows:

(millions)

	31-12-2005		31-12-2004	
	Holdings (SDR)	Market value (euro)	Holdings (SDR)	Market value (euro)
Special drawing rights	219.9	266.0	225.3	256.7
Participation in the IMF	777.9	941.2	1,478.6	1,685.0
Loans to the IMF	–	–	–	–
Loans to the PRGF Trust	240.1	290.5	242.4	276.2
	<u>1,237.9</u>	<u>1,497.7</u>	<u>1,946.3</u>	<u>2,217.9</u>

Under Article 1 of the agreement of 14 January 1999 between the Belgian State and the Bank determining certain procedures for implementing Article 9 of the Law of 22 February 1998 establishing the Bank's Organic Statutes, the Bank carries the rights that the State holds as a member of the IMF in its accounts as its own assets. Article 9, paragraph 2, of the Organic Law goes on to stipulate that the State shall guarantee the Bank against any loss and shall guarantee the repayment of any credit granted by the Bank for the purpose of these operations.

These receivables are valued at the market rate as communicated by the ECB on 30 December 2005. This rate was € 1 = SDR 0.8265 (€ 1 = SDR 0.8775 at the end of the previous year).

Special drawing rights (SDR)

SDRs are reserve assets created ex nihilo by the IMF and allocated by it to its members. The most recent allocation was made in 1981. SDRs are used in transactions between official monetary authorities. This item is subject to fluctuations as a result of encashments and interest payments and transactions with other countries and with the Fund. Since September 2004, it has been possible for these transactions to be initiated by the IMF under an agreement with the Bank which stipulates in this regard that the assets in SDR must total between 40 and 80 % of the net cumulative allocation (SDR 485.2 million).

The holding recorded on the SDR account came to SDR 219.9 million on 31 December 2005, against SDR 225.3 million a year earlier. This reduction is due to sales of SDR in return for euro, effected under the agreement mentioned above. Net usage of the SDR holding, i.e. the difference between the SDR allocation and the SDR holdings on the balance sheet date, amounted to SDR 265.3 million.

Participation in the IMF

This claim represents the euro equivalent of Belgium's reserve tranche, i.e. the rights that the Belgian State has as a member of the IMF. These rights correspond to the difference between Belgium's quota in the IMF, namely SDR 4,605.2 million, and the Fund's holdings of euro with the Bank. They may be sold to the IMF at any time in order to obtain convertible currencies for financing a balance of payments deficit.

The change in the amount of these rights may also result from the granting of credit in euro by the IMF in favour of member countries faced with the same type of deficit, or from the repayment of such loans by those countries, as well as from euro transactions carried out by the Fund on its own behalf. The rate of interest on such loans is adjusted weekly.

On the balance sheet date, the reserve tranche amounted to SDR 777.9 million, against SDR 1,478.6 million a year earlier.

Loans to the IMF

These claims represent the equivalent of the loans granted by the Bank to the IMF in its own name, and of the Belgian State's claims on the IMF, in the event of use being made of the borrowing arrangements designed to strengthen the IMF's resources, namely the General Arrangements to Borrow and the New Arrangements to Borrow.

In the past financial year, the Fund's liquidity position enabled it to meet its commitments without resorting to the borrowing arrangements.

Loans to the PRGF Trust

The amount shown under this sub-item is the equivalent of the SDRs which the Bank has lent to the Poverty Reduction and Growth Facility (PRGF) Trust Fund, managed by the IMF. This credit facility is intended to support the efforts of low-income developing countries that commit themselves to macroeconomic and structural adjustment programmes. The resources lent to this Trust are used by the IMF to fund the principal of the loans granted to developing countries under this facility.

Pursuant to the lending agreement, which was concluded on 2 July 1999, the PRGF Trust has a credit line with the Bank; since 4 December 2001 this line has totalled SDR 350 million. The Bank's claims under this heading amounted on 31 December 2005 to SDR 240.1 million against SDR 242.4 million a year earlier, as a result of repayments during the financial year.

2.2 Balances with banks and security investments, external loans and other external assets

The foreign currency assets held with non-residents of the euro area that are included under this sub-item are invested in sight deposits, time deposits, foreign securities and in the form of reverse repurchase agreements.

Breakdown of foreign currency assets by type of investment

(millions of euro)

	31-12-2005	31-12-2004
Sight deposits	143.2	253.5
Time deposits	551.0	285.2
Securities	4,547.9	3,788.4
Reverse repurchase agreements	291.1	970.3
	5,533.2	5,297.4

Foreign currency assets are shown under this sub-item at their euro equivalent as calculated on the basis of market exchange rates on 30 December 2005. On the balance sheet closing date, the unrealised gains and losses on securities stated at their market price came to € 0.6 million and € 33.1 million respectively.

Breakdown of foreign currency assets by currency

(millions)

	31-12-2005		31-12-2004	
	Holdings (in foreign currency terms)	Market value (euro)	Holdings (in foreign currency terms)	Market value (euro)
USD	6,225.4	5,277.1	7,072.3	5,192.2
JPY	35,235.1	253.7	14,210.8	101.8
CHF	1.0	0.6	2.4	1.6
Other		1.8		1.8
		5,533.2		5,297.4

Breakdown of fixed-income securities in foreign currencies, by their residual term

(millions of euro)

	31-12-2005	31-12-2004
≤ 1 year	1,227.3	916.9
> 1 year and ≤ 5 years	3,257.7	2,838.7
> 5 years	62.9	32.8
	<u>4,547.9</u>	<u>3,788.4</u>

The net foreign currency position resulting from the balance sheet items and the off-balance-sheet items denominated in foreign currencies, taken as a whole (spot and forward claims and liabilities) changed as follows during the year just ended:

Net foreign currency position

(expressed at market price in billions of euro)

	31-12-2005	31-12-2004	Change
USD	1.9	2.8	-0.9
JPY	-	-	-
CHF	-	-	-
	<u>1.9</u>	<u>2.8</u>	<u>-0.9</u>

During the year just ended, the net dollar position expressed in euro declined by € 0.9 billion. This decrease is due to the following reasons:

- sale of dollars against euros	-1.9
- purchase of dollars following sales of gold	+0.4
- currency gains realised	+0.1
- increase in unrealised capital gains	+0.3
- encashment of investment income	+0.2

3. Claims on euro area residents denominated in foreign currency

This item comprises the foreign currency assets held with residents of the euro area mainly in the form of time deposits and reverse repurchase agreements.

Breakdown of foreign currency assets by type of investment

(millions of euro)

	31-12-2005	31-12-2004
Sight deposits	-	2.3
Time deposits	292.5	283.2
Securities	22.8	59.4
Reverse repurchase agreements	155.8	75.0
	<u>471.1</u>	<u>419.9</u>

The foreign currency assets are shown in this item at their euro equivalent calculated at the market rate as at 30 December 2005. On the balance sheet closing date, the value of the securities at their market price was € 0.2 million lower than their average cost value.

Breakdown of foreign currency assets by currency

(millions)

	31-12-2005		31-12-2004	
	Holdings (in foreign currency terms)	Market value (euro)	Holdings (in foreign currency terms)	Market value (euro)
USD	555.7	471.1	571.9	419.9

Breakdown of fixed-income foreign currency securities according to their residual term

(millions of euro)

	31-12-2005	31-12-2004
	≤ 1 year	13.4
> 1 year and ≤ 5 years	9.4	41.1
> 5 years	–	–
	22.8	59.4

4. Claims on non-euro area residents denominated in euro

This heading is used to record assets in euro, in the form of sight or time deposits, reverse repurchase agreements with financial institutions situated outside the euro area, or securities issued by non-residents of the euro area.

