1. The National Bank as an enterprise

1.1 The National Bank of Belgium, an organisation with a new look

In the past year, many areas of the Bank's activity have been subject to a changing, uncertain environment, and that is liable to continue in the current year. The European banking union project, and particularly the single supervisory mechanism for which the European Council laid the foundations on 13 and 14 December 2012, has already had a noticeable impact on the Bank's activity in the past year. Its future effects on prudential activity are still hard to assess with accuracy, but they will undoubtedly be considerable.

The activity of the National Bank as an issuing bank is also affected by the changing context in which it operates. Moreover, the Bank's age pyramid, which implies the departure of a large number of staff in the next ten years, requires a proactive approach to the changing activities and the adoption of appropriate measures to manage human resources.

These various challenges are looming at a time when the financial and sovereign crisis still persists, requiring central banks to be particularly attentive to both their monetary policy measures and their prudential pillar.

Since the year 2000, the Bank's strategic position has been defined in five-year master plans. The rapid and largely unpredictable changes in its working environment have rendered obsolete a number of assumptions underlying the master plan for 2010-2015. A new master plan was therefore produced for the period 2014-2018, which takes account of retirement forecasts. In addition, a special Board of Directors seminar completed the management cycle in which the master plans form the strategic level. These are now leading to annual action plans presented by each autonomous department and service. These action plans will in turn serve as the reference framework for both budgeting and performance management covering all staff : job appraisal, assessment and promotion.

The strategic discussions on the part of the Board of Directors led to a number of key decisions for the organisation of the enterprise. For instance, the Board noted that the euro banknote allocation for the Bank's printing works was not enough to achieve an adequate volume of activity. Since the search for a partner was unsuccessful, the Board of Directors opted to phase out production by 2020. In the meantime, under the direction of a person specially recruited for the purpose, every effort will be made to improve the facility's performance, while the staff concerned will be gradually reallocated to other tasks.

In regard to currency circulation, the logistic decisions taken by commercial banks and companies specialising in cash transport and handling are a major factor affecting the processing of banknotes. At Antwerp, the closure of the cash centre of a large commercial bank led to a sharp fall in cash processing at the Bank's branch in that city. In the course of its strategic review, the Board of Directors therefore decided to close that branch on 31 December 2013. Here, too, the staff concerned will all be reassigned to other Bank services.

The strategic exercise also led to a specific review of the Staff Club, the aim being to split off the infrastructure while ensuring the continuity of the staff sports and cultural activities.

Apart from the management cycle seminar, the Board of Directors held another thematic seminar on the organisation of prudential supervision, one year after its integration at the Bank. The seminar generated a number of strategic objectives. The main ones include improving the Board of Directors' strategic governance by introducing a management cycle for prudential supervision. From now on it will also be necessary to develop supervision based mainly on the risks which institutions incur, implying that those institutions need to be classified according to the risks. Supervision quality also requires further improvement, as does the collaboration between the various prudential units, in order to implement the "four-eyes" principle which combines vertical analysis of the various types of institutions with transverse analysis according to the various types of risks. Ultimately, these improvements will come via better human resources management (recruitment, rotation, training, etc.).

Finally, the Board of Directors launched an ambitious project to strengthen the methodology of the prudential inspection function, under the name of NOVA (New Organisation for Valorisation of Audit). This reform aims to harmonise and update methods, standardise procedures, extend the automation of mission monitoring and, finally, enhance the inspection function, an essential instrument in the prudential supervision model. In due course, this new methodology will be communicated in detail to the sectors concerned.

1.1.1 Changes in the prudential sphere

Obviously, it is the prudential sector that faces the biggest challenges and the greatest changes in the international environment.

