1. The National Bank as an enterprise

1.1 Highlights

It was back in 2014 that the strategic plan NBB 2020 was launched. Its objective was to examine how the Bank's activities and its working methods needed to be adapted to deal with the internal and external developments that it will inevitably encounter. This streamlining effort reflects changes in the tasks the Bank carries out and, consequently, in the management of its property portfolio and in its staff numbers, profile and deployment. The reduction in the number of provincial branches and the sale of their buildings, as well as the refurbishment of some of the buildings at the head office all form part of this plan. As explained in section 1.2. on human resources, the Bank is aiming for a workforce of 1 700 full-time equivalents by 2020. The changing nature of its tasks, and notably the new prudential supervision requirements, also make it necessary to continue to attract young recruits and reinforce certain teams.

Staffing of prudential and financial stability functions

The Bank's 2016 Annual Report includes a large section devoted to prudential regulation and supervision. Since the April 2011 reform of financial supervision in Belgium, the share in the Bank's total staff of personnel directly involved in microprudential and macroprudential supervision, financial market infrastructures oversight as well as recovery and resolution has increased substantially. This expansion of the prudential staff stems from the overhaul of the supervisory architecture in the banking union and the introduction of new regulations governing financial institutions, financial market infrastructures and insurance companies. The Bank is striving not only to exercise control over financial institutions, but also to guide them through the process of complying with the new rules, such as the Law on Solvency II. The Circulars that the Bank uses for this purpose are published on its website.

The Bank's budget for prudential supervision has therefore been revised sharply upwards since 2011, notably to be able to exercise its new powers properly, but also to raise its contribution to the supervisory staff under the single supervisory mechanism (SSM) to a level corresponding to the European Central Bank's benchmarks. The national supervisory authorities actually make a large contribution to the day-to-day supervision of banks, including establishments deemed to be systemically important and which come under direct supervision by the ECB.

During the overhaul of financial supervision in Belgium, the Bank took on around 190 employees from the Banking, Finance and Insurance Commission (CBFA), which changed its name at the time to the Financial Services and Markets Authority (FSMA). Their experience has been essential for ensuring continuity of supervision of banks, stockbroking firms and insurance companies.

Currently, the Bank has a staff of more than 320 full-time equivalents (FTEs) for financial supervision. This workforce is shared between supervision of banks and stockbroking firms (24 %), supervision of insurance and reinsurance companies (17 %), supervision of market infrastructures and oversight (11 %), specific operational functions, such as on-site inspections and internal model validation (24 %), prudential policy and macroprudential supervision (21 %), with resolution bringing up the rear (3 %).

By the end of 2016, 107 FTEs were directly assigned to microprudential supervision of banks, a rise of 40 % between 2011 and the end of 2016. These 107 banking supervisors are distributed between off-site supervision (80 FTEs), on-site inspections (20 FTEs) and the anti-money-laundering and terrorist financing unit (7 FTEs).

On the basis of risk-based supervision principles and in line with agreements concluded with the European Central Bank on the means deployed by the Bank to supervise significant institutions through Joint Supervisory Teams, resources for off-site inspection were distributed in the following proportions as at 1 September 2016 :

– 65 % for significant institutions ;
– 16 % for less significant institutions and for non-EU branches ;
– 19 % for transversal and support functions for operational banking supervision.

As far as insurance and reinsurance companies are concerned, 72 FTEs were assigned to microprudential supervision at the end of 2016, an increase of about 38 % since 2011. These 72 staff members are divided between off-site supervision (54 FTEs), on-site inspections (16 FTEs) and the anti-money-laundering and terrorist financing unit (2 FTEs).

Having more than 300 people directly employed in financial supervision has also had an impact on the work of several support units, such as IT and human resources, as well as various logistic services.

Combating money-laundering and terrorist financing

In its 2015 Report, the Bank gave a brief account of its initial decisions taken in response to the expectations of the Financial Action Task Force (FATF) for combating money-laundering and terrorist financing set out in the Evaluation Report on Belgium published in April 2015. These decisions involved, on the one hand, reorganising the exercise of its powers by bringing together within a specialist group the staff resources assigned to conceptual aspects of anti-money-laundering policy and to off-site supervision of financial institutions in this field, while on the other hand, gradually increasing its human resources assigned to this specialised group as well as to anti-money-laundering inspections carried out at financial institutions.

These decisions were implemented in 2016 : the new group has thus been extensively involved in the Bank's response to the terrorist attacks in Paris in November 2015 and Brussels in March 2016, as well to as the publication of the Panama Papers by the International Consortium of Investigative Journalists in April 2016. For instance, it had to carry out a major control operation across the board covering all financial institutions to make sure they were meeting their obligations as regards freezing the assets of terrorists and their organisations. It was also closely involved in the analysis of the Panama Papers revelations and in the subsequent checks and inspections. At the same time, it was asked to assist with the changes to the Belgian legal framework governing the fight against money-laundering and terrorist financing to bring it into line with the 4th EU Directive and the international standards set by FATF.

Quality control of prudential activities

A new Quality Assurance Unit set up within the Department in charge of prudential policy and financial stability has been given the job of checking whether the Bank's financial supervision meets the relevant quality requirements. There are four dimensions to these quality standards : homogeneity and consistency, respect for deadlines, content and compliance with the regulatory system and the best practices that promote effective, efficient and rigorous supervision. In this way, the Bank intends to reinforce the internal control system which enables it to ensure high-quality financial supervision and, as a corollary, compliance by companies falling under its scope with their prudential obligations.

The new function's scope of intervention covers all the Bank's financial supervisory work, whether in its capacity as resolution authority or authority in charge of regulatory or macro- and microprudential supervision aspects. Under the single supervisory mechanism, which has been selected as top priority for this new unit, the work is being carried out together with opposite numbers at the European Central Bank and other national competent authorities. The Bank has assigned two full-time equivalents to the unit for the launch phase. Once it is up and running at a normal pace, the resources assigned will be regularly reviewed.

Data room opened in NBB for the parliamentary commission of inquiry into Optima Bank

The Ghent commercial court declared the bankruptcy of Optima Bank on 15 June 2016. As explained at length in the Prudential Regulation and Supervision part of the NBB's Report 2016, the gradual scaling down of Optima Bank's banking activities in early 2016 was disrupted by the emergence of irregularities that led to a breakdown of trust between the National Bank of Belgium and Optima Bank's management. The National Bank took a series of measures which were later made public because of reports in the media and which ultimately led to the bank being wound up owing to the failure of the main shareholder to meet his commitments.