Breakdown of euro assets by type of investment

(millions of euro)

	31-12-2005	31-12-2004
	Sight deposits	77.3
Securities	354.0	272.5
	431.3	333.8

Breakdown of euro fixed-income securities according to their residual term

(millions of euro)

	31-12-2005	31-12-2004
	≤ 1 year	62.1
> 1 year and ≤ 5 years	232.5	197.6
> 5 years	59.4	74.9
	354.0	272.5

On the balance sheet closing date, the unrealised capital gains and losses on the value of the securities at their market price came to € 2.3 million and € 1.5 million respectively.

5. Lending to euro area credit institutions related to monetary policy operations denominated in euro

This heading records credit granted by the Bank to credit institutions established in Belgium, in implementation of the Eurosystem's monetary policy.

The item is divided into various sub-items depending on the type of instrument used.

5.1 Main refinancing operations

This sub-item records the amount of liquidity provided to credit institutions by way of weekly 7-day tenders.

To an even greater extent than during the previous year, in participating in these operations, credit institutions in Belgium obtained structurally more than the liquidity required to meet their monetary reserve obligations and the needs generated by autonomous factors. Thus, credit institutions had a cash surplus which was lent to other financial institutions via TARGET (see sub-item 9.3 on the liabilities side of the balance sheet "Other liabilities within the Eurosystem (net)").

5.2 Longer-term refinancing operations

This sub-item records the amount of credit extended to credit institutions by way of monthly 3-month tenders.

Traditionally, Belgian credit institutions are not very interested in these operations, which are geared to the forecast of the longer term refinancing requirements of the financial sector. However, interest in these operations increased considerably, and the average amount outstanding totalled € 1,290 million, against € 180 million in the previous year.

5.3 Fine-tuning reverse operations

This sub-item records open market operations carried out on a non-regular basis, intended primarily to meet unexpected fluctuations in market liquidity. This year there were three operations of this type, effected in January, February and September, injecting liquidity of € 3.3 billion into the market.

5.4 Structural reverse operations

These are open market operations carried out with the primary intention of bringing about a lasting change in the structural liquidity position of the financial sector vis-à-vis the Eurosystem.

No such operations took place during the year just ended.

5.5 Marginal lending facility

A standing facility enabling counterparties to obtain overnight credit from the Bank at a pre-specified interest rate, against eligible collateral.

5.6 Credits related to margin calls

Additional credit extended to credit institutions and resulting from the increase in the value of the securities pledged as collateral for other credits extended to these same institutions.

No such operations took place during the year just ended.

6. Other claims on euro area credit institutions denominated in euro

Claims on credit institutions which do not relate to monetary policy operations.

Credit balances on current accounts (nostro accounts) held with correspondents in the euro area and reverse repurchase agreement transactions relating to management of the securities portfolio in euro under item 7 below.

7. Securities of euro area residents denominated in euro

Portfolio of euro securities held for investment purposes and consisting mainly of negotiable government bonds denominated in euro issued by Member States of the European Union, bonds issued by certain German credit institutions and backed by first-rate claims ("Pfandbriefe"), and bonds issued by national public organisations.

On the balance sheet closing date, the unrealised gains and losses on securities at their market price came to € 15.3 million and € 15.6 million respectively.

Breakdown of euro fixed-income securities according to their residual term

(millions of euro)

	31-12-2005	31-12-2004
≤ 1 year	1,256.3	867.5
> 1 year and ≤ 5 years	2,855.1	3,243.9
> 5 years	561.0	492.8
	4,672.4	4,604.2

8. Intra-Eurosystem claims

8.1 Participating interest in ECB capital

Pursuant to Article 28 of the Statutes of the ESCB and of the ECB, the NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on the ECB's capital subscription key which is determined in accordance with Article 29.3 of the ESCB Statute.

Since 1 May 2004, the subscribed capital of the ECB has totalled € 5.565 billion. The Bank's share in that capital, which is fully paid, comes to 2.5502 % or €141.9 million.

The redistribution among the NCBs of the value of the ECB's capital following the change to the subscription key in 2004 led to an increase in the Bank's share which thus totals € 142.8 million overall.

8.2 Claims equivalent to the transfer of foreign currency reserves

This sub-item shows the Bank's euro claim of € 1,419.1 million on the ECB arising from the transfer of part of its foreign reserves to that institution. That claim is remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

The reserves transferred at the beginning of 1999 continue to be managed by the Bank, but on behalf of the European Central Bank. They are recorded off-balance-sheet.

8.3 Net claims related to the allocation of euro banknotes within the Eurosystem

This sub-item records net claims on the Eurosystem relating to the allocation of euro banknotes in the Eurosystem (see accounting principles and valuation rules relating to the item "Banknotes in circulation"). This interest-bearing Eurosystem item corresponds to the difference between the amount of the banknotes in circulation allocated to the Bank and the amount of the banknotes which it has placed in circulation.

8.4 Other claims within the Eurosystem (net)

This sub-item is used to record the Bank's net claim, if any, on the European Central Bank resulting from cross-border transfers via TARGET and that relating to the correspondent accounts opened with the NCBs (see the explanatory note to liabilities sub-item 9.3).

9. Other assets

9.1 Coins of euro area

This sub-item is used to record the Bank's holding of euro coins. The coins are put into circulation by the Bank on behalf of the Treasury, and credited to the latter's account. In accordance with the ECB decision of 14 December 2004 on the approval of the volume of coin issuance, the maximum amount of the euro coins to issue in 2005 is € 178.5 million for Belgium. Since the amount actually issued in 2004 was € 784.5 million, the authorised amount therefore totalled € 963 million for 2005.

9.2 Tangible fixed assets

Land, buildings, plant, machinery, computer hardware and software, furniture and motor vehicles are carried in the accounts at their purchase value.

In 2005, the Bank's investment in tangible fixed assets totalled € 9.8 million, including ancillary costs. Apart from land, they are written off entirely within the year in which they are acquired. In addition, an amount corresponding to the book value of assets disposed of or taken out of use has been deducted from the "Tangible fixed assets" account.

9.3 Other financial assets

This sub-item records the securities, which the Bank holds as the counterpart to its capital, reserves and amortisation accounts in respect of tangible fixed assets. Under Article 19, point 4, of the Organic Law, the Board of Directors decides on the investments after consultation with the Council of Regency and without prejudice to the rules adopted by the ECB.

These investments consist primarily of negotiable government bonds, securities representing the capital of financial institutions governed by special legal provisions or guaranteed or controlled by the State, and shares in the BIS.

During the past year, the Bank repurchased 2,423 shares of the American tranche of the BIS, which the BIS had decided to redistribute to the shareholder central banks at the price of CHF 23,977.56 per share⁽¹⁾, for a total of € 37.7 million.

In order to make room for these shares in this portfolio, the amount of which is subject to a statutory maximum, reverse repurchase agreements maturing were not renewed.

Breakdown by type of investment

(millions of euro)

	31-12-2005	31-12-2004
Participating interests	332.0	294.2
Fixed-income securities	1,475.0	1,388.3
Reverse repurchase agreements	–	–
	1,807.0	1,682.5

(1) Share value fixed by the The Hague Tribunal and corresponding to the net asset value of the BIS less a 30 % discount.

