

Report 2004

Part 2 Activities and Annual Accounts



Foreword

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The first achievement of the European unification movement which began 60 years ago, following a war which had once again ravaged our continent, was to bring us peace. The creation of a common market stimulated economic growth and increased prosperity. More recently, twelve European countries adopted the same currency. That is the principal contribution of the central banks towards greater stability and greater unity in Europe.

At the beginning of this year, the persons in charge of the Eurosystem, i.e. the members of the Executive Board of the European Central Bank (ECB) and the governors of the twelve national central banks of the euro area, published a mission statement addressing the 307 million inhabitants of the euro area. That mission statement, which defines our mutual objectives and values and the arrangements for our action and cooperation, is reproduced at the start of this report.

Following the introduction of the euro, but also in view of the spread of the new technologies and the concentration taking place in the commercial financial sector, the National Bank of Belgium decided to make a move. In 2000, the Board of Directors launched a broad strategic debate in preparation for the future of the Bank in this new context. The conclusions of that exercise and their gradual implementation via master plans for the years 2001 to 2005 were presented in previous annual reports.

In 2000, the main challenge for the short term was the introduction of the new euro notes and coins, a logistical operation on a scale unprecedented in the history of money. It was highly successful, and the euro has now become such a firmly established part of everyday life that this event already seems a distant memory.

But history did not end there. The Eurosystem is still growing. At national level, new responsibilities have been entrusted to the Bank, notably in regard to financial stability. And the development of the new technologies has continued unabated, as has the process of restructuring in the financial sector.

Like any enterprise, the Bank has to adapt to a context which is now constantly changing, even for the central banks. That is why the strategic debate is now being updated; the initial features of that update are mentioned in this report.

Cost control is a basic concern for the Bank. In that connection, the restructuring of some of its activities (such as the provincial network, reduced from 22 agencies at the beginning of 1999 to 7 today) and the productivity gains which it strives to achieve in all areas have made it possible to cut the workforce from 2,533 full-time equivalents at the beginning of 1999 to 2,174 at the end of 2004. The target set in 2001 in the strategic plan was 2,200 full-time equivalents by the end of 2005.

The law of 2 August 2002 on the supervision of the financial sector and on financial services established closer links between the Banking Finance and Insurance Commission (BFIC) and the Bank, and structured their collaboration, although each institution retains its own responsibilities.

The Financial Stability Committee, which comprises the boards of directors of the two institutions, constitutes the cornerstone of the new structure. In 2004, it identified the agents and functions critical for the smooth operation of the Belgian financial sector in the event of incidents which could affect the continuity of operations. Recommendations were published and a permanent monitoring entity was set up.

The Supervisory Council of the Financial Services Authority, which comprises the members of the BFIC supervisory council and the Bank's regents, was officially installed at the beginning of 2004. The Ministers of Finance, Economic Affairs and Consumer Protection asked me, as the chairman of that body, to set up a Steering Committee on the future of means of payment, with representatives of all the parties concerned by this issue. The work is in progress.

The closer links between the BFIC and the Bank are manifested not only in the establishment of these umbrella bodies, but also in the organisation and management of certain synergies between their services. Thus, there is now a "prudential policy" department comprising staff from both institutions and, during 2004, the IT infrastructures of the BFIC were transferred to the Bank's computer centre. Expansion of the synergies would undoubtedly promote the fulfilment of the two main aims of the 2002 law: to develop the exchange of information between the BFIC and the Bank in order to provide the optimum guarantee of stability for the Belgian financial sector, and to multiply the economies of scale between the support services of the two institutions in order to contain the increase in the costs of supervision, which has become increasingly demanding.

Although the Bank was established in the form of a public limited liability company, the pursuit of profit has, from the start, been secondary to the performance of its monetary and non-monetary tasks in the public interest, just as it is for any other central bank.

Among its revenues, those derived from the issue of banknotes are by far the most important, thanks to the interest-bearing assets which the Bank holds as their counterpart. But the return on the Bank's assets and the management of those assets, including the official gold and foreign exchange reserves, are greatly influenced by the objectives and constraints of monetary and exchange rate policy.

The State, which granted the Bank the right of issue, is entitled to part of the income from the Bank's interest-bearing assets and a priority share in its profits. It is also the State which bears the major part of the volatility in the Bank's results – as was seen in 2004.

In 2004, the result was affected by the low level of interest rates remunerating the net assets in dollar and in euro, and by the depreciation of the dollar exchange rate. In accordance with the accounting rules of the European System of Central Banks, the potential foreign exchange losses must in fact be charged to the profit and loss account as at 31 December, while the foreign exchange gains are not recorded as profits until they are realised.

These adverse developments were only partially offset by the additional monetary income generated by the expansion of banknote issuance in the Eurosystem, and hence the Bank's share in the issue of banknotes.

The same reasons also explain why the ECB ended the 2004 financial year with a substantial loss. That loss was borne by the national central banks of the Eurosystem, thus accentuating the deterioration in their results. Not only did the ECB retain its share of the seigniorage income, which it normally distributes to the national central banks, it also had to call on them for funds.

The prudent policy which the Bank has always pursued, particularly on risk management and provisions, nonetheless enables it to pay a dividend to its own shareholders. As usual, that dividend has been increased in line with inflation.

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Activities



1. Eurosystem mission statement



The ECB Governing Council

Some years ago, the central banks of the Eurosystem decided to share a common destiny. In January 2005, as evidence of their commitment to working together, they published the following mission statement:

“The Eurosystem, which comprises the European Central Bank and the NCBs of the Member States of the European Union (EU) 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 to 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.”



BANCODE **ESPAÑA**



CENTRAL BANK &
FINANCIAL SERVICES
AUTHORITY OF IRELAND



Banco de Portugal



OESTERREICHISCHE NATIONALBANK

BANCA D'ITALIA

2. Activities linked to monetary policy

The Bank and the Eurosystem

The Bank, the NCBs of the other EU Member States whose currency is the euro and the European ECB together form the Eurosystem.⁽¹⁾

The definition and implementation of monetary policy are the main tasks of the Eurosystem. Its other tasks include, in particular, the promotion of the proper operation of payment systems, the maintenance of financial stability and the compilation and collection of statistical information. The ECB Governing Council is the supreme decision-making body of the Eurosystem, and is responsible for these tasks. As a rule, it meets twice a month and it comprises the governors of the NCBs of the countries in the euro area and the six members of the ECB Executive Board. As a member of the ECB Governing Council, the Governor plays an active part in the decisions taken in the Eurosystem.

Decision-making in the Eurosystem is a dynamic process. There are thirteen committees set up by the European System of Central Banks (ESCB), comprising representatives of the ECB and the NCBs. They prepare the decisions of the Governing Council, each for its own specific field of activity. These committees are essential to the smooth operation of the System. Indeed, their work is not just confined to devising technical solutions. The close contact which the Bank maintains with the ECB and the other NCBs also fosters better mutual understanding and more effective collaboration. With that in mind, the Bank endeavours to identify at an early stage in the decision-making process those topics which are of particular interest, and to adopt a forward-looking approach. It thus intends to play a dynamic role and establish its influence within the Eurosystem.

(1) The "Eurosystem" is different from the "European System of Central Banks" (ESCB) which also includes the NCBs of the EU Member States which have not yet adopted the euro.

2.1 Research

Under the Treaty establishing the European Community, the Bank – as a member of the ESCB – is required to contribute to the maintenance of price stability. In that connection, the Bank is closely associated with the preparation and implementation of the common monetary policy of the euro area. In order to perform that task

effectively, in common with the other Eurosystem members, the Bank needs to have a detailed knowledge of the monetary policy transmission mechanisms in the euro area and in the national economy, and of the interactions with the economic policies conducted by public authorities, especially fiscal policy and the policies affecting the operation of the markets.

With this in mind, the Bank devotes substantial efforts to analysis and research, particularly in the form of participation in the joint research activities initiated by the ECB and the other NCBs of the Eurosystem. Considerable resources have thus been mobilised in the network set up by the Eurosystem in 2003 to examine the determinants of the persistence of inflation and the conclusions which should be drawn in term of economic policy. The Bank's contributions related in particular to consumer and producer price-setting. The results of this research were published in the *Economic Review* and the *Working papers* (cf. point 7.1.1) and formed the subject of public presentations at conferences arranged by the *Centre for Economic Policy Research* (CEPR), the *National Bureau of Economic Research* and the ECB. The Bank also takes part in the *Euro Area Business Cycle Network*, set up jointly by the Eurosystem and the CEPR, with the aim of promoting better understanding of the economic cycle in the euro area. In this connection, the Bank organised a seminar in November, acting jointly with the CEPR, on the subject of *Recent advances on forecasting combination*.

The Bank's expertise in the economic and financial spheres also enables it to advise the government. Thus, the federal government wished to hear the governor's views at the Extraordinary Council of Ministers on 16 January 2004 on the subject of *Growth, competitiveness and employment*. This advisory function is also performed via the Bank's representation on the High Council of Finance and the Superior Employment Council. In addition to the close contact which it maintains with the economic and financial world, the Bank makes its expertise available to the community via its relations with international institutions (not only the ECB but also the IMF, the BIS and the OECD, in particular), during their committee or working party consultations or meetings. It is also represented on a range of EU and G10 committees (cf. chapters 4 and 5).

For several years, the Bank's economic analysis and research have been based on close cooperation with the university world, in order to incorporate the theoretical and empirical developments which are essential to the maintenance of high level expertise. One example of that cooperation is a biennial international symposium presenting the results of research projects conducted jointly by the Bank and the leading Belgian universities. The third international symposium organised by the Bank took place on 17 and 18 May 2004 on the subject of *Efficiency and stability in an evolving financial system*. At the end of the year under review, the Bank launched a new research project entitled *Price and wage rigidities in an open economy* with a view to the international symposium

scheduled for 12 and 13 October 2006. At the same time, since the end of 2003 the Bank has been organising specialist seminars on monetary and macroeconomic questions, in collaboration with a number of Belgian universities, with the aim of stimulating economic research in these areas by contact with speakers of international renown. Since 2004, the Bank has also been running an internship programme for young Belgian researchers. Finally, the research and analysis work is reflected in an active publication policy (cf. point 7.1.1) and the presentation of scientific studies at national and international conferences and seminars.

The Brussels European and Global Economic Laboratory (BRUEGEL), set up by the Royal Decree of 10 August 2004, also reinforces the cooperation between the universities and the world of politics. The Bank takes part in this think tank on the subject of the international economy, involving private and public partners. By 2005, its innovative research should already be making a substantial contribution towards economic decision-making in Europe.

2.2 Compilation of economic statistics

2.2.1 National accounts and the economic situation

The Bank has always accorded priority to speeding up the publication of its statistics. A new milestone was reached in 2004 with the publication of a flash estimate of quarterly GDP growth by the end of the month following the end of the quarter. This places Belgium in the front rank of euro area countries for the speed of providing information on this subject.

Apart from value added, compensation of employees, investments and the number of employees, the number of self-employed persons is now also broken down in detail by district in the regional accounts.

The Bank and the National Accounts Institute

The National Accounts Institute (NAI) was established by the law of 21 December 1994. According to that law, the NAI – which has no staff of its own – is assisted by three institutions: the National Statistical Institute (NSI), the Federal Planning Bureau and the Bank. These institutions provide the NAI with resources to enable it to perform its task, namely to compile various statistics and economic forecasts on its own responsibility.

The law allocates the tasks as follows:

- the Bank has the task of compiling the national accounts, both the real and the financial accounts, the detailed accounts of general government, the regional accounts and the quarterly accounts, and collecting data and compiling the foreign trade statistics;
- the Federal Planning Bureau compiles the input-output tables and produces the economic forecasts which are used for drawing up the federal budget;
- the National Statistical Institute is responsible for collecting the other basic data required.

The NAI is managed by a Board of Directors chaired by the representative of the Minister of Economic Affairs and comprising two members from each of the three associate institutions. The Board is assisted by two scientific committees, one responsible for national accounts and the other for economic budgets. These committees, composed of experts from the universities and observers from the regions, have to issue an opinion on the scientific value and the objectivity of the results published by the NAI.

2.2.2 Financial statistics

In regard to financial accounts, the Bank continued the efforts previously made to ensure that the detailed classification of the economic sectors and financial instruments conforms as closely as possible to the ESA 95 methodology.

It took part in a number of international working parties. The work of the ECB – Eurostat joint task force led to the adoption of two European regulations, one on the quarterly financial accounts of general government and the other on the compilation and transmission of quarterly government debt data. In addition, the work of the OECD working group on financial statistics led to a relaunch of the publications on the financial accounts and financial asset accounts of the member countries.

In regard to interest rates, in March the Bank published interest rate dispersion tables and charts on its website, to supplement the harmonised statistics. These data permit a better understanding of the actual market situation.

A quarterly survey, called the Bank Lending Survey (BLS), was set up by the Bank at the end of 2002 to improve the information available on credit conditions. This survey is confined exclusively to credit institutions and reflects the changes in credit conditions as perceived by the supply side, i.e. the credit institutions. Since November 2002, in order to supplement this information from the borrower's point of view, the autumn investment survey has also asked firms about their investments. Supplementing the BLS results, the replies to these questions were published for the first time at the beginning of 2005.

The Bank and the ECB statistics

In the ESCB, the ECB and the NCBs collaborate closely on the compilation of the euro area statistics. The NCBs are responsible for collecting and processing the basic information, while the ECB calculates and publishes the euro area aggregates.



In the first place, the statistics which the Bank collects for the Eurosystem cover the areas for which the ECB carries prime responsibility under the Memorandum of Understanding dated 10 March 2003 between the ECB and Eurostat, and which traditionally come under the NCBs, namely monetary and banking statistics and statistics relating to other financial institutions and financial markets (interest rates, securities issues, etc.).

The statistical data forwarded to the ECB also cover the areas where responsibility is shared between the ECB and Eurostat, but where responsibility for producing the euro area aggregates rests exclusively with the ECB, namely the quarterly financial accounts, the balance of payments and the international investment position, as well as the statistics on the Eurosystem's international reserves.

Finally, the ECB uses many statistics produced by the Bank in the areas where prime responsibility for producing the European aggregates rests with Eurostat under the above Memorandum of Understanding (indicators of the real economy and external trade, statistics on public finances, etc.).

The Eurosystem's Statistics Committee set up a series of working groups to develop new statistics, define their legal framework, finalise the transfer procedures and monitor the quality of the data transmitted.

2.2.3 Foreign trade

In order to improve the compatibility between the foreign trade figures and data from the balance of payments and the national accounts, most of the foreign trade statistics have been calculated according to the national concept since 2004. The switch to this approach (which excludes transactions involving only non-residents) led to numerous adjustments relating to the figures compiled according to the Community concept (covering all transactions), particularly at the level of the definition of non-residents and returned goods.

As regards regional statistics, until 2004 the only data published concerned the regional breakdown of exports according to the place of establishment of the registered place of business. They were compiled according to the Community concept; no information was available on the regional breakdown of imports.

Since 2004, the collection of new information and the use of a new methodology have enabled the Bank to publish statistics on a more reliable basis for both exports and imports, by region and according to the national concept.

During the year under review, work was done to transpose the new European regulation on Intrastat (simplification of the reporting requirement) into national law. This applies from January 2005.

Internationally, the Bank made an active contribution to various Eurostat working groups, more particularly in order to promote electronic data transfer.

2.2.4 Balance of payments

The European institutional framework relating to the balance of payments continued to evolve throughout 2004. Thus, on 16 July 2004 the ECB issued a new guideline on the statistical reporting requirements in the field of balance of payments and the international investment position statistics, and the international reserves template.

The Council of Ministers and the European Parliament also adopted a regulation on Community statistics concerning balance of payments, international trade in services, and foreign direct investment. This regulation contains a uniform definition of the Member States' obligations as regards the statistics to be supplied to Eurostat. The aim is to step up harmonisation at Union level.

Since 2004, the ECB has asked that the quarterly balance of payments and annual international investment position should be accompanied by a geographical breakdown

The Bank has continued to develop a new system of collecting basic balance of payments data and related statistics, and to define the procedures for processing and producing these statistics. The new system will take effect on 1 January 2006. The timetable and the content of the reform are in line with the consensus reached at European level.

The new system of collecting balance of payments statistics

The reform of the system of collecting balance of payments data and other related statistics (international investment position, international trade in services and foreign direct investment) forms part of developments taking place on a European scale.

The basic principle of the revision is the reduction in the banking sector's role in collecting the information, in favour of collection of the data direct from the economic agents concerned.

The new system being developed at the Bank adopts this approach. From January 2006 it will be based mainly on the collection of data not only from banks but also from other operators involved in transactions with counterparties located abroad.

The Bank is preparing to abandon the exhaustive collection approach used by the present system, inherited from exchange control, in favour of a more statistical approach; hence the use of procedures which vary according to the population of declarants selected, the content of the information requested and the frequency of collection.

In order to reduce the number of economic agents required to supply information, the Bank opted to use sampling techniques where they are the most efficient approach. In addition, some of the surveys will be confined to specific activities, and they will be conducted less frequently in the case of minor operators. Finally, the Bank will avoid collecting information which is already available elsewhere.

For the financial sector, there will be a specific approach favouring synergy with other data collection topics while placing the emphasis on data relating to financial activities, particularly securities, which will be subject to a very detailed reporting system using the securities identification codes.

To facilitate the identification and transmission of data, the Bank takes accounting practices into consideration and is developing a set of solutions for electronic transmission geared to various working environments.

2.3 Implementation of monetary policy

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, if required;
- the standing facilities;
- the minimum reserve system.

As announced in the previous annual report, the following changes made to the operational framework took effect in the first quarter of 2004:

- the duration of the main refinancing operations was cut from two weeks to one week;
- the reserve maintenance period is no longer fixed; it now begins on the main refinancing operation settlement day following the meeting of the Governing Council at which the monthly assessment of monetary policy took place;
- as a rule, changes to the standing facility rates take effect at the start of a new reserve maintenance period, and not on the first working day following the date of the decision.

These modifications did not give rise to any problems.

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.

Throughout 2004, the Eurosystem continued making preparations for the introduction of a single list of eligible collateral. In a desire for transparency and in order to respond to the request expressed by the market during the public consultation at the end of 2003, the first guidelines relating to this list have been published, the main aim being to augment the volume of the assets which counterparties may use.

The following measures will apply from 30 May 2005, as part of the gradual implementation of the single list:

- inclusion 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, United States and Switzerland). In order to ensure that its rights are properly protected, the Eurosystem will first examine the legal system applicable to the issuers of these securities;

- implementation of the principles used by the Eurosystem (legal certainty, transparency and accessibility) to decide whether certain assets traded on non-regulated markets can be accepted as collateral. The final list of the markets included will be published on 30 May 2005. It will be updated annually;
- relaxation of the criterion relating to Tier 1 assets requiring, in the case of debt instruments issued by credit institutions, a rating (accorded by a rating agency) for each issue or issue programme. In future, the issuer's rating will suffice;
- withdrawal of shares from the list of Tier 2 collateral with effect from 30 April 2005. In any case, these instruments were very seldom used as collateral.

In addition, agreement in principle has been reached on the future eligibility of bank loans.

In the first quarter of 2004, the implementation of the advanced risk management measures relating to the collateral lodged did not raise any problems.

The collateral provided for the Eurosystem still consists predominantly of national assets, but their share is continuing to decline compared to the cross-border use of eligible assets.

The “bank of banks” function

The ECB and the NCBs which make up the Eurosystem have a euro banknote issuing monopoly. The NCBs are the source supplying credit institutions with the banknotes required by their customers. The current accounts opened by these institutions with the NCBs are debited for the corresponding amounts. These accounts also enable the credit institutions to settle their mutual debts. Moreover, the Eurosystem requires the credit institutions to maintain monetary reserves, i.e. they must maintain a minimum balance on their accounts. The monetary reserve requirements and the demand for banknotes create a need for liquidity which causes the banks to make use of Eurosystem credit. It is by fixing the terms for this refinancing that the Eurosystem influences interest rates.

The main refinancing operations of the Eurosystem are conducted by a tendering procedure organised at the level of the euro area. Every month, the ECB Governing Council decides on the minimum bid rate applicable to the forthcoming tenders. Each week, the credit institutions inform the central bank of the country where they are based of the amounts of the credit which they wish to obtain and the interest rates – which must be at least equal to the minimum bid rate – which they are prepared to pay on each tranche of their bids. On the basis of these bids and the total liquidity requirement, estimated by the Eurosystem, the ECB Executive Board fixes the total amount allotted and hence the (lowest) marginal rate at which the Eurosystem will lend money. This credit is extended to the institutions offering to pay the highest rates of interest until the target figure is reached. It is granted by the NCB of the country where the establishments are located and entails lodging collateral with the NCB in question.

2.4 Management of the foreign exchange reserves

2.4.1 Basic principles

The foreign exchange reserves shown on the Bank's balance sheet are Belgium's official exchange reserves which are held and managed by the Bank. They comprise gold, gold claims, claims on the IMF and foreign currencies.

The Bank holds and manages these reserves and its part of the reserves transferred to the ECB under Article 30 of the Protocol on the Statute of the ESCB and of the ECB. The reserves are managed in such a way as to maximise the yield with due regard for stringent requirements regarding investment security and liquidity.

There are three levels at which decisions are taken on the management of the exchange reserves held by the Bank. The Board of Directors defines the general policy and long-term preferences as regards balancing risk and yield. Thus, it essentially determines the foreign currency mix of the reserves, 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. The Board of Directors also defines the latitude available to the portfolio managers as regards the duration of the portfolios.

Within the ranges thus defined by the Board of Directors, the investment committee set up by the Board of Directors determines the short-term preferences, taking account of the current and predicted market situations. Finally, the portfolio managers are in charge of the actual routine management of the portfolios, within the limits set for them by the investment committee.