In the past few years, the organisation of prudential supervision at European level has seen considerable changes in its architecture, with the growing power of central banks and the ECB in this field. One of the major lessons of the crisis was the need for a more integrated Economic and Monetary Union. Accordingly, at the European Council on 13 and 14 December 2012, the President Herman Van Rompuy presented his final report entitled "Towards a genuine Economic and Monetary Union". In their closing statement, the Heads of State or Government set out the foundations for the completion of EMU together with a timetable. Of those measures, the one with the most direct impact on the Bank, now and in the future, concerns the decision by the Heads of State or Government to establish an integrated financial framework, or "banking union". That includes the single supervisory mechanism for credit institutions, the single resolution mechanism funded by the financial sector, and the common deposit guarantee system.

During the year under review, the discussions took a concrete turn, mainly as regards the single banking supervisory mechanism. The sovereign crisis in the euro area has in fact highlighted the close links between the public sector and the banking sector. In a monetary union, the weaknesses of the banking system may have a speedier impact on the public finances of the Member States in the absence of a European safety net, which is inconceivable without common supervision. Conversely, the fiscal problems of one Member State may have a profound effect on the financial situation of domestic credit institutions.

To resolve the crisis and preserve the euro, it was therefore vital to break the link between sovereign debts and bank debts. That is the context in which the Heads of State or Government decided, at the euro area summit on 29 June 2012, to set up a single supervisory mechanism comprising the ECB and the competent national authorities. At that summit, the Heads of State or Government also agreed on the options for direct intervention by the European Stability Mechanism in European banks falling within the scope of the common supervision. The new single supervisory mechanism should also guarantee the uniform and consistent application of the prudential rules and supervision techniques to all credit institutions in order to strengthen public confidence in the system and ensure a level playing field between institutions.

In that sense, the establishment of a single supervisory mechanism is an important step towards the continuing development of Economic and Monetary Union. At the last summit in December, the Heads of State or Government agreed on a proposal for a Regulation defining the regulatory framework for that mechanism. This Regulation should enter into force in the second quarter of 2013, and the single banking supervisory mechanism will become operational a year later, towards mid-2014. However, it was specified that if necessary the ECB could take over the supervision of financial institutions before that date.

The single supervisory mechanism will take on the supervision of all euro area credit institutions, numbering over 6 000 (a figure which declines to over 4 000 credit institutions if those included in the parent company's consolidated statements are disregarded). The agreement also provides for the possibility of Member States outside the euro area joining this mechanism.

The ECB's new responsibilities will be based on the collaboration, expertise and knowledge of the national supervisors. There will be a distinction between significant banks (100 to 150 banking groups meeting the criteria listed in the text of the European Regulation), which will be subject to central supervision by the ECB, and "less significant" banks, where national supervisors will retain direct competence, subject to the supervision of the ECB.

The ECB will have sole power over decisions on the granting and withdrawal of banking licences. In some cases, the ECB will also take charge of coordinating supervision via colleges of supervisors for cross-border banking groups, and supplementary surveillance for financial conglomerates. The ECB will also have to ensure compliance with the prudential rules laid down by European legislation, and see that a credit institution's internal capital is appropriate to its risk profile. In addition, it may impose sanctions on institutions which fail to meet the prudential requirements, and will have to help draw up recovery plans where an institution no longer respects the minimum prudential rules, or is in danger of breaching them. In order to carry out its new responsibilities, the ECB will have access to all the necessary information and may, in particular, conduct inspections on the premises of financial institutions.

Monetary policy will be kept separate from financial supervision in terms of governance, with the establishment of a Supervisory Board for decisions on prudential supervision. This new mission therefore does not alter in any way the ECB's primary mandate, namely the maintenance of price stability.

This transfer of responsibilities makes it all the more important to draw up a Single Rulebook. While the ECB becomes the supervisor, the European Banking Authority (EBA) will still be the regulator and will therefore continue to monitor such aspects as the convergence of practices. There will need to be close cooperation between the two institutions.