On 7 July 2016, the Belgian Chamber of Representatives decided to instruct a commission of inquiry to look into the causes of the bankruptcy of Optima Bank and any conflict of interest between Optima Bank and the public authorities. The commission of inquiry's mission was notably to examine how Optima Bank had been able to take over Ethias Bank in November 2011, what circumstances had led to the collapse of Optima Bank and what responsibility was borne by its management, board members, auditors and shareholders. The commission of inquiry also had to examine whether the supervisory authorities had exerted sufficient control, whether they had reacted appropriately to Optima Bank's operation and whether the extra resources assigned to the supervisory authorities in the wake of the banking crisis were adequate. The commission of inquiry had initially intended to publish its report by the end of March 2017, but the schedule has now been put back to the end of June 2017.

At the request of the commission of inquiry, the NBB opened a data room giving it access to the full administrative case file. In view of the professional secrecy by which the Bank is bound, and to ensure the confidentiality of all prudential information, the Bank opened the data room in its own premises. Members of the commission of inquiry were allowed to go there to look at all relevant documentation and take notes, without however being able to request or make any copies or reproductions of the supporting documentation. In the data room, they could also consult a detailed report on the way in which the Bank had carried out its supervision of Optima Bank, which set out the timeline of the case and explained the many prudential actions taken by the National Bank from April 2011, when it took over prudential supervision from the CBFA, up to the date of the bankruptcy. In addition, the data room had its own database comprising all relevant supporting documentation in the case file in digital format, including image and audio files. This data room was made accessible at the beginning of September 2016 with a view to remaining open as long as the commission of inquiry needed it.

Financial Market Infrastructures Report

The Bank's Board of Directors has decided to publish a yearly report on its prudential supervision of financial market infrastructures. Up until now, the prudential supervision aspects had been dealt with in the Bank's various annual publications, like the Annual Report on economic and financial developments and prudential regulation and supervision, the Corporate Report and the Financial Stability Report. Rolling all these various inputs into one single publication enables an approach that is more in line with the supervisory architecture in practice.

Apart from the report on oversight in the strict sense, a task entrusted to the central banks by the Treaty on the Functioning of the European Union, this publication will also take a look at aspects of financial market infrastructure supervision that stem from other legislation.

The first edition of this report will be released in the spring of 2017 and solely in digital format, like the annual Financial Stability Report.

As part of its responsibilities in the area of prudential supervision and oversight of payment systems and instruments, the Bank is paying close attention to the emergence of new technologies in the field of payments. Whether they are innovations ushered in by the industry's heavyweights or start-ups that are moving into new niches in the marketplace, very close attention is being paid to the FinTechs and the changes they are bringing to the world of payments.

Resolution College

Implementation of the new resolution regime, the second pillar of the European banking union, is designed to help the authorities to solve any crises affecting a credit institution while avoiding a direct cost impact on public finances and at the same time managing any instability for the financial system. This regime enables the authorities to resolve difficulties faced by banking groups in such a way that protects any critical functions that they carry out, and doing so without any severe systemic disruption and while minimising the risk of the taxpayer taking a hit. The single resolution mechanism is made up of the Single Resolution Board, all the national resolution authorities of the Member States participating in the banking union (in Belgium's case, the Bank and more specifically the Resolution College constituted within it), the European Commission and the EU Council of Ministers. Although the mechanism was put in place by 2015, the legislation establishing it (SSM Regulation) only came into force on 1 January 2016. Since then, the Single Resolution Board has been competent for compiling resolution plans and for taking resolution decisions concerning institutions deemed to be significant, those over which the ECB has decided to exert direct supervision, as well as cross-border groups. The national resolution authorities have the same competence as regards other establishments.

The completion of the transposition of the Bank Recovery and Resolution Directive (BRRD) into Belgian law has had an impact on the Resolution College, by effectively extending its competence to stockbroking firms.

The BRRD requires a resolution plan to be developed for each European banking group with a view to improving its resolvability. A banking group is considered resolvable when the resolution authority can liquidate all the group's constituent legal entities, either through normal insolvency proceedings, or by applying the various resolution instruments and powers at its disposal, while safeguarding the stability of the financial system and ensuring the continuity of the critical functions performed by the group.

Although the Single Resolution Board's task is to prepare these plans for significant credit institutions, cross-border credit institutions, and those subject to the ECB's direct supervision, responsibility for other institutions falls to the national authorities.

Designing resolution plans is an iterative process. In 2015, the Resolution College, in close cooperation with the Single Resolution Board, had put together "transitional" resolution plans for three Belgian banking institutions. These were refined during 2016 into phase 2 resolution plans, which set out a resolution strategy, deal with the business continuity of the group in resolution, communication channels and detect any obstacles to the implementation of the resolution plan. The later stages of development will be specified by the Single Resolution Board in the coming months.

In order to provide for the funding of any bank resolution operations, the BRRD requires the constitution of a national resolution fund in each Member State, financed by levying contributions from credit institutions and investment firms. It has to reach a target level of at least 1 % of the total volume of deposits covered by no later than 31 December 2024.

The Single Resolution Mechanism Regulation established the European banking union's Single Resolution Fund (SRF) on 1 January 2016. It replaces the national resolution funds for credit institutions and investment undertakings covered by this Regulation. The fund must be created within eight years. Its target level is set at a minimum of 1 % of the total amount of the deposits covered for relevant institutions licensed in the banking union, an estimated € 55 billion in 2023.

The Belgian Resolution Fund was set up in 2016, for companies that are not covered by the SRF. Their contribution is set by the Bank's Resolution College which fixes the payment arrangements.

Business Continuity Management

Apart from its obligation to ensure the continuity of its own business, the Bank also has to guarantee that of the financial sector's most critical activities. Under the 2011 Law on the protection of critical infrastructures in Belgium, the Bank has the additional role of sectoral authority and of running a security plan inspection service in the field of operational crisis management in the financial sector. The year 2016 was also an important milestone in implementing the Law in question, with the finalisation of the list of locations where critical financial actors conduct their systemic activities, as well as preparatory work on the physical and IT inspections provided for in the new legislation.

The Bank used the year under review to put into practice the lessons drawn from the sectoral crisis simulation exercise carried out in 2015. On 14 November 2016, a new sectoral crisis exercise brought together 15 critical actors from the Belgian financial sector (banks, insurance companies, market infrastructures), the umbrella association of Belgian insurance companies Assuralia, and its opposite number from the financial sector Febelfin, the Federal Computer Crime Unit, the National Crisis Centre and the National Bank itself, around a scenario of multiple cyber-terrorist attacks on financial stakeholders identified as being "critical". The main objective was to gauge the progress made with the sectoral crisis management system and its ability to cope with a major incident. The exercise pointed up the need to improve communication and information-sharing during the crisis using the appropriate instruments, as well as external communication in close collaboration with the critical actors and their federations. In March, the Brussels terrorist attacks plunged the sector into a very real crisis management situation. It was a demonstration of the importance of being fully prepared for an operational crisis affecting the whole of the financial sector.