Breakdown of fixed-income securities according to their residual term

(millions of euro)

	31-12-2005	31-12-2004
≤ 1 year	137.4	218.6
> 1 year and ≤ 5 years	646.7	544.9
> 5 years	690.9	624.8
	1,475.0	1,388.3

9.4 Off-balance-sheet instruments revaluation differences

This sub-item consists of any net positive revaluation differences on forward foreign exchange transactions. These differences, which have their counterpart in item 12 "Revaluation accounts" on the liabilities side, relate to currency swaps on which the forward leg is recorded off-balance-sheet.

9.5 Accruals and prepaid expenditure

This sub-item comprises prepaid expenses and interest accrued but not yet received on securities and other assets.

9.6 Sundry

This consists mainly of interest receivable on the claim resulting from the transfer of foreign reserves to the ECB and on the net claim relating to the allocation of euro banknotes in the Eurosystem. This sub-item also records trade, tax and other receivables, stocks and work in progress in the Printing Works (excluding stocks of banknote paper for own use).

LIABILITIES

1. Banknotes in circulation

This item records the share in the circulation of euro banknotes in the Eurosystem, allocated to the Bank on the basis of its paid-up participation in the capital of the ECB, an 8 % share in the banknotes in circulation being allocated to the ECB (see the accounting principles and valuation rules relating to the item "Banknotes in circulation").

2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

This item chiefly covers the balances held by financial institutions within the framework of the requirements of the minimum reserve system.

2.1 Current accounts (covering the minimum reserve system)

Accounts denominated in euro of the financial institutions, which mainly serve to meet minimum reserve requirements. These requirements have to be respected on average over the reserve maintenance period in accordance with the schedule published by the ECB. The minimum reserves are remunerated at the average of the marginal rates on the latest main refinancing operation in the maintenance period.

2.2 Deposit facility

Standing facility allowing credit institutions to make 24-hour deposits with the Bank at a pre-specified interest rate.

2.3 Fixed-term deposits

Deposits made at the Bank for the purpose of absorbing market liquidity in connection with fine-tuning operations in the Eurosystem.

No such operations took place during the year just ended.

2.4 Fine-tuning reverse operations

Other monetary policy operations aimed at tightening liquidity.

No such operations took place during the year just ended.

2.5 Deposits related to margin calls

Deposits made by credit institutions to compensate for the decrease in the value of securities pledged as collateral for other credits granted to these same institutions.

No such operations took place during the year just ended.

3. Other liabilities to euro area credit institutions denominated in euro

Liabilities to credit institutions, which are not related to monetary policy operations. These are mainly repurchase agreements relating to the management of the securities portfolio in euro recorded in asset item 7.

4. Liabilities to other euro area residents denominated in euro

4.1 General government

This sub-item records the balances of the current accounts opened in the name of the State and of general government. Pursuant to an agreement of 12 March 1999, the balance of the Treasury's current account bears interest, up to a maximum figure of € 50 million, at the marginal interest rate applying to the main refinancing operations. On the balance sheet date, that balance came to € 0.2 million.

4.2 Other liabilities

These are the current account balances held mainly by financial intermediaries which do not have access to standing facilities.

5. Liabilities to non-euro area residents denominated in euro

This item includes current accounts held by central banks, other banks, international and supranational institutions and other account holders outside the euro area.

6. Liabilities to euro area residents denominated in foreign currency

The purpose of this item is principally to record repurchase agreements carried out with residents of the euro area.

(millions)

	31-12-2005		31-12-2004	
	Liabilities (in foreign currency)	Market value (euro)	Liabilities (in foreign currency)	Market value (euro)
USD	183.8	155.8	102.2	75.0

7. Liabilities to non-euro area residents denominated in foreign currency

This item records operations of the same type as those included under item 6 above, but carried out with counterparties situated outside the euro area.

(millions)

	31-12-2005		31-12-2004	
	Liabilities (in foreign currency)	Market value (euro)	Liabilities (in foreign currency)	Market value (euro)
USD	445.9	377.9	1,377.7	1,011.4

8. Counterpart of special drawing rights allocated by the IMF

The amount shown under this item represents the countervalue of SDRs, converted to euro at the same rate as applies to the SDR assets, which should be returned to the IMF if the SDR is cancelled, if the SDR Department established by the IMF is closed, or if Belgium decides to withdraw from it. This liability, of unlimited duration, amounts to SDR 485.2 million.

9. Intra-Eurosystem liabilities

9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates

This sub-item comprises, at their nominal value, the promissory notes issued by the Bank in favour of the ECB as a guarantee for debt certificates issued by that Institution. During the past year, the ECB did not use this monetary policy instrument.

9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem

This sub-item shows the net liabilities within the Eurosystem relating to the allocation of euro banknotes in the Eurosystem (see accounting principles and valuation rules relating to the item "Banknotes in circulation").

9.3 Other liabilities within the Eurosystem (net)

This sub-item reflects the Bank's net liabilities resulting from all the intra-Eurosystem liabilities and claims, excluding those recorded under the balance sheet items "Net claims (liabilities) related to the allocation of euro banknotes within the Eurosystem".

These net liabilities vis-à-vis the Eurosystem can be broken down as follows:

1. The Bank's position vis-à-vis the ECB resulting from cross-border transfers via TARGET with the other NCBs of the ESCB and the ECB (€ 35,572.5 million), and the net debt resulting from payment transactions effected via correspondent accounts (€ 0.1 million). The position resulting from payment transactions via TARGET bears interest at the marginal rate of the main refinancing operations. Settlement in that respect takes place monthly on the second working day of the month following that to which the interest relates.
2. The intra-ESCB claim of € 2.8 million resulting from the pooling and distribution of monetary income within the Eurosystem (see item I.4. "Allocation of monetary income from the Eurosystem" in the profit and loss account).
3. The amount receivable in respect of the Bank's share in the seigniorage income of the ECB.
Since this income is redistributed among the NCBs in the form of quarterly payments on account, the payment relating to the last quarter is recorded as a claim pending settlement.
However, pursuant to an ECB Governing Council decision of 15 December 2005 concerning the constitution at the ECB of a provision for foreign exchange rate, interest rate and gold price risks, the ECB's seigniorage income was not distributed to the NCBs.
In January 2006, the payments on account received in respect of the ECB's seigniorage income were repaid in full to the ECB, which is why the Bank recorded a liability of € 22.6 million on the balance sheet.

10. Other liabilities

10.1 Off-balance-sheet instruments revaluation differences

Under this sub-item are recorded the net negative revaluation differences on forward foreign exchange transactions. These differences, which have their counterpart in item 12 "Revaluation accounts", relate essentially to currency swap transactions the forward leg of which is recorded off-balance-sheet.

10.2 Accruals and income collected in advance

This sub-item contains the costs attributable to interest accrued but not yet paid as well as deferred income.

10.3 Sundry

This sub-item covers trade debts, social contributions and sums payable to the State in respect of its share in the Bank's income and expenditure for the last financial year, the interest payable by the Bank on its net debt to the ECB in connection with TARGET, and the unavailable reserve of capital gains on gold (€ 298.9 million).

11. Provisions

11.1 Provision for future exchange losses

The Belgian State's official foreign exchange reserves are held and managed by the Bank. Under the agreement of 8 July 1998 between the State and the Bank, the State leaves the gains realised on foreign exchange at the disposal of the Bank, on condition that the Bank allocates them to a provision to cover any future foreign exchange losses. This provision is added to the positive revaluation differences on foreign currencies to form a buffer to cover any foreign exchange losses realised or expressed but not realised.

	(millions of euro)
Balance as at 31 December 2004	289.0
Appropriation	59.7
Use	–
Write-back	–160.0
Balance as at 31 December 2005	188.7

A sum of € 160 million was written back in order to adjust the provision for future exchange losses in line with the best actual estimate of the exchange rate risk to be covered.