The text also specifies that the ECB will be responsible – jointly with the national authorities – for implementing certain macroprudential instruments provided for in European acts. In order to ensure consistent, optimum macroprudential policy, it will be possible to use these instruments in different ways in the various Member States according to the specific macroeconomic conditions and risks. The other instruments will be retained by the national authorities. Very close cooperation between the ECB and the national authorities accorded the macroprudential mandate will therefore be indispensable, especially as – in the absence of fiscal union – the financial consequences of a systemic crisis are to a very large extent borne by the Member States. In Belgium, discussions are in progress on the creation of an institutional structure designed to coordinate macroprudential policy at national level.

The establishment of a banking union is a vital step towards the continuation of the European project. However, it requires the implementation of other fundamental elements, as the single supervisory mechanism cannot function consistently to the optimum unless it is accompanied by a single resolution authority and a common deposit guarantee system. In the context of a single supervisory mechanism, and taking account of the importance of cross-border groups in Europe, the absence of a central resolution authority could again undermine confidence and reinforce the link between bank debt and public debt. In a crisis period, it is essential to be able to take prompt, credible action. In these circumstances, a central authority would be more effective than a multiplicity of national authorities. That is the context in which the Heads of State or Government asked the European Commission to put forward a legislative proposal during 2013 and to speed up the discussions on the proposal for a Directive on the establishment of a framework for the recovery and resolution of failing credit institutions and investment firms, and one on deposit guarantee funds, in order to reach agreement before June 2013.

The Bank and its management naturally played an active part in preparing this draft, both in the High-Level Group and the ECB Task Force and in the working groups which operate alongside them, exploring the various aspects to be taken into account (legal aspects, reporting, supervision arrangements, cartography of financial institutions, etc.). At the Bank itself, an interdisciplinary working group supports the work of these experts. The discussions and preparations at these various levels are set to speed up between now and the target date of mid-2014.

The organisational changes affecting prudential supervision now and in the future provide the opportunity for a massive programme for the renewal of IT applications and tools relating to this field. The services concerned therefore launched a project for the construction of a transverse IT architecture covering the various prudential spheres and incorporating data collection, validation, management and reporting. Financial analysts must also be provided with a flexible instrument for reporting and quality analysis, and an efficient, modern environment must be made available to the institutions, supervisors, management and the various parties concerned. This will be an evolving tool, able to cope with the stated requirements of the single supervisory mechanism, to which the project designers are of course particularly attentive, and in phase with the methodological reforms concerning inspection mentioned above.

It is too soon to assess the future impact of the European supervision mechanism on national banking supervisors in the euro area. It is acknowledged that, at this stage, there should be no change in the prudential supervision of insurance and market infrastructures, nor in regard to oversight. For the rest, in Belgium, it is considered that the National Bank should in future exercise direct supervision over only a small number of banks. However, the centralisation of supervision and decisions in Frankfurt for significant banking groups will require increased cooperation between national experts and supervisors – including those at the National Bank – and the European Central Bank. Some of the Bank's specialists will be offered the opportunity of secondment to the European Central Bank. Moreover, the system's architecture leaves broad powers with the national authorities, as described above. This project therefore offers a host of opportunities for euro area supervisors, and for the National Bank in particular. However, the detailing of the banking union project implies many further challenges.

1.1.2 Towards a knowledge company

Still on the subject of activities concerning prudential supervision and financial stability, the year under review saw expansion of the scope of data collection by the Central Corporate Credit Register. The financial and economic crisis of 2008 and 2009 in fact demonstrated that effective risk control by financial institutions, particularly bank credit risks, is essential and that new measures concerning the centralisation of credit data can make a contribution here. Thus, the old threshold of € 25 000 above which financial institutions had to report loans has been abolished, permitting a much more detailed view of credit risk, particularly for small institutions. From now on, the list of reporting entities (previously banks and certain insurance companies) has been extended to include leasing and factoring companies, which offer businesses alternatives to bank credit. The data collected have also been extended. The Central Corporate Credit Register now records corporate payment defaults and the amount of the collateral lodged as security for loans. In addition, reporting must be accompanied by an assessment of the risk of default during the year. This more detailed information will enable the Bank, in connection with its financial stability and prudential supervision missions, to gain a better grasp of the risks incurred by the financial sector, while participants will receive more information from consulting the register, and that will help them to refine their own risk management.

