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PRESS RELEASE

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Update of the reserve and dividend policy of the National Bank of Belgium

In view of recent changes in circumstances, with substantial losses over several financial years¹, the Bank deemed it appropriate to update its reserve and dividend policy, amended for the last time in 2016.

This update falls within the framework set by Article 32 of the Act of 22 February 1998 laying down the Organic Statute of the National Bank of Belgium. It does not change the “cascade” method used to allocate earnings, which has been consistently applied since 2009, but rather aims to clarify the application of this method to various scenarios that could arise having regard to the Bank’s earnings and the state of its financial buffers.

Priority is given first to the recovery of the Bank’s reserves and second to the dividend payment. Only when the reserves reach the minimum level - determined in accordance with the method used for the calculation of financial risks – margin reemerges for the allocation of a profit balance to the Belgian State.

In this context and in accordance with the principles set out in the Organic Act and the Bank’s Corporate Governance Charter, the update strives to strike a balance between the interests of the Bank, its shareholders and the State in its capacity as sovereign, despite the constraints imposed by the losses forecast for the coming years.

The key aspects of the updated reserve and dividend policy can be summarised as follows:

1. **The reserves serve to absorb losses:** losses are covered first by the available reserve, then by the reserve fund, less the depreciation accounts for tangible and intangible fixed assets which cannot be used to cover losses or supplement profits.
2. **Carry forward of losses after depletion of the reserves:** in the event of total depletion of the reserves, losses are entirely carried forward.
3. **Annual profits are allocated first and foremost to absorbing losses carried forward:** as long as there are losses carried forwards, profits are allocated in full to absorbing these losses, except for the amount needed to pay the first dividend.
4. **Annual profits are then used to rebuild the reserves:** once losses carried forward have been absorbed, the profits are used entirely to rebuild the reserves, except for the amount needed to pay the first and second dividends. Once the reserves exceed the minimum level determined in accordance with the method used for the calculation of financial risks, 75% of the profits are set aside until the reserves reach the desired level for the medium term, as defined by this method. As profits are reserved, the calculation basis for the future second dividend increases (see point 6). Once the reserves exceed the desired level, the Council of Regency decides annually whether an additional allocation to the reserves is necessary having regard to the risk developments.
5. **Distribution of the first dividend:** in the event of sufficient annual profits, the Bank distributes a first dividend (€1.5 per share). In the absence of sufficient profits or in the event of losses, the first dividend is guaranteed by the available reserve and the reserve fund.

¹ See <https://www.nbb.be/doc/ts/enterprise/press/2024/cp240327en.pdf>

6. **Distribution of the second dividend:** the second dividend is set by the Council of Regency at 50% of the net proceeds from the assets that form the counterpart of the reserves. As soon as the losses carried forward have been absorbed and provided that the annual profits are sufficient, the second dividend is distributed. In the absence of sufficient profits or in the event of losses, the second dividend is guaranteed by the available reserve, unless drawing down the available reserve would cause the reserves to fall below the minimum level.
7. **Allocation of the balance to the State:** as long as the reserves have not reached the minimum level, no balance is allocated to the State. Thereafter, the balance allocated to the State depends on the amount of profits reserved pursuant to point (4).

The detailed rules of the reserve and dividend policy are as follows:

Reserve policy

The earnings for the financial year are the first buffer used to absorb losses. In case of negative earnings, the loss is first charged to the available reserve. Next, if necessary, it is covered by the reserve fund. In the absence of reserves, it is carried forward. Future profits, after distribution of the first dividend, are allocated with priority to absorb losses carried forward.

An estimate of the quantifiable risks forms the basis for determining the minimum level of reserves. The Bank applies either the value-at-risk / expected shortfall method, for which it uses very cautious parameters in terms of distributions, probabilities and time horizons, or long-term scenarios/stress tests. These methods are also applied by other Eurosystem members.

Based on these calculations, the Bank determines (i) the minimum level of reserves to cover the estimated risks and (ii) the desired level of reserves for the medium term, taking into account exceptional residual risks, stress scenarios and risks that are not on the balance sheet and could arise rapidly as a result of the Bank's missions as a central bank.

If the reserves are below the minimum level, the entire annual profit is allocated to the reserves, except for the amount necessary to pay the first and second dividends to the shareholders. If the reserves are between the minimum level and the desired level for the medium term, 75% of the profit are allocated to the reserves. If the reserves exceed the desired level for the medium term, the Council of Regency decides annually whether an additional allocation to the reserves is necessary having regard to risk developments.

The comparison between the existing reserves and these levels disregards the amortisation accounts since these cannot be used to cover losses or to supplement profits. Since the reserve fund is almost totally non-available and given its relation to the capital, profits to be reserved are allocated to the available reserve.

If the level of the reserves is considered excessive, drawdowns from the available reserve may be made. These must be exceptional and duly substantiated. Any such drawdowns may only be paid out as dividends.

Dividend policy

1. The dividend paid to shareholders consists of a first dividend of 6% of the capital and a second dividend established by the Council of Regency pursuant to Article 32, 3° of the Organic Act.

The first dividend of €1.5 per share (6 % of the capital) is guaranteed by both the available reserve and the reserve fund.

The second dividend is set by the Council of Regency at 50 % of the net proceeds from the assets forming the counterpart of the reserves (the "statutory portfolio").²

² Please note that, where applicable, profits are allocated with priority to absorb losses carried forward, without the second dividend being guaranteed.

Net proceeds refers to the amount mentioned in the profit and loss account (“proceeds from statutory investments”), following adjustment for the capital counterpart and after deduction of corporate tax actually due for the financial year in question.

If the annual profit is insufficient, the second dividend is guaranteed by the available reserve, unless drawing down the available reserve would cause the reserves to fall below the minimum level. The financial soundness and independence of the Bank take priority.

2. If an amount of less than half the net proceeds from the statutory portfolio is allocated to the reserves, the allocation to the reserves is supplemented until it reaches 50% of these net proceeds insofar as the net profit after deduction of the dividend permits.

If the Bank does not have to make further allocations to the reserves and the profit is sufficient, the second dividend is increased until it corresponds to the total net proceeds (100%) of the statutory portfolio.

The reserve and dividend policy therefore guarantees that if the profit is sufficient (and any losses carried forward have been absorbed), the net proceeds from the statutory portfolio are either allocated to the reserves, thus increasing the calculation basis for the second dividend, or paid directly to shareholders as a second dividend. The balance allocated to the State may never include any part of the net proceeds from this portfolio.

3. For the purposes of the reserve and dividend policy, net proceeds from the sale of real estate are treated entirely as proceeds from the statutory portfolio. Net proceeds refers to the proceeds from the sales after the deduction of all costs (including taxes) and any replacement investments in property.
4. Equity, transparency and stability are the guiding principles of the Bank’s reserve and dividend policy. The Bank expressly aims to ensure that this policy is consistently applied. Any change to this policy must be duly motivated and made public immediately.