11.2 Provision for new premises

Provision has become irrelevant.

11.3 Provision for contingencies

This sub-item includes the contingency fund created at the end of 1957 because of the risks inherent in the Bank's activity and the fluctuations which affect its results.

The provision for contingencies is formed in accordance with normal practice among credit institutions which, pursuant to the Royal Decree of 23 September 1992 on the annual accounts of credit institutions, may form a contingency fund to cover any future risks which, by their nature, are associated with the pursuit of banking activity. Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions also provides for the formation of such a fund.

	(millions of euro)
Balance as at 31 December 2004	593.5
Appropriation	70.0
Use	–
Write-back	–
Balance as at 31 December 2005	663.5

11.4 Provision for loss from the ECB

Pursuant to Article 33.2 of the ESCB Statute, the Governing Council of the ECB may decide to offset a loss incurred by the ECB against its general reserve fund, and if necessary, against the monetary income pooled by the NCBs, in proportion and up to the amounts allocated to the national central banks in proportion to their paid-up share in the capital of the ECB.

No provision was entered under this sub-item during the last financial year.

12. Revaluation accounts

On the balance sheet date, this item contains the positive exchange rate and price revaluation differences corresponding to the difference between, on the one hand, the market value, on the balance sheet date, of the net foreign reserve and security positions (other than the statutory portfolio) and, on the other hand, their average cost value.

(millions of euro)

	31-12-2005	31-12-2004
Positive foreign exchange revaluation differences on:		
– gold	2,865.8	2,305.4
– spot and forward positions in foreign currencies	270.8	0.1
– the net position in SDR	48.8	–
Positive price revaluation differences on:		
– futures on interest rates and fixed-income securities	–	0.3
– securities in foreign currencies	0.6	1.6
– <i>issued by non euro area residents</i>	0.6	1.6
– <i>issued by euro area residents</i>	–	–
– securities in euro (with the exception of statutory investments)	17.6	41.5
– <i>issued by non euro area residents</i>	2.3	2.8
– <i>issued by euro area residents</i>	15.3	38.7
	3,203.6	2,348.9

13. Capital and reserve fund

13.1 Capital

The share capital, totalling € 10 million, is represented by 400,000 shares, which do not have any nominal value. The share capital is fully paid-up.

Since 1948 and pursuant to the Organic Law, the Belgian State has held 200,000 registered, non-transferable shares in the Bank, or 50 % of the total voting rights.

The Bank has not received any declarations pursuant to Article 1, § 1 of the law of 2 March 1989 on the disclosure of large shareholdings in listed companies, notifying other shareholdings equal to 5 % or more of the voting rights.

13.2 Reserve fund

The reserve fund, provided for in Article 46 of the Bank's Statutes, consists of the statutory reserve, the extraordinary reserve and the amortisation accounts in respect of tangible fixed assets.

The increase in the statutory reserve is the result of the distribution of the profit for the previous year. The amortisation accounts in respect of tangible fixed assets show a decrease of € 0.8 million, as the book value of assets sold or no longer used exceeded the investments made in 2005.

The tax-exempt part of the extraordinary reserve amounts to € 15.4 million.

14. Profit for the year

The profit for the year amounted to € 358.9 million, against € 168.7 million in the previous year.

2.4 Notes to the Profit and Loss Account

I. PROCEEDS OF NET INTEREST-BEARING ASSETS

The net interest-bearing assets comprise the total of the assets and liabilities in foreign currencies and in euro, on which the income net of interest charges on remunerated liabilities is distributed between the State and the Bank in accordance with the conditions set forth under item VII "State share".

1. Interest income

Interest income consists of the income from credit transactions and investment operations in euro and that from investment operations in foreign currencies. Interest income also includes the interest on the claim on the ECB resulting from the transfer of foreign reserves and the net claims relating to the allocation of euro banknotes in the Eurosystem.

(millions of euro)

	31-12-2005	31-12-2004	Difference
Interest income of assets in euro	1,068.0	807.8	260.2
Interest income of external assets	233.0	182.8	50.2
Total	1,301.0	990.6	310.4

1.1 Interest income of assets in euro

This may be broken down as follows:

	Income (millions of euro)	Average volume (millions of euro)	Average rate (percentages)
Credit transactions relating to monetary policy	501.7	23,735.2	2.1
Securities portfolio in euro	142.5	4,875.7	2.9
Claims equivalent to the transfer of foreign currency reserves	25.3	1,419.1	1.8
Net claims related to the allocation of euro banknotes within the Eurosystem	395.2	18,807.6	2.1
Other claims	3.3	157.9	2.1
	1,068.0	48,995.5	2.2

1.1.1 Credit transactions relating to monetary policy

The income from these transactions is up by € 141.9 million, owing principally to growth of the average volume of credit allocations (€ 23,735.2 million against € 17,448.2 million).

1.1.2 Securities portfolio in euro

The interest income on securities in euro has risen slightly, as the effect of the increase in the average amount outstanding on the securities portfolio (€ 4,875.7 million against € 4,453.8 million) more than offset the effect of the decline in the average interest rate (2.9 % against 3.2 %).

1.1.3 Claims equivalent to the transfer of foreign currency reserves

The Bank's claims on the ECB in respect of the foreign reserve assets transferred are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, after adjustment to reflect a zero return on the gold component. That remuneration increased slightly, by € 0.6 million, essentially as a consequence of the rise in the average marginal interest rate.

1.1.4 Net claims related to the allocation of euro banknotes within the Eurosystem

The € 115.4 million increase in interest income is due to the increase in net intra-Eurosystem claims corresponding to the monthly adjustments made on the banknotes in circulation (see accounting principles and valuation rules relating to the item "Banknotes in circulation").

The share of this interest income accruing to the ECB in respect of banknotes issued on its behalf, totalled € 31 million, against € 26.1 million in 2004.

1.1.5 Other claims

This income, relating to credit balances on current accounts held with credit institutions in the euro area and to reverse repurchase agreements, increased by € 2.1 million owing to a rise in the average volume of these assets.

1.2 Interest income of external assets

This may be broken down as follows:

	Income (millions of euro)	Average volume (millions of euro)	Average rate (percentages)
Claims related to international cooperation transactions	37.4	1,656.1	2.3
Investments in foreign currencies and in gold	195.6	5,718.7	3.4
	233.0	7,374.8	3.2

1.2.1 Claims related to international cooperation transactions

The interest income on claims relating to international cooperation, more particularly in connection with the IMF, was up by € 0.7 million owing to the increase in the rate of interest payable on these claims, partly offset by the effect of a reduction in the average volume of these claims.

1.2.2 Investments in foreign currencies and in gold

The interest income on investments in foreign currencies was up by € 49.5 million, mainly because of the increase in the average interest rate on the investments (3.4 % instead of 2.4 %) and the appreciation of the dollar against the euro, partly offset by the effect of the reduction in the volume invested. The impact of the recognition in the profit and loss of margin calls on futures for 2005 came to € 0.2 million.

2. Interest expenses

The interest expenses comprise expenses on liabilities in euro and expenses on external liabilities.