These changes at the Central Corporate Credit Register bring it to the same level as the other central credit registers managed by central banks in Europe; in recent years, notably under the influence of the Basel II Agreement, central banks had specifically reinforced the registers, being convinced of their usefulness from various points of view. This expansion will make available figures and statistics which are sought by European and international institutions (European Central Bank, World Bank, etc.) and are also particularly useful for certain activities at the Bank concerning both prudential supervision (validation of banks' risk models, etc.) and monetary policy (evaluation of collateral lodged by the banks in this connection).

This is therefore a large-scale project since, owing to the expansion of the data, the number of debtors recorded in the central register has doubled. The implementation of this project has placed heavy demands on the Bank's IT resources for more than three years.

The pressure of information technologies and the general changes in our working environment are therefore causing our enterprise to respond increasingly rapidly and to undertake constant reorganisation. For example, during the year under review, the announcement by the authorities of a tax on material securities still in circulation prompted a large inflow of these instruments at the Securities Service. The result was a further dramatic decline in the number of these securities, virtually ending the activity of processing material securities at the Bank.

The processing of retail interbank cashless payments in Belgium is also moving into a new era. Carried out since 1974 by the CEC (Centre for Exchange and Clearing), a non-profit institution set up by the Belgian banks and managed by the National Bank, this activity has now been placed on a European footing. The Belgian banks decided to switch to a pan-European clearing system, the French platform STET (Systèmes technologiques d'échange et de traitement). In March 2013, the CEC therefore ended its operating contract with the Bank.

In addition, in connection with the establishment of the "twin peaks" system between the National Bank and the FSMA, the part of the Securities Regulation Fund activities performed by the National Bank, consisting in the supervision of the secondary market in Belgian public debt securities, was transferred to the FSMA from 1 April 2012. However, the National Bank will remain in charge of the day-to-day management of this autonomous public institution.

Another point worth mentioning is that, in order to strengthen the security of the working environment, various measures were taken this year which further refined and reinforced the policy on document confidentiality.

During the past year, in order to cope as effectively as possible with all these rapid changes and the ambient uncertainty, the Board of Directors implemented a new mobility policy for senior management, to permit the transfer of experience between different entities and to imbue the teams concerned with a new dynamism. Since then, there have been two rounds of management transfers under the mobility scheme.

The series of developments at the Bank which have been mentioned here cannot be described simply as a combination of piecemeal adjustments. Their main thrust reflects a gradual but major shift at the heart of the Bank's activity, from production to knowledge. The transformation of the Bank into a knowledge enterprise will be a key issue in the years ahead.

1.2 Human resources

The number of staff remained fairly stable: at the end of 2012, it stood at 2 103 full-time equivalents, or only two units more than a year previously. Following the decision to raise the statutory early retirement age from 60 to 62 years, natural wastage will be postponed in future years.

The Bank expressed its intention to close its Antwerp branch at the end of 2013. Around sixty staff will therefore need to find another job. The Human Resources Department will assist them.

The elections for the renewal of the terms of office of members of the Works Council and the Committee for Prevention and Protection at the Workplace were held on 10 May 2012. Each of these joint bodies comprises 20 actual staff representatives and 20 alternates.

There is new legislation on the representation of the French and Dutch languages at the various levels of the hierarchy. The number of levels has been increased from 7 to 14. At the highest level, the aim is equal representation for French and Dutch speakers.

The management would like to see greater horizontal mobility among heads of department and heads of service. At the end of 2012, some of them were already allocated to new jobs. In the coming years, job rotation will continue to be encouraged at all levels.