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

The range of authorised investment instruments essentially comprises bank deposits, pensions, government bonds and debt instruments issued by other top ranking debtors. Since 2001, interest rate futures have also been used to manage the interest rate risk.

The foreign reserve assets referred to in Article 30 of the Protocol on the Statute of the ESCB and of the ECB are managed by the Bank for the ECB, in accordance with the directives issued by that institution.

The Bank's staff allocated to the management of the reserves are subject to specific rules of conduct.

2.4.2 Risk management

Management of the foreign exchange reserves exposes the Bank to operating risks, credit risks and market risks connected with changes in interest and exchange rates. The Bank has defined a policy which aims to limit or manage these various risks.

In the case of the market risk, the Bank uses the "value at risk" method to assess the level of losses which could be generated by adverse movements in exchange rates and interest rates. These analyses are supplemented by stress testing exercises aimed at estimating the potential losses in the event of a major market crisis. On the basis of these analyses it selects for each portfolio a currency mix and a duration which, in principle, make it possible to maintain the risk at the desired level.

In order to limit the credit risk, the Bank pursues a prudent policy featuring a marked preponderance of sovereign risk instruments and collateralised instruments, strict limits on other investments, especially bank deposits, diversification of counterparties and issuers, and rigorous selection in terms of credit quality (high rating). To assess this risk, the Bank uses in particular a model based on the *Creditmetrics* methodology which permits estimation of the risk of losses associated with a possible deterioration in credit quality or default on the part of the counterparties and issuers used in managing the assets. This model is also used to define management constraints aimed at reducing the credit risk and managing it as effectively as possible.

To limit the operating risks, the Bank has established a triple structure ensuring the segregation of the various functions: Front Office (operations), Middle Office (risk management) and Back Office (settlement of transactions).



3. Management of payment and settlement systems

3.1 Banknotes and coins

3.1.1 Production of euro banknotes

During the year under review, banknotes denominated in euro were produced in accordance with the production and supply plan adopted by the Eurosystem.

In September 2004, the Bank's printing works was awarded *High Security Printer* certification in accordance with the standard recently issued by the European Committee for Standardisation. This external recognition of the Bank's security management system is additional to the existing certification of the quality management system in accordance with the standard ISO 9001 : 2000.

3.1.2 Circulation of notes and coins

ORGANISATION OF THE CIRCULATION OF EURO BANKNOTES

In accordance with the principle of decentralisation of the Eurosystem's operations, the twelve NCBs organise the circulation of all the euro banknotes. Since these notes are legal tender throughout the euro area, whichever NCB issued them, the amount of banknotes placed in circulation by an NCB need not correspond to their use in the country in question.

Furthermore, since the introduction of the euro, the quantity of banknotes placed in circulation by the Bank has declined, while the opposite is happening in the euro area as a whole, where there is a strong surge in demand for banknotes following the sharp contraction which

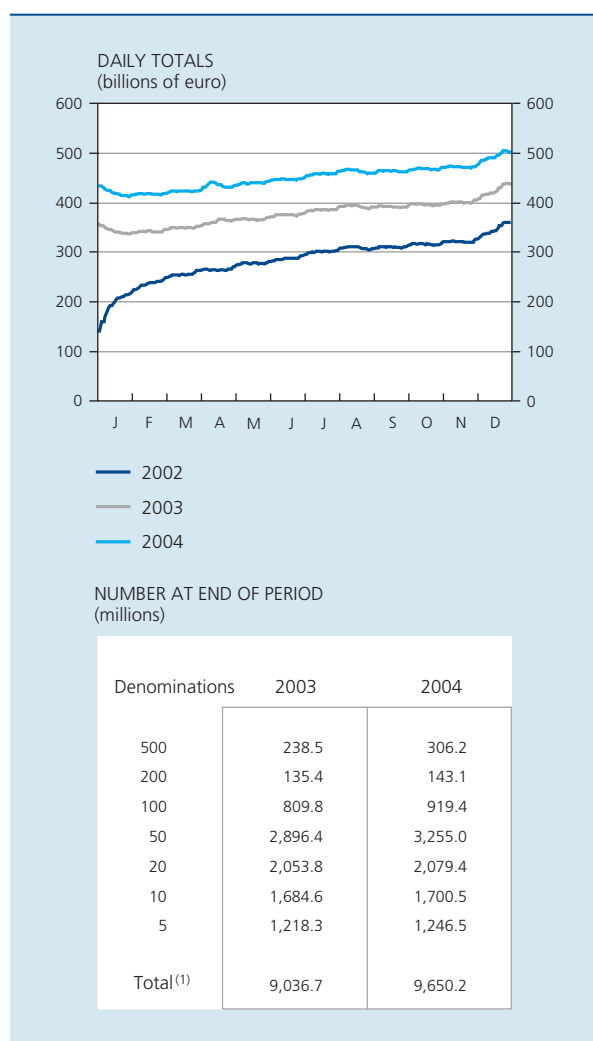
occurred before the euro was introduced. This disparity is due essentially to the large volume of banknotes migrating to Belgium, owing to its geographical location, business trips connected with the role of Brussels as the capital of Europe, the proximity of the Luxembourg financial centre and the fact that cash dispensers do not supply the same denominations in neighbouring countries. Thus, in 2004 more banknotes were paid in at the Bank's counters than the Bank had issued. An increase in the net quantities placed in circulation was recorded only for the 5 and 50 euro denominations. This imbalance is not unique to Belgium. It also gives rise to the transportation of banknotes between other euro area countries.

On the balance sheet, the "Banknotes in circulation" item no longer reflects the volume of banknotes placed in circulation in Belgium. The amount recorded there represents the Bank's share in the issue of euro notes. It is calculated by applying to the value of the notes placed in circulation by the twelve central banks of the Eurosystem a coefficient (currently 3.5672 p.c.) representing the Bank's share in the paid-up capital of the ECB, in the knowledge that 8 p.c. of the total value of the banknotes in circulation in the Eurosystem is attributed to the ECB. The difference between the amount of banknotes issued by an NCB and the amount of banknotes which it places in circulation appears on the balance sheet as a liability to or claim on the Eurosystem, depending on whether the NCB has exceeded or fallen short of its banknote issuance quota in placing banknotes in circulation. In the Bank's case, the positive difference between its share in the total issuance of euro notes and the notes which it places in circulation itself appears 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 has increased over time (by 6 billion in 2004), confirming a net flow of banknotes into Belgium.

Finally, it should be noted that the Bank retained its right of issue after the creation of the euro. The Treaty establishing the European Community in fact provides that the ECB and the NCBs may issue banknotes in euro, and they actually do so pursuant to a decision passed on 6 December 2001 by the ECB Governing Council.

CHART 1 EURO BANKNOTES PLACED IN CIRCULATION BY THE EUROSISTEM



Source: ECB.

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

CIRCULATION OF EURO BANKNOTES

The amount of banknotes in circulation in the euro area showed a marked fall in January 2004, reflecting the usual seasonal decline. This was followed by an almost continuous rise. Over 2004 as a whole, the value of the banknotes in circulation grew by 14.9 p.c., from 436.1 to 501.3 billion euro. The number of notes increased by more than 6.8 p.c. to 9.7 billion at the end of December 2004.

In 2004, the number of 500 euro notes in circulation increased from 238.5 to 306.2 million, a rise of 28.4 p.c., bearing witness to the persistently strong demand for this denomination. The number of 50 and 100 euro notes in circulation also increased significantly, by 12.4 and 13.5 p.c. respectively. In contrast, the growth of demand for the other denominations was more modest: 5.7 p.c. for the 200 euro note, 1.3 p.c. for the 20 euro note, 0.9 p.c. for the 10 euro note and 2.3 p.c. for the 5 euro note.

The share of the four largest denominations increased from 45.2 to 47.9 p.c. in volume and from 85.3 to 87.1 p.c. in value, raising the average value of the banknotes in circulation from 48.3 euro at the end of 2003 to 51.9 euro at the end of 2004. The success of the large denominations confirms the euro's role as an instrument for hoarding cash and its status as an international currency.

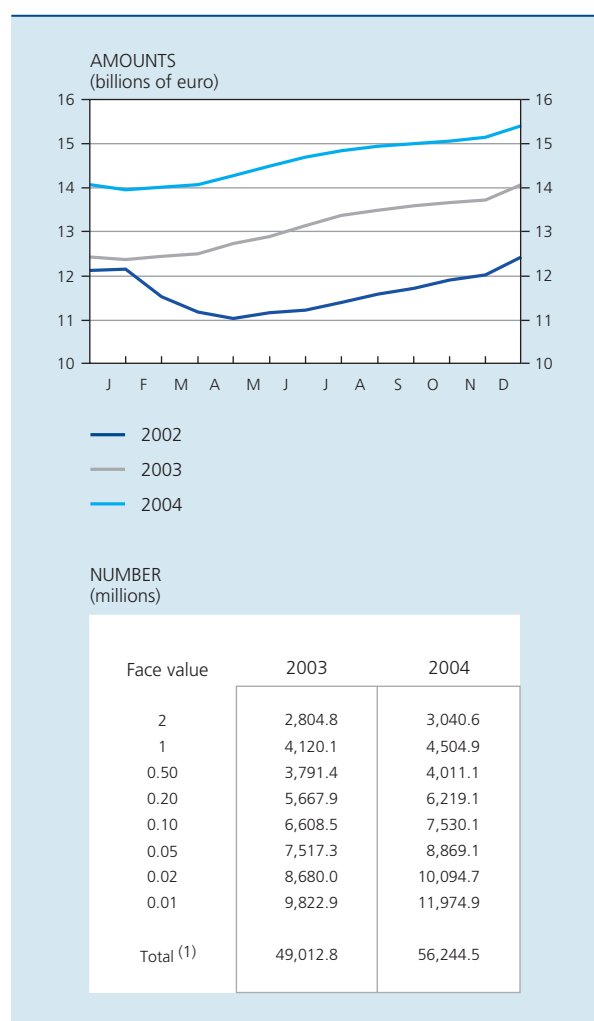
CIRCULATION OF EURO COINS

For much of 2004, the circulation of euro coins expanded, though at a less sustained rate than in the previous year. Taking the year as a whole the amount in circulation increased from 14.1 to 15.4 billion euro, a rise of 9.1 p.c. The number of coins in circulation increased by 14.8 p.c. to 56.2 billion at the end of the year.

Demand for 1, 2 and 5 euro cent coins remained high. As a result, the average value of the coins in circulation declined steadily, from 31 cents at the end of 2002 to 28.8 cents at the end of 2003 and 27.3 cents at the end of 2004. On that date there were 30.9 billion 1, 2 and 5 cent coins in circulation, or 55 p.c. of the total number of coins, representing an average of about 100 coins per euro area resident. Apart from a probably high rate of loss, a substantial percentage of the small coins in circulation constitutes a dormant stock. Some euro area countries have therefore taken steps or initiated discussions aimed at reducing the use of the 1 and 2 cent coins, though without abolishing their legal tender status. In Finland, a law promulgated before the changeover to euro notes and coins requires the total payable to be rounded off

CHART 2 EURO COINS PLACED IN CIRCULATION BY THE EUROSISTEM

(End of period)



Source : ECB.

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

to the nearest 5 cents, while the individual prices are still stated to two decimal places. In September 2004 a similar rule on rounding off was introduced in the Netherlands, where traders apply it voluntarily. The round table on the future of means of payment, set up at the request of the ministers of finance, consumer protection and economic affairs and chaired by the governor of the Bank has also examined the feasibility of such a measure in Belgium. However, it was considered premature to take such a step in the near future, though this question should be reviewed at a later stage.

BANKNOTES AND COINS WITHDRAWN AND PAID IN AT THE BANK

The arrangements for withdrawing and paying in banknotes and coins are now set out in contracts between the Bank and the credit institutions. In the case of banknotes, these institutions may choose between :

- 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. In this case, the Bank allows banknotes to be paid in or withdrawn in batches of single denominations ;
- the service for which there is a charge, and which enables financial institutions to withdraw and pay in banknotes in packs containing different denominations.

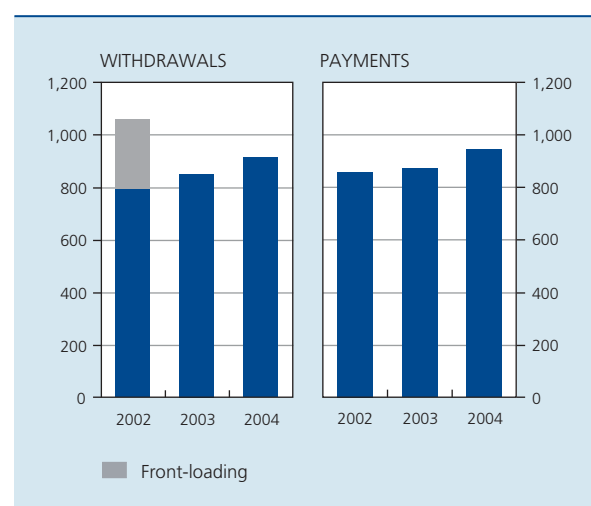
In the case of coins, only the basic, free service is available. Coins are withdrawn or paid in using cartridges filled with coins of the same face value.

Credit institutions conduct their transactions at counters specially equipped to handle large volumes, where access is strictly reserved and controlled. Individuals and non-financial enterprises use the public counters.

In 2004, taking all customers together, the transactions concerned almost 1.9 billion banknotes and over 550 million coins.

CHART 3 EURO BANKNOTES WITHDRAWALS AND PAYMENTS AT THE BANK

(Millions of banknotes)



WITHDRAWAL FROM CIRCULATION OF BELGIAN FRANC NOTES AND COINS

During the year under review, a further 714,000 Belgian banknotes representing almost 946.3 million francs and 26.7 million coins representing a total of 143 million francs were exchanged. There is no time limit for exchanging franc notes issued by the Bank after 1944 (i.e. banknotes with a face value of 100 francs or more). Belgian coins could still be exchanged until 31 December 2004. The value of those not presented for exchange by the specified deadline, or a total of 7.6 billion francs (i.e. 189.6 million euro), has accrued to the Treasury.

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

Face value	Amounts (billions of Belgian franc)		2004 (in p.c. of 2000)
	2000	2004	
10,000	276.5	2.5	0.9
2,000	164.2	2.8	1.7
1,000	73.2	1.2	1.7
500	15.7	0.5	3.4
200	6.6	0.6	8.6
100	10.3	1.0	10.0
Total banknotes ⁽²⁾	546.6	8.6	1.6
50	9.6	2.2	22.8
20	8.1	3.0	37.6
5	3.5	1.3	36.7
1	2.0	0.8	41.9
0.50	0.3	0.3	84.5
Total coins ⁽²⁾	23.5	7.6	32.3
Overall total	570.1	16.2	2.8

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

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

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

The central banks of the euro area monitor the quality of all the banknotes paid in at their counters. In Belgium, this activity is also one of the tasks in the public interest which the legislature has entrusted to the Bank. ⁽¹⁾

In 2004, out of almost 950 million banknotes checked by the Bank's sorting machines, around 155 million were detected as unfit for returning to circulation and were therefore destroyed.

Also, 20,751 counterfeit notes were discovered in Belgium: 53 p.c. were 50 euro notes, 20 p.c. were 100 euro notes and 17 p.c. were 20 euro notes. For comparison, 21,185 forged euro notes had been detected in 2003 and 20,511 forged Belgian franc notes in 2001. The scale of the counterfeiting is therefore more or less constant.

The total number of forged euro notes discovered in 2004 – around 594,000 units – is about 8 p.c. greater than the 2003 figure. This finding must be viewed in context, since the number of forged notes represents only a very small proportion of the total circulation: around 60 forgeries per million banknotes.

The law of 12 May 2004 on protection against counterfeiting ⁽²⁾ provides that institutions involved in handling banknotes and coins and supplying them to the public in the course of their business (credit institutions, security transport firms, etc.), must take measures to detect forged euro banknotes and coins. The Bank may conduct investigations on the premises of these institutions to check compliance with these obligations, and may inspect any accounting or other documents in their possession. On the basis of the information passed on by the Bank, the Minister of Finance may impose administrative fines in cases of failure to comply with the Royal Decree governing this matter.

The same institutions are also required to hand over counterfeit notes and coins without delay to the federal police, who will forward the counterfeit notes for analysis to the National Analysis Centre set up at the Bank. On the proposal of the Bank, the Minister of Finance may impose administrative fines on institutions failing to respect the obligation concerning immediate hand-over.

(1) Article 6 of the Law of 10 December 2001 on the final changeover to the euro stipulates that "the national Bank shall be responsible for monitoring the quality of the banknote circulation".

(2) This law implements Article 6 of Council Regulation No 1338/2001 of 28 June 2001 laying down measures necessary for the protection of the euro against counterfeiting.

As part of the measures to control counterfeiting, the Bank also continued to test devices designed to facilitate and speed up the recognition of forged banknotes. In 2004, more than 20 devices were tested, bringing to 45 the total number of machines examined since the tests were set up.

3.2 Interbank payments

3.2.1 Large-value payments

Ellips is the Belgian component of Target, the European cross-border gross settlement system, and thus provides the link between the Belgian and European banking sectors. These systems handle transfers which are generally for large amounts, often linked to financial market transactions.

In 2004, the number of payments processed by Ellips grew by 5 p.c. to a daily average of 10,837 payments. In value terms, these payments increased by 7.8 p.c., thus reaching a daily average of 100.5 billion euro.

Payments between institutions based in Belgium declined by 1.8 p.c. to an average of 3,181 transactions per day. These payments totalled 12.8 billion euro per day, which was 2.3 p.c. below the 2003 figure.

The number of transactions effected by Ellips with banks established abroad and participating in Target came to 3,723 for outgoing payments and 3,933 for incoming payments. The share of the total represented by these

transactions increased by 2.5 p.c. in the case of outgoing payments and 14.6 p.c. in the case of incoming payments. In value terms, these payments increased by 9.4 p.c., to a daily average of 43.9 billion euro in the case of incoming payments and outgoing payments alike.

Belgium is still in fifth place among the countries using Target for cross-border payments.

In 2004, Target handled an average of 267,234 payments per day, worth 1,714 billion euro. The number of cross-border payments was 8.7 p.c. up, averaging 65,047 per day. The value represented by these payments increased by 5.1 p.c. to a daily average of 564 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.

3.2.2 Small-value payments

The great majority of small-value payments are processed by the CEC, an entirely automated interbank system for the exchange and settlement of cashless payments in Belgium. A non-profit association, the CEC is run by credit institutions based in Belgium. The Bank chairs the association and operates the system. In addition, the Clearing House handles a residual quantity of several thousand cheques per day which are physically exchanged.

Target 2

Target 2 implies the creation of a new platform for processing large value payments in euro, in order to replace the current Target system. The Target 2 system will be based on a single technical platform shared by all the participating central banks. It will meet the new needs of the banking sector, generated in particular by the consolidation of the financial sector in the euro area. The new system will also take account of the maximum requirements in terms of reliability and security, and the planned enlargement of the euro area.

In 2004, important milestones were reached in the execution of this ambitious project. The functional characteristics and various aspects relating to the project's costs, funding, organisation and management were approved. In 2005, attention will focus mainly on the development of detailed specifications, definition of the scenarios for switching from the present system to the new one, and development of the actual applications. As during the earlier phases of the project, the banking sector will be closely involved in the attainment of these objectives, both at European level and in regard to each national banking community.

TABLE 2 AMOUNTS PROCESSED BY THE TARGET SYSTEM AND THE BELGIAN INTERBANK PAYMENT SYSTEMS

(Daily averages)

	Number in thousands		Percentage change	Amounts in billions of euro		Percentage change
	2003	2004		2003	2004	
Target						
– cross-border payments	59.8	65.0	8.7	536.8	564.2	5.1
– national payments	201.4	202.2	0.4	1,113.2	1,150.0	3.3
Ellips						
– outgoing payments ⁽¹⁾	3.6	3.7	2.4	40.1	43.9	9.4
– incoming payments ⁽²⁾	3.4	3.9	14.6	40.1	43.9	9.4
– national payments	3.2	3.2	–1,8	13.1	12.8	–2.3
CEC	4,090.0	4,003.7	–2,1	2.2	2.3	4.6
Clearing house	6.4	5.2	–17,7	0.3	0.2	–10.5

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

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

During the past year, the CEC processed on average over 4 million payments a day, representing a daily total of around 2.3 billion euro. The CEC thus processed 99.6 p.c. of the number of interbank payments, representing 2.2 p.c. of their total value. The average number of transactions effected each day declined by 2.1 p.c., while the amounts exchanged increased by 4.6 p.c.

The Clearing House is now only available for banks to exchange large value cheques. In 2004 the Clearing House processed 5,200 cheques a day, worth a total of 234.4 million euro. This represents a decline of 17.7 p.c.

in volume and 10.5 p.c. in value. The CEC Board of Directors decided to increase the maximum amount of the check truncation⁽¹⁾ from 10,000 to 50,000 euro with effect from 15 November 2004. An even larger proportion of cheques is thus handled via the CEC, and in 2005 there will be a further steep decline in the number of transactions effected via the Clearing House.

(1) Cheques are exchanged via the CEC according to the check truncation principle (exchange without physical transfer). However, transactions of more than a certain amount must be presented manually in the Clearing House.

The Single Euro Payments Area

The creation of a unified area for the cashless payments of the entire euro area is one of the Eurosystem's priorities. It is also a major challenge for the banking sector. The aim of the *Single Euro Payments Area* (SEPA) is ultimately to make euro area payments match the efficiency of those currently effected by the best national payment systems. To achieve this, national payment instruments (transfers, domiciliations and card payments) must be converted to standardised European instruments.