(millions of euro)

	31-12-2005	31-12-2004	Difference
Interest expenses on liabilities in euro	797.5	604.4	193.1
Interest expenses on external liabilities	34.1	12.0	22.1
	831.6	616.4	215.2

2.1 Interest expenses on liabilities in euro

These can be broken down as follows:

	Expenses (millions of euro)	Average volume (millions of euro)	Average rate (percentages)
Monetary reserve accounts, deposit facility and other interest-bearing deposits	188.8	9,023.6	2.1
Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–	–
Net liabilities to the ECB related to TARGET	608.5	28,950.5	2.1
Other liabilities	0.2	9.4	2.1
	797.5	37,983.5	2.1

2.1.1 Monetary reserve accounts, deposit facility and other interest-bearing deposits

The interest expense is up by € 17.2 million because of the rise in the average amount outstanding on these accounts and in the marginal interest rate on the main refinancing operations, which provides the basis for remuneration of these accounts. The average interest rate charged came to 2.1 %, against 2 % in 2004.

2.1.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem

There were no such liabilities in the past year.

2.1.3 Net liabilities to the ECB related to TARGET

The € 175.7 million increase in interest charges on net debts relating to TARGET is due to the sharp increase in the average outstanding amount of these debts (€ 28,950.5 million against € 21,099.4 million).

2.1.4 Other liabilities

This expense relates to repurchase agreement transactions.

2.2 Interest expenses on external liabilities

These may be broken down as follows:

	Expenses (millions of euro)	Average volume (millions of euro)	Average rate (percentages)
Repurchase agreement transactions in foreign currencies	25.3	774.1	3.3
Net use of assets in SDR	8.8	323.6	2.7
	34.1	1,097.7	3.1

2.2.1 Repurchase agreement transactions in foreign currencies

The interest expenses on these transactions were up by € 14.2 million, owing to an increase in the average interest rate applied to them and an appreciation of the dollar against the euro, partially offset by the decrease in the average volume of these transactions.

2.2.2 Net use of the assets in SDR

The interest expenses were up by € 7.9 million in 2005, mainly as a result of a rise in the average level of the net use of the assets in SDR (€ 323.6 million against € 42.8 million), resulting from the agreement with the IMF mentioned in respect of sub-item 2.1 of the assets.

3. Capital gains and losses on securities

During the accounting period under review, net capital gains amounting to € 10.5 million were realised on the sale of securities, against € 47.8 million in 2004. Moreover, the unrealised capital losses of € 50.4 million were included in the result, whereas unrealised gains on securities (€ 18.2 million) were recorded in revaluation accounts on the liabilities side of the balance sheet.

4. Allocation of monetary income from the Eurosystem

As of 2003, the amount of monetary income of each NCB in the Eurosystem is determined by calculating the effective annual income resulting from the earmarkable assets held in counterpart to the liabilities items which serve as the basis for calculation. This basis comprises the following items:

- banknotes in circulation;
- liabilities to euro area credit institutions related to monetary policy operations and denominated in euro;
- net intra-Eurosystem liabilities resulting from TARGET transactions;
- net intra-Eurosystem liabilities relating to the allocation of euro banknotes in the Eurosystem.

Any interest paid on liabilities included in the basis for calculation will be deducted from the monetary income pooled by each NCB.

The earmarkable assets consist of the following items:

- lending to euro area credit institutions related to monetary policy operations denominated in euro;
- intra-Eurosystem claims in respect of the transfer of foreign reserve assets to the ECB;
- net intra-Eurosystem claims resulting from TARGET transactions;
- net intra-Eurosystem claims relating to the allocation of euro banknotes in the Eurosystem;
- a limited amount of each NCB's gold holdings, in proportion to each NCB's subscribed capital key.

Gold is considered to generate no income.

Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its basis for calculation, the difference is remunerated by applying to the value of this difference the average rate of return on the earmarkable assets of all NCBs taken together.

The monetary income pooled in the Eurosystem is allocated among the NCBs of the euro area in accordance with the paid-up capital key (3.5672 % for the Bank since 1 May 2004).

Calculation of net monetary income allocated to the Bank

(millions of euro)

– monetary income pooled by the Bank in the Eurosystem	–346.8
– monetary income allocated to the Bank by the Eurosystem	350.3
Net monetary income allocated	3.5

5. Income from the ECB

In 2005, the ECB retained the whole of the income which it draws in respect of its share in the issue of euro banknotes, in accordance with a decision of the Governing Council to establish a provision for foreign exchange rate, interest rate and gold price risks (see also sub-item 9.3 of the liabilities).

II. FOREIGN EXCHANGE DIFFERENCE RESULTS

1. Foreign exchange difference results

This sub-item comprises foreign exchange difference results relating to the foreign currency transactions carried out by the Bank, either within the framework of its autonomous management of Belgium's official exchange reserves, or within the framework of international agreements which are binding on Belgium or of international monetary cooperation transactions to which, subject to the approval of the Belgian State, the Bank is a party.

Also recorded in this sub-item are any capital gains realised on gold sales.

The amount of the sub-item consists mainly of capital gains on arbitrage and sales of gold (€ 299.5 million) and the foreign exchange gains realised on dollars (€ 90 million) and on SDR transactions (€ 39 million).

2. Use and write-back of provision for future exchange losses

The changes in the provision for future exchange losses (see liabilities sub-item 11.1) are recorded in this sub-item.

III. COMMISSION

This item contains the commission received as remuneration for the Bank's services as financial intermediary as well as the commission paid by the Bank for financial services rendered by third parties to the Bank.

IV. AMOUNTS RECOVERED FROM THIRD PARTIES

These are amounts recovered from third parties in respect of supplying goods and rendering services in various fields such as:

- the Balance Sheet Office, the Central Offices for Credit to Individuals and to Enterprises;
- the Cash and Bond centres;
- the securities settlement system;
- the payment systems: TARGET, ELLIPS, CEC and the Clearing House;
- the central processing of commercial bills;
- the activities performed by the Printing Works;
- the services rendered by the General Statistics Department.

V. PROCEEDS FROM STATUTORY INVESTMENTS

The proceeds from bills and securities acquired in representation of the capital, reserves and amortisation accounts are at the Bank's free disposal, in accordance with Article 29 paragraph 3 of the Law of 22 February 1998 establishing the Organic Statute of the Bank.

The decrease in these proceeds is due to the decline in interest rates on the bond portfolio, the effect of which was partly offset by larger trading profits on that portfolio.

VI. OTHER PROCEEDS

The other proceeds consist of those from the sale of premises, the disposal of used equipment and furniture, and other exceptional proceeds.

VII. STATE SHARE

1. Proceeds from net interest-bearing assets (article 29)

By virtue of Article 29 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, the net financial proceeds in excess of 3 % of the difference between the average amount, calculated on an annual basis, of the Bank's profit-earning assets – except for bills and securities acquired in representation of the capital, reserves and amortisation accounts, the proceeds of which are placed at the Bank's disposal – and the Bank's remunerated liabilities are assigned to the State.

Net financial proceeds means:

- 1° the share of monetary income allocated to the Bank in implementation of Article 32.5 of the Statute of the ESCB;
- 2° the share of the ECB's net profit allocated to the Bank in implementation of Article 33.1 of the Statute of the ESCB;
- 3° the proceeds of the Bank's profit-earning assets and its financial management transactions, less the financial charges in respect of the remunerated liabilities and the financial management transactions, not connected with the asset and liability items forming the basis for calculation of the proceeds referred to in 1° and 2° above.

If the amount of the net productive assets does not reflect the Bank's share in the monetary base of the System, i.e. the sum of the banknotes in circulation and the liabilities resulting from the deposits made by credit institutions, this amount is adapted accordingly for the implementation of this article.

The sum of € 160 million written back from the provision for future exchange losses was taken into account in order to calculate the net financial proceeds pursuant to Article 29 of the above law.