1.2.1 Staff movements

Number of staff
(full-time equivalents as at 31 December)

2000	2 406
2001	2 418
2002	2 319
2003	2 250
2004	2 174
2005	2 120
2006	2 052
2007	2 032
2008	2 008
2009	1 964
2010	1 927
2011	2 101 (1)
2012	2 103

(1) Due to the transfer of ex-CBFA Staff.

1.2.2 Obituaries and retirement

In 2012, the Bank was saddened to learn of the deaths of the honorary Regents, Roger Ramaekers and Rik Van Aerschot, and of the honorary Censor Louis Petit. Mr Ramaekers was a Regent of our institution from 1969 to 1999 and Mr Van Aerschot from 1982 to 1997. Mr Petit was a Censor from 1965 to 1983.

The Bank was saddened by the death of two members of its staff in 2012:
Mr A. Hermans
Mrs T. Vander Eeckt

They will always be remembered.

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

Mr A. Vaes
Mrs F. Donkers

Mr V. Perilleux
Mr P. Lambot
Mr F. Pirsoul

It also thanks the members of the clerical staff whose career came to an end last year :

Mr M. De Meester
Mr L. De Smedt
Mr R. Geenens
Mr P. Hianné
Mrs R. Tilley
Mr L. Van Belle
Mr W. Van Dessel

1.3 Sustainable management

During the past year, numerous modest measures marked the steady progress achieved in environmental protection.

Electricity consumption continues to fall by 4 % per annum. The share of electricity produced by our own combined generating plant increased from 5 % to 8 %. Gas consumption remained steady. A first instalment of green certificates was sold.

The figures for paper consumption and the number of printers also continued to decline. Thanks to better supervision of sorting and recycling, and the introduction of new categories of sorted waste such as wood and damaged furniture, the proportion of residual waste diminished to 20 %.

In 2012, there was special attention to sustainable food. Meat consumption declined again, and more than 90 % of the fish purchased is classed as "first choice" by the Dutch reference website on sustainable fish www.goedevis.nl.

Frankfurt remains the principal destination for international business trips. In 2012, 30 % of journeys to that city were taken by train, compared to 22 % in 2011.

Being subject to an environmental audit, the Bank's branches now follow the rules applied to the central administration.

1.4 List of publications in 2012

Economic Review

JUNE

- *Economic projections for Belgium – Spring 2012*
- *What can we and can't we infer from the recourse to the deposit facility ?*
- *Monetary policy in the United States and the euro area during the crisis*
- *Reform of the Special Finance Act for the Communities and Regions*
- *Asset formation by households during the financial crisis*
- *New developments in the economic governance of the European Union*

SEPTEMBER

- *What is the role played by the Eurosystem during the financial crisis ?*
- *Belgian business investment in the context of the crisis*
- *Euro area labour markets and the crisis*
- *Labour market mismatches*

DECEMBER

- *Economic projections for Belgium – Autumn 2012*
- *Labour market integration of the population of foreign origin*
- *Belgium's progress towards SEPA – the Single Euro Payments Area*
- *Results and financial situation of firms in 2011*
- *The 2011 social balance sheet*
- *Endogenous financial risk : the Seventh International Conference of the NBB*

Working Papers

- 219. *Comparative advantage, multi-product firms and trade liberalisation : An empirical test*
- 220. *Institutions and export dynamics*
- 221. *Implementation of EU legislation on rail liberalisation in Belgium, France, Germany and The Netherlands*
- 222. *Tommaso Padoa-Schioppa and the origins of the euro*
- 223. *(Not so) easy come, (still) easy go ? Footloose multinationals revisited*
- 224. *Asymmetric information in credit markets, bank leverage cycles and macroeconomic dynamics*
- 225. *Economic importance of the Belgian ports : Flemish maritime ports, Liège port complex and port of Brussels – Report 2010*
- 226. *Dissecting the dynamics of the US trade balance in an estimated equilibrium model*
- 227. *Regime switches in the volatility and correlation of financial institutions*
- 228. *Measuring and testing for the systemically important financial institutions*
- 229. *Risk, uncertainty and monetary policy*
- 230. *Flights to safety*
- 231. *Macroprudential policy, countercyclical bank capital buffers and credit supply : Evidence from the Spanish dynamic provisioning experiments*
- 232. *Bank / sovereign risk spillovers in the European debt crisis*
- 233. *A macroeconomic framework for quantifying systemic risk*
- 234. *Fiscal policy, banks and the financial crisis*
- 235. *Endogenous risk in a DSGE model with capital-constrained financial intermediaries*
- 236. *A macroeconomic model with a financial sector*
- 237. *Services versus goods trade : Are they the same ?*