The Eurosystem is acting mainly as a catalyst here, encouraging and supporting the adjustments made by the banking sector. The central banks are also involved at national level in supporting the banking sector's work of developing national plans for the switch to the SEPA. The Bank is collaborating with the Belgian banking sector in examining the most appropriate solutions for the migration to European standards and the CEC's evolution towards a pan-European infrastructure.

In volume terms, transfers represented 47 p.c. of the total transactions processed by the CEC, domiciliations accounted for 10.5 p.c., cheques represented 1,5 p.c. and card payments 41 p.c.

Since 2001, the CEC has been developing the CEC III project, which mainly concerns the renovation of the technical infrastructure to guarantee the system's reliability and the quality of its service in the future. The first phase of this project (linking the banks to a new common interface) was successfully completed in 2004. Modifications to the central application are currently in the test phase and will be operational by around June 2005.

3.3 Securities settlement

The Bank manages a settlement system which permits the totally secure settlement, on the primary and secondary markets, of transactions relating mainly to dematerialised securities. It 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.

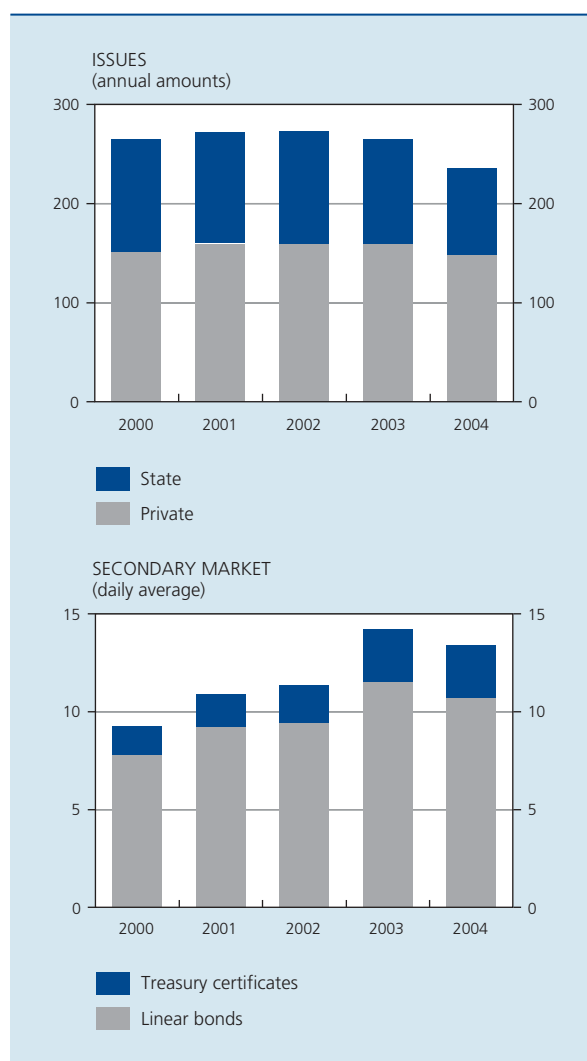
The nominal value of securities registered in accounts totalled 301 billion euro as at 31 December 2004. There was a substantial decline in the system's overall activity, down from 844,122 to 768,776 notifications processed, i.e. a fall of 8.9 p.c.

Primary market activity was down slightly in the year under review. The nominal value issued via the Bank's securities settlement system nevertheless exceeded 235 billion euro. Around 7,778 new securities were accepted. The State's share in the amounts issued is steadily declining – in 2004 it represented only 37 p.c. For other issuers, short-term issues are still very much in the majority (over 95 p.c.). Issues at over one year totalled 7 billion euro in 2004, against 2 billion in 2000.

On the secondary market, transactions in treasury certificates were steady in value terms, and there was a substantial fall in linear bond transactions.

At the request of the participants, the SWIFT messaging services were supplemented and improved. Since the end of November, participants have been receiving confirmation of certain transactions and events (corporate actions) via this network. In a second phase, scheduled for 2005, they will also receive notification of these transactions and events. These new messages respect

CHART 4 TRANSACTIONS PROCESSED BY THE SECURITIES SETTLEMENT SYSTEM
(Billions of euro)



the standards defined by the group of Belgian SWIFT network users.

This year, the settlement system has undergone an in-depth analysis concerning compliance with the recommendations and standards devised by international bodies for securities settlement systems. The system was also examined by experts from the IMF in the course of the Financial Sector Assessment Program for Belgium; a report will be published at the beginning of 2006.

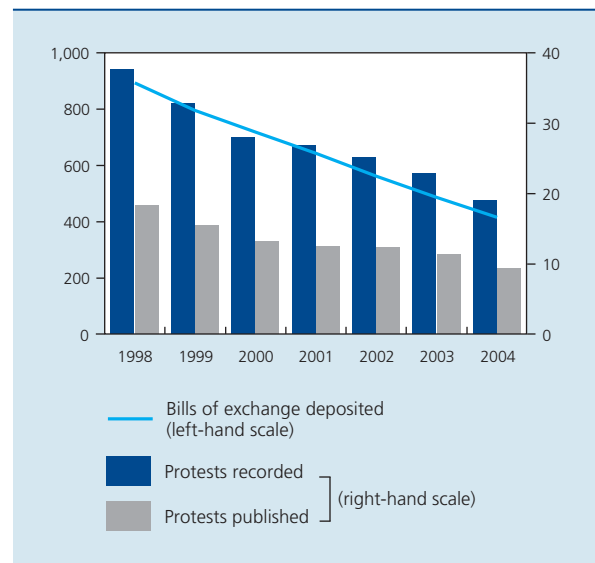
3.4 Centralised processing of commercial bills

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.

The number of commercial bills submitted for collection and processing by the *Centralised Processing of Commercial Bills* has declined, falling from 485,000 units in 2003 to 415,000 in 2004. There were plans to dismantle the system in 2007, but at the request of the credit institutions it will continue to operate until 2011 at the latest.

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 connected with default on payment of commercial bills, leading to the preparation of protests. In 2004, almost 19,000 protests were formally drawn up by the bailiffs. Of these, around 9,500 – or half of the protests – were paid before the publication date, thus avoiding publication.

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





4. Supervision of the financial system

The supervision of the financial system concerns both the institutions forming part of that system (prudential supervision) and the systems which enable it to operate (oversight).

The Bank has set up an interdepartmental unit to manage the crises which could arise in these areas. This unit comprises representatives of the various Bank departments and services concerned with financial stability. Its activities, centred on the management of possible crises in the financial sector, are intended to improve the Bank's preparations and coordinate its action. The Bank has also set up a small unit to guarantee that the prudential information originating from the BFIC or other prudential authorities will be treated in confidence, thus preventing any conflict of interest between the Bank's statutory duty – to contribute towards the stability of the financial system – and the preservation of its proprietary interests.

Finally, the Bank is in charge of the day-to-day management of the Protection Fund for Deposits and Financial Instruments, a public institution 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. The fund is directed by a Board of Directors comprising representatives of the State, credit institutions and investment firms. It publishes an annual report on its activities, which is available on the Internet (www.fondsdeprotection.be).

4.1 Prudential supervision

4.1.1 Cooperation with the Banking, Finance and Insurance Commission

The tendency towards concentration and despecialisation in the financial sector prompted the authorities to step up the cooperation between the Bank – the authority responsible for macroprudential supervision – and the BFIC, the authority in charge of microprudential supervision. These closer links are reflected in the pooling of certain resources and the establishment of two umbrella bodies, the Financial Stability Committee (FSC) and the Financial Services Authority Supervisory Board (FSASB).

FINANCIAL STABILITY COMMITTEE

The FSC is the cornerstone of the new structure for the supervision of the financial sector. Its statutory function consists in examining all questions of mutual interest to the Bank and the BFIC, in particular the stability of the financial system in general, the coordination of crisis management and the designation and management of the activities pursued jointly to satisfy the cooperation obligation imposed by law.

In particular, the FSC analyses the Belgian financial system's resistance to events liable to affect the operational continuity of the activities.

To that end, the FSC has set up a working group with the task of identifying the operators and functions critical to the smooth operation of the Belgian financial system, producing a situation report on the subject of Business Continuity Planning, and presenting the FSC with recommendations for improvements. A summary of these recommendations, which were approved by the FSC at

The Permanent Monitoring Entity for Business Continuity Planning

Created at the FSC's meeting on 18 October 2004, the Permanent Monitoring Entity (PME) watches over the implementation of the FSC's recommendations on Business Continuity Planning. These recommendations are intended to reinforce the stability of the financial system by ensuring that the operators and functions identified as critical for the smooth operation of the Belgian financial system make the arrangements necessary to safeguard the continuity of their activities.

At the end of 2004, the PME therefore set up four working groups responsible for the following aspects respectively:

- the practical arrangements for the interface with the Government Coordination and Crisis Centre (GCCC);
- preparation of the contingency plans to cope with any extended interruption of the operation of certain critical functions;
- the guarantees that critical players must obtain from their telecommunications operators in order to ensure the absence of single points of failure;
- definition of tests which could be organised at the level of the financial system as a whole.

Headed by one of the Bank's directors, the PME is composed of representatives of the BFIC, the FSC secretariat, the Minister of Finance and the Bank. Representatives of the critical infrastructures and financial institutions will also be involved in its work.

The PME will report annually to the FSC on the implementation of the recommendations and on the adjustments required. In the event of a crisis, the PME will act as a forum for exchanging information and coordinating communication between the GCCC and the financial sector authorities, the critical infrastructures and financial institutions.

Supervision over the implementation of recommendations addressed to individual players is the responsibility of the Bank and the BFIC, in accordance with their respective powers.

its meeting on 18 October 2004, may be found on the Bank's website.

Since the risks and the technologies are constantly changing, a Permanent Monitoring Entity has been set up which, as in other countries, comprises members of the public authorities and the financial sector.

The FSC also approved some practical arrangements intended to establish a general framework for collaboration and the exchange of information between the Bank and the BFIC on the management of financial crises. Following the approval of these practical arrangements, a BFIC representative was invited to the Bank's interdepartmental crisis unit. The FSC is also in charge of coordinating the work of assessing the stability of the Belgian financial system, initiated in December 2004 by the IMF as part of the Financial Sector Assessment Program (see point 4.1.2).

FINANCIAL SERVICES AUTHORITY SUPERVISORY BOARD

The FSASB was officially installed on 10 March 2004. Since then, a number of matters have been referred to it.

First, the governor, in his capacity as chairman of the FSASB, was instructed by the Ministers of Finance, Economic Affairs and Consumer Protection to set up a Steering Committee on the future of means of payment, involving all the parties concerned with this issue. The Committee conducted a survey on the costs and benefits of the various means of cash payment and drew up concrete proposals for modernising the government's payment systems. The conclusions of these studies will be presented to the FSASB.

The Minister of Finance also instructed the FSASB to arrange consultation with all the parties concerned by the bill proposed by Senator Willems on bank intermediation and the distribution of financial instruments. Following that consultation, the FSASB submitted an opinion to the Minister of Finance and agreed to continue its deliberations on the rules of conduct to be respected by intermediaries.

Finally, at the installation meeting on 10 March 2004, the Minister of Finance asked the FSASB to assess the new entities resulting from the 2002 reform and the collaboration between those entities.

4.1.2 Macroprudential supervision

In recent years, macroprudential supervision has become one of the key activities of central banks. The increasing integration of the financial markets means that operators respond far more swiftly than in the past to mutual sources of information. That increases the risk that behaviour which may be justified at individual level could generate systemic problems by being adopted simultaneously by a large number of institutions. It is therefore essential to supplement microprudential supervision with macroprudential supervision, to detect more general developments which could affect the overall stability of the financial system.

This preventive role necessitates regular monitoring of the markets, as although the financial contagion mechanisms may give the impression of developing very rapidly, they are often the culmination of a long and gradual process.

FINANCIAL STABILITY REVIEW

Published annually by the Bank since 2002, the *Financial Stability Review* contains a regular article on the in-depth analysis of the determinants of financial stability in Belgium.

The second part of this Review presents thematic articles intended to encourage discussion and cooperation between microprudential and macroprudential authorities, but also – more generally – with Belgian financial market operators. Thus, one article in the 2004 edition was devoted to the balance of power which must be established between supervision, regulation and corporate governance in order to reconcile the requirements of financial stability as closely as possible with the aims of shareholders.

Four other articles dealt with two of the main types of risk incurred by banks: credit risk and interest rate risk. On the first topic, one article examined to what extent the recent structural changes on the Belgian banking market have affected the number of banking relationships of small and medium-sized enterprises, and another article analysed the determinants of credit spreads, taking the example of corporate bonds.

As regards, interest rate risk, one article considers certain measurement problems and the instruments available to the supervisory authorities. Another article uses an example to show how a bank can limit the impact of the new system of accounting, the International Accounting Standards, on the volatility of its results without modifying its overall position in regard to asset and liability management.

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”. This publication, which contains a set of tables and charts with a brief commentary, describes the trends apparent in credit institutions, insurance companies, pension funds and the securities markets.

INTERNATIONAL ACTIVITIES

The macroprudential supervision exercised by the Bank is coordinated with the microprudential activities of the BFIC and also has an international dimension. Thus, via the Banking Supervision Committee set up by the ESCB, the Bank is involved in the macroprudential analysis and the monitoring of structural developments in the European banking systems, and in research on crisis management.

As regards regulation, the Bank has taken part in the work of the Basel Committee on Banking Supervision; on 26 June 2004 – after several years of preparation – this work led to the publication of a revised framework for international convergence on standards and on the calculation of capital requirements (“Basel II”). It is also involved in the activities of the Committee of European Banking Supervisors. In the new structure of EU Committees dealing with financial services, this prudential committee is responsible, as far as the banking sector is concerned, for promoting convergence of routine supervisory practices, augmenting the exchange of confidential information on the institutions subject to supervision, and providing technical advice for the European Commission.

These various activities and contributions of the Bank confirm that the effective supervision of financial systems must be based on a suitable institutional and regulatory framework. These two inseparable aspects are the main focus of the "Financial Sector Assessment Program" launched by the IMF in 1999 in order to assess the stability of the financial system. The mission concerning Belgium began at the end of 2004 and will continue during 2005. The aspect of the mission devoted to compliance with standards and codes is aimed at assessing the various facets of the organisation and operating methods of the markets and the financial authorities on the basis of the standards issued by the leading international organisations. In phase 2, the mission will analyse the general structure of the financial system, including the financial infrastructures and the governance arrangements, in order to assess its soundness and identify any sources of vulnerability. For that purpose, the IMF will use various macroprudential indicators and will also arrange stress testing exercises in close collaboration between the Bank and the main Belgian financial intermediaries.

4.2 Oversight of payment and securities settlement systems

4.2.1 Regulatory developments

A number of reports setting out standards for the oversight of payment and securities settlement systems were published in 2004.

In 2004, the ESCB and the Committee of European Securities Regulators (CESR) jointly published the *Standards for Securities Clearing and Settlement Systems in the European Union*, i.e. a European version of the Recommendations for Securities Settlement Systems published in 2001 by the Payment and Settlement Systems Committee (PSSC) and the International Organisation of Securities Commissions (IOSCO).

In November 2004, the PSSC and IOSCO published a report entitled *Recommendations for Central Counterparties*. When securities are sold, the central counterparty acts as intermediary, taking on the risk of default by either of the two parties. If the seller is unable to deliver the securities, this counterparty makes sure that the buyer nonetheless receives all the desired securities. Conversely, in the event of non-payment by the buyer, it pays the seller. In so far as the risks are concentrated on the central counterparty, the document sets out standards for managing the risks incurred by central counterparties.

The ESCB-CESR working group

The ESCB-CESR working group set up in October 2001 facilitates collaboration between the ESCB and the Committee of European Securities Regulators. The working group focuses on securities settlement and clearing. It forms part of the authorities' joint efforts to improve the efficiency and reliability of the securities settlement systems. The reason for the central banks' involvement in this working group is that they want to promote financial stability and are interested in the smooth operation of the market, in order to ensure that their monetary policy operations are effective.

The CESR is an independent EU committee comprising the regulators of European securities markets. It has three aims:

- to improve collaboration between European securities markets regulators;
- to assist the European Commission in formulating advice on securities settlement;
- to promote faster and more consistent application of Community legislation in the Member States.

4.2.2 Oversight of payment systems

Banksys and MasterCard Europe are the two payment systems operated by the private sector and overseen by the Bank. Banksys manages credit and debit card payment systems, the Proton electronic purse and part of the network of cash dispensers. This company also designs payment terminals, networks and security modules. In 2004, as in the previous year, the Bank looked at security (both data security and fraud prevention and control), procedures intended to ensure the operational continuity of the system, the audit function and the Europay/MasterCard/Visa migration. Once that migration is complete, all credit and debit cards will carry a silicon chip, as well as the magnetic strip. This innovation, which entails substantial investment, will make transactions more secure. As the activities of Banksys are becoming increasingly international, it was also appropriate to examine SiNSYS, the joint venture set up by Banksys, InterPay and SSB, which will process all the national and international transactions effected by credit card.

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). Analysis of the MasterCard Europe settlement system has begun on the basis of the *Oversight Standards for Retail Payment Systems*.

The Bank plays an active role in the oversight of *Continuous Linked Settlement* (CLS), as the central bank of a country where participants in this system are based. That oversight is exercised jointly with the central banks whose currencies are processed by the system. CLS is a product of CLS Bank, which is based in New York. The Federal Reserve Bank of New York therefore carries primary responsibility for the oversight (*lead overseer*). This system of payment for foreign exchange transactions is based on the principle of "payment against payment" and guarantees that both legs of a foreign exchange transaction are settled simultaneously at CLS Bank, substantially reducing the risks.

Apart from the above systems, there is also oversight of the systems which the Bank operates, namely ELLIPS and CEC (small value payments system). By analogy with the systems operated by the private sector, a draft agreement was signed in 2004 with the operators of these two systems. This agreement specifies the practical arrangements for implementing the oversight of these two systems.

In consultation with the ESCB, the assessments of all the payment systems (including Ellips) on the basis of the Core Principles for Systemically Important Payment Systems were published in the document entitled "*Assessment of euro large-value payment systems against the core principles*".

In 2004, the CEC was assessed on the basis of the reference framework developed by the ESCB (the *Oversight Standards for Retail Payment Systems* mentioned above). Special attention was also paid to implementing the recommendations derived from the conclusions.

4.2.3 Oversight of securities settlement systems

Euroclear is an important securities settlement system which is overseen by the Bank. In 2004, the completion of the examination of this system in the light of the Recommendations for Securities Settlement Systems mentioned earlier – which had begun in 2003 – was the focus of particular attention. In addition, the links between Euroclear and other national and international central depositories for securities were studied, as was a new business model intended to combine the activities pursued by Euroclear Bank, Euroclear France, Euroclear Netherlands, CrestCo and the other associated entities. In this connection, close attention was paid to the potential impact on the organisational structure and on the *single settlement engine*, a joint IT platform enabling Euroclear to settle transactions in Belgium, France, Ireland, the Netherlands and the United Kingdom.

The year 2004 saw the completion of the assessment of the securities settlement system of the Bank and that of the Caisse interprofessionnelle de dépôts et de virements de titres (CIK), operated on the basis of the Recommendations for Securities Settlement Systems. The assessment of these two systems led to recommendations improving their security.

The Bank is also involved in the international joint oversight of LCH. Clearnet SA, the central counterparty for, among other things, spot market transactions and trading in derivatives via Euronext.

4.2.4 Oversight of SWIFT

SWIFT offers highly secure services for the transmission of financial and related information between its members. This company provides an important 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*. The practical arrangements for this oversight were further refined in 2004. The Bank's links with SWIFT were reflected in the signing of a new protocol giving the Bank faster access to the information in which it is interested. The relationships between the Bank as lead overseer and the other G10 central banks were set out in cooperation agreements (memoranda of understanding) which the Bank concluded with each of those institutions. The last cooperation agreements will be signed in the spring of 2005.

In 2004, SWIFT continued the migration of its main commercial application to a new data processing technology. At the end of the year under review, the great majority of the messages were handled by the new system since – with a few exceptions – nearly all the customers had completed the migration. During the transitional phase, there was no sign of any serious problems regarding system availability.

The new SWIFTNet migration platform uses the Internet protocol. The functions which it offers will enable SWIFT to greatly expand its portfolio of services for the financial sector. Numerous new solutions are currently being considered in consultation with the financial sector, and they will become available soon. The oversight exercised by the central banks over SWIFT also covers these developments, in so far as they may have repercussions on the systemic risk of the international financial system.



5. International cooperation

The Bank takes part in the continuing European integration and the work relating to international cooperation in the strengthening of international financial stability and financial embargos. It also provides technical assistance for the Central Bank of Congo.

5.1 European Union

In connection with the work on European integration, the Bank took part in discussions on aspects of EU enlargement which affect the areas in which central banks operate. In particular, these discussions concerned the strategy of the new Member States as regards membership of the Exchange Rate Mechanism II and adoption of the euro. This led to preparations for Estonia, Lithuania and Slovenia to join the Exchange Rate Mechanism II on 28 June 2004. The Bank was also involved in the monitoring of the stability and convergence programmes.

These subjects were discussed, in particular, by the ESCB International Relations Committee and the EU Economic and Financial Committee. In these committees, the Bank took part in discussions aimed at improving the architecture of the international financial system and discussions concerning financial stability, monetary union, the application of the Stability and Growth Pact and analysis of the Union's economic situation. Finally, the Bank continued to take part in the work of strengthening the single market in financial services.

5.2 Other multilateral cooperation

5.2.1 International Monetary Fund

At international level, in collaboration with the federal authorities and in consultation with its European partners, the Bank helped to prepare the standpoints taken by the Belgian Executive Director of the IMF, an institution in which Belgium heads a constituency of ten countries, the other nine being Austria, Belarus, the Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey. At the general meeting held at the beginning of October 2004, these countries confirmed the position of the Belgian executive director.