In accordance with the 3 % rule in Article 29 mentioned above, the State obtains a share in the proceeds from net interest-bearing assets, namely € 70.1 million, in contrast to the previous year.

2. Proceeds fully assigned to the State

This sub-item contains proceeds from assets, which are the counterpart of deposits, other than those included in liability sub-item 4.1, made within the framework of various particular agreements between the Belgian State and other States.

Furthermore, by virtue of Article 30 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, the net income (€ 4.5 million) from the assets which form the counterpart to the capital gains realised by the Bank through arbitrage transactions of gold assets against other external reserve components, entered in a special unavailable reserve account, is also assigned to the State. The implementing procedures relating to these provisions are governed by an agreement dated 30 June 2005 between the State and the Bank, published in the *Moniteur belge/Belgisch Staatsblad* of 5 August 2005.

Finally, the Bank pays annually to the Treasury, in accordance with the Law of 2 January 1991 on the market in public debt securities and monetary policy instruments, a sum of € 24.4 million to compensate for the additional expenses resulting for the latter from the conversion, in 1991, of the Treasury's consolidated debt to the Bank into freely negotiable securities.

3. Foreign exchange difference results

In accordance with Article 9 of the Law of 22 February 1998 establishing the Bank's Organic Statute, the international monetary cooperation agreements or transactions, which the Bank carries out on behalf of the State or with its express approval, are guaranteed by the State. The foreign exchange gains and losses realised on these operations accrue entirely to the State. In 2005, transactions in SDR gave rise to net foreign exchange gains totalling € 39 million. The foreign exchange losses on dollars acquired by arbitrage transactions of gold against foreign exchange are also guaranteed by the State pursuant to Article 30 (3) of the same law (€ 0.1 million).

The capital gain of € 0.6 million realised on the sale of gold to the Belgian Royal Mint (Article 37 of the above-mentioned law) also accrues to the State.

VIII. TRANSFER TO THE UNAVAILABLE RESERVE OF CAPITAL GAINS ON GOLD

In this item is recorded the amount of the capital gains of € 298.9 million realised on arbitrage transactions of gold assets against other external reserve components, in accordance with Article 30 of the above-mentioned law.

IX. GENERAL EXPENSES

1. Remuneration and social costs

These expenses comprise the remuneration and social costs of the staff, the Board of Directors, temporary staff and students, and also the pensions of former members of the Board of Directors and the attendance fees of the members of the supervisory bodies.

Box 11 – Remuneration and fees in 2005

Like other central banks, the Bank considers that it should give more information on the remuneration of the members of the Board of Directors and on the fees paid to the regents and censors.

The gross remuneration of the governor for the financial year was € 458,798, while the vice-governor and the other members of the Board of Directors respectively received gross remuneration of € 368,580 and € 316,997.

In 2005, the regents and censors received gross attendance fees of € 426 per meeting attended.

2. Other expenses

This sub-item consists mainly of expenses relating to the repair and maintenance of premises, the manufacture and processing of banknotes, IT expenses and expenditure in respect of staff hired from employment agencies.

X. EXCEPTIONAL COSTS

None.

XI. DEPRECIATION OF TANGIBLE FIXED ASSETS

The depreciation applied as at 31 December 2005 covers the following investments:

	(millions of euro)
– new premises and technical installations	0.1
– renovation of premises	1.3
– software and hardware	4.9
– equipment for the Printing Works	0.3
– other equipment and furniture	3.2
Total	9.8

XII. PROVISIONS

The changes in the following provisions are recorded in this item :

1. Use and write-back of provision for new premises (appropriation (-))
2. Use and write-back of provision for contingencies (appropriation (-))

XIII. TAXES AND DUES

This item covers, in addition to corporation tax, the withholding tax on income from financial assets and the withholding tax on income from immovable assets, the non-deductible part of VAT on operating expenses and regional, provincial and municipal taxes.

The Bank shows in its accounts as costs relating to the year all taxes, whatever their nature, payable by it, less any tax repayments received during the same year. If, at the close of the year, the estimated amount of corporation tax shown under this heading exceeds imputable advance payments and withholding taxes, the additional amount due is recorded under the balance sheet sub-item 10.3 "Other liabilities, sundry"; in the opposite case, the surplus is shown under sub-item 9.6 "Other assets, sundry".

Since the taxable profit for the financial year is less than the tax loss carried forward from previous years, the tax relief carried forward to the next financial year is estimated at € 12 million.

XIV. TRANSFER TO THE TAX-FREE RESERVES

This item records the tax-free amount, included in the extraordinary reserve (see liabilities sub-item 13.2) of the capital gains realised on the sale of tangible fixed assets (Article 44 § 1, 2° and Article 190 of the C.I.R. 1992).

2.5 Notes to the Off-balance-sheet Items

Forward transactions in foreign currencies and in euro

The forward position consists of swap transactions and forward transactions in foreign currencies; the breakdown is as follows:

	(millions)			
	31-12-2005		31-12-2004	
	in foreign currency	euro	in foreign currency	euro
forward claims				
– in euro	–	3,579.0	–	1,970.0
– in USD	300.4	254.7	130.6	95.9
forward liabilities				
– in euro	–	–	–	–
– in USD	4,269.0	3,618.7	2,563.0	1,881.7
– in JPY	35,100.0	252.7	14,000.0	100.2

These transactions were concluded for the major part against euro. The forward claims and liabilities in foreign currencies were revalued in euro at the same exchange rates as those used for spot holdings in foreign currencies.

Forward transactions on interest rate and fixed-income securities

At the end of the financial year, the Bank holds a long position in futures in US government securities and a short position in 3-month euro-dollar rate futures. These contracts were revalued at market price. As at 31 December 2005, the Bank held a net short position of € 602.1 million.

These transactions in futures are intended to facilitate the management of the foreign currency portfolios.

Liabilities which could lead to a credit risk

	(millions of euro)
Commitments towards international institutions	423.5

This item records the undertaking entered into by the Bank to lend SDR 350 million (€ 423.5 million) to the PRGF Trust. The amount of the drawings remaining open is SDR 109.9 million (€ 133 million). This loan is guaranteed by the Belgian State.

	(millions of euro)
Commitments towards other institutions	1,095.7

Valuables and claims entrusted to the institution

(millions of euro)

For encashment	0.2
Assets managed on behalf of the Treasury	88.0
Assets managed on behalf of the ECB	1,571.9

This last sub-item contains the value at the market rate of the foreign reserves managed by the Bank on behalf of the ECB.

(millions of euro)

Custody deposits	402,737.6
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This sub-item consists mainly of the nominal amount of securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills, certificates of deposit and certain classical loans) recorded under the securities settlement system and held on behalf of third parties.

Capital to be paid up on shares of the BIS

The BIS shares held by the Bank are paid up to the extent of 25 %. The amount shown under this item represents the uncalled capital, totalling SDR 187.9 million, converted at the SDR exchange rate as at 30 December 2005, namely € 227.3 million.

The additional liability in relation to the previous financial year (namely SDR 9.1 million) is due to the repurchase of shares from the American tranche (see sub-item 9.3 "Other financial assets").

2.6 Legal proceedings

During 2005, the Bank was confronted by three legal actions before the Brussels Commercial Court, brought by various groups of shareholders.

In the first action, brought against the Bank on 18 July 2002, whereby the applicant shareholders sought liquidation of the Bank's reserve fund on the grounds that the Bank had lost its right to issue banknotes, judgment was passed on 27 October 2005. The Commercial Court declared that the action was unfounded and dismissed all the shareholders' claims. An appeal against that decision has been lodged with the Brussels Court of Appeal.