- 238. *Importers, exporters, and exchange rate disconnect*
- 239. *Concording EU trade and production data over time*
- 240. *On the origins of the Triffin dilemma : Empirical business cycle analysis and imperfect competition theory*

Belgian Prime News

This quarterly publication in English is produced jointly by the Bank, the Federal Public Service Finance (FPS Finance) and a number of Primary Dealers.

- 54. *Special topic : Belgium and the euro area crisis – The political breakthrough clears the way for the necessary economic, financial and fiscal reforms*
- 55. *Special topic : Need for structural reforms to boost growth still pressing in Belgium and Europe, despite lower financial tensions*
- 56. *Special topic : Belgium in the current uncertain times*
- 57. *Special topic : Financial crisis in Europe and financing of the Belgian non-financial domestic sectors : A Tale of two Stories ?*

Statistical publications

The Bank provides a mass of macroeconomic statistics for the public on its website and via its statistical database, Belgostat. It is possible to subscribe for updates of specific tables. To cut down on the use of paper, the following publications are available in electronic format on the Bank's website :

GENERAL STATISTICS :

- Statistical Bulletin, economic indicators for Belgium, Consumer Survey, Half-yearly Investment Survey, Business Surveys
- Non-financial corporations credit observatory, Monetary financial institutions interest rates, Bank Lending Survey

FOREIGN TRADE :

- Monthly and quarterly bulletin

FINANCIAL ACCOUNTS :

- Belgium's financial accounts

NATIONAL ACCOUNTS :

- Quarterly sector accounts, Quarterly accounts, First estimate of the annual accounts, Government accounts, Detailed accounts and tables, Supply and use tables, Regional accounts, Satellite accounts of non-profit institutions

MICROECONOMIC DATA :

- Central Individual Credit Register, Statistical Report 2012
- Monthly highlights

Every quarter, the Bank publishes in electronic format the Central Corporate Credit Register statistics on credit authorised and used. The Central Balance Sheet Office makes available the data on annual accounts which it collects, providing them for various target groups in various digital formats. A copy of the CD-ROM Figures from standardised annual accounts is also available on request. Finally, the Central Balance Sheet Office regularly publishes key figures relating to the demography and financial health of Belgian firms.

Other publications

- *Corporate Report 2011. Activities, governance and annual accounts*
- *Report 2011. Economic and financial developments*
- *Financial Stability Review 2012*
- *Indexation in Belgium : scale, nature, consequences for the economy and possible alternatives*

1.5 Contacts

SERVICES	ESTABLISHMENTS OFFERING SERVICES	OPENING HOURS
Banknotes and coins, State Cashier, Central Balance Sheet Office, Central Individual Credit Register	Brussels, boulevard de Berlaimont 3, Antwerp, Kortrijk, Hasselt, Liège and Mons	9.00 to 15.30 hrs, Monday to Friday
Library	Brussels, rue Montagne aux Herbes Potagères 57	10.00 to 17.00 hrs, daily except Sundays
Museum	Brussels, rue du Bois Sauvage 10	10.00 to 18.00 hrs, daily except Mondays