The IMF has wide-ranging supervisory powers for the performance of its tasks, which include in particular promoting sustainable growth and macrofinancial stability. During 2004, changes were made to the regular supervision arrangements, namely the consultations under Article 4. Among other things, it was decided to integrate the supervision of national economies more closely with global financial and economic developments, and to examine the financial sector in greater depth. The IMF also continued its efforts, acting jointly with the World Bank, to refine the framework for analysing the sustainability of sovereign debt. Special attention focused on how to make this analysis framework operational for emerging economies and developing economies.

Finally, 2004 was a year for reviewing the IMF's role in the developing countries, especially the low income countries. That role is based on two pillars: granting loans on advantageous terms under the Poverty Reduction and Growth Facility, and reducing their debts under the Heavily Indebted Poor Countries Initiative. One of the points stressed during the discussions was that the role of

the IMF missions should be better defined. The debt initiative was due to be terminated at the end of December 2004, but in September 2004 the IMF Executive Board decided to extend it until the end of 2006, in order to allow more time for countries which might yet submit an application for a substantial reduction in their debt.

5.2.2 Group of Ten and OECD

The Bank took part in completing the examination of the IMF's financial position, conducted by the G10 at ministerial and governor level. It is in fact essential for this institution to be in a sound financial position in order to perform effectively the tasks which have been entrusted to it. In recent years a number of measures have been taken to improve the Fund's financial health. The ministers and governors agreed that these measures will also have to be strictly implemented in the future in order to maintain the financial health of the Fund. The Bank also took part in the work of the G10 relating to the implementation of the clauses on joint action in contracts for the issue of debt securities. These clauses are gradually coming into international use, being adopted in the case of 79.8 p.c. of the securities issued in 2004⁽¹⁾. Finally, the Bank took part in the activities of the Committee on the Global Financial System (G10) and various OECD committees (the Economic Policy Committee and its working groups, the Financial Markets Committee and the Investment Committee).

5.2.3 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 2004, such embargos were applied within the framework of the United Nations and the European Union to Burma/Myanmar, the members of the former government of Iraq, Serbia-Montenegro, Zimbabwe, and to the Taliban of Afghanistan, the Al-Qaida network and other terrorist organisations.

5.3 Technical assistance for the Central Bank of Congo

In 2004, the Bank continued to implement the programme of technical assistance for the Central Bank of Congo, set up in consultation with the Federal Government. In regard to the content of the programme, the Bank continued to collaborate closely with the IMF and the Federal Public Services for Foreign Affairs, Foreign Trade and Development Cooperation.

The Bank's support covers a wide range of needs. In certain cases, its assistance is highly practical while in others it is more strategic in character. In particular, it is participating in the project, being directed by the IMF, for the creation of a trading room and a back office system, multi-currency accounting and the use of SWIFT. In order to curb dollarisation and extend the availability of banking services, it also wishes to reform the currency circulation in the Democratic Republic of Congo and help the country to devise a settlement system facilitating cashless payments.

(1) Data as at 30 September 2004.



6. Role of State Cashier and management of the Securities Regulation Fund

6.1 State Cashier

As the State Cashier, the Bank centralises the State's current revenue and expenditure each day. 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. Since the entry into service of a new electronic application, the Treasury can now monitor its cash position with the Bank continuously and in real time.

In collaboration with the Debt Agency, the Bank arranges the issue and distribution of State loans which are still issued in physical form. It is also responsible for the financial service in respect of these loans. In addition, its securities settlement system handles the account entries,

post-issue payments and financial service in the case of dematerialised State loans.

Following the redemption of the last "Philippe Loan"⁽¹⁾, the State debt in circulation in physical form now consists almost entirely of State notes.

So that private investors can also subscribe to dematerialised linear bonds, the Treasury has on three occasions offered linear bonds on the market for individuals. However, it was decided to stop issuing these bonds as they were not a success.

The Bank also looks after securities on behalf of the State, more specifically for the Caisse des Dépôts et Consignations.

The bond centre

The bond centre provides professional customers with a service, for which a charge is made; the advantage of this service is that it obviates the need for prior central collection of redeemable securities and coupons due. The branch concerned presents the batches directly to the Bank for encashment. In this connection, some credit institutions are opting for the new facility whereby the content of their consignments is announced in advance by electronic means, permitting automatic processing and monitoring of the data and a reduction in costs.

6.2 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 340 million euro in 2003 to 283 million in 2004. Around 82 p.c. of the transactions concerned government bonds and traditional loans, the remainder concerning linear bonds. The regulatory framework applicable to the securities market will be made to conform to the law of 2 August 2002. For that purpose, a Royal Decree was submitted for the opinion of the Council of State and the Euronext Brussels *Rule Book* is soon to be amended.

(1) First name of M. Maystadt, the Minister of Finance who issued them.

On 15 April, new market rules came into force for the off-exchange market; they replace the market regulation of 27 December 1995. It was necessary to adapt a considerable number of provisions of the existing market regulations to bring them into line with the new regulatory framework introduced by the law of 2 August 2002 and the Royal Decree of 16 May 2003. It also proved necessary to clarify some of the existing rules. The new rules now lay down in detail the procedure for the acquisition, suspension or withdrawal of market member status.

In addition, participants are now required to record all telephone conversations concerning transactions concluded on the market.

For the purpose of supervising the reporting of transaction data, the Securities Regulation Fund has combined all the existing instructions in a new circular. Minor changes have been made to a number of technical points concerning reporting. The Securities Regulation Fund report is available on the Bank's website.



7. Circulation of information

7.1 Circulation of macroeconomic research and statistics

7.1.1 Publications

The Bank publishes the results of its research and economic analyses in Part I of its annual report, in the *Economic Review*, in the *Working Papers* and in the *Financial Stability Review* (cf. point 4.1.2). It also publishes *Belgian Prime News*, jointly with the Federal Public Service Finance and a number of primary dealers. In addition, it encourages its staff to publish the results of their work in distinguished reviews produced by international institutions or universities.

The *Economic Review*, published four times a year, provides information on key economic, financial and monetary developments. In 2004, the Bank decided to inform the public of the macroeconomic forecasts for Belgium which it produces on behalf of the Eurosystem, not only for the current year, as previously, but also for the year ahead. Moreover, its forecasts are now announced twice a year, at the time of the ECB's publication of the aggregate result for the euro area as a whole. This means that the Bank has moved into line with the practice of the majority of NCBs in the euro area. Apart from the traditional annual commentary on the results of the non-financial corporations and their social balance sheet, the Bank published articles in the *Review* on the transmission of monetary policy impulses, the structure of public revenues, the characteristics of foreign trade developments, inflation differentials, the setting of banks' debit interest rates, the determinants of the economic cycles, pricing by businesses and the finances of the communities and regions. The first issue also contained the report presented by the governor on behalf of the Council of Regency, and a sectoral survey of the Microeconomic Analysis Service

(cf. point 7.2.4). Since 2004, the *Economic Review* has also been published in English.

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. Twenty-three issues were published in 2004, ten of which contained contributions presented at the international symposium organised by the Bank on the subject of *Efficiency and stability in an evolving financial system* (cf. point 2.1) and three contained sectoral surveys (cf. point 7.2.4). The other titles were as follows:

- *Modelling the term structure of interest rates: where do we stand?;*
- *Interbank exposures: an empirical examination of systemic risk in the Belgian banking system;*
- *How frequently do prices change: evidence based on the micro data underlying the Belgian CPI;*
- *Firms' investment decisions in response to demand and price uncertainty;*
- *Determinants of euro term structure of credit spreads;*
- *Macroeconomic and monetary policy-making at the EC, from the Rome Treaties to the Hague Summit;*
- *Forecasting with a Bayesian dynamic stochastic general equilibrium model: an application to the euro area;*
- *Comparing shocks and frictions in US and Euro Area business cycles: a Bayesian dynamic stochastic general equilibrium model approach;*
- *Voting on pensions: a survey;*
- *Asymmetric growth and inflation developments in the acceding countries: a new assessment.*

During the year under review, the European Economic Association awarded the Hicks-Tinbergen medal to Rafael Wouters and Frank Smets, members of the staff of the Bank and the ECB respectively. They were given this award for the article entitled *An estimated dynamic stochastic general equilibrium model of the Euro Area*, which they published in September 2003 in the *Journal of the European Economic Association*.

As regards statistics, the Bank publishes:

- weekly, indicators relating to the Belgian economy;
- monthly, press releases on the results of the business surveys and the foreign trade statistics;
- quarterly, a statistical bulletin in which some of the tables are updated monthly. As part of the synergy with the BFIC, the Bank included in this Bulletin the statistical tables previously published by the BFIC;
- at various intervals, statistics on the national or regional accounts and the foreign trade figures (this information is circulated on behalf of the NAI).

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. In addition, this website gives access to Belgostat, a database offering extensive access functionalities (list of tables, multidimensional search or search by thesaurus) and containing a wide range of economic and financial statistics, updated daily.

The Bank is increasingly encouraging the electronic circulation of statistical information, and also provides a facility on its website for consulting the foreign trade yearbook and the uses-resources tables of the national accounts.

Furthermore, the Bank supplies numerous international organisations (IMF, OECD, ECB, BIS, European Commission, etc.) with the Belgian statistical data which they require. It standardises the data which the various Belgian organisations producing statistical information send to the IMF.

7.1.2 Scientific library

The Bank's scientific library has one of the largest collections of works and periodicals in Belgium on economic, financial and monetary subjects. The library catalogue can be consulted on the Bank's website, which also contains almost a thousand hyperlinks to other economic and financial websites. The reading room is open to the public from Monday to Friday (cf. Annex 2).

7.2 Microeconomic information centres

7.2.1 Central Balance Sheet Office

The majority of Belgian companies are required to publish their annual accounts each year (including a social balance sheet). In Belgium it is the Central Balance Sheet Office, a functional unit of the Bank, which makes sure that these annual accounts are collected, processed and made available to the public in line with the current legislation.

The number of sets of annual accounts lodged with the Central Balance Sheet Office was slightly higher than in 2003, thus reaching a peak. This situation is largely attributable to the introduction of administrative fines in cases of failure to submit annual accounts, or where accounts are not submitted on time.

Since January 2004, a small group of "reporting agents" (auditors, accountants, accountancy firms or other enterprises acting as intermediaries for companies required to publish their accounts), holding a digital certificate issued by the Bank, have the option of filing standardised annual accounts via the Internet. Among other things, the digital certificate ensures the secure transmission of data over the Internet and makes it possible to detect any file alteration. The submission fees are paid on line by means of a debit or credit card. The aim is to extend this application progressively during 2005 to cover all users of digital certificates issued in Belgium and used in connection with other e-government projects. This submission method, which is secure and easy to use, will gradually replace the traditional method of filing accounts at the counter or by post.

The legislature has given the Bank the task of not only making arrangements to ensure efficient, individual access to the annual accounts filed, but also of compiling overall statistics on the basis of those accounts. The introduction of the IAS/IFRS accounting standards will lead to much greater flexibility in the format and content of the annual accounts, which is liable to cause problems in standardisation and statistical comparability. In order to carry out its work with optimum efficiency, the Bank is therefore examining the potential of the XBRL data exchange format⁽¹⁾, derived from the XML format⁽²⁾ and intended specifically for financial data. The Bank has joined forces with other organisations representing the financial sector to set up a non-profit association to encourage and organise the

(1) Extensible business reporting language.

(2) Extensible markup language: the universal standard for exchanging data via the Internet.

use of the XBRL format in Belgium. The aim is to achieve synergies in the exchange of financial data, by analogy with similar initiatives in other countries.

Under the law of 2 May 2002 on non-profit associations, international non-profit associations and foundations, almost 6,000 large and very large associations will be required to lodge their annual accounts with the Central Balance Sheet Office, which will take responsibility for their publication. In 2004, the Central Balance Sheet Office collaborated on the definition of the specific forms which the associations will have to use.

Since December 2001, it has been possible to inspect the entire content of the annual accounts on line, via subscription. This service provided by the Bank meets a real need: the number of subscribers currently totals 1,800, representing an increase of 26 p.c. in 2004.

From March 2005, the enterprise identification data which the Bank uses in the course of its statutory duties will be taken over automatically by the Central Enterprise Databank. This new method of working guarantees the authenticity and validity of these data.

7.2.2 Central Office for Credits to Enterprises

The Central Office for Credits to Enterprises records, by beneficiary (resident and non-resident natural and legal persons), credits 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 September 2004, the Central Office for Credits to Enterprises had recorded 318,348 credit beneficiaries (of whom 2.8 p.c. were non-resident) and 648,687 credits. Chart 6 shows the movement since 1997 in credits granted to residents, and the amounts used. On 31 December 2004, the total amount of credit facilities opened came to 208.1 billion euro, against 199.8 billion at the end of the preceding year, an increase of 4.2 p.c.

Via the cooperation between central credit offices in the EU, the Bank collaborated with the central banks of the six other countries concerned (Austria, France, Germany, Italy, Portugal and Spain) on developing the specifications necessary for the exchange of data, scheduled for the beginning of 2005. In this context, Central Office participants will receive information on the debts of Belgian enterprises which have received credit from abroad, and

financial institutions resident abroad will receive, via the central banks concerned, data on credit granted in Belgium to enterprises of their country.

7.2.3 Central Office for Credits to Individuals

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, makes the Bank responsible for recording all consumer credit contracts and mortgage loans granted to individuals for private purposes. From now on, the "positive" Central Office will record not only instances of default on payment, but also current credit contracts without any arrears of payment. Lenders, who must consult the Central Office before granting any new credit, thus have a better overall view of the financial commitments of would-be borrowers, and are able to assess the credit risk more accurately.

At the end of 2004, the Central Office records contained data on 4.4 million people and 6.7 million credit contracts, representing increases of 2.9 and 4.4 p.c. respectively compared to the end of 2003. However, there was no increase in arrears of payment: the total number of contracts in difficulty remained steady compared to the end of 2003 (508,039 units, a rise of 0.2 p.c.), while the number of contracts in difficulty which had not been settled actually declined by 2.8 p.c. to 435,035 units. The number of persons recorded as in arrears of payment also declined by 1.1 p.c., bringing the figure to 349,665 units.

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

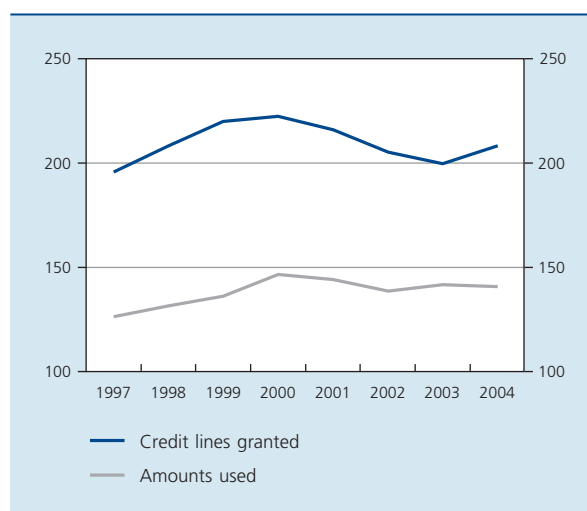
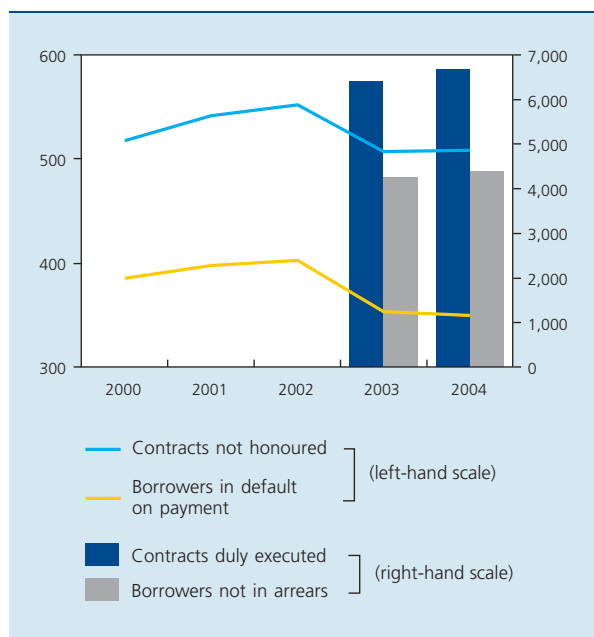


CHART 7

DATA RECORDED BY THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

(Thousands)



In 2004, lenders consulted the Central Office on 6.1 million occasions, or around 23,000 times per working day. Almost 73 p.c. of these checks concerned persons who were on the Central Office register; in 7.3 p.c. of cases the record showed at least one instance of payment arrears.

Since 1 September 2004, the Bank has been managing not only the Central Office register but also 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 not covered by the law of 10 August 2001. These are data which were previously recorded by the Professional Lenders Union. At the end of 2004, these data concerned 115,696 persons and 122,282 cases of payment arrears.

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

7.2.4 Microeconomic analysis

The effective use of the Central Balance Sheet Office data, the information from the Central Credit Offices and the data available to the Bank in connection with its statistical work in the NAI enables branches of activity to be studied from a new angle. The aim is to supply interesting and

clear statistical information to both experts and a wider public, and to encourage innovation in microeconomic research.

In 2004, the microeconomic analysis – whose results are intended for publication – concentrated on the liberalisation of the electricity sector and the economic impact of ports. As every year, the performance of non-financial corporations was examined on the basis of the annual accounts. In addition, the Bank took part in a pilot project on ways of analysing economic *clusters*.

The study on the liberalisation of the electricity sector aimed to shed new light on this issue by comparing the liberalisation of this sector with that of the telecommunications sector. The surveys concerning the Flemish sea ports and the port of Liège differ from previous ones in their methodology, which underwent fundamental modification to take account of "indirect" effects and to improve the harmonisation and transparency. Finally, the annual examination of the performance of non-financial corporations was based for the first time on a bankruptcy prediction model developed by the Bank.

Apart from the use of the microeconomic data for actual research work, aggregate statistics were calculated for a number of professional organisations.

7.3 Communication activities

The Bank wants the public to have a broader and better knowledge of its functions and activities. A number of measures extended and augmented the initiatives adopted in 2002 and 2003 when the new Communication Service was launched. The Bank took part in the Heritage Day, the Brussels museum evenings and spring events, the Children's Day and other educational events.

Press releases and the new features offered on the website gave priority to information of interest to the general public and shareholders. The communication policy endeavoured to encourage a better understanding of the Bank's special status: a public institution in the form of a public limited liability company pursuing objects in the general interest.

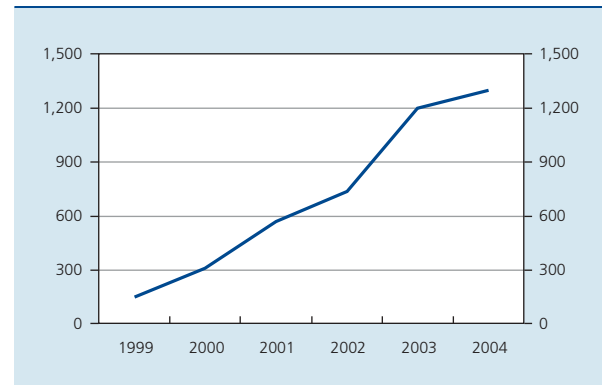
Since the previous year there has been an increase of around 8 p.c. in the number of visits to the website. A new website will be put into production in 2005. Its content will be augmented and it will be more accessible, placing the emphasis on the Bank's role as the central location for economic and financial information in Belgium.

The Bank continued to develop its museum, which welcomed around 25,000 visitors in 2004. During the past year it staged a temporary exhibition presenting all the projects which were entered in the competition to select the designs for the first series of euro banknotes.

The development of the Intranet and the new format adopted for the house journal (Connect) are intended to improve communication aimed at all staff. The number of Intranet users has risen by 5 p.c.

Finally, all the documents circulated by the Bank, be it in printed or electronic form, have been adapted in line with the new corporate style guide.

CHART 8 VISITS TO THE WEBSITE
(Thousands)



8. Management of resources

8.1 Strategic guidelines

The main event in 2004 was the revision of the strategic exercise carried out by the Board of Directors in 2001, to adapt the Bank's activities in line with internal and external changes. Three working groups were set up for this purpose. The first dealt with the Bank's tasks in connection with the ESCB, the second examined its other work and the third looked at the support activities. The proposals of each working group were examined at three special meetings of the Board of Directors. The first concrete result consists in the adoption of a new structure from 1 January 2005 for part of the logistical support; this will lead to economies of scale and thus cut costs. The Planning, Controlling and Accounting department includes the Accounting and Strategy and Organisation Services as well as the new Central Procurement Administration Unit. The Facility Management department combines the Equipment and Techniques, General Services and Security and Supervision Services. The Communication and Secretariat department comprises the Communication, Secretariat and Publications and Documents Services.

In order to increase the productivity of the activities, the General Statistics and IT departments tried to optimise their processes.

Action plans aimed at reducing the Bank's workforce are being phased in.

8.2 Human resources

In 2004, the Board of Directors conducted a second strategic review of human resources. In the process, it defined a series of key measures concerning the careers of managerial, supervisory and clerical staff, stressing once again the importance of skills. Thus, the Bank wants

managerial and supervisory staff above a certain level to pursue their career development either as line managers or as experts. Development centres will permit analysis of their *people management* potential, so that suitable training schemes can be offered. For clerical staff, a new promotion system is under consideration, which would be based on a number of wage bands. Progress within these bands and promotion to higher bands will be possible on the basis of a balanced set of criteria, such as seniority, performance and skills.

Staff are expected to be highly versatile and capable of performing a wide range of duties. The aim of skills management is to ensure that the potential available to the Bank is an optimum match for the skills required. As last year, job appraisal interviews were held, where line managers and their staff agreed on the targets to be met and skills to be improved. Internal mobility is actively managed in collaboration with the Training Service. If staff augment their professional capabilities, it will be easier for them to find a new job, should that be necessary.