Since last September, the Bank has been taking part in the working group chaired by the Centre for Cyber Security Belgium in charge of transposing the EU Directive on security of network and information systems, which aims to boost the resilience of IT systems in Europe. The Bank's job includes making sure that the Belgian Law implementing this Directive, still at the draft stage in early 2017, takes into account legislation, regulations, Circulars and practices governing the Belgian financial sector so as to respect rules of confidentiality and avoid unnecessary duplication of its obligations. And, finally, the Bank is involved in a European working group on information-sharing in the event of a crisis and preparing cross-border crisis exercises that have become indispensable against a background of growing internationalisation of the financial actors present on Belgian territory.

Monetary policy and research

Within the Eurosystem, while the actual monetary policy decisions are taken by the ECB Governing Council, it is up to the national central banks to implement them.

Thanks to the monopoly over banknote issuance that it enjoys and by means of the minimum reserve requirements it imposes on banks, the Eurosystem can manage bank liquidity on the money market and influence its interest rates. In general, the Eurosystem allocates funds enabling euro area credit institutions to cover their liquidity requirements at a price that corresponds to the policy it intends to follow, reflected by the key policy interest rates set by the Governing Council. To this end, the Eurosystem makes use of three "conventional" categories of instruments:

1. open market operations, including the main refinancing operations, which are weekly allotments of one-week credit, play an important role;
2. the standing facilities;
3. the minimum reserves.

Moreover, since 2009, the European Central Bank has put in place unconventional monetary policy measures, in the form of asset purchase programmes, which back up these operations. In a context where financial fragmentation of the euro area is putting a damper on economic activity and becoming an obstacle to the sound transmission of the ECB's monetary policy, these new measures seek to reinforce the already accommodating monetary policy stance and support more lending to the real economy in the euro area.

In March, the Governing Council decided to raise the volume of its monthy acquisitions under its asset purchase programme from € 60 billion to € 80 billion as of 1 April 2016, and to widen the scope of these securities purchases to euro-denominated investment-grade bonds issued by non-financial corporations established in the euro area with a residual maturity of at least 6 months and at most 31 years. At the end of the year, it was decided to bring this volume back down to € 60 billion as of April 2017. These purchases, which began on 8 June 2016, are made on both the primary and secondary markets under the private sector asset purchase programme (corporate sector purchase programme – CSPP) by the national central banks from Germany, Spain, Finland, France, Italy and Belgium. More specifically, the National Bank is responsible for asset purchases from the private sector, from issuers established in Belgium, Cyprus, Greece, Luxembourg, Malta, the Netherlands, Portugal, Slovakia and Slovenia.

As far as the transparency of this new programme is concerned, it should be noted that the European Central Bank publishes each week figures on the assets purchased under the different programmes and releases separate monthly figures on purchases made on the primary and on the secondary market. Since 18 July, the national central banks carrying out the asset purchases have published the identification codes for securities acquired under the CSPP on a weekly basis wiith a view to improving the efficiency of the securities lending programme set up under the CSPP.

It was against this backdrop that the Bank held an international colloquium in October 2016 on "The Transmission Mechanism of New and Traditional Instruments of Monetary and Macroprudential Policy". Although the theme of the colloquium, and the subjects of the related research projects conducted in association with Belgian universities, had been chosen almost two years earlier, they are still highly topical. As NBB Governor Jan Smets pointed out in his opening speech, "the way in which the unconventional monetary policy measures affect the real economy and inflation is one of the most important subjects of our discussions in the Governing Council in Frankfurt".

To enable the monetary stimulus measures to feed through to households and businesses, and with a view to stabilising production, employment and inflation dynamics, the European Central Bank relies heavily on the financial sector. The banks, in particular, are key to transmitting monetary easing through to the real economy. So, a financially sound and well capitalised sector should be able to turn the abundant supply of liquidity and the extremely low borrowing costs into more lending.

There is thus a direct interaction between monetary and macroprudential policies: the monetary policy stance – which is a key determinant of nominal incomes – influences the quality of the counterparties. At the same time, macroprudential policy has a major impact on banks' balance sheets. Policy instruments and decisions in these two areas influence and, potentially, complement one another. It is therefore important for the central banks to gain a deeper understanding of the transmission channels through which the new monetary and macroprudential policy instruments work. An impressive research effort is underway, both by universities and the policy-making institutions themselves. The Bank is committed to making a high-level contribution to this research work.

Statistics

Unlike most of its European or global counterparts, the National Bank is a leading statistical institute for Belgium. For instance, it forms part, alongside the National Statistical Institute (NSI) and the Federal Planning Bureau (FPB), of the National Accounts Institute established by a Law of 21 December 1994 on the reform of the federal government's system of statistics and economic forecasts.

The plethora of statistics that it produces are compiled at the request of governments or European authorities, the European Central Bank or international institutions. The bulk of them are made public through the various publications listed in part 1.4 of this Report or on the NBB.Stat website, which enables users to make their own choices and calculations, to download them in simple formats and to subscribe to any series of particular interest. In this task, the National Bank is not just aiming for the best possible quality of statistics, it also strives to reduce as far as possible the administrative burden on enterprises subject to statistical data collection, especially by avoiding double-counting.

In this context, and in order to meet the European Central Bank's new statistical requirements for insurance companies, the National Bank has made an effort to gather information directly from declarations made by companies under the Solvency II Directive, which governs and harmonises regulation of the insurance sector in the European Union. At the same time, the service in charge of production and dissemination of statistics on financial institutions works to provide the Bank's prudential services with the information they need, thus affirming the mainstreaming principle recommended in such matters. The data is gathered through the OneGate single portal and uses Extensible Business Reporting Language (XBRL). The XBRL standard, which requires high-level expertise for developing data collection forms and their validation rules, is the internationally recognised format for reporting prudential information.

Microeconomic information

The National Bank also runs important microeconomic registers and databases. In July 2016, the Central Balance Sheet Office, which centralises the annual accounts of companies, released the new-look format for filing annual accounts of micro-enterprises, as well as amended versions of both the abbreviated and full format adapted to the new EU Directive on annual accounts of companies. The fee applicable to micro-enterprises includes a reduction in advertising costs ; more than 75 % of firms required to file their annual accounts with the Central Balance Sheet Office will benefit from this reduction.

In 2014, the Belgian authorities entrusted the National Bank with the job of organising and managing a Central Point of Contact (CPC), a database into which financial institutions must notify on an annual basis all account numbers and numbers of other types of financial contracts concluded in Belgium by resident and non-resident legal entities and individuals. The CPC was originally intended to be a database purely for tax purposes, solely accessible by income tax inspection and recovery services. Given the importance of the CPC, the Programme Law of 1 July 2016 extended authorisation to receive information registered in the CPC to various tax, legal and civil institutions, most notably the General Administration of Documentation, fine collection services, the Financial Intelligence Processing Unit, the Crown (public prosecutors), judges and notaries. Requests for such information must be very specific and substantiated.

In its current configuration, the CPC is nevertheless still reliant on the purely fiscal purpose that it was originally given. In order to make it a more effective instrument, the plan is to take it out of the fiscal sphere, and to pass a specific organic law governing its organisation and operation that takes account of the requirements of all interested parties.