INFORMATION

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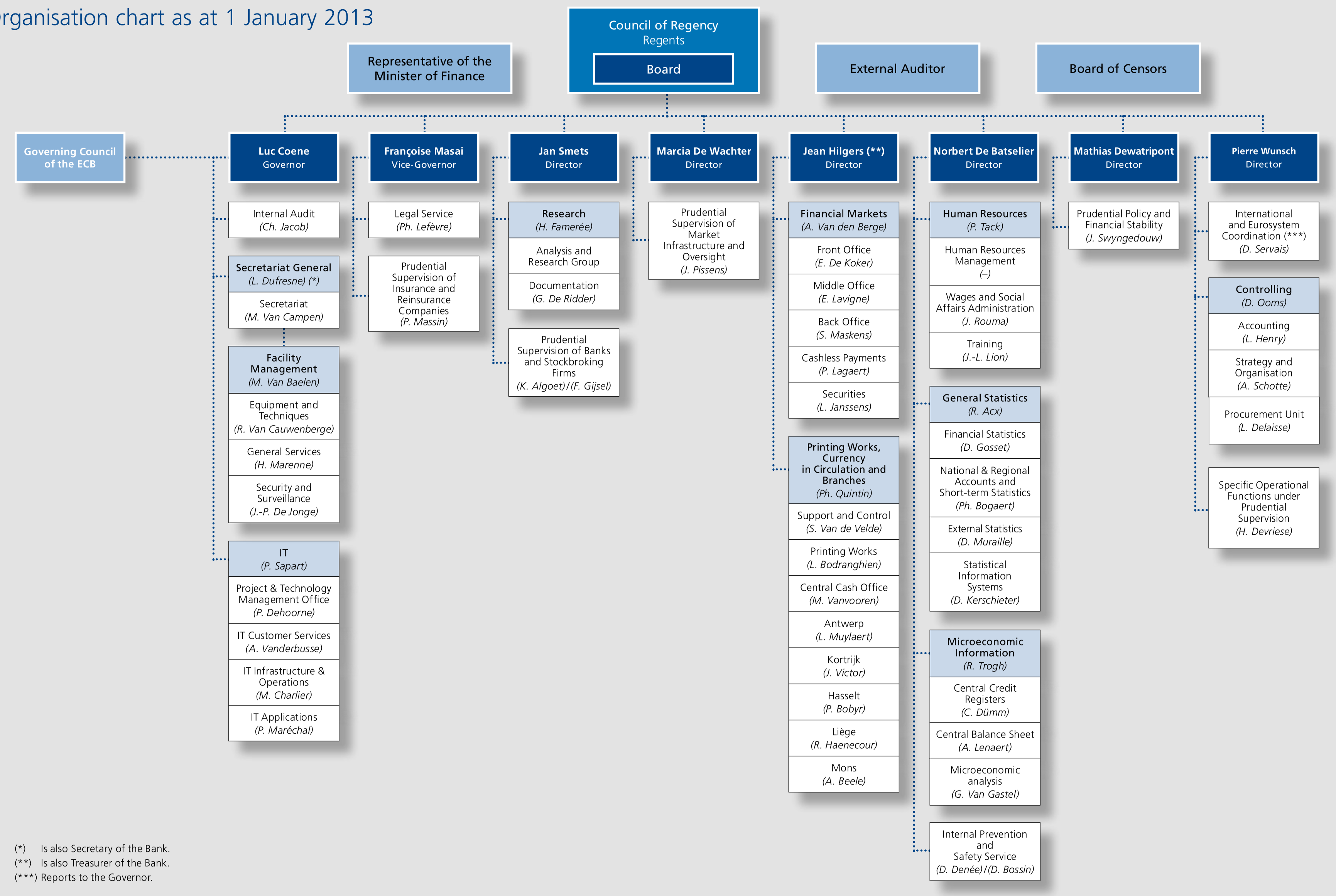
Departments and Services : see website.

Organisation chart as at 1 January 2013



(*) Is also Secretary of the Bank.
(**) Is also Treasurer of the Bank.
(***) Reports to the Governor.