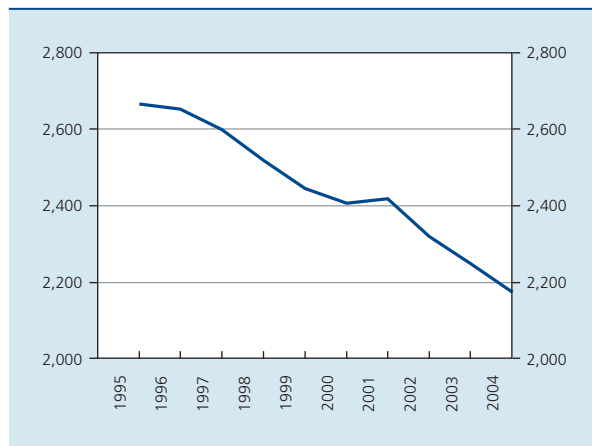
In order to integrate and harmonise the handling of all human resources processes, an Enterprise Resource Planning project was launched. It will run for several years.

To face the new challenges, the Bank counts on the positive and constructive cooperation of the union representatives. This goodwill is very important for the success of the Bank. This year the elections held on 11 May resulted in reappointment of the workers' representatives. The collective labour agreement of 8 January 2004 regulates the way in which the duties are allocated within the Committees for Prevention and Labour Protection and the Works Council. During the year under review, agreements were concluded with the new representatives on such matters as the internal use and monitoring of electronic mail and the Internet.

CHART 9

PERMANENT STAFF

(End of period, full-time equivalents)



Over the past ten years, the Bank's workforce has contracted by 19 p.c. At the end of 2004, it totalled 2,174 full-time equivalents (FTEs), or 76 units fewer than at the end of the previous year. This figure is already below the target of 2,200 FTEs set by the Board of Directors for the end of 2005. The staff cuts have been made possible, in particular, by developments in the handling of cash, which largely concern the provincial branches. The provincial workforce is now down to just under 15 p.c. of the total staff.

Given the reduction of certain activities and the productivity gains, the workforce is being reduced in line with master plans which the Bank adapts at regular intervals. This is achieved mainly by not replacing certain members of staff, especially the least skilled. Increased use of information and communication technologies is one of the factors reducing the need for labour. During the year under review, the Bank recruited only graduates.

Finally, the closer collaboration with the BFIC has already led to certain staff being seconded from the Bank to that Commission. Ways of increasing the synergy in human resources management are under examination.

8.3 Information technology resources

A new application, designed to establish the net external asset position, came into service for the General Statistics department. The results of the annual structural survey of monetary and financial institutions were collected for the first time via the centralised reporting system which they were already using for submitting their other declarations to the Bank.

Under the law of 2 August 2002 on the supervision of the financial sector and on financial services it was decided that the central IT infrastructure of the BFIC and the Bank should be shared. During 2004, the IT infrastructures of the two institutions which were merged in the BFIC, namely the Insurance Supervision Office and the Banking and Finance Commission, were transferred to the Bank's IT centre, which was linked to the new headquarters of the BFIC. On behalf of the BFIC, the Bank also started to analyse a new data collection system for insurance companies and pension funds. This system should come into use at the beginning of 2006.

Data on payment default previously managed by the Professional Lenders' Union were loaded into the database of the Central Office for Credits to Individuals, thus permitting coordinated and more efficient consultation by credit institutions.

A new application was established to give the Bank direct access to the data in the Central Enterprise Databank, and enabling it to delete certain redundant data in due course.

The Bank arranged a tender with a view to acquiring a software package for the management of its portfolios. It also developed a new application to manage collateral provided by financial institutions in connection with monetary policy; the first part will become operational in May 2005.

At the end of the first half of 2004, all CEC participants transferred to the new version of the payment message exchange application (CEC III).

During 2004, the Bank phased in the application *Wirow fin'Markets* which enables the Bank's current account holders to access in real time miscellaneous information concerning them, e.g. via the Internet, in the Current Account, Ellips and Target applications. The Debt Agency of the Federal Public Service Finance monitors the status of the government's accounts via this application.

The activities of the Infocentre in 2004 may be summarised as follows:

- the document management software and the data analysis package (Business Intelligence tool) were extended to new Services;
- data were imported into the Infocentre environment for more detailed examination by the end users (e.g. extension for the Balance of Payments);
- since mid 2004, it has been possible to provide Internet access for all PC LAN users;

- in collaboration with the Communication Service, a new website is being developed which will go on line in the first quarter of 2005.

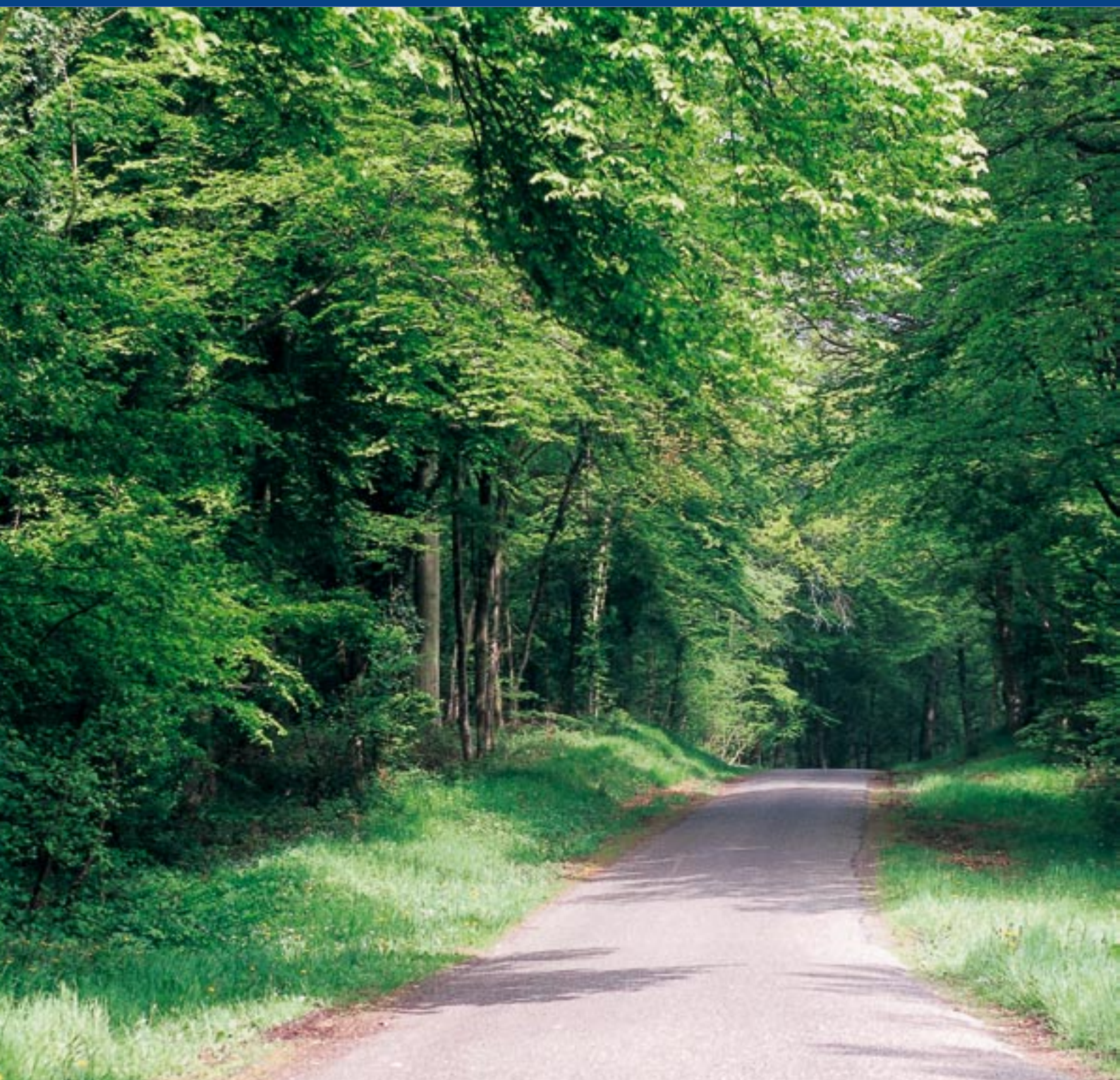
To guarantee the continuity of operation of the computer systems, the back-up facilities were tested, as they are every year. In addition, a contract relating to the relocation of the back-up centre was awarded to a service company specialising in disaster recovery.

8.4 Premises

During the year under review, the Bank further reduced its stock of premises: the former Turnhout agency building was disposed of by public sale.

Work has begun on the restoration of the listed building at 57 rue Montagne aux Herbes Potagères, Brussels, which is owned by the Bank. This building is a typical example of ornamental bank architecture dating from the second half of the 19th century. The planning permission for its restoration was granted by the City of Brussels on 10 November 2004. The work will take at least two years.

Organisation and governance of the Bank





The organisation and governance of the Bank

In its capacity as the country's central bank, an enterprise serving the public and a company listed on the stock market, the Bank is determined to respect and promote the fundamental ethical principles and values underlying the concern for good corporate governance.

In 2005, the Bank will conduct a detailed examination of the Belgian corporate governance code. However, it can already be said that some of the principles and recommendations of this code are and will remain inapplicable to the Bank, because they are not suited to the specific legal framework which governs it, and to its special position as the country's central bank, in charge of tasks in the public interest.

As a member of the ESCB, the Bank is in fact governed first of all by the Treaty establishing the European Community, the Protocol on the Statute of the ESCB and of the ECB which is annexed to it, the law of 22 February 1998 establishing its organic statute, and its own statutes. The provisions relating to public limited liability companies are applicable only additionally.

The Bank is thus subject to specific rules and obligations resulting from its participation in the ESCB, while its organs are defined and organised by the organic law of 22 February 1998 which specifies their powers. It therefore has its own particular legal status, organs, rules of procedure and obligations laid down by law (cf. table below).

Nonetheless, although they are organised in a different way from those of a conventional public limited liability company, the definition of strategy, the administration and actual direction which are the responsibility of the Bank's Board of Directors are subject to numerous controls.

Pursuant to the organic law, the Council of Regency, a special body in which the majority of members are independent figures from outside the Bank who represent the socio-economic world, is responsible for supervising these various aspects and discharging the members of the Board of Directors. In addition, there is a Committee on the Budget and Directors' Remuneration. This is composed of two regents, two censors, a director and the Government Commissioner, who advises the Council of Regency when the latter is exercising its powers to approve the expenditure budget and to determine the remuneration of members of the Board of Directors.

Other checks are carried out by the Board of Censors, the Government Commissioner, and Parliament, or result from the Bank's participation in the ESCB. Within the Bank, the Internal Audit Service arranges and exercises strict control.

Members of the Bank's organs are also subject to the law of 2 May 1995, implemented and supplemented by the law of 26 June 2004 on the obligation to submit a list of mandates, duties and occupations and a declaration of assets.

TABLE 3

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 regents (from a dual list) Election of censors Appointment of the auditors (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 the directors' report and the auditors' report and discharging the auditors Amendment of the statutes	
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 of the administration's report and the annual accounts Approval of the annual accounts Appropriation of the profits Discharge of the Board of Directors	Discussion of the directors' report and the annual accounts Approval of the annual accounts Distribution of the profit Discharge of the directors	
	Setting the remuneration of members of the organs Proposal for the appointment of directors Approval of the budget and of the directors' report	Setting the remuneration of members of the organs Appointment of the management team Approval of the budget and the directors' report	Administrative Board
Board of Directors	Definition of company policy Administration and management; supervision of activities Drawing up the annual accounts, preparation of the administration's report	Definition of company policy Administration and management; supervision of activities Drawing up the annual accounts and the directors' report	
	Management and routine operation	Optional delegation of management (management board) or routine operation (chief executive)	Management Board or chief executive
Board of Censors	Supervision of the drawing up and execution of the budget		
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)		

1. Administration

1.1 Governor

The governor directs the Bank. He presides over the Board of Directors and the Council of Regency, has their decisions implemented and represents the Bank in legal proceedings. The governor is also a member of the Governing Council of the ECB, which takes decisions on monetary policy for the euro area.

He is appointed by the King for a renewable term of five years. He may be removed from office only if he has been guilty of serious misconduct or if he no longer fulfils the conditions required for the performance of his duties.

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.

1.2 Board of Directors

1.2.1 Powers

The Board of Directors is responsible for the administration and management of the Bank and decides the direction of its policy. It appoints and dismisses members of staff and fixes their salaries. It has the right to make settlements and compromises. It exercises regulatory power in the cases laid down by law. After consultation with the Council of Regency and without prejudice to the regulations adopted by the ECB, it decides on the investment of the capital and reserves. It also pronounces on all matters which are not expressly reserved for another organ by law, the Statutes or the internal regulations. Finally, it draws up the budget, the annual accounts and the directors' report.

It meets whenever circumstances dictate, and at least once a week.

1.2.2 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 directors are appointed by the King, on the proposal of the Council of Regency, for a renewable term of six years. The King confers the title of vice-governor on one of the directors.

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.

By ministerial decree dated 30 January 2004, the director Jean-Pierre Pauwels was authorised to complete his term of office as a member of the Board of Directors after attaining the age limit on 17 June 2004. Under this decision, Mr Pauwels may perform his duties as director until 31 August 2005.

1.3 Council of Regency

1.3.1 Powers

The Council of Regency discusses general questions relating to the Bank, monetary policy and the economic situation of Belgium and of the European Community.

It takes cognisance every month of the Bank's 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; this approval constitutes the management's discharge. It 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. 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. These salaries and pensions may not include a share in the profits, and no remuneration whatsoever may be added thereto by the Bank. The Council of Regency fixes the amount of the allowance received by the censors.

It meets at least twice a month and passes resolutions by a majority of the votes.

1.3.2 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. 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. They may not hold office as managing director, director or manager in a credit institution.

In 2004, Mrs Mia De Vits, Mr Gérald Frère and Mrs Martine Durez were re-elected as regents by the general meeting. Mrs De Vits had been proposed by the most representative labour organisations and Mr Frère and Mrs Durez by the Minister of Finance. In accordance with Article 37 of the statutes, the term of office of the regent Mrs De Vits ended on 20 July 2004, when she became a Member of the European Parliament.

1.3.3 Activities in 2004

The Council of Regency approved the annual report, the annual accounts and the appropriation of the profits for 2003 as well as the expenditure budget for 2005.

It also examined a range of issues concerning economic activity and monetary policy in the euro area. In that context, it examined the determinants of the economic cycle, the European Commission's proposals for reforming the Stability and Growth Pact, and the concept of neutral interest rates.

In addition, it discussed the progress of the Belgian economy, particularly the level of business activity, inflation, employment, labour costs, public finances and the financial markets. It addressed such issues as the changing role and importance of industry, the labour market and the question of early retirement, foreign trade developments, national characteristics concerning the transmission of monetary policy impulses, the setting of bank debit interest rates, pricing, the asset position of households, developments in health care spending in view of the ageing population, the finances of the regions and communities and the question of the 1 and 2 cent coins.

In the light of their potential impact on the Belgian and European economies, it also considered a number of global economic and financial questions, such as the growing strength of the Chinese economy and the progress of structural reforms on the markets in goods and services. It also discussed the latest developments concerning financial stability and the activities of the IMF.

⁹ Guy Quaden, GOVERNOR
⁵ Luc Coene, VICE-GOVERNOR
² Jean-Pierre Pauwels, DIRECTOR
⁷ Marcia De Wachter, DIRECTOR
¹² Jan Smets, DIRECTOR
¹³ Françoise Masai, DIRECTOR
¹⁰ Jean Hilgers, DIRECTOR
⁶ Peter Praet, DIRECTOR
⁴ Baron Tony Vandeputte, REGENT
⁸ Philippe Wilmès, REGENT
¹⁸ Noël Devisch, REGENT
¹⁷ Christian Dumolin, REGENT
³ Gérald Frère, REGENT
¹⁴ Jacques Forest, REGENT
¹⁵ Luc Cortebeeck, REGENT
¹⁶ Jean-Pierre Hansen, REGENT
¹¹ Martine Durez, REGENT
¹ Baron Grégoire Brouhns, GOVERNMENT COMMISSIONER

Council of regency



1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18

2. Supervision

2.1 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 eight days 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 Bank's management is required to provide him, whenever he so requests, with a certified true copy of the Bank's financial statement.

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

2.2 Auditors

The auditors are appointed by the general meeting of the Bank on the proposal of the Works Council. They perform the auditing functions prescribed by Article 27.1 of the Protocol on the Statute of the ESCB and of the ECB and report to the Council of Regency on those activities. They certify the annual accounts. They perform specific supervision and certification functions on behalf of the ECB auditors. In addition, they perform a specific supervision and information role in relation to the Works Council.

They are appointed by the general meeting and must be approved by the EU Council of Ministers on the recommendation of the Governing Council.

2.3 Board of Censors

2.3.1 Powers

The Board of Censors' task is to supervise the preparation and implementation of the budget. It meets at least twice per quarter. Its resolutions are adopted by a majority of the votes.

2.3.2 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.

The general meeting of 29 March 2004 re-elected Baron Paul Buysse, and Messrs Maurice Charlotiaux and Herman Verwilt as censors.

2.3.3 Activities in 2004

In accordance with the Statutes of the Bank, the censors supervised the implementation of the 2004 budget and the preparation of the 2005 budget.

They gave their opinion on numerous other aspects concerning the management of the Bank, including the strategy for the years 2005-2010 and internal and external communication.

They also addressed a range of economic and financial topics on the basis of reports concerning the development of economic activity, industry and the Belgian economy in general, the setting of bank interest rates in Belgium and the Basel capital accords.

2.4 Internal controls

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.

Internal control is based on the principle whereby each organisational unit carries primary responsibility for its activities and its efficiency in executing the decisions taken by the Board of Directors. The implementation of the internal management systems is monitored by the Strategy and Organisation Service. Budget proposals are linked to medium-term master plans.

Strict rules of conduct apply to all the Bank's staff under the staff regulations. In addition, a code of ethics applies to members of the Board of Directors and to the persons involved at all levels of the hierarchy in monetary policy transactions, foreign exchange transactions and the management of the financial assets of the ECB and of the Bank, and to persons who have regular access to confidential information which may influence the prices of quoted financial instruments.

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, payment systems are managed and supervised ("oversight") by two different departments.

The Internal Audit Service checks the proper operation of all the internal control systems mentioned above. It comes under the direct authority of the governor and reports to the Board of Directors.

Finally, at the level of the ESCB and the Eurosystem, the audit of projects and operating systems is coordinated by the Internal Auditors Committee, comprising the heads of the ECB and NCB internal audit services.

⁶ **Baron Paul Buysse**, PRESIDENT

⁴ **Philippe Grulois**, SECRETARY

⁹ **Maurice Charloteaux**

¹⁰ **Herman Verwilt**

² **Paul-F. Smets**

³ **Rik Branson**

¹ **Jean-François Hoffelt**

⁷ **Guy Haaze**

⁸ **Bernard Jurion**

⁵ **André Duchêne**

Board of Censors



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3. General meeting

3.1 Powers

The general meeting is chaired by the governor. The law does not regard it as an organ, in contrast to the general meeting of other public limited liability companies. Its powers are limited.

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. It hears the administration's report on the past year's operations and elects the regents (on the proposal of the Minister of Finance and the organisations designated in the organic law) and the censors (who must be persons with particular expertise in auditing) for the offices which have become vacant. It also appoints the auditors on the proposal of the Works Council. Moreover, it is entitled to modify the Statutes in case this competence 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. It may also deliberate concerning proposals, signed by five members, which have been brought to the attention of the Council of Regency at least ten days before the meeting for inclusion in the agenda.

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.

3.2 Composition

The general meeting of the Bank represents the totality of the shareholders. It is composed of the shareholders owning registered shares or bearer shares deposited at least five days before the meeting. The share capital, totalling ten million euro, is represented by four hundred thousand shares, of which two hundred thousand registered, non-transferable shares are held by the Belgian State. The two hundred thousand other registered and bearer shares, listed on the stock market, are held by the public. Each share confers the right to one vote. All resolutions are adopted by an absolute majority of the votes. Elections or dismissals take place by secret ballot. The vote is held by a roll call on all other proposals.

3.3 General meeting 2004

At the ordinary general meeting held on 29 March 2004, the governor reported on the operations of the financial year 2003 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 minutes of the last general meeting are available on the Bank's website.



4. Legal proceedings

At the end of 2003, the Court of Arbitration dismissed an appeal lodged by a group of the Bank's shareholders against the State, seeking cancellation of certain provisions concerning the Bank, laid down in the law of 2 August 2002 on the supervision of the financial sector and on financial services. The judgment handed down on 10 December 2003 confirmed the positions defended by the Bank in every respect.

During 2004, the Bank was confronted by four legal actions brought by various groups of shareholders.