In May of the year under review, the European Central Bank adopted a Regulation on collecting detailed information on credit and credit risk, also called AnaCredit. This information is needed for carrying out the work of the Eurosystem, the European System of Central Banks and the European Systemic Risk Board, notably monetary policy analysis, monetary policy operations, risk management, monitoring financial stability, as well as macroprudential policy and research. This information will also be useful for the prudential supervision of banks under the single supervisory mechanism. This collection of highly detailed data will be integrated into that of the Central Corporate Credit Register. To this end, the National Bank launched the BECRIS (Belgian Extended Credit Risk Information System) project, which ultimately aims to have a single IT platform for the Central Corporate Credit Register and the Central Individual Credit Register. AnaCredit should be up and running by autumn 2018.

Production and circulation of paper money

Following the decision to close the Bank's Printing Works in 2020, the Department concerned, together with the Central Cash Office Service, was kept busy in 2016 with its work on mapping out the options for banknote supply after 2019, the last year of in-house production.

In the meantime, the necessary investment has been made to keep pace with security, efficiency and environmental standards in banknote printing ; the staff concerned have been given the required training. The Bank has also started to draw up personal development plans for them which will enable them to follow other career paths within the Bank after 2020.

On 25 November 2015, the new € 20 note was put into circulation in the different euro area countries. This is the third denomination in the new series of euro banknotes. The arched window bearing a portrait that can be seen in the hologram is a symbolic and innovative security feature. When held up to the light, the window becomes transparent and shows a portrait of the mythological princess Europa on both sides of the banknote. The new € 50 note was put into circulation on 4 April 2017.

On 4 May 2016, the Governing Council decided to cease production of the € 500 note, on the grounds that it could facilitate funding of illegal activities. This denomination will stop being issued at the end of 2018, with the scheduled arrival of new € 100 and € 200 notes from the Europa series.

During the course of the year under review, the Bank negotiated a new contract with the Belgian banks on the supply of banknote packages. Under the terms of this new contract, which came into force on 1 January 2017, the Bank has stopped making up and handling small banknote packages coming directly from or destined for bank branches to concentrate on its service as a "wholesaler" in the form of multi-denomination banknote containers. This service will be provided free of charge to commercial banks. This reform greatly improves efficiency of banknote handling at the National Bank.

Owing to the continued decline in banknote-related business in the Mons and Hasselt branches, as a result of increasing automation of operations and the restructuring of currency handling within the banking sector, the Bank had decided back in 2014 to close the two branches in question. The Mons branch thus closed its doors on 30 June of the year under review, and Hasselt six months later.

Payment systems

Among the main tasks of central banks is management of payment systems. This function, inherited historically from the right of issue held by central banks, is also closely related to the role of these institutions in terms of financial stability, an area where the efficiency of payment systems plays a key role.

On 29 March 2016, the National Bank's securities settlement system joined the group of European central securities depositories (CSDs) operating on the TARGET2-Securities (T2S) common securities settlement platform. In its capacity as a central bank, the National Bank was doubly concerned as, since then, it has provided a service on the pan-European platform for cash accounts (as opposed to custody accounts). The other European central securities depositories and their central banks will be gradually integrated in five successive stages running well into the year 2017.

T2S offers a single and innovative platform enabling the settlement of securities in central bank money, exclusively denominated in euros for the moment, but will eventually cover other currencies too. T2S helps lower settlement costs, handles cross-border and domestic transactions equally efficiently, encourages competition and reinforces the stability of the financial sector in Europe.

For several years now, the National Bank's securities settlement system has been preparing for this two-stage migration. It was involved in intense communication with Belgian stakeholders from the sector, which counts seventy or so banks and stockbroking firms, both domestic and foreign, and provided its support for their own preparations. The first phase, known as RAMSES1, was launched on 2 February 2015. Most of the T2S functionalities and harmonisations in this stage had already been applied with the implementation of the National Bank's own securities settlement system, which has thus become the first market infrastructure to exchange T2S messages in ISO20022. For the National Bank's securities settlement system, in its capacity as a central securities depository, and the National Bank as a central bank, this second wave constitutes the migration proper to the single T2S platform.

All securities settlement at national and international scale now goes through the common European platform, where all custody accounts and cash accounts, as well as their transactions, are managed and settled in a centralised way.

The completion of the migration to T2S at the end of this second wave has enabled the National Bank's securities settlement system participants to fully benefit from all the T2S functionalities, technical improvements, like the ISO20022 communication or customised connection options, as well as harmonisation and economies of scale for banks and stockbroking firms active in several countries and on several markets, operational accessibility and production 22 hours a day, efficient cash flow management through centralisation and auto-collateralisation for the central bank, and lastly, lower fees for cross-border securities settlement operations.

The National Bank has also played a very active role in the promotion and development of payment infrastructures. It has taken part in the preparations for the instant payment, an innovative solution in this field. Having closely followed work on drafting this new payment format by the European Payments Council, the Bank took part in the discussions at the Belgian clearing house (CEC) responsible for implementing this format in Belgium. Acting as executor of payment instructions in central bank money, the National Bank is a prime stakeholder in the talks on the changes that need to be made to the TARGET2 infrastructure where these transactions have to be settled.

Moreover, the arrival of the new "blockchain" or "distributed ledger" technology and its rollout in the world of finance have prompted the Bank to take a close look at how this technology works in practice, along with the potential risks and benefits associated with it. A case-study concerning payments is currently underway (see also the box below on "The Bank and the FinTech challenge").

In another movement, the tasks that have been carried out by the Bank for the Securities Regulation Fund since 1945 were taken over by the Belgian Debt Agency, a public service institution under the auspices of the Federal Public Service Finance, on 1 January 2017. The National Bank had previously been responsible for the day-to-day running of the Securities Regulation Fund, also a public service establishment with the objective of ensuring the liquidity of the secondary market for public funds. This market had gone through radical change in the years 2007-2008. The daily fixing was replaced by a continuous market, with a few exceptions up until 2013.

The Bank and the FinTech challenge

The financial sector is faced with an ever-growing army of financial technology firms – or "FinTech" for short. The term covers a wide range of technological innovations that pave the way for the development of new business models, new applications and new products. The question of disruptive developments has been discussed at length over the last few years; various possible scenarios have been analysed. Full disintermediation by existing financial institutions is still considered to be an extremely unlikely scenario. The Belgian financial sector seems to be opting for the development of ecosystems bringing together innovative start-ups, international IT companies and existing financial institutions.

Partnerships formed within one and the same ecosystem enable existing financial institutions to develop portfolios of products that are better adapted to their clients' requirements. Thanks to these partnerships, companies in the FinTech segment have access to the know-how, the infrastructure, distribution networks and corporate image of well-established financial institutions. At the same time, new types of support services are springing up, where FinTech stakeholders are working to improve financial processes, like cloud computing applications, electronic identification, distributed ledger solutions or data analysis. As the Bank points out, the monetary and financial institutions as well as financial institutions that it supervises are currently in an exploratory phase and are examining to what extent FinTech applications can help make their processes more effective and more efficient.