A second action brought on 8 July 2004 sought cancellation of the decision by the Council of Regency which, at the end of the 2003 financial year, approved an additional write-back on the provision for future exchange losses, and approved its inclusion in the calculations under the rule on allocation between the Bank and the State, laid down in Article 29 of the Organic Law. By a judgment dated 2 February 2006, the Brussels Commercial Court declared the action also unfounded and dismissed the applicants' claims.

These two decisions demonstrate the merits of the Bank's arguments.

The third action, brought on 8 January 2004, seeks a judgment ordering the Bank and the State jointly, or in solidum, to pay the plaintiffs the sum of € 7,466 per share in the Bank, plus interest. The shareholders claim that, between 1990 and 2002, the State wrongfully appropriated the capital gains realised by the Bank on the sale of gold reserves. This case is still pending.

The Bank considers that all these actions are unfounded and has therefore made no adjustments to the accounts.

Brussels, 15 February 2006



3. Comparison over five years

3.1 Balance Sheet

Assets

(thousands of euro)

	2005	2004	2003	2002	2001
1. Gold and gold receivables	3,183,132	2,664,670	2,739,197	2,710,680	2,613,494
2. Claims on non-euro area residents denominated in foreign currency	7,030,957	7,515,315	8,704,377	11,304,447	12,780,672
2.1 Receivables from the IMF	1,497,732	2,217,927	3,026,021	3,169,845	3,255,684
2.2 Balances with banks and security investments, external loans and other external assets	5,533,225	5,297,388	5,678,356	8,134,602	9,524,988
3. Claims on euro area residents denominated in foreign currency	471,093	419,888	321,230	297,976	799,055
4. Claims on non-euro area residents denominated in euro	431,299	333,755	244,817	3,656	7,610
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	28,950,433	22,695,205	16,748,708	10,876,706	7,570,189
5.1 Main refinancing operations	27,895,000	22,391,000	16,748,708	10,876,706	7,500,000
5.2 Longer-term refinancing operations	1,055,433	304,205	–	–	70,189
5.3 Fine-tuning reverse operations	–	–	–	–	–
5.4 Structural reverse operations	–	–	–	–	–
5.5 Marginal lending facility	–	–	–	–	–
5.6 Credits related to margin calls	–	–	–	–	–
6. Other claims on euro area credit institutions denominated in euro	51,157	318	359	357	220
7. Securities of euro area residents denominated in euro	4,672,397	4,604,179	4,109,447	3,663,289	3,621,955
8. Intra-Eurosystem claims	22,034,183	18,671,519	12,654,164	6,367,013	1,576,190
8.1 Participating interest in ECB capital	142,816	142,816	143,290	143,290	143,290
8.2 Claims equivalent to the transfer of foreign currency reserves	1,419,102	1,419,102	1,432,900	1,432,900	1,432,900
8.3 Net claims related to the allocation of euro banknotes within the Eurosystem	20,472,265	17,109,601	11,077,974	4,790,823	–
8.4 Other claims within the Eurosystem (net)	–	–	–	–	–
9. Other assets	2,542,385	2,510,272	2,465,913	2,345,715	2,233,336
9.1 Coins of euro area	10,021	12,749	9,018	10,315	26,408
9.2 Tangible fixed assets	391,471	392,435	385,313	370,526	352,518
9.3 Other financial assets	1,806,975	1,682,542	1,617,015	1,528,380	1,438,009
9.4 Off-balance-sheet instruments revaluation differences	–	84,015	113,334	117,700	–
9.5 Accruals and prepaid expenditure	189,646	192,723	193,692	217,117	242,864
9.6 Sundry	144,272	145,808	147,541	101,677	173,537
Total assets	69,367,036	59,415,121	47,988,212	37,569,839	31,202,721

Liabilities

(thousands of euro)

	2005	2004	2003	2002	2001
1. Banknotes in circulation	18,550,389	16,451,255	14,199,612	11,964,293	8,627,226
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6,785,900	5,416,413	8,324,897	4,481,622	5,945,181
2.1 Current accounts (covering the minimum reserve system)	6,785,900	5,416,413	8,324,897	4,481,622	5,922,368
2.2 Deposit facility	–	–	–	–	22,813
2.3 Fixed-term deposits	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–
2.5 Deposits related to margin calls	–	–	–	–	–
3. Other liabilities to euro area credit institutions denominated in euro	50,854	–	–	–	–
4. Liabilities to other euro area residents denominated in euro	48,254	144,781	180,920	123,637	127,485
4.1 General government	37,369	135,150	151,852	115,411	118,528
4.2 Other liabilities	10,885	9,631	29,068	8,226	8,957
5. Liabilities to non-euro area residents denominated in euro	320,960	422,841	270,829	233,479	80,691
6. Liabilities to euro area residents denominated in foreign currency	155,763	74,996	52,398	–	–
7. Liabilities to non-euro area residents denominated in foreign currency	377,936	1,011,421	1,032,172	854,184	1,869,018
8. Counterpart of special drawing rights allocated by the IMF	587,099	552,986	571,620	629,023	691,238
9. Intra-Eurosystem liabilities	35,592,396	29,997,845	17,835,886	12,879,052	5,168,719
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–	–	–	–
9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–	–	–	–
9.3 Other liabilities within the Eurosystem (net)	35,592,396	29,997,845	17,835,886	12,879,052	5,168,719
10. Other liabilities	667,914	179,403	291,427	459,045	1,652,207
10.1 Off-balance-sheet instruments revaluation differences	22,695	–	–	–	8,159
10.2 Accruals and income collected in advance	26,243	15,500	4,660	6,426	7,702
10.3 Sundry	618,976	163,903	286,767	452,619	1,636,346
11. Provisions	852,268	931,082	1,035,768	1,387,068	1,181,106
11.1 For future exchange losses	188,719	289,019	508,219	925,519	756,120
11.2 For new premises	–	–	–	–	7,060
11.3 For contingencies	663,549	593,549	527,549	461,549	417,926
11.4 For loss from the ECB	–	48,514	–	–	–
12. Revaluation accounts	3,203,584	2,348,907	2,428,584	2,902,378	4,294,569
13. Capital and reserve fund	1,814,789	1,714,529	1,636,364	1,549,232	1,459,707
13.1 Capital	10,000	10,000	10,000	10,000	9,916
13.2 Reserve fund:					
Statutory reserve	276,196	175,209	104,627	100,780	96,975
Extraordinary reserve	1,150,543	1,150,492	1,150,492	1,082,180	1,014,616
Amortisation accounts in respect of tangible fixed assets	378,050	378,828	371,245	356,272	338,200
14. Profit for the year	358,930	168,662	127,735	106,826	105,574
Total liabilities	69,367,036	59,415,121	47,988,212	37,569,839	31,202,721

3.2 Profit and Loss Account

(thousands of euro)