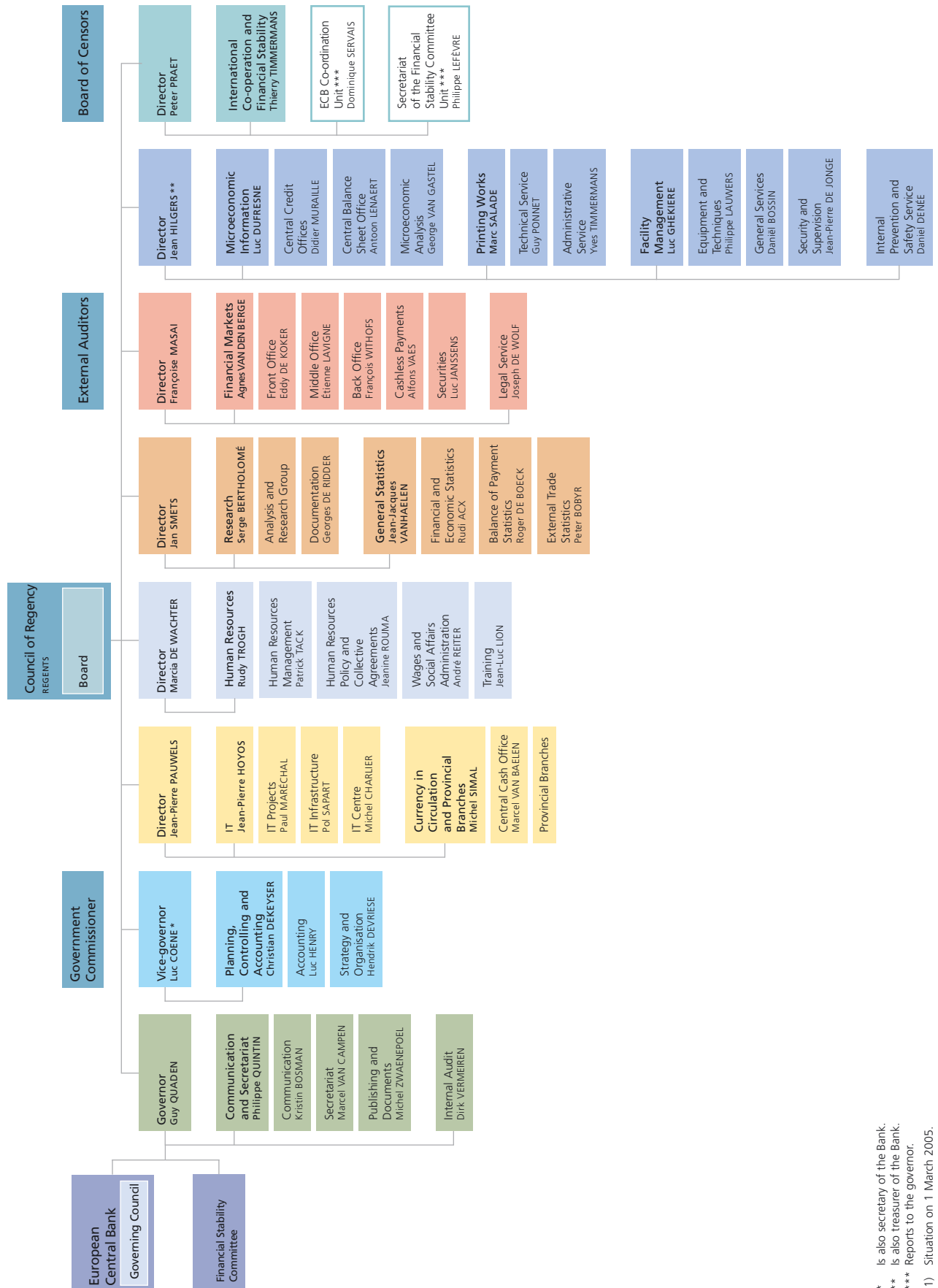
A first action was brought against the Bank on 18 July 2002 before the Brussels Commercial Court. The applicants maintain that the Bank has lost its right of issue and therefore seek to obtain liquidation of the reserve funds within 24 hours of the intervention decision being served, subject to a penalty payment of 3,000 euro per day's delay, plus interest until payment has been made in full. On 8 January 2004 the applicants brought an action against the State (non-voluntary third party's intervention), seeking repayment by the State to the Bank of sums allegedly levied improperly and, subsidiarily, the payment of a compensation to each shareholder who claims for one. The hearing is scheduled to take place in September 2005.

A second action was brought on 8 January 2004 against the State and the Bank before the Brussels Commercial Court. It seeks a judgment ordering the Bank and the State jointly, or in solidum, to pay the applicants the sum of € 5,784 per share in the Bank, plus interest. The applicant shareholders claim that, between 1990 and 2002, the State wrongfully appropriated the capital gains realised by the Bank on the sale of gold reserves. No date has been set for the hearing.

A third action was brought against the Bank on 8 July 2004 before the Brussels Commercial Court. It seeks cancellation of the decision by the Bank's Council of Regency which, at the end of the 2003 financial year, approved an additional write-back on the provision for future exchange losses, beyond the write-back necessary to cover the exchange losses during the financial year, and approved the inclusion of this additional write-back in the calculations under the rule on allocation between the Bank and the State, laid down in Article 29 of the organic law and Article 53 of the Bank's statutes. No date has been set for the hearing.

Finally, a group of shareholders lodged an appeal against the order of 7 July 2004 passed by the Vice-President of the Brussels Commercial Court. Ruling in favour of third-party proceedings brought by the Bank, this order had cancelled the order of 26 March 2004 which had permitted the lawyer acting for a group of shareholders to speak at the Bank's general meeting on 29 March 2004 and to have the proceedings recorded by a bailiff. The case is in deliberation.

5. Organisation chart⁽¹⁾



* Is also secretary of the Bank.
 ** Is also treasurer of the Bank.
 *** Reports to the governor.
 (1) Situation on 1 March 2005.

5.1 Administration and supervision⁽¹⁾

Governor: Mr Guy QUADEN

Vice-governor: Mr Luc COENE, vice-governor-secretary

Directors: Mr Jean-Pierre PAUWELS
Mrs Marcia DE WACHTER
Mr Jan SMETS
Mrs Françoise MASAI
Messrs Jean HILGERS, director-treasurer
Peter PRAET

Regents:

Messrs Baron Tony VANDEPUTTE
Philippe WILMÈS
Noël DEVISCH
Christian DUMOLIN
Gérald FRÈRE
Jacques FOREST
Luc CORTEBEECK
Jean-Pierre HANSEN
Mrs Martine DUREZ

Censors:

Messrs Baron Paul BUYASSE, chairman
Philippe GRULOIS, secretary
Maurice CHARLOTEAUX
Herman VERWILST⁽²⁾
Paul-F. SMETS
Rik BRANSON
Jean-François HOFFELT
Guy HAAZE
André DUCHÊNE
Bernard JURION

Government Commissioner: Mr Grégoire BROUHNS

Chief Advisor to the Board: Mr Serge BERTHOLOMÉ

Advisor to the Board: Christian DEKEYSER

Auditors:

KPMG Auditors, represented by Mr Pierre BERGER
Deloitte & Touche Auditors, represented by Mr Philip MAEYAERT

(1) Situation as at 31 December 2004.

(2) Mr H. Verwilt resigned on 31 December 2004.

5.2 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
Publications and Documents	
Head	Mr M. ZWAENEPOEL, Head of division
Secretariat	
Head	Mr M. VAN CAMPEN, Inspector General
Heads of division	Mrs G. VAN HOVE, Messrs J. CALLEBAUT, S. ESSIQUE

Currency in Circulation and Provincial Branches Department – Mr M. SIMAL, monetary circulation coordinator

Department Advisor	Mr J. HELFGOTT
Head of division	Mr R. HAENECOUR
Procedures Control and Coordination Unit	
Head of division	Mr E. COLMAN
Central Cash Office	
Chief Cashier	Mr M. VAN BAELEN
Heads of division	Messrs M. VANVOOREN, G. PIROT

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
Head of division	Mr R. MAES

(1) Situation as at 1 March 2005.

Liège		
	Administrator	Mr Y. LEBLANC, Assistant Director
	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, Assistant Director

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, M. JOOS
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. SMISSEART
Intervention Fund		
	Department Advisor	Mr H. DEBREMAEKER
Back Office		
	Head	Mr Fr. WITHOFS, Head of division
	Head of division	Mr Ch. STAS
Front Office		
	Head	Mr E. DE KOKER, Inspector General
	Heads of division	Messrs N. VANDECAN, Y. PIRLET, M. RUBENS, P. DEMARSIN, A. JACQUES
Middle Office		
	Head	Mr É. LAVIGNE, Inspector General
	Heads of division	Mrs M. HUART, Mr J. DHONDT
Cashless Payments		
	Head	Mr A. VAES, Inspector General
	Heads of division	Mrs S. MASKENS, Messrs J. VERMEULEN, P. LAGAERT
Securities		
	Head	Mr L. JANSSENS, Inspector General
	Heads of division	Messrs J.-M. BRAET, R. ROTHANS, 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
Statistical Information Systems Unit Head of division	Mr J. DECUYPER
Balance of Payments Statistics Head Heads of division	Mr R. DE BOECK, Head of division Messrs M. EECKHOUT, P. SARLET, Ph. LAMBOT, P. D'HAVÉ, B. VEREERTBRUGGHEN
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. WIELEMANS, J. LIBENS, H. SAUVENIERE, G. DETOMBE, O. COENE, C. MODART, Mrs A. MULKAY, Mrs O. BIERNAUX, Messrs P. CREVITS, E. DEBISSCHOP, Mrs M. LEJEUNE

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 Co-operation and Financial Stability Department – Mr Th. TIMMERMANS, Assistant Director

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

IT Department – Mr J.-P. HOYOS, Inspector General

IT Planning Unit	
Heads of division	Mr G. DUMAY, Mrs C. SWARTENBROEKX
Data Security Management	
Head of division	Mr L. DELAISSE
IT Centre	
Head	Mr M. CHARLIER, Head of division
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, Mr R. MARTIN
IT Infrastructure	
Head	Mr P. SAPART, Inspector General
Inspectors General	Messrs G. VANGHELUWE, U. MOMMEN
Heads of division	Messrs P. DEHOORNE, S. PIERLOT, R. LEYBAERT, E. WILKIN

Microeconomic Information Department – Mr L. DUFRESNE, Assistant Director

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

Planning, Controlling and Accounting Department – Mr Ch. DEKEYSER, Advisor to the Board of Directors

Head of division	Mr R. VAN KEYMEULEN
Central Procurement Administration Unit	
Head of division	Mr P. MOUS
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 P. BOGAERT, Mrs A.-M. LEJEUNE, Messrs R. VANDEN EYNDE, É. CHARTIER, H. MARENNE

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 Advisors	Messrs H. FAMERÉE, E. JACOBS
Deputy Head of Department	Mr I. MAES, Head of division
Department Advisors	Mrs F. DONKERS, Messrs V. PÉRILLEUX, Ph. DELHEZ, L. AUCREMANNE
Heads of division	Messrs M. MARÉCHAL, L. DRESSE, Mrs E. DE PREST, Messrs Ph. MOËS, R. WOUTERS, Ph. JEANFILS, P. BUTZEN, Mrs C. RIGO, Mr H. GEEROMS
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, F. PIRSOU, D. CASIER
ECB Co-ordination 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
Head of division	Mr J.-M. VAN ESPEN
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
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 P. VIGNERON, Inspector General

On mission at the Belgian Permanent Representation with the Organisation for Economic Cooperation and
Development, Paris
Mr D. SLAATS, Head of division

5.3 Obituaries and retirement

The Bank was saddened by the death of Baron Cecil de Strycker, honorary governor, on 5 September 2004. Mr de Strycker had joined the Bank in 1945. He had been appointed director in 1958, vice-governor in 1971 and finally governor in 1975.

During his career he held numerous national and international positions.

At the end of February 1982, governor de Strycker's term of office ended as he had reached the age limit. In recognition of his many services to the country, he was awarded the title of baron in that same year.

The Bank will always remember him both as a brilliant man and as an amiable person.

In 2004 the Bank was also saddened by the death of three members of its staff: Messrs M. Drion, T. Messiaen and D. Vancoppenolle.

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 last year:

Messrs H. Barbé	Messrs A. Wouters
K. Vandeneede	V. Deconinck
J. Claeys	D. De Baets
J. Makart	L. Borgniet
A. Huet	

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

Messrs R. Balthau	Mrs S. Giblasse	Mrs D. Sengulen
J. Blondeel	Messrs R. Goffin	J. Sevrin
Mrs M. Bockstal	G. Goossens	M. Springael
H. Boeyenas	Mrs M. Grégoire	M. Szuszwalak
Mr A. Boriau	Mr M. Jung	M.-R. Uyttersprot
Mrs C. Chapelle	Mrs J. Keyaerts	Mr P. Vander Eeckt
M. Clinckart	Messrs E. Knipping	Mrs J. Van der Elst
P. De Bouver	A. Lacave	Messrs J.-B. Van der Meulen
M. De Coninck	E. Lespagnol	G. Van de Velde
V. De Rouck	W. Lignel	G. Van Heymbeeck
Messrs L. De Saveur	Mrs M. Maes	P. Van Nuffel
J. Devaux	C. Magosse	Mrs E. Verhoeven
L. Dewaele	G. Michel	M.-C. Verly
H. De Wit	J. Nicolay	Messrs J.-J. Vernailen
Mrs N. Diependaele	A.-M. Ottevaere	J. Vervoort
Mr P. Firket	Messrs K. Ponsaers	
Mrs J. Geysenbergs	V. Schepers	

Annual accounts





1. Presentation of annual accounts as at 31 December 2004

1.1 Balance Sheet

(before distribution of profit)

Assets

(thousands of euro)

	31-12-2004	31-12-2003
1. Gold and gold receivables	2,664,670	2,739,197
2. Claims on non-euro area residents denominated in foreign currency	7,515,315	8,704,377
2.1 Receivables from the IMF	2,217,927	3,026,021
2.2 Balances with banks and security investments, external loans and other external assets	5,297,388	5,678,356
3. Claims on euro area residents denominated in foreign currency	419,888	321,230
4. Claims on non-euro area residents denominated in euro	333,755	244,817
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	22,695,205	16,748,708
5.1 Main refinancing operations	22,391,000	16,748,708
5.2 Longer-term refinancing operations	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	318	359
7. Securities of euro area residents denominated in euro	4,604,179	4,109,447
8. Intra-Eurosystem claims	18,671,519	12,654,164
8.1 Participating interest in ECB capital	142,816	143,290
8.2 Claims equivalent to the transfer of foreign currency reserves	1,419,102	1,432,900
8.3 Net claims related to the allocation of euro banknotes within the Eurosystem	17,109,601	11,077,974
8.4 Other claims within the Eurosystem (net)	–	–
9. Other assets	2,510,272	2,465,913
9.1 Coins of euro area	12,749	9,018
9.2 Tangible fixed assets	392,435	385,313
9.3 Other financial assets	1,682,542	1,617,015
9.4 Off-balance-sheet instruments revaluation differences	84,015	113,334
9.5 Accruals and prepaid expenditure	192,723	193,692
9.6 Sundry	145,808	147,541
Total assets	59,415,121	47,988,212

Liabilities

(thousands of euro)

	31-12-2004	31-12-2003
1. Banknotes in circulation	16,451,255	14,199,612
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5,416,413	8,324,897
2.1 Current accounts (covering the minimum reserve system)	5,416,413	8,324,897
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	–	–
4. Liabilities to other euro area residents denominated in euro	144,781	180,920
4.1 General government	135,150	151,852
4.2 Other liabilities	9,631	29,068
5. Liabilities to non-euro area residents denominated in euro	422,841	270,829
6. Liabilities to euro area residents denominated in foreign currency	74,996	52,398
7. Liabilities to non-euro area residents denominated in foreign currency	1,011,421	1,032,172
8. Counterpart of special drawing rights allocated by the IMF	552,986	571,620
9. Intra-Eurosystem liabilities	29,997,845	17,835,886
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)	29,997,845	17,835,886
10. Other liabilities	179,403	291,427
10.1 Off-balance-sheet instruments revaluation differences	–	–
10.2 Accruals and income collected in advance	15,500	4,660
10.3 Sundry	163,903	286,767
11. Provisions	931,082	1,035,768
11.1 For future exchange losses	289,019	508,219
11.2 For new premises	–	–
11.3 For contingencies	593,549	527,549
11.4 For loss from the ECB	48,514	–
12. Revaluation accounts	2,348,907	2,428,584
13. Capital and reserve fund	1,714,529	1,636,364
13.1 Capital	10,000	10,000
13.2 Reserve fund :		
Statutory reserve	175,209	104,627
Extraordinary reserve	1,150,492	1,150,492
Amortisation accounts in respect of tangible fixed assets	378,828	371,245
14. Profit for the year	168,662	127,735
Total liabilities	59,415,121	47,988,212

1.2 Profit and Loss Account

(thousands of euro)

	2004	2003
I. Proceeds of net interest-bearing assets	355,194	520,410
1. Interest income	990,564	785,040
2. Interest expenses (–)	–616,410	–426,387
3. Capital gains (losses (–)) on securities	23,302	129,434
4. Allocation of monetary income from the Eurosystem	6,252	10,582
5. Income from the ECB	–	21,741
6. Appropriation to the provision for covering losses from the ECB (–)	–48,514	–
II. Foreign exchange difference results	–50,750	–98,742
1. Foreign exchange difference results	–269,950	–516,042
2. Use and write-back of provision for future exchange losses (appropriation (–))	219,200	417,300
III. Commission	4,665	1,933
1. Commission received	8,665	4,675
2. Commission paid (–)	–4,000	–2,742
IV. Amounts recovered from third parties	63,692	59,848
V. Proceeds from statutory investments	93,611	113,139
VI. Other proceeds	1,850	3,332
VII. State share (–)	25,473	–135,715
1. Proceeds from net interest-bearing assets (art. 29)	–	–347,160
2. Proceeds fully assigned to the State	–25,976	–28,382
3. Foreign exchange difference results	51,449	239,827
VIII. Transfer to the unavailable reserve of capital gains on gold (–)	–	–
IX. General expenses (–)	–233,376	–235,470
1. Remuneration and social costs	–188,138	–185,764
2. Other expenses	–45,238	–49,706
X. Exceptional costs (–)	–	–
XI. Depreciation of tangible fixed assets (–)	–12,025	–19,898
XII. Provisions	–66,000	–66,000
1. Use and write-back of provision for new premises (appropriation (–))	–	–
2. Use and write-back of provision for contingencies (appropriation (–))	–66,000	–66,000
XIII. Taxes and dues (–)	–13,672	–14,790
XIV. Transfer to the tax-free reserves (–)	–	–312
Net profit for the financial year	168,662	127,735

1.3 Off-balance-sheet Items

	(thousands of euro)	
	31-12-2004	31-12-2003
Forward transactions in foreign currencies and in euro		
Forward claims	2,065,928	2,676,731
Forward liabilities	1,981,904	2,556,899
Forward transactions on interest rate and fixed-income securities	96,909	111,401
Liabilities which could lead to a credit risk		
Commitments towards international institutions	398,860	412,300
Commitments towards other institutions	103,814	41,741
Valuables and claims entrusted to the institution		
For encashment	220	103
Assets managed on behalf of the Treasury	71,420	68,632
Assets managed on behalf of the ECB	1,291,873	1,340,489
Custody deposits	380,279,407	350,124,749
Capital to be paid up on shares of the BIS	203,748	135,675

1.4 Allocation of Profit

(thousands of euro)

	2004	2003
Profit for the year	168,662	127,735
The profit is distributed as follows:		
Allocation to the extraordinary reserve in accordance with Article 45 of the statutes:	–	–
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	16,806	12,714
b) 8 % to the staff	13,445	10,171
3. Of the amount in excess of this:		
a) to the State, one fifth	27,562	20,850
b) to the shareholders, a second dividend	26,068	25,532
c) the balance to the statutory reserve	84,181	57,868

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 31 March 2005, on presentation of coupon No. 203:

	Gross amount	Withholding tax	Net amount
Dividend per share in euro	66.67	16.67	50.00

1.5 Social balance sheet

1. Statement of persons employed

A. Workers entered on the staff register

			2004	2003
1. In the financial year and the previous year	1. Full-time	2. Part-time	3. Total (T) or total in full-time equivalents (FTE)	4. Total (T) or total in full-time equivalents (FTE)
Average number of workers	1,742.50	770.50	2,347.95 (FTE)	2,439.56 (FTE)
Actual number of hours worked	2,596,278	900,050	3,496,328 (T)	3,619,974 (T)
Staff costs (<i>in thousands of euro</i>)	139,001	42,229	181,230 (T)	179,124 (T)
Value of benefits granted in addition to wages (<i>in thousands of euro</i>)	—	—	1,037 (T)	2,227 (T)
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	1,679	782	2,295.71	
b. By type of contract of employment				
Permanent contract	1,619	780	2,235.21	
Fixed-term contract	60	2	60.50	
Contract for the execution of a clearly defined project	—	—	—	
Substitution contract	—	—	—	
c. By gender				
Male	1,294	251	1,510.25	
Female	385	531	785.46	
d. By occupational category				
Management personnel	14	—	14	
Non-manual workers	1,665	782	2,281.71	
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	8.70	40.33
Actual number of hours worked	13,877	64,326
Costs to the enterprise (<i>in thousands of euro</i>)	314	4,222

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	377	4	379.40
b. By type of contract of employment			
Permanent contract	8	–	8
Fixed-term contract	369	4	371.40
Contract for the execution of a clearly defined project	–	–	–
Substitute contract	–	–	–
c. By gender and standard of education			
Male: Primary	2	–	2
Secondary	147	1	147.50
Higher non-university	13	–	13
University	13	–	13
Female: Primary	1	1	1.50
Secondary	157	1	157.50
Higher non-university	30	–	30
University	14	1	14.90

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	442	20	456.80
b. By type of contract of employment			
Permanent contract	56	18	69.50
Fixed-term contract	386	2	387.30
Contract for the execution of a clearly defined project	–	–	–
Substitution contract	–	–	–
c. By gender and standard of education			
Male: Primary	6	–	6
Secondary	167	2	168.90
Higher non-university	26	–	26
University	26	–	26
Female: Primary	3	4	5.9
Secondary	166	13	175.40
Higher non-university	37	1	37.60
University	11	–	11
d. Reason for termination of contract			
Retirement	39	16	50.75
Early retirement	–	–	–
Dismissal	10	2	11.75
Other reasons	393	2	394.30
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

	2004		
	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	26	14.12	60
2. Other measures			
2.2 Successive fixed-term contracts of employment	9	8.90	
Number of workers concerned by one or more employment promotion measures:			
– total for the year	35	23.02	
– total for the previous year	45	31.96	

(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	1,056	36,710	5,507
Female	495	17,967	2,695



2. Notes to the annual accounts

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 profit-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 net income on profit-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 decline in interest rates in recent years has caused the State’s share in the seigniorage to diminish, and in 2004 it actually disappeared.