This digital trend also brings new risks with it, especially for financial institutions' profitability. Growing dependence on outsourced computer systems and IT services also carries new operational risks. Particular attention needs to be paid to data protection and privacy, as well as the reliability and modularity of these new computer technologies and applications. At the end of 2015, the Bank set up an internal working group whose responsibilities include examining the impact of FinTech on the business models currently being used as well as on prudential risks. The Bank also plays an active role in the international working groups that log digital innovations – such as the distributed ledger technology – and examine the risks involved.

In addition, under the HLEG, the Bank also participates jointly with the law-makers in various initiatives with a view to bringing its own approach more closely into line with the changing environment. Together with the FSMA, the Bank has started analysing existing regulations so as to remove any unnecessary impediments to innovative business models. The Bank is also preparing a central contact point for FinTech initiatives, for both existing and new players. This central contact point will have the task of monitoring often fast-changing and complex innovations, through an active dialogue with market players, and answer questions on regulations, supervision and licences.

It is clear from the nature of trends in the FinTech domain that the response by the supervisory authorities must be coordinated and on a European scale. For this reason, the Bank is working with various international institutions on developing regulations that are fit for purpose and technically neutral. Lastly, it participates in various working groups dealing with such matters as the licensing arrangements applicable to FinTech players, the requirements concerning the outsourcing of activities, and the appropriateness of the existing prudential framework.

International cooperation

As part of the wider reform of IMF governance, the Netherlands and Belgium established a new constituency in 2012, comprising, apart from themselves, Armenia, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, the former Yugoslav Republic of Macedonia, Moldavia, Montenegro, Romania and the Ukraine. The Netherlands and Belgium reached an agreement to each designate alternatively the constituency's Executive Director for four years.

For Belgium, it was Anthony De Lannoy who was appointed to this post; his mandate began in November 2016. In all the jobs he has held during his career, Anthony De Lannoy has gained in-depth knowledge and extensive experience, both as regards the economy and international finance and the workings of the IMF and the constituency.

Before he took up this post, Anthony De Lannoy's career had included spells in the National Bank's International and Eurosystem Coordination, and Prudential Policy and Financial Stability Departments. Between October 2009 and April 2014, he was Advisor to Belgium's Executive Director at the IMF in Washington. Before his most recent appointment, he was Deputy Director for Economic and Financial Policy in the strategy unit of the Belgian Minister of Finance. Our new Executive Director holds a Master's degree in International Business Economics from KU Leuven, and a Bachelor's and Master's Degree in Applied Economics from the University of Antwerp.

In the context of the new IMF constituency and the appointment of a Belgian Executive Director, the National Bank decided at the end of 2015 to assume a higher profile along with Belgium within the constituency. This change in strategy notably includes renewed ambition in the field of technical cooperation with the central banks from our constituency. For instance, in November 2016, the Bank held a high-level seminar in Brussels bringing together heads of departments in charge of financial stability at the central banks from our elective group. It also stepped up its technical cooperation with the central banks from Armenia, FYROM and the Ukraine, in particular.

In order to monitor the impact of the United Kingdom's decision to leave the European Union, a Brexit task force was set up within the Bank last February. This task force has the support of several of the Bank's services, and especially the prudential Services and the Research and Economics Department. It reports back to the Board of Directors every quarter on policy developments and the impact of Brexit on the Belgian economy in general, and the financial sector in particular. A wide-ranging impact analysis was presented to the Council of Regency; the Bank is also expected to answer questions from various members of the government on this subject.

Information technology

During the course of 2016, the Transversal Project Management Office (TPMO) Unit continued work on clarifying the future of the computer landscape at the Bank. From now on, each department will have a road map of IT projects for the next five years, which will be synchronised with its strategic objectives. This road map will be subject to a system of governance that has been developed. The Project Portfolio Board, composed of the different Heads of Department, meets on a quarterly basis to discuss and assess the TPMO Unit's projects with a view to a balanced and sustainable portfolio of IT projects.

This new fully transparent work procedure enables the various departments to be more closely involved in the IT governance process.

In line with the Bank's strategic objectives in the field of information and computer technology for 2020 and the programme on the development of the IT Department adopted by the Board of Directors, this Department has been working hard on a better alignment of its range of services with the needs of the company and on how to raise its productivity.

However, this programme has been disrupted by the rising number of cyber security threats and attacks. The February 2016 case of the Bank of Bangladesh being hacked via fraudulent instructions sent through the SWIFT (standardised interbank transfer messaging) network shook the banking sector into action, and the central banks in particular. The IT Department reacted by presenting an emergency plan to tighten up the Bank's IT security. Approved by the Board of Directors in October 2016, this plan involves doubling investment and expenditure in this area. Human capacity has been reinforced with a view to putting this plan into practice, on the one hand, and, on the other hand, meeting the additional security requirements recently imposed by SWIFT as well as by the EU Directive on Global Data Privacy Regulation (GDPR), which seeks to harmonise and strengthen protection of personal data.

At the same time, major progress has been made with IT staff mobility and the capacity to work remotely.

Buildings

The Bank's real estate strategy is guided by the desire to rationalise and consolidate its property holdings, and includes adapting premises to the requirements of its various services and financially responsible management. Among other things, this means that buildings have been sold, and that such transactions will likely be repeated. The Mons branch, which closed its doors in June, was sold straight after the advertising period, for the sum of € 1.5 million. At the head office, the Bank would like to concentrate a maximum of activities within the BNB1 (Van Goethem) building, which explains the renovation plan that has been underway for the last few years. In order to speed up this process of upgrading its existing property, the Bank is looking into the possibility of renting out office space in the immediate vicinity of the head office.

The office renovation plan started several years ago, known as the Building Master Plan, continued in 2016 with the total refurbishment of just over 2 000 m² of office space on the fourth floor of the main building. Following the closure of the Bank's Scientific Library in March 2016, the members of staff housed there have returned to the main building. Studies are under way for the project to adapt this historical and partly listed building to the specific needs of the Museum which should open its new-look doors at the end of 2017.

In the main building, work on replacing the glass vault over the main banking hall is continuing. The glass roof that protects this vault has been dismantled and is gradually being replaced by glass panels of an entirely new design at the level of the fourth floor, which is the highest point of the inner courtyard. Its walls are being renovated over the course of the project ; the fitting of the new glass roof effectively makes them interior walls, providing much better thermal insulation. Owing to some technical problems and the time taken to obtain all the necessary planning permission, the work is now scheduled to be completed by the end of 2017.

