

Report 2002

Part 2 Activities and Annual Accounts



Foreword

By Guy Quaden, Governor



The most significant event in 2002 was the completion of the changeover to the new European currency. The introduction of euro banknotes and coins and the withdrawal of Belgian franc currency was a massive operation involving practically every sector of the economy. For the central banks concerned, including the National Bank of Belgium, it represented an unprecedented logistical and operational challenge. Everyone agrees that this operation was a great success. The new banknotes and coins were very well received by the people of the twelve euro area countries.

The changeover to the new currency marks the completion of monetary unification, and for the central banks concerned, it heralds the start of a new era.

The Bank continues to carry out the tasks which it has performed for Belgium for the past 153 years, but in a new context, that of the Eurosystem composed of the European Central Bank and the national central banks of the twelve States which now have a common currency and a common monetary policy. The decisions are taken by the Governing Council of the ECB, while each of the national central banks in the Eurosystem prepares and implements the decisions. Under the Maastricht Treaty, the central banks of the Eurosystem also share the right to issue euro banknotes, hold and manage the foreign exchange reserves and participate in the other tasks of the Eurosystem, in particular promoting the smooth operation of payment systems and the smooth conduct of the policy relating to the stability of the financial sector.

The Maastricht Treaty and Monetary Union have helped to define more clearly the key responsibilities of the central banks. In addition to promoting monetary stability, i.e. price stability, modern central banks are also responsible for fostering financial stability. The importance which the Bank now attaches to this task is illustrated by the creation of an International Cooperation and Financial Stability Department in 2001, the publication of the first Financial Stability Review in 2002 and the adoption of the Law of 2 August 2002 reforming the supervision of the financial sector in Belgium and reinforcing the Bank's role in that respect.

The Bank's other tasks of public interest are also recognised and confirmed. The Bank remains an institution whose competences are frequently called upon by the government and the financial community, as in the recent case of the creation of a new 'positive' Central Office for Credits to Individuals, or the establishment of a Corporate Credit Observatory.

During the year under review, in accordance with the strategic options which it adopted in 2001, the Bank devised and developed a strategic planning system: under the authority of the Board of Directors, every department of the Bank prepared its three-year master plan, translating each strategic goal into operational terms.

In short, the advent of Monetary Union has not brought any significant reduction in the Bank's traditional activities, even though the Bank has been entrusted with new tasks, both within the European System of Central Banks and outside. However, as a result of its constant efforts to increase productivity, the Bank is continuing to cut down on staff, reducing the number of employees from 2,864 to 2,320 full-time equivalents in the space of ten years. By 2005, the number of employees should be cut to 2,200 full-time equivalents, without any redundancies, in accordance with the social tradition of the Bank. Furthermore, in-service staff training is strongly encouraged, to ensure that the available resources can be closely matched to the profiles required for each job.

The image surveys conducted among the general public two years ago showed that the Bank was a respected and valued institution, but remote and insufficiently familiar. It is therefore important to improve its methods of communication and give it greater prominence. A number of measures have been taken to that end, such as the establishment of an exhibition on the subject of money (which has now become permanent), the on-going restructuring of our Internet site, and the adoption of a new logo and a new corporate style. In their way, these initiatives reflect the Bank's desire to be modern and accessible.

The content of this second part of the Annual Report, on the subject of the Bank as an enterprise, was also redesigned to clarify and further augment the information supplied, in particular to our shareholders and partners, while taking account of the special characteristics of the Bank: it is a central bank, governed primarily by the Treaty establishing the European Community and by its own Organic Law, a public institution which takes the form of a public limited liability company, a company which pursues objectives in the general interest.

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Introduction

The National Bank of Belgium is our country's central bank. Since 1 January 1999 it has been part of the Eurosystem, which comprises the European Central Bank (ECB) and the central banks of the Member States which have adopted the euro. The Eurosystem is in charge of conducting the single monetary policy (Chapter 1). While monetary policy decisions are taken by the ECB Governing Council, of which the Bank's Governor is a member, the national central banks (NCBs) contribute towards the preparation of those decisions and are responsible for their implementation.

In addition to its role in the maintenance of price stability, the Bank is a key player in regard to the stability of the Belgian financial sector (Chapter 3) and manages various interbank payment systems (Chapter 2). It also performs numerous services for the State (Chapter 4) and for businesses and individuals (Chapter 5).

The completion of monetary union was marked by the introduction of euro notes and coins. In Belgium, the Bank played a dominant role in organising all the exchange operations. This historic turning point was the occasion for the Bank to redefine some of its activities and to reorganise others in response to new demands (see Annual Report 2001 and point 6.1 below).

Guaranteeing stability in a constantly changing world, the Bank is also evolving in order to carry on providing Belgian society with high quality services appropriate to its needs. What it has done for Belgium for the past 153 years it is now continuing to do in a European context.



1. Activities linked to monetary policy

The Bank and the Eurosystem

The Bank, the NCBs of the eleven other EU Member States which have adopted the euro, and the ECB together form the Eurosystem⁽¹⁾.

As a member of the ECB Governing Council, the Governor participates in the decisions taken by the Eurosystem. This Council is the supreme decision-making body of the Eurosystem. As a rule, it meets twice a month and deals with matters such as monetary policy, the compilation and collection of statistical information, the operation of payment systems and financial stability.