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 account of the balance sheet which, with the provision for future foreign exchange losses, forms 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.

In 2004, this provision enabled the Bank to cover the foreign exchange losses and therefore to neutralise their impact on the income available for distribution.

Performance

In 2004, the results were affected by the low level of interest rates and by the depreciation of the dollar against the euro.

Owing to the decline in the rate of interest paid on the net assets in dollar and in euro, the net interest income on these assets was down from € 488 million to € 397 million (items I.1 to I.3).

The depreciation of the dollar led to the recording of foreign exchange losses totalling € 219 million. In accordance with the accounting rules of the ESCB, potential foreign exchange losses must be entered in the profit and loss account as at 31 December, while foreign exchange gains are not recorded until they are realised.

These adverse developments were only partly offset by the additional monetary income resulting from the 19 % increase in the issue of banknotes within the Eurosystem, and thus in the Bank's share of that issue.

The same reasons also explain why the ECB ended its financial year 2004 with a loss. That loss was borne by the NCBs of the Eurosystem, so that it accentuated the adverse movement in their results. Not only did the ECB retain its share of the seigniorage income which it normally distributes to the NCBs, but it also had to call on the NCBs. Hence, the Bank formed a provision of € 48.5 million to cover this loss.

The prudent policy which the Bank has always pursued enabled it to pay the shareholders a dividend, as usual, which kept 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;
 - 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.

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 item "Net claims or 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 ⁽²⁾.

From 2002 onwards, 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 ⁽³⁾, are disclosed under the sub-item "Intra-Eurosystem: net claims/liabilities related to the allocation of euro banknotes within the Eurosystem".

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

(2) The banknote allocation key refers to the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share of such total.

(3) 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.

From 2002 to 2007, the intra-Eurosystem balances resulting from the allocation of euro banknotes will be 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 and 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 will be 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.

The Governing Council of the ECB has decided that the seigniorage income of the ECB arising from the 8 % share in euro banknotes allocated to it shall be distributed separately to the NCBs in the form of an interim distribution of profit. That income is distributed in full unless the ECB's net profit for the financial year in question is less than its income on banknotes in circulation, and subject to any decision by the Governing Council to reduce that income in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. The interim distributions are made at the end of each quarter and are disclosed in the Profit and Loss Account under "Income from the ECB".

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. 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 21 November 2002 on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of the participating Member States (ECB/2002/9), OJ L323 of 28/11/2002.

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

	31-12-2004	31-12-2003
in ounces of fine gold	8,286,644.2	8,291,451.0
in kg of fine gold ⁽¹⁾	257,743.5	257,893.0
at market price (millions of euro)	2,664.7	2,739.2

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

The reduction in the gold stocks is due to the sale of 149.5 kg of gold, at market price, to the Belgian Royal Mint. Pursuant to Article 37 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, the capital gain realised on the sale of gold to the Belgian Royal Mint was 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 2004, 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 31 December 2004.

This price, notified by the ECB, amounts to € 321.562 per ounce of fine gold (€ 10,338.46 per kilogram of fine gold), against € 330.364 per ounce of fine gold (€ 10,621.45 per kilogram of fine gold) as at 31 December 2003.

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)

	31-12-2004		31-12-2003	
	Holdings (SDR)	Market value (euro)	Holdings (SDR)	Market value (euro)
Special drawing rights	225.3	256.7	434.1	511.4
Participation in the IMF	1,478.6	1,685.0	1,812.3	2,134.9
Loans to the IMF	–	–	–	–
Loans to the PRGF Trust	242.4	276.2	242.4	285.5
PRGF deposits	–	–	80.0	94.2
	1,946.3	2,217.9	2,568.8	3,026.0

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 31 December 2004. On the balance sheet date this rate was € 1 = SDR 0.8775 (€ 1 = SDR 0.8489 at the end of 2003).

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 SDR holding recorded on the SDR account came to SDR 225.3 million on 31 December 2004, against SDR 434.1 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 259.9 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 1,478.6 million, against SDR 1,812.3 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 2004, 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, previously known as the Enhanced Structural Adjustment Facility (ESAF), 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 2004 to SDR 242.4 million, the same as the previous year's figure.

Deposits with the IMF under the PRGF

The amount shown is the equivalent of the SDRs that the Bank has paid into a special deposit account with the IMF as Belgium's share of the funding of the interest subsidies granted under the PRGF.

These deposits, which came to SDR 80 million at the end of the previous year, matured during the past year and their repayment increased the amount of the sub-item Special Drawing Rights (SDRs).

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, term deposits, foreign securities and in the form of reverse repurchase agreements.

Breakdown of foreign currency assets by type of investment

(millions of euro)

	31-12-2004	31-12-2003
Sight deposits	253.5	243.9
Time deposits	285.2	175.0
Securities	3,788.4	4,297.4
Reverse repurchase agreements	970.3	962.1
	5,297.4	5,678.4

Foreign currency assets are shown under this sub-item at their euro equivalent as calculated on the basis of market exchange rates on 31 December 2004. On the balance sheet closing date, the unrealised gains and losses on securities stated at their market price came to € 1.6 million and € 22.5 million respectively.

Breakdown by currency of foreign currency assets with non-residents

(millions)

	31-12-2004		31-12-2003	
	Holdings (in foreign currency terms)	Market value (euro)	Holdings (in foreign currency terms)	Market value (euro)
USD	7,072.3	5,192.2	6,708.1	5,311.2
JPY	14,210.8	101.8	49,206.7	364.4
CHF	2.4	1.6	1.0	0.6
Other		1.8		2.2
		5,297.4		5,678.4

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

(millions of euro)

	31-12-2004	31-12-2003
≤ 1 year	916.9	1,296.4
> 1 year and ≤ 5 years	2,838.7	2,982.0
> 5 years	32.8	19.0
	3,788.4	4,297.4

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 in 2004:

Net foreign currency position

(expressed at market price in billions of euro)

	31-12-2004	31-12-2003	Change
USD	2.8	2.9	-0.1
JPY	-	-	-
CHF	-	-	-
	2.8	2.9	-0.1

During the year just ended, the net dollar position expressed in euro declined by € 0.1 billion. This decrease is due to the following reasons:

- negative revaluation differences charged to the profit and loss account	-0.2
- encashment of investment income	+0.1

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)

	31-12-2004	31-12-2003
Sight deposits	2.3	–
Time deposits	283.2	271.6
Securities	59.4	49.6
Reverse repurchase agreements	75.0	–
	419.9	321.2

The foreign currency assets are shown in this item at their euro equivalent calculated at the market rate as at 31 December 2004. 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 with residents by currency

(millions)

	31-12-2004		31-12-2003	
	Holdings (in foreign currency terms)	Market value (euro)	Holdings (in foreign currency terms)	Market value (euro)
USD	571.9	419.9	405.7	321.2

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

(millions of euro)

	31-12-2004	31-12-2003
≤ 1 year	18.3	15.8
> 1 year and ≤ 5 years	41.1	33.8
> 5 years	–	–
	59.4	49.6

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)

	31-12-2004	31-12-2003
Sight deposits	61.3	58.5
Securities	272.5	186.3
	333.8	244.8

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

(millions of euro)

	31-12-2004	31-12-2003
≤ 1 year	–	41.0
> 1 year and ≤ 5 years	197.6	69.0
> 5 years	74.9	76.3
	272.5	186.3

On the balance sheet closing date, the value of the securities at their market price was € 2.8 million more than their average cost value.

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.

As in 2003, 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 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. In 2004, however, interest in these operations increased, and the average amount outstanding totalled € 180 million, against € 2 million in 2003.

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 was just one operation of this type, effected in November and injecting liquidity of € 3.7 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

Credit balances on the Bank's current accounts (nostro accounts) held with foreign correspondents in the euro area.

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 € 38.7 million and € 1.8 million respectively.

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

(millions of euro)

	31-12-2004	31-12-2003
≤ 1 year	867.5	852.3
> 1 year and ≤ 5 years	3,243.9	2,785.4
> 5 years	492.8	471.7
	4,604.2	4,109.4

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 and which must be adjusted every five years. The first such adjustment following the establishment of the ECB took effect on 1 January 2004. On 1 May 2004 a second change of the ECB's capital key followed as a result of the accession of ten new Member States to the European Union. In accordance with the Council Decision of 15 July 2003 on the statistical data to be used to adjust the key for subscription of the capital of the European Central Bank, the shares of the NCBs were adjusted as follows on 1 January 2004 and 1 May 2004:

	ECB capital subscription key		
	until 31 December 2003	from 1 January 2004 to 30 April 2004	from 1 May 2004
National Bank of Belgium	2.8658	2.8297	2.5502
German Federal Bank	24.4935	23.4040	21.1364
Bank of Greece	2.0564	2.1614	1.8974
Bank of Spain	8.8935	8.7801	7.7758
Bank of France	16.8337	16.5175	14.8712
Central Bank & Financial Services Authority of Ireland	0.8496	1.0254	0.9219
Bank of Italy	14.8950	14.5726	13.0516
Central Bank of Luxembourg	0.1492	0.1708	0.1568
Bank of the Netherlands	4.2780	4.4323	3.9955
National Bank of Austria	2.3594	2.3019	2.0800
Bank of Portugal	1.9232	2.0129	1.7653
Bank of Finland	1.3970	1.4298	1.2887
<i>Sub-total Eurosystem</i>	<i>80.9943</i>	<i>79.6384</i>	<i>71.4908</i>
National Bank of the Czech Republic	–	–	1.4584
National Bank of Denmark	1.6709	1.7216	1.5663
Bank of Estonia	–	–	0.1784
Central Bank of Cyprus	–	–	0.1300
Bank of Latvia	–	–	0.2978
Bank of Lithuania	–	–	0.4425
National Bank of Hungary	–	–	1.3884
Central Bank of Malta	–	–	0.0647
National Bank of Poland	–	–	5.1380
Bank of Slovenia	–	–	0.3345
National Bank of Slovakia	–	–	0.7147
Bank of Sweden	2.6537	2.6636	2.4133
Bank of England	14.6811	15.9764	14.3822
<i>Sub-total non-euro area NCBs</i>	<i>19.0057</i>	<i>20.3616</i>	<i>28.5092</i>
Total	100.0000	100.0000	100.0000

As at 1 January 2004, the National Bank of Belgium's share in the subscribed capital of the ECB was reduced by 0.0361 %, to 2.8297 %. Consequently, asset item 8.1 "Participating interest in the ECB" decreased by € 1.8 million to € 141.5 million due to the repayment of part of the capital contribution.

Article 49.3, which was added to the Statutes of the ESCB and of the ECB by the Accession Treaty, stipulates that the ECB's subscribed capital is automatically increased when a new member joins the European Union and its NCB joins the ESCB. The increase is determined by multiplying the amount of the subscribed capital (i.e. € 5 billion) by the ratio, within the expanded capital key, between the weighting of the entering NCB(s) and the weighting of those NCBs that are already members of the ESCB.

Therefore, on 1 May 2004 the subscribed capital of the ECB was increased to € 5.565 billion.

The Bank's share in the subscribed capital of the ECB was thus reduced from 2.8297 % to 2.5502 %. However, the Bank's fully-paid share increased by € 0.4 million to € 141.9 million as a result of the increase in the capital of the ECB.

The capital key changes led to a change in the relative shares of NCBs in the net equity of the ECB. This caused the Bank's share to increase by € 0.9 million to € 142.8 million.

8.2 Claims equivalent to the transfer of foreign currency reserves

This sub-item shows the Bank's euro claim 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.

The adjustments to the ECB's capital key on 1 January and 1 May 2004 led to a change in the claim on the ECB in respect of the foreign reserves transferred, which were reduced on 1 January 2004 by € 18.1 million to € 1,414.9 million, subsequently increasing to € 1,419.1 million on 1 May 2004.

(millions of euro)

	until 31 December 2003	from 1 January 2004 to 30 April 2004	from 1 May 2004
National Bank of Belgium	1,432.9	1,414.9	1,419.1
German Federal Bank	12,246.8	11,702.0	11,761.7
Bank of Greece	1,028.2	1,080.7	1,055.8
Bank of Spain	4,446.8	4,390.1	4,327.0
Bank of France	8,416.9	8,258.8	8,275.3
Central Bank & Financial Services Authority of Ireland	424.8	512.7	513.0
Bank of Italy	7,447.5	7,286.3	7,262.8
Central Bank of Luxembourg	74.6	85.4	87.3
Bank of the Netherlands	2,139.0	2,216.2	2,223.4
National Bank of Austria	1,179.7	1,151.0	1,157.5
Bank of Portugal	961.6	1,006.5	982.3
Bank of Finland	698.5	714.9	717.1
Total	40,497.3	39,819.5	39,782.3

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 9 July 2004, amending the decision of 28 November 2003, on the approval of the volume of coin issuance in 2004, the maximum amount of the euro coins to issue is € 203 million for Belgium, the authorised amount therefore totalling € 889.8 million.

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 2004, the Bank’s investment in tangible fixed assets totalled € 12.1 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 the 16,964 shares⁽¹⁾ of the Belgian tranche of the BIS which the BIS had repurchased from the public in order to hold all the shares corresponding to its voting rights in the BIS.

These shares were acquired at the price of CHF 23,977.56 per share, for a total of € 263.6 million. At the same time, the 1,200 BIS shares repurchased in 1997 and kept with the financial assets other than statutory investments were transferred at the same price to the statutory portfolio for a total of € 18.7 million, producing a capital gain of € 12.3 million. Thus, all the shares relating to the Bank’s participating interest in the BIS, totalling 47,677 shares, are contained in the statutory portfolio.

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

In order to make room for the 18,164 shares in this portfolio, the amount of which is subject to a statutory maximum, investments maturing were not renewed (reverse purchase agreements totalling € 88 million and debentures totalling € 60.6 million). In addition, debentures with a book value of € 133.7 millions were transferred for a market value of € 137.5 million to asset item 7 "Securities of euro area residents denominated in euro". This transfer from one portfolio to the other led to the realisation of a capital gain of around € 3.8 million, recorded under item V of the profit and loss account "Proceeds from statutory investments".

The Bank also holds participating interests in the Swift company (96 shares), the "Société fédérale d'investissement/Federale investeringsmaatschappij" (4,109 shares) and the Belgian Corporation for International Investment (801 shares). There were no changes in these interests in 2004.

Breakdown by type of investment

(millions of euro)

	31-12-2004	31-12-2003
Participating interests	294.2	18.4
Fixed-income securities	1,388.3	1,510.1
Reverse repurchase agreements	–	88.5
	1,682.5	1,617.0

Breakdown of fixed-income securities according to their residual term

(millions of euro)

	31-12-2004	31-12-2003
≤ 1 year	218.6	152.8
> 1 year and ≤ 5 years	544.9	750.8
> 5 years	624.8	606.5
	1,388.3	1,510.1

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 its own use).

LIABILITIES

1. Banknotes in circulation

This item records the share, totalling € 16,451.3 million, in the circulation of euro banknotes issued by the twelve central banks of 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. This was the case in May when the ECB, via a rapid call for tenders, tightened liquidity by attracting deposits for 1 day at a fixed rate. For the Bank, this amounted to € 1.4 billion.

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.

No such operations took place during the year just ended.

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.

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)				
	31-12-2004		31-12-2003	
	Liabilities (in foreign currency)	Market value (euro)	Liabilities (in foreign currency)	Market value (euro)
USD	102.2	75.0	66.2	52.4

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)

	31-12-2004		31-12-2003	
	Liabilities (in foreign currency)	Market value (euro)	Liabilities (in foreign currency)	Market value (euro)
USD	1,377.7	1,011.4	1,303.6	1,032.2

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 position 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 (€ 29,984.9 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 € 6.3 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 (or the amount to be reimbursed) 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, if the ECB ends its financial year with a loss, the payments on account received during that year are paid back in whole or in part to the ECB at the start of the next financial year, and the amount to be repaid is recorded as a liability at the end of the financial year. In January 2005, the payments 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 € 19.1 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 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 interest payable by the Bank on its net debt to the ECB in connection with TARGET.

Since the exchange of the Belgian franc banknotes still in circulation is imputed every six months to the current account of the Treasury pursuant to the Agreement of 22 February 2002 between the Bank and the State in the implementation of Article 9 of the Law of 24 August 1939 on the National Bank of Belgium, the Bank no longer records any debt in favour of the Treasury.

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 reserve fund to cover any foreign exchange losses realised or expressed but not realised.

(millions of euro)

Balance as at 31 December 2003	508.2
Use	-144.2
Write-back	-75.0
Appropriation	-
Balance as at 31 December 2004	289.0

A sum of € 144.2 million was used to cover the foreign exchange losses on the net position in dollar.

A sum of € 75 million was written back in order to adjust the provision for future exchange losses in line with the best real estimate of the exchange rate risk to be covered. To estimate that risk, the Bank – in accordance with current practice in other central banks – reduced the time horizon taking account of the period which it now considers sufficient to adjust its net foreign exchange position.

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 2003	527.5
Use	-
Write-back	-
Appropriation	66.0
Balance as at 31 December 2004	593.5

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. At its meeting on 13 January 2005, the Governing Council decided in principle to retain € 1,360 million of NCBs' monetary income pooled in January 2005 to offset the ECB's loss for 2004. The Bank accordingly formed a provision of € 48.5 million in respect of its allocated monetary income for 2004 to be used to offset the ECB's loss, equivalent to its weighting in the capital key of the ECB of 2.5502 % relative to the other NCBs within the Eurosystem (or 3.5672 % for the Bank). The final decision on the precise amount of monetary income will be taken by the Governing Council at its meeting on 17 March 2005.

12. Revaluation accounts

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)

	Balance as at 31-12-2004	Balance as at 31-12-2003
Positive foreign exchange revaluation differences on :		
– gold	2,305.4	2,379.8
– spot and forward positions in foreign currencies	0.1	0.1
– the net position in SDR	–	–
Positive price revaluation differences on :		
– futures on interest rates and fixed-income securities	0.3	0.2
– securities in foreign currencies	1.6	12.3
– <i>issued by non euro area residents</i>	1.6	12.1
– <i>issued by euro area residents</i>	–	0.2
– securities in euro (with the exception of statutory investments)	41.5	36.2
– <i>issued by non euro area residents</i>	2.8	0.4
– <i>issued by euro area residents</i>	38.7	35.8
	2,348.9	2,428.6

13. Capital and reserve fund

13.1 Capital

The share capital, totalling € 10 million, is represented by 400,000 shares, of which 200,000 are registered and non-transferable, and held by the Belgian State. The share capital is fully paid-up. The shares do not have any nominal value.

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 an increase of € 7.6 million, corresponding to the amount of investments made in 2004, less an amount equivalent to the book value of assets sold or no longer used.

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 € 168.7 million, against € 127.7 million in 2003.

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)

	31-12-2004	31-12-2003	Differences
Interest proceeds of assets in euro	807.8	572.3	235.5
Interest proceeds of external assets	182.8	212.7	-29.9
Total	990.6	785.0	205.6

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 interest rate (in percentages)
Credit transactions relating to monetary policy	360.9	17,504.2	2.1
Securities portfolio in euro	142.4	4,453.8	3.2
Claims on the ECB resulting from the transfer of foreign reserve assets	24.7	1,417.7	1.7
Intra-Eurosystem net claims relating to the allocation of euro banknotes in the Eurosystem	279.8	13,644.4	2.1
	807.8	37,020.1	2.2

1.1.1 Credit transactions relating to monetary policy

The income from these transactions is up by € 139.7 million, owing to growth of the average volume of credit allocations (€ 17,504 million in 2004 against € 9,383 million in 2003) which outweighed the effect of the decline in the average rate of the main refinancing operations (2.1 % in 2004 against 2.4 % in 2003).

1.1.2 Securities portfolio in euro

The interest income on securities in euro is down by € 6.4 million, following the fall in average interest rates (3.2 % in 2004 against 3.7 % in 2003), the impact of which was partly offset by the effect of the increase in the average amount outstanding on the securities portfolio (€ 4,454 million in 2004 against € 3,983 million in 2003).

1.1.3 Claims on the ECB arising from the transfer of foreign reserve assets

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 was down by € 3.9 million, essentially as a consequence of the fall in the average marginal interest rate in 2004.

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

The increase in interest income, up by € 106 million compared to 2003, is due essentially 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 accruing to the ECB in respect of banknotes issued on its behalf, totalling € 26.1 million against € 24.7 million in 2003, is deducted from this interest income.

1.2 Interest income of external assets

This may be broken down as follows:

	Income (millions of euro)	Average volume (millions of euro)	Average interest rate (in percentages)
Claims related to international cooperation transactions	36.7	2,327.0	1.6
Investments in foreign currencies	146.1	6,186.1	2.4
	182.8	8,513.1	2.1

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 down by € 0.6 million in 2004 owing to the reduction in the average volume of these claims and depreciation of the SDR against the euro. The increase in the rate of interest payable on these claims partly offset those effects.

1.2.2 Investments in foreign currencies

The interest income on investments in foreign currencies was down by € 29.3 million, mainly because of the depreciation of the dollar against the euro.