The Bank's old Hôtel du Gouverneur building, which was built on the rue du Bois sauvage in the 1860s to 1880s, has also undergone a major refurbishment. Leaving untouched the genuinely historical parts, which have been preserved for more than 150 years, some unused areas in the upper floors, that had previously been taken up by the loft and, in the 19th century, by the domestic staff quarters, are gradually being refurbished with a view to installing between 55 and 60 work stations there. During this renovation work, the roof has been insulated, as have the window frames and façades. The building's accessibility has been completely revamped and once it is put into service (currently scheduled for mid-2017), it will be fully accessible for people with reduced mobility.

Lastly, as has been the case on the IT front, the context of the heightened terrorist threat has prompted the Bank to take measures to tighten up security. For instance, the Bank's car park is now equipped with an automatic vehicle number plate recognition system.

1.2 Human resources

1.2.1 Staff movements and recruitment

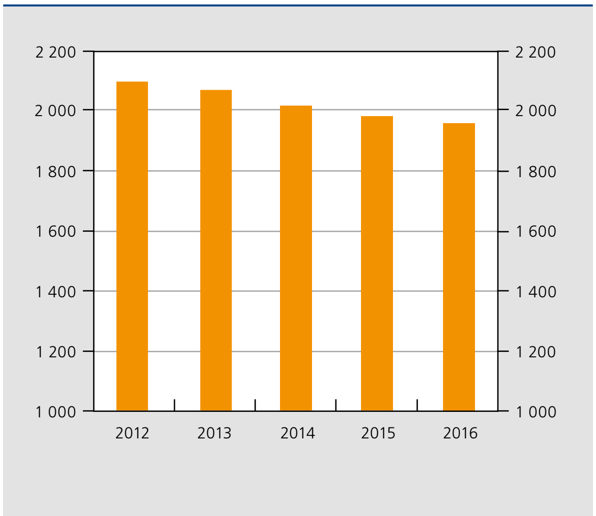
In 2016, staff numbers expressed in full-time equivalents dropped by 19 units.

But for the Bank to continue to carry out its key tasks, it is still necessary go on attracting new blood, but without jeopardising its commitment to cutting its staff to 1 700 full-time equivalents by the year 2020. Through their new approaches and by mastering innovative techniques, these young recruits help improve the efficiency of working methods. The Bank recruits young people with Professional Bachelor's qualifications demonstrating strong potential and with the ability to acquire the necessary technical skills, as well as full university graduates. In 2016, the Bank hired 68 new employees on permanent contracts, mainly in the IT and prudential supervision areas.

In view of the continued decline in banknote handling in the provincial branches, the Bank's management has decided to merge their activities. The Mons and Hasselt branches were closed down on 30 June and 31 December 2016 respectively. So, as of January 2017, banknote handling is only carried out in Brussels, Liège and Kortrijk. All members of staff concerned by this move have been reassigned jobs in Brussels, with the Human Resources Department overseeing their relocation.

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 19 May 2016. Social dialogue is still key to maintaning a satisfactory labour relations climate that can help keep a good balance between the interests of the staff and the company's strategic objectives.

TREND IN STAFF NUMBERS
(in full-time equivalents as at 31 December)



1.2.2 Obituaries and retirement

In 2016, the Bank was saddened to learn of the death of the honorary Censor Joseph Van Landschoot. Mr Van Landschoot was a Censor of our institution from 1983 to 1989.

The Bank was also saddened by the death of eight members of its staff in 2016:

Mrs H. De Saveur
Mr B. Delbecq
Mr L. Gheldof
Mrs Ch. Goedhuys
Mr A. Jacobs
Mr M. Paurin
Mrs M. Verheyden
Mrs K. Warmoes

They will always be remembered.

*
* *

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

Mr M. Charlier
Mr J.-P. De Jonge
Mr H. Depoortere
Mr L. D'haese
Mr L. Espagnet
Mr J.-P. Gillijns
Mrs J. Rouma
Mr T. Timmermans
Mr J. Vancauwenbergh

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

Mrs N. Bideloo
Mr L. Blommaert
Mr E. Bottequin
Mr P. Carion
Mrs F. Cauwel
Mr A. Cocquyt
Mr J.-P. Corveleyn

Mrs M.-P. Cox
Mr D. Cruypeninck
Mr Ch. Daumerie
Mr R. De Blaes
Mrs I. De Cnijf
Mr D. De Cock
Mr M. De Keukeleere
Mrs I. De Muylder
Mr L. De Temmerman
Mr J.-M. De Vuyst
Mr M. Decaboter
Mrs M.-Ch. Degueldre
Mr D. Dekeuleneer
Mr Ph. Delvigne
Mrs C. Demesmaeker
Mr J. Devrecker
Mr J.-L. Dresselaers
Mr J.-P. Dumont
Mr Ch. Dumoulin
Mrs B. Eeman
Mrs H. Francois
Mr J.-L. Francois
Mrs D. Geeurickx
Mrs S. Herregods
Mrs V. Jordens
Mr J. Juwé
Mrs D. Kets
Mr M. Lemal
Mr Ch. Louwette
Mr P. Maes
Mr F. Marcelis
Mr D. Maricq
Mr W. Meert
Mr J.-J. Monfort
Mrs A. Monnier
Mr G. Nackaerts
Mrs I. Nobels
Mrs L. Rombauts
Mr D. Ryon
Mrs Ch. Sanders
Mr E. Schietecatte
Mr A. Schiffo
Mrs F. Spriet
Mrs A. Sprumont
Mrs M. Stragier
Mrs J. Stuer
Mr P. Tielemans
Mrs Y. Toelen
Mr A. Tombeur
Mr D. Van Alboom
Mr E. Van Belle
Mr A. Van Cauter
Mrs N. Van Cleemputte
Mrs L. Van Den Bossche
Mr P. Van Geel
Mrs Ch. Van Malder
Mr J. Van Mol
Mr D. Van Muijlder
Mrs L. Van Wesemael
Mr G. Van Wiemeersch
Mrs F. Vanden Borre
Mrs Y. Vandenbosch
Mr J. Vandeput
Mrs L. Vander Stockt
Mrs L. Vanderlinden
Mr J.-P. Vanhasselt
Mr G. Vermeersch
Mr P. Vermeiren
Mrs V. Vervoort
Mr E. Voglet
Mr Y. Wauquier
Mr Th. Willem

1.3 Sustainable enterprise

It is already some years since the Bank opted for the "sustainable enterprise" concept. Back in 2008, it was awarded the "Ecodynamic Enterprise" label by the Brussels Institute of Environmental Management (IBGE), with two stars, as a reward for the Bank's efforts in the environmental sphere. This distinction was renewed in 2011 with another star, which is the highest accolade possible, and again for the years 2014-2018. During this period, different working groups and the steering group have the job of putting the set environmental programme into practice. Over all these years, the efforts made on the environmental front have be continuously rolled over and even further refined wherever possible. Below are a few of the initiatives taken during the course of 2016.