	2005	2004	2003	2002	2001
I. Proceeds of net interest-bearing assets	433,003	355,194	520,410	658,465	968,528
1. Interest income	1,300,993	990,564	785,040	839,836	1,257,070
2. Interest expenses (-)	-831,607	-616,410	-426,387	-446,909	-567,480
3. Capital gains (losses (-)) on securities	-39,929	23,302	129,434	176,572	220,895
4. Allocation of monetary income from the Eurosystem	3,546	6,252	10,582	15,955	243
5. Income from the ECB	-	-	21,741	73,011	57,800
6. Appropriation to the provision for covering losses from the ECB (-)	-	-48,514	-	-	-
II. Foreign exchange difference results	529,065	-50,750	-98,742	94,206	139,957
1. Foreign exchange difference results	428,765	-269,950	-516,042	263,606	281,757
2. Use and write-back of provision for future exchange losses (appropriation (-))	100,300	219,200	417,300	-169,400	-141,800
III. Commission	3,425	4,665	1,933	1,181	2,591
1. Commission received	7,458	8,665	4,675	3,244	4,320
2. Commission paid (-)	-4,033	-4,000	-2,742	-2,063	-1,729
IV. Amounts recovered from third parties	65,224	63,692	59,848	54,123	61,714
V. Proceeds from statutory investments	86,318	93,611	113,139	101,091	98,409
VI. Other proceeds	8,901	1,850	3,332	1,371	4,822
VII. State share (-)	-140,064	25,473	-135,715	-307,555	-648,656
1. Proceeds from net interest-bearing assets (art. 29)	-70,127	-	-347,160	-293,817	-558,351
2. Proceeds fully assigned to the State	-30,463	-25,976	-28,382	-33,209	-45,548
3. Foreign exchange difference results	-39,474	51,449	239,827	19,471	-44,757
VIII. Transfer to the unavailable reserve of capital gains on gold (-)	-298,904	-	-	-	-
IX. General expenses (-)	-231,941	-233,376	-235,470	-235,097	-237,067
1. Remuneration and social costs	-183,014	-188,138	-185,764	-187,524	-191,118
2. Other expenses	-48,927	-45,238	-49,706	-47,573	-45,949
X. Exceptional costs (-)	-	-	-	-4,827	-11,327
XI. Depreciation of tangible fixed assets (-)	-9,761	-12,025	-19,898	-20,774	-28,499
XII. Provisions	-70,000	-66,000	-66,000	-36,563	-51,150
1. Use and write-back of provision for new premises (appropriation (-))	-	-	-	7,060	3,480
2. Use and write-back of provision for contingencies (appropriation (-))	-70,000	-66,000	-66,000	-43,623	-54,630
XIII. Taxes and dues (-)	-16,285	-13,672	-14,790	-198,547	-193,748
XIV. Transfer to the tax-free reserves (-)	-51	-	-312	-248	-
Net profit for the financial year	358,930	168,662	127,735	106,826	105,574

3.3 Dividend

(euro)

	2005	2004	2003	2002	2001
Net dividend allocated per share	51.35	50.00	49.00	48.10	47.25
Withholding tax deducted per share	17.12	16.67	16.33	16.03	15.75
Gross dividend allocated per share	68.47	66.67	65.33	64.13	63.00

Auditor's report for the year ended 31 December 2005 to the Council of Regency of the National Bank of Belgium

We are pleased to report to you on the performance of the audit mandate which you have entrusted to us.

In accordance with Article 27.1 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, we have audited the financial statements as of and for the year ended 31 December 2005 which have been prepared under the responsibility of the Executive Committee of the National Bank of Belgium and which show a balance sheet total of thousands of EUR 69,367,036 and a profit for the year of thousands of EUR 358,930. At your request, we have also carried out a number of specific additional audit procedures.

Unqualified audit opinion on the financial statements

We conducted our audit in accordance with the standards of the Institut des Reviseurs d'Entreprises. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to the financial statements of the National Bank of Belgium.

In accordance with those standards, we considered the National Bank of Belgium's administrative and accounting organisation, as well as its internal control procedures. National Bank of Belgium's officials have responded clearly to our requests for explanations and information. We have examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We assessed the accounting principles used and significant accounting estimates made by the National Bank of Belgium, as well as the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the legal and regulatory requirements applicable to the financial statements of the National Bank of Belgium, the financial statements as of 31 December 2005 give a true and fair view of the net worth, financial position and the results of the National Bank of Belgium, and the information given in the notes to the financial statements is adequate.

Additional certifications

We supplement our report with the following certifications which do not modify our audit opinion on the financial statements:

- The appropriation of results proposed to you complies with the legal and statutory requirements.
- We have no knowledge of transactions undertaken or decisions taken in violation of the organic law, the statutes or the requirements of the Company Law applicable to the National Bank of Belgium.
- We have no knowledge of transactions undertaken or decisions taken in violation of the legal and regulatory requirements applicable to the accounting records and the financial statements of the National Bank of Belgium.

Brussels, 9 February 2006

Ernst & Young Reviseurs d'Entreprises SCC (B 160)
Reviser d'Entreprises
represented by
Marc Van Steenvoort
Partner



Approval by the Council of Regency

The Council of Regency examined the annual accounts drawn up at 31 December 2005 which were prepared by the Board of Directors on 31 January 2006 in accordance with the provisions of Article 44 of the Statutes, and took note of the unqualified opinion issued by the auditor for the financial year 2005.

At its meetings on 15 and 22 February 2006, it respectively approved the annual accounts and the report on the company's operations in the year 2005. It also gave the administration a discharge and finally determined the distribution of the profits for the financial year.

The Council of Regency

Messrs Guy QUADEN, Governor
Luc COENE, Vice-Governor
Jean-Pierre PAUWELS, Director
Mrs Marcia DE WACHTER, Director
Mr Jan SMETS, Director
Mrs Françoise MASAI, Director
Messrs Jean HILGERS, Director
Peter PRAET, Director
Noël DEVISCH, Regent
Christian DUMOLIN, Regent
Gérald FRÈRE, Regent
Jacques FOREST, Regent
Luc CORTEBEECK, Regent
Mrs Martine DUREZ, Regent
Messrs André MORDANT, Regent
Rudi THOMAES, Regent
Christian VAN THILLO, Regent
Didier MATRAY, Regent



Opening hours and addresses

SERVICES	ESTABLISHMENTS OFFERING THE SERVICES	OPENING HOURS
Banknotes and coins State Cashier	Brussels, Antwerp, Courtrai, Hasselt, Liège and Mons	9.00 to 15.30 hrs
Centrale Balance Sheet Office Central Office for Credits to Individuals	Brussels, Antwerp, Courtrai, Hasselt, Liège and Mons	9.00 to 15.30 hrs
	Ghent and Namur ⁽¹⁾	9.00 to 13.00 hrs and 14.00 to 15.30 hrs
Scientific Library	Brussels	9.00 to 16.00 hrs
Museum	Brussels	10.00 to 18.00 hrs (daily except Mondays)

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(1) These offices also offer a limited service for the exchange of Belgian banknotes.

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Departments and services: see website.



Abbreviations

BIS	Bank for International Settlements
CBFA	Banking, Finance and Insurance Commission
CEC	Centre for Exchange and Clearing
CESR	Committee of European Securities Regulators
CIK	Caisse interprofessionnelle des dépôts et virements
CLS	Continuous linked settlement
ECB	European Central Bank
EEA	European Economic Association
Ellips	Electronic large-value interbank payment system
ERP	Enterprise Resource Planning
ESA	Euroclear société anonyme
ESA	European System of Accounts
ESCB	European System of Central Banks
EU	European Union
FPS	Federal Public Service
FSC	Financial Stability Committee
G10	Group of Ten
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
NCB	National Central Bank
NSI	National Statistical Institute
NSSO	National Social Security Office
OECD	Organisation for Economic Cooperation and Development
PME	Permanent Monitoring Entity

SDR	Special Drawing Rights
SEPA	Single Euro Payments Area
SWIFT	Society for Worldwide Interbank Financial Telecommunication
Target	Trans-European Automated Real-Time Gross Settlement Express Transfer system
XBRL	Extensible business reporting language



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G. QUADEN

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