2. Interest expenses

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

(millions of euro)

	31-12-2004	31-12-2003	Differences
Interest expenses on liabilities in euro	604.4	417.3	187.1
Interest expenses on external liabilities	12.0	9.1	2.9
	616.4	426.4	190.0

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 interest rate (in percentages)
Monetary reserve accounts, deposit facility and other interest-bearing deposits	171.6	8,411.5	2.0
Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–	–
Net amounts owed to the ECB in connection with TARGET	432.8	21,099.4	2.1
	604.4	29,510.9	2.0

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

The interest expense is down by € 3.3 million, because of a fall in the marginal interest rate on the main refinancing operations which provides the basis for remuneration of these accounts; the fall was partly offset by the rise in the average amount outstanding on these accounts. The average interest rate charged came to 2.0 %, against 2.3 % in 2003.

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

There were no such liabilities in 2004.

2.1.3 Net liabilities to the ECB related to Target

The € 190.4 million increase in interest charges on net debts relating to TARGET is due to the sharp increase in the average amount outstanding (€ 21,099 million in 2004 against € 10,442 million in 2003), the effect of which was greater than that of the fall in the marginal interest rate on the main refinancing operations (2.1 % in 2004 against 2.4 % in 2003).

2.2 Interest expenses on external liabilities

These may be broken down as follows:

	Expenses (millions of euro)	Average volume (millions of euro)	Average interest rate (in percentages)
Repurchase agreement transactions in foreign currencies	11.1	1,002.7	1.1
Net use of assets in SDRs	0.9	42.8	2.1
	12.0	1,045.5	1.1

2.2.1 Repurchase agreement transactions in foreign currencies

The interest expenses on these transactions were up (€ 3.4 million) owing to an increase in the average interest rate applied to them and an increase in the average volume of these transactions, partially offset by a depreciation of the dollar against the euro.

2.2.2 Net use of the assets in SDR

The interest expenses were down by € 0.5 million in 2004, mainly as a result of a decline in the average level of the net use of the assets in SDR (€ 43 million in 2004 against € 81 million in 2003).

3. Capital gains and losses on securities

During the accounting period under review, net capital gains amounting to € 47.8 million were realised on the sale of securities, against € 135.4 million in 2003. Moreover, the unrealised capital losses of € 24.5 million were included in the result, whereas unrealised gains on securities (€ 43.1 million) were recorded in revaluation accounts on the liabilities side.

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 for the financial year 2004

(millions of euro)

– monetary income pooled by the Bank in the Eurosystem	–287.2
– monetary income allocated to the Bank by the Eurosystem	293.5
Net monetary income allocated	6.3

5. Income from the ECB

Since the ECB ended its 2003 financial year with a loss, the Bank did not collect any dividend in 2004 on its participation in the capital of the ECB, in contrast to the previous year (€ 21.7 million).

In 2004, the ECB's income on euro banknotes in circulation amounting to € 733 million was fully retained by the ECB in accordance with a decision of the Governing Council and in view of the estimated ECB 2004 result.

6. Appropriation to the provision for covering losses from the ECB

The part of the monetary income of the Bank retained to offset the ECB's loss is estimated at € 48.5 million and is recorded under liabilities item 11.4 "Provision for loss from the ECB".

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 the foreign exchange losses realised on dollars (€ 1.5 million), unrealised foreign exchange losses on dollars (€ 217.2 million), net foreign exchange losses on SDR transactions (€ 52.8 million) and the capital gains on sales of gold to the Belgian Royal Mint (€ 1.4 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.

The amount written back in order to adapt the provision to the best estimate for the exchange risk to cover forms part of the net financial proceeds referred to in Article 29 of the Law of 22 February 1998 establishing the Organic Statute of the Bank.

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 lower profits on bond portfolio transactions and the impact of the decline in interest rates on that portfolio's interest income.

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 € 75 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. Since these net financial proceeds do not amount to 3 %, they accrue entirely to the Bank.

2. Proceeds fully assigned to the State

This item contains proceeds from assets, which are the counterpart of deposits, other than those included in liability 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 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.

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 2004, transactions in SDR gave rise to net foreign exchange losses totalling € 52.8 million. The capital gain of € 1.4 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, if any, of the capital gains realised on gold during arbitrage operations 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 costs 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.

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 2004 covers the following investments:

(millions of euro)

– new premises and technical installations	0.1
– renovation of premises	2.8
– software and hardware	3.7
– equipment for the Printing Works	0.2
– other equipment and furniture	5.2
Total	12.0

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”.

For the financial year 2004, the Bank declares a tax loss of € 31.7 million, claimable against subsequent taxable profits. The cumulative deferred tax relief, calculated at the rate of corporation tax, is estimated at € 98.5 million.

XIV. TRANSFER TO THE TAX-FREE RESERVES

This item records the tax-free amount, included in the extraordinary reserve (see liabilities 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; the breakdown is as follows:

(millions)

	31-12-2004		31-12-2003	
	in foreign currency	euro	in foreign currency	euro
forward claims				
– in euro	–	1,970.0	–	2,241.3
– in USD	130.6	95.9	549.9	435.4
forward liabilities				
– in euro	–	–	–	85.6
– in USD	2,563.0	1,881.7	2,663.0	2,108.5
– in JPY	14,000.0	100.2	49,000.0	362.8

These swap transactions in foreign currencies 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 2004, the value of the long position is € 96.9 million.

These transactions in futures are intended to facilitate the management of the modified duration of the foreign currency portfolios.

Liabilities which could lead to a credit risk

(millions of euro)

Commitments towards international institutions	398.9
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This item records the undertaking entered into by the Bank to lend SDR 350 million (€ 398.9 million) to the PRGF Trust. The amount of the drawings remaining open is SDR 107.6 million (€ 122.7 million). This loan is guaranteed by the Belgian State.

(millions of euro)

Commitments towards other institutions	103.8
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Valuables and claims entrusted to the institution

(millions of euro)

For encashment	0.2
Assets managed on behalf of the Treasury	71.4
Assets managed on behalf of the ECB	1,291.9

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	380,279.4
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This 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 178.8 million, converted at the SDR exchange rate as at 31 December 2004, namely € 203.7 million.

The additional liability in relation to the previous financial year (namely SDR 63.6 million) is due to the repurchase of the shares from the Belgian tranche still held by the public (see item 9.3 "Other financial assets").

2.6 Legal proceedings

In 2004 the Bank was confronted by four legal actions brought by various groups of shareholders.

A first action was brought against the Bank on 18 July 2002, and followed by an action against the State (non-voluntary third party's intervention) on 8 January 2004 before the Brussels Commercial Court. In regard to the Bank, it seeks to obtain liquidation of the reserve funds, subject to a daily penalty payment. In regard to the State, it seeks to obtain the repayment to the Bank of all the sums allegedly levied improperly, plus interest, so that they may be reincorporated in the Bank's assets; as a subsidiary claim, it seeks payment of compensation to each applicant shareholder.

A second action was brought on 8 January 2004 against the State and the Bank before the Brussels Commercial Court. It seeks a judgment ordering the Bank and the State jointly, or in solidum, to pay the applicants the sum of € 5,784 per share in the Bank, plus interest, the applicant shareholders claiming that, between 1990 and 2002, the State wrongfully appropriated the capital gains realised by the Bank on the sale of gold reserves.

A third action was brought against the Bank on 8 July 2004 before the Brussels Commercial Court. It seeks cancellation of the decision by the Bank's Council of Regency which approved, in addition to the sum necessary to cover the exchange losses during the financial year, a write-back of € 235 million on the provision for future exchange losses, shown on the Bank's balance sheet. The applicants are contesting the inclusion of this sum in the allocation rule laid down in Article 29 of the Organic Law.

In addition, a fourth action, namely an application for interim measures, was brought before the Brussels Court of Appeal. It cannot have any effect on these accounts.

The Bank considers that these actions are unfounded and has therefore made no adjustments to the accounts.

Brussels, 16 February 2005



3. Comparison over five years

3.1 Balance Sheet

Assets

(thousands of euro)

	2004	2003	2002	2001	2000
1. Gold and gold receivables	2,664,670	2,739,197	2,710,680	2,613,494	2,431,485
2. Claims on non-euro area residents denominated in foreign currency	7,515,315	8,704,377	11,304,447	12,780,672	10,740,780
2.1 Receivables from the IMF	2,217,927	3,026,021	3,169,845	3,255,684	2,615,983
2.2 Balances with banks and security investments, external loans and other external assets	5,297,388	5,678,356	8,134,602	9,524,988	8,124,797
3. Claims on euro area residents denominated in foreign currency	419,888	321,230	297,976	799,055	459,103
4. Claims on non-euro area residents denominated in euro	333,755	244,817	3,656	7,610	9,456
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	22,695,205	16,748,708	10,876,706	7,570,189	15,441,034
5.1 Main refinancing operations	22,391,000	16,748,708	10,876,706	7,500,000	14,811,034
5.2 Longer-term refinancing operations	304,205	–	–	70,189	630,000
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	318	359	357	220	313
7. Securities of euro area residents denominated in euro	4,604,179	4,109,447	3,663,289	3,621,955	3,629,307
8. Intra-Eurosystem claims	18,671,519	12,654,164	6,367,013	1,576,190	1,576,190
8.1 Participating interest in ECB capital	142,816	143,290	143,290	143,290	143,290
8.2 Claims equivalent to the transfer of foreign currency reserves	1,419,102	1,432,900	1,432,900	1,432,900	1,432,900
8.3 Net claims related to the allocation of euro banknotes within the Eurosystem	17,109,601	11,077,974	4,790,823	–	–
8.4 Other claims within the Eurosystem (net)	–	–	–	–	–
9. Other assets	2,510,272	2,465,913	2,345,715	2,233,336	2,226,502
9.1 Coins of euro area	12,749	9,018	10,315	26,408	6,795
9.2 Tangible fixed assets	392,435	385,313	370,526	352,518	326,607
9.3 Other financial assets	1,682,542	1,617,015	1,528,380	1,438,009	1,359,671
9.4 Off-balance-sheet instruments revaluation differences	84,015	113,334	117,700	–	996
9.5 Accruals and prepaid expenditure	192,723	193,692	217,117	242,864	309,114
9.6 Sundry	145,808	147,541	101,677	173,537	223,319
Total assets	59,415,121	47,988,212	37,569,839	31,202,721	36,514,170

Liabilities

(thousands of euro)

	2004	2003	2002	2001	2000
1. Banknotes in circulation	16,451,255	14,199,612	11,964,293	8,627,226	12,905,356
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5,416,413	8,324,897	4,481,622	5,945,181	7,129,800
2.1 Current accounts (covering the minimum reserve system)	5,416,413	8,324,897	4,481,622	5,922,368	7,129,800
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	–	–	–	–	–
4. Liabilities to other euro area residents denominated in euro	144,781	180,920	123,637	127,485	83,479
4.1 General government	135,150	151,852	115,411	118,528	62,176
4.2 Other liabilities	9,631	29,068	8,226	8,957	21,303
5. Liabilities to non-euro area residents denominated in euro	422,841	270,829	233,479	80,691	179,736
6. Liabilities to euro area residents denominated in foreign currency	74,996	52,398	–	–	–
7. Liabilities to non-euro area residents denominated in foreign currency	1,011,421	1,032,172	854,184	1,869,018	982,736
8. Counterpart of special drawing rights allocated by the IMF	552,986	571,620	629,023	691,238	679,386
9. Intra-Eurosystem liabilities	29,997,845	17,835,886	12,879,052	5,168,719	6,535,792
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)	29,997,845	17,835,886	12,879,052	5,168,719	6,535,792
10. Other liabilities	179,403	291,427	459,045	1,652,207	1,481,878
10.1 Off-balance-sheet instruments revaluation differences	–	–	–	8,159	–
10.2 Accruals and income collected in advance	15,500	4,660	6,426	7,702	14,279
10.3 Sundry	163,903	286,767	452,619	1,636,346	1,467,599
11. Provisions	931,082	1,035,768	1,387,068	1,181,106	988,156
11.1 For future exchange losses	289,019	508,219	925,519	756,120	614,320
11.2 For new premises	–	–	–	7,060	10,540
11.3 For contingencies	593,549	527,549	461,549	417,926	363,296
11.4 For loss from the ECB	48,514	–	–	–	–
12. Revaluation accounts	2,348,907	2,428,584	2,902,378	4,294,569	4,080,642
13. Capital and reserve fund	1,714,529	1,636,364	1,549,232	1,459,707	1,368,499
13.1 Capital	10,000	10,000	10,000	9,916	9,916
13.2 Reserve fund :					
Statutory reserve	175,209	104,627	100,780	96,975	93,287
Extraordinary reserve	1,150,492	1,150,492	1,082,180	1,014,616	953,116
Amortisation accounts in respect of tangible fixed assets	378,828	371,245	356,272	338,200	312,180
14. Profit for the year	168,662	127,735	106,826	105,574	98,710
Total liabilities	59,415,121	47,988,212	37,569,839	31,202,721	36,514,170

3.2 Profit and Loss Account

(thousands of euro)

	2004	2003	2002	2001	2000
I. Proceeds of net interest-bearing assets	355,194	520,410	658,465	968,528	792,153
1. Interest income	990,564	785,040	839,836	1,257,070	1,286,299
2. Interest expenses (–)	–616,410	–426,387	–446,909	–567,480	–480,303
3. Capital gains (losses (–)) on securities	23,302	129,434	176,572	220,895	–14,271
4. Allocation of monetary income from the Eurosystem	6,252	10,582	15,955	243	428
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	–50,750	–98,742	94,206	139,957	200,223
1. Foreign exchange difference results	–269,950	–516,042	263,606	281,757	373,423
2. Use and write-back of provision for future exchange losses (appropriation (–))	219,200	417,300	–169,400	–141,800	–173,200
III. Commission	4,665	1,933	1,181	2,591	3,531
1. Commission received	8,665	4,675	3,244	4,320	5,041
2. Commission paid (–)	–4,000	–2,742	–2,063	–1,729	–1,510
IV. Amounts recovered from third parties	63,692	59,848	54,123	61,714	53,426
V. Proceeds from statutory investments	93,611	113,139	101,091	98,409	95,004
VI. Other proceeds	1,850	3,332	1,371	4,822	2,555
VII. State share (–)	25,473	–135,715	–307,555	–648,656	–495,640
1. Proceeds from net interest-bearing assets (art. 29)	–	–347,160	–293,817	–558,351	–369,752
2. Proceeds fully assigned to the State	–25,976	–28,382	–33,209	–45,548	–41,931
3. Foreign exchange difference results	51,449	239,827	19,471	–44,757	–83,957
VIII. Transfer to the unavailable reserve of capital gains on gold (–)	–	–	–	–	–
IX. General expenses (–)	–233,376	–235,470	–235,097	–237,067	–233,022
1. Remuneration and social costs	–188,138	–185,764	–187,524	–191,118	–185,791
2. Other expenses	–45,238	–49,706	–47,573	–45,949	–47,231
X. Exceptional costs (–)	–	–	–4,827	–11,327	–12,508
XI. Depreciation of tangible fixed assets (–)	–12,025	–19,898	–20,774	–28,499	–29,415
XII. Provisions	–66,000	–66,000	–36,563	–51,150	–24,793
1. Use and write-back of provision for new premises (appropriation (–))	–	–	7,060	3,480	8,500
2. Use and write-back of provision for contingencies (appropriation (–))	–66,000	–66,000	–43,623	–54,630	–33,293
XIII. Taxes and dues (–)	–13,672	–14,790	–198,547	–193,748	–252,804
XIV. Transfer to the tax-free reserves (–)	–	–312	–248	–	–
Net profit for the financial year	168,662	127,735	106,826	105,574	98,710

3.3 Dividend

	2004	2003	2002	2001	2000
Net dividend allocated per share	50.00	49.00	48.10	47.25	46.10
Withholding tax deducted per share	16.67	16.33	16.03	15.75	15.37
Gross dividend allocated per share	66.67	65.33	64.13	63.00	61.47

Auditors' report

Annual accounts for the year ended December 31, 2004

In accordance with legal and statutory requirements, we are reporting to you on the completion of the mandate, which you have entrusted to us.

We have audited the financial statements as of and for the year ended December 31, 2004 with a balance sheet total of € 59,415,121 (000) and a profit for the year of € 168,662 (000). These financial statements have been prepared under the responsibility of the Executive Committee of the National Bank of Belgium. In addition we have carried out the specific additional audit procedures required by applicable laws and regulations.

Unqualified audit opinion on the financial statements

We conducted our audit in accordance with the standards of the "Institut des Réviseurs d'Entreprises-Instituut der Bedrijfsrevisoren". 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 annual accounts of the National Bank of Belgium.

In accordance with these standards we have considered the National Bank of Belgium's administrative and accounting organisation as well as its internal control procedures. The National Bank of Belgium's management have provided us with all explanations and information which we required for our audit. We examined, on a test basis, evidence supporting the amounts in the financial statements. We assessed the accounting policies used and significant accounting estimates made by the National Bank of Belgium, as well as the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the prevailing legal and regulatory requirements, the financial statements present fairly the National Bank of Belgium's net worth and financial position as of December 31, 2004 and the results of its operations for the year then ended and the disclosures made in the notes to the financial statements are adequate.

Additional assertions

As required by generally accepted auditing standards the following additional assertions are provided. These assertions do not alter our audit opinion on the financial statements.

- The appropriation of results proposed to you complies with the organic law and the statutes.
- There are no transactions undertaken or decisions taken in violation of the organic law, the statutes or Company Law, which we have to report to you.
- Without prejudice to certain formal aspects of minor importance, the accounting records are maintained and the financial statements have been prepared in accordance with the legal and regulatory requirements applicable for the National Bank.

Brussels, February 10, 2005

The Joint Auditors

Klynveld Peat Marwick Goerdeler
Bedrijfsrevisoren
represented by Pierre P. Berger

Deloitte & Touche
Bedrijfsrevisoren
represented by Philip Maeyaert

Approval by the Council of Regency

The Council of Regency examined the annual accounts drawn up at 31 December 2004, which were submitted to it by the Board of Directors in accordance with the provisions of Article 44 of the Statutes. It took note of the report submitted by the auditors for the financial year 2004.

On 16 February 2005, the Council approved the annual report on the company's operations and the annual accounts for the financial year 2004. It also gave the administration a discharge and finally determined the distribution of 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
	Baron Tony VANDEPUTTE, Regent
	Philippe WILMÈS, Regent
	Noël DEVISCH, Regent
	Christian DUMOLIN, Regent
	Gérald FRÈRE, Regent
	Jacques FOREST, Regent
	Luc CORTEBEECK, Regent
	Jean-Pierre HANSEN, Regent
Mrs	Martine DUREZ, Regent

Annexes





1. Shareholder structure as at 31 December 2004

(Application of Article 4 § 2 (2) of the law of 2 March on the disclosure of major shareholdings in listed companies)

Declarant: Belgian State, represented by the Minister of Finance

Number of voting rights declared: 200,000

Share of the voting rights: 50 p.c.



2. Opening hours and addresses

SERVICES	ESTABLISHMENTS OFFERING THE SERVICES	OPENING HOURS
Banknotes and coins, Central Balance Sheet Office and 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 and 14.00 to 15.30 hrs
State Cashier	Brussels, Antwerp, Courtrai, Hasselt, Liège and Mons	9.00 to 15.30 hrs
Scientific Library	Brussels	9.00 to 16.00 hrs
Museum	Brussels	10.00 to 18.00 hrs (daily except Mondays)

Requests for information:

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Contact person for the financial service for the Bank's shares:

Luc Janssens, Securities Service
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Fax: +32 2 221 32 05
securities@nbb.be

Website:

www.nbb.be

(1) These establishments offer limited services for banknotes and coins.

Addresses:

Brussels:	boulevard de Berlaimont 14, 1000 Brussels Tel: +32 2 221 21 11 Fax: +32 2 221 31 00 info@nbb.be	Antwerp:	Leopoldplaats 8, 2000 Antwerpen Tel: +32 3 222 22 11 Fax: +32 3 222 22 69 antwerpensg@nbb.be
Courtrai:	President Kennedypark 43, 8500 Kortrijk Tel: +32 56 27 52 11 Fax: +32 56 27 53 90 kortrijksg@nbb.be	Ghent:	Geraard de Duivelstraat 5, 9000 Gent Tel: +32 9 267 62 11 Fax: +32 9 267 63 90 gentsg@nbb.be
Hasselt:	Eurostraat 4, 3500 Hasselt Tel: +32 11 29 92 11 Fax: +32 11 29 93 90 hasseltsg@nbb.be	Liège:	place St-Paul 12-14-16, 4000 Liège Tel: +32 4 230 62 11 Fax: +32 4 230 63 90 liegesg@nbb.be
Mons:	avenue Frère Orban 26, 7000 Mons Tel: +32 65 39 82 11 Fax: +32 65 39 83 90 monssg@nbb.be	Namur:	rue de Brussels 83, 5000 Namur Tel: +32 81 23 72 11 Fax: +32 81 23 73 90 namursg@nbb.be

Departments and Services: see Organisation and governance of the Bank, 5.2 and website.



3. Abbreviations

BFIC	Banking Finance and Insurance Commission
BIS	Bank for International Settlements
BLS	Bank Lending Survey
CEC	Centre for Exchange and Clearing
CEPR	Centre for Economic Policy Research
CESR	Committee of European securities regulators
CLS	Continuous Linked Settlement
ECB	European Central Bank
Ellips	Electronic large-value interbank payment system
ESA	European System of Accounts
ESCB	European System of Central Banks
EU	European Union
FSASB	Financial Services Authority Supervisory Board
FSC	Financial Stability Committee
G10	Group of Ten
GCCC	Government Coordination and Crisis Centre
GDP	Gross Domestic Product
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
NAI	National Accounts Institute
NCB	National Central Bank
NSI	National Statistical Institute
OECD	Organisation for Economic Cooperation and Development
PSSC	Payment and Settlement Systems Committee
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



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Editor

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