Business travel can now benefit from the use of hybrid and electric cars, as well as electric bicycles and the Villo ! bike hire network for shorter trips.

The Bank continues to encourage sustainable mobility for travel to and from work. Use of public transport is aided by the third-party direct payment system. The NBB has its own staff bike park for 120 bicycles and charging points for electric bikes, as well as five charging points for electric cars. For appropriate business functions, the Bank offers the possibility of occasional or regular teleworking. Lastly, the recent launch of the Skype for Business online telephony system at the Bank seeks to further reduce travel as far as possible.

The NBB's electricity consumption continues to drop, having come down by 30 % since 2005. The new data servers and their virtualisation have enabled a reduction in the data centre's installed capacity from 120kW to 70kW. An energy audit of the BNB2 complex has also recently been carried out. Energy consumption is monitored by an energy audit programme ; the installations are permanently monitored, improved and optimised.

The ecological footprint due to the use of paper has been steadily declining too. The company's in-house newspaper can now boast CO_2-neutral printing thanks to the use of plant-based ink and recycled paper. And only 17 % of listings are still printed. The standard office paper – just like the paper on which this report is printed – bears the Forest Stewardship Council (FSC) label : this environmental certificate carries a guarantee that FSC wood-based products respect sustainable forest management procedures. Since 2011, the release of electronic versions of NBB publications has brought about a 72 % reduction in the number of hard-copy reports printed.

The staff canteen is also gradually becoming more sustainable itself. It has more and more vegetarian or organic meals on the menu. And the smaller portions help to prevent food waste.

Public procurement procedures take into account the principal environmental criteria : reduction or return of packaging, recovery of depreciated equipment, possibilities for saving water and energy, recycling and waste prevention, encouraging sustainable mobility, limiting use of chemicals, etc. The bulk of the goods ordered are delivered in reusable packaging or on pallets, so as to reduce packaging waste to a maximum. Organic waste is removed for methanation with energy recovery. Used personal computers as well as IT and electronic equipment are disposed of via sustainable procedures at the end of their service life. Variants that meet higher environmental criteria are systematically sought, as is also the case for standard products.

All these many actions are backed up by a permanent staff awareness policy via internal communication channels, something which is viewed positively by the personnel itself.

1.4 List of publications in 2016

Economic Review

JUNE 2016

- *Economic projections for Belgium – Spring 2016*
- *The ABC of quantitative easing – Or the basics of asset purchases by central banks*
- *The economic consequences of the flow of refugees into Belgium*
- *Internal resources, bank credit and other funding sources : what are the alternatives for businesses in Belgium ?*
- *The social balance sheet 2014*

SEPTEMBER 2016

- *Monetary and fiscal policies in the euro area : independent but nevertheless connected*
- *The distribution of household wealth in Belgium : initial findings of the second wave of the Household Finance and Consumption Survey (HFCS)*
- *Belgium's inward and outward foreign direct investment*
- *How to stimulate entrepreneurship in Belgium ?*
- *Why is investment in the euro area continuing to show only weak recovery ?*
- *Should public investment be boosted ?*

DECEMBER 2016

- *Economic projections for Belgium – Autumn 2016*
- *Helicopter money and debt-financed fiscal stimulus : one and the same thing ?*
- *Socio-economic transitions on the labour market : a European benchmarking exercise*
- *Three regions, three economies ?*
- *Findings from the European survey on wage-setting*
- *The sustainability of public finance in the context of population aeing*
- *The transmission mechanism of new and traditional instruments of monetary and macroprudential policy*
- *Results and financial situation of firms in 2015*

Working Papers

- 290 *Predicting Belgium's GDP using targeted bridge models*
- 291 *Did export promotion help firms weather the crisis ?*
- 292 *On the role of public policies and wage formation for business investment in R&D : A long-run panel analysis*
- 293 *Unraveling firms : Demand, productivity and markups heterogeneity*
- 294 *Unemployment risk and over-indebtedness : A micro-econometric perspective*
- 295 *International shocks and domestic prices : How large are strategic complementarities ?*
- 296 *The supplier network of exporters : Connecting the dots*
- 297 *Does one size fit all at all times ? The role of country specificities and state dependencies in predicting banking crises*
- 298 *Competition and product mix adjustment of multi-product exporters : Evidence from Belgium*
- 299 *Economic importance of the Belgian ports : Flemish maritime ports, Liège port complex and the port of Brussels – Report 2014*
- 300 *Misalignment of productivity and wages across regions ? Evidence from Belgian matched panel data*
- 301 *The European Payments Union and the origins of Triffin's regional approach towards international monetary integration*
- 302 *The transmission mechanism of credit support policies in the Euro Area*
- 303 *Bank capital (requirements) and credit supply : Evidence from pillar 2 decisions*

- 304 *Monetary and macroprudential policy games in a monetary union*
- 305 *Forward guidance, quantitative easing, or both?*
- 306 *The impact of sectoral macroprudential capital requirements on mortgage loan pricing: Evidence from the Belgian risk weight add-on*
- 307 *Assessing the role of interbank network structure in business and financial cycle analysis*
- 308 *The trade-off between monetary policy and bank stability*
- 309 *The response of euro area sovereign spreads to the ECB unconventional monetary policies*
- 310 *The interdependence of monetary and macroprudential policy under the zero lower bound*
- 311 *The impact of exporting on SME capital structure and debt maturity choices*
- 312 *Heterogeneous firms and the micro origins of aggregate fluctuations*
- 313 *A dynamic factor model for forecasting house prices in Belgium*
- 314 *La Belgique et l'Europe dans la tourmente monétaire des années 1970 - Entretiens avec Jacques van Ypersele*
- 315 *Creating associations to substitute banks' direct credit. Evidence from Belgium*
- 316 *The impact of export promotion on export market entry*

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.

Each issue includes a "Consensus forecast" on the outlook for the main macroeconomic data for Belgium and a description of the most significant recent economic developments.

A review of the situation on the government securities market is also presented each time. The Treasury Highlights section gives information on Treasury decisions relating to the management of the public debt.

- 70 *Special topic: Tax shift implemented in Belgium to support employment and competitiveness*
- 71 *Special topic: A dynamic economy and sound public finances to overcome troubled waters*
- 72 *Special topic: Brexit: How exposed and how resilient is the Belgian economy?*
- 73 *Special topic: Residential property and mortgage market in Belgium: taking advantage of the low interest rate environment, while avoiding excessive risk exposure*

Statistical publications

The Bank provides a mass of macroeconomic statistics for the public on its website and via its statistical database, NBB. Stat. It is possible to subscribe for updates of specific tables. The following publications and press releases 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*

EXTERNAL STATISTICS:

- *Foreign trade in goods and services (monthly and quarterly), Regional breakdown of Belgian imports and exports of goods and services (annual)*
- *International investment position, details of foreign direct investment, balance of payments*

FINANCIAL STATISTICS :

- *Belgium's financial accounts (annual and quarterly)*
- *Observatory for Credit to Non-financial Corporations, Monetary financial institutions interest rates, Bank Lending Survey, Quarterly surveys on credit conditions : credit constraint perception indicator*

NATIONAL ACCOUNTS :

- *Quarterly sector accounts, Quarterly accounts, First estimate of the annual accounts, Government accounts, Labour market, Detailed accounts and tables, Supply and use tables, Regional accounts including sector accounts*

MICROECONOMIC DATA

- *Central Individual Credit Register*

  – *Annual Statistical Report*
  – *Key figures published monthly on consumer credit and mortgages*

- *Central Corporate Credit Register*

  – *Monthly publication of statistics on credit authorised and used via the Observatory for Credit to Non-financial Corporations*

- *Central Balance Sheet Office*

  – *The Central Balance Sheet Office makes the annual accounts which it collects available to the general public, as well as a financial analysis as part of the Business Account, and sectoral statistics, providing them for various target groups in different formats according to requirements.*

- *Microeconomic analyses*

  – *Each year, the Microeconomic Analysis Service publishes its studies on the financial results of firms and their social balance sheet in the Economic Review, while the studies on Belgium's ports appear in the Bank's Working Papers series. The Working Papers also regularly feature analyses concerning other branches of activity.*

Other publications

- *Corporate Report 2015. Activities, governance and annual accounts*
- *Report 2015. Economic and financial developments*
- *Financial Stability Report 2016*
- *October 2016. Rapport d'évaluation du mécanisme du filet de sécurité des prix de détail du gaz et de l'électricité relatif à l'année 2016 (Review of the safety net mechanism for gas and electricity retail prices for the year 2016)*
- *June 2016. Les relations entre le Royaume-Uni et l'UE à la lumière du Brexit (Relations between the United Kingdom and the EU in the light of Brexit)*
- *March 2016. Report from the Group of Experts on Competitiveness and Employment – Commission 5 : Efforts de formation des entreprises (Training efforts of firms)*
- *February 2016. Communication from Mrs Marcia De Wachter, Vice-President of the High Council for Employment : Conséquences économiques de l'afflux de réfugiés en Belgique (Economic consequences of the flow of refugees into Belgium)*

1.5 Contacts

SERVICES	ESTABLISHMENTS OFFERING SERVICES	OPENING HOURS
Banknotes and coins, State Cashier, Central Balance Sheet Office, Central Individual Credit Register Billets	Brussels, boulevard de Berlaimont 3, Kortrijk and Liège	9.00 to 15.30 hrs, Monday to Friday
Museum	Brussels, boulevard de Berlaimont, 3	10.00 to 17.00 hrs, Monday to Friday

INFORMATION

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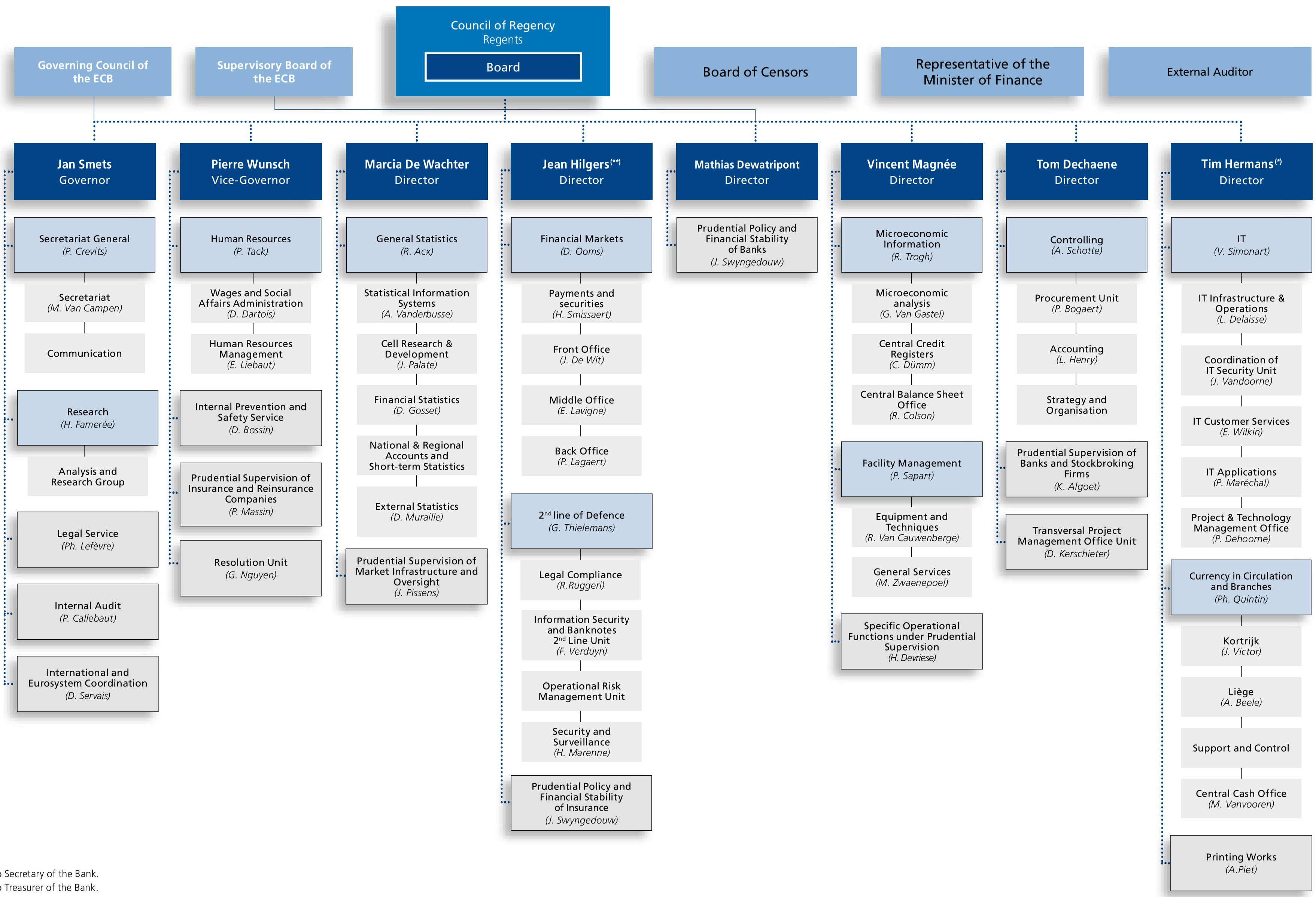
Kortrijk:	President Kennedypark 43, 8500 Kortrijk Tel. +32 56 27 52 11 Fax +32 56 27 53 90 kortrijksg@nbb.be		

Departments and Services: see website.

Organisation chart as of 1 March 2017



(*) Is also Secretary of the Bank.
(**) Is also Treasurer of the Bank.