The Bank coordinates the preparations for the meetings of the Governing Council and of the Committees set up at Eurosystem level. The Bank intends to play a dynamic role in the proceedings at Frankfurt and to establish its influence within the Eurosystem. With that in mind, it identifies at an early stage any questions which are of particular interest and conducts forward studies on the subjects addressed. The Bank also maintains close contact with the ECB and the other NCBs, promoting better understanding of one another's points of view. This contact enables it to act as a driving force in the co-operation between the members of the Eurosystem.

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

1.1 Research

Since the Bank is closely associated with the preparation and implementation of the common monetary policy for the euro area, its analysis and research activities primarily concern the various facets of that policy. In this regard it collaborates closely with the ECB and the other NCBs of the Eurosystem. In addition, it studies other aspects of the national economy and issues relating to economic and financial structures.

Furthermore, it performs an advisory role for the government and maintains regular links with the economic and financial world and the rating agencies, via publications (see point 5.1), notes and consultations (particularly for

the ECB, the IMF and the OECD), and by participating in meetings at both national and international level. Thus, at national level it sends representatives to various bodies such as the Superior Finance Council and the Superior Employment Council. It is also represented on a series of committees at EU and Group of Ten level (see also chapter 3).

These duties create a need for coherent, fundamental macroeconomic research, based on continuous, in-depth analysis of the current situation and statistical data. This research makes use, in particular, of the results of a regularly updated set of macroeconomic and financial models.

The Bank is also developing its relations and research activities with the academic world. Thus, in collaboration with Belgian researchers, it conducted a research project entitled *New Views on Firms' Investment and Finance Decisions*. The results of this study were presented at the international symposium held by the Bank on 27 and 28 May 2002, and will be published in 2003.

A new research project has been launched in collaboration with Belgian universities on the subject of *Efficiency and Stability in an Evolving Financial System*. This research forms part of the preparations for a symposium planned for 2004. The Bank also plays an active role in a number of networks responsible for examining various aspects of monetary policy in consultation with the ECB and other central banks. In this connection, a special project was devoted to the *Euro Area Business Cycle Network*, as a result of collaboration with the *Centre for Economic Policy Research* in London. The Bank's researchers also play an active part in university symposia and conferences at both national and international level.

1.2 Compilation of economic statistics

As well as producing its own statistics, the Bank also performs the tasks entrusted to it in connection with the activities of the National Accounts Institute. These tasks concern the national and regional accounts and the foreign trade statistics.

1.2.1 National accounts and the economic situation

In addition to the aggregates for the year, historical series in accordance with the European System of Accounts 1995 were published for economic analysis purposes. GDP and the main aggregates for each economic sector were recalculated retrospectively to 1970. In the absence of coherent basic figures, the retrospective calculation of the sectoral accounts goes back only to 1985.

In the course of its activities at the National Accounts Institute, the Bank collaborated on a major revision of the methodology relating to the estimation of employment in Belgium expressed in numbers of persons.

The Bank continued to produce, at monthly or quarterly intervals, key business indicators for the Belgian economy, which also attract considerable interest abroad: the results of the business surveys, the consumer confidence index and the quarterly national accounts (including a "flash" estimate of GDP growth). Various methodological

adjustments were made to these indicators in 2002 in order to conform to the latest European standards.

1.2.2 Financial statistics

The activities relating to monetary and banking statistics focused mainly on the completion of projects which, from 2003 onwards, will provide data on the overall transactions of credit institutions and on the interest rates applied to a wider range of lending and deposits. These new statistics were developed following an ECB decision and after wide-ranging consultation with the credit institutions. The surveys on the claims and liabilities of monetary financial institutions in relation to other countries, submitted to the Belgian-Luxembourg Exchange Institute until its abolition (see point 1.2.4), were introduced at the beginning of June 2002 in the periodic reports (Scheme A) of credit institutions.

The financial accounts are again being published quarterly, and new statistics on financial assets have been introduced.

The creation of a *Corporate Credit Observatory*, which supplies information on the movement in lending activity and on the rates charged, satisfies an obvious need (see point 5.2.2).

1.2.3 Foreign trade

Since January 2002, a press release has accompanied the publication of the monthly foreign trade figures. The regional export data are now available on the Internet site with a cross-breakdown by country and product.

In 2002, by means of an enlarged *Intrastat* declaration, two additional foreign trade variables were requested from declarants: the region of origin or destination of the goods and – in the case of the largest companies only – the delivery terms. The method of compiling the regional figures will shortly be revised to take account of this additional information. In order to enable firms to apply the new instructions on the *Intrastat* declarations, numerous training schemes have been organised throughout the country, with particular attention being devoted to new declarants.

A more accurate estimate of the transactions of non-residents operating in Belgium led to an improvement to the national accounts.



1.2.4 Balance of payments

In view of the advent of European Monetary Union, Belgium and Luxembourg decided to terminate their currency union on 31 December 2001. In consequence, the Bank took over the function of collecting the basic information needed to compile the balance of payments for Belgium; until that date, this work had been done by the Belgian-Luxembourg Exchange Institute. This task was conferred on the Bank by the law of 28 February 2002, and the Institute was abolished by a Royal Decree on 15 October 2002.

Pursuant to that law and its implementing decrees, the Bank therefore carries responsibility not only for compiling Belgium's balance of payments and overall external position, but also for collecting the basic data from the economic agents. Since 1 January 2002 the Bank has therefore published the balance of payments and external position statistics for Belgium only, and no longer for the Belgian-Luxembourg Economic Union. The legislation mentioned above gave the Bank the same powers in regard to statistics on foreign direct investment and investment in foreign securities.

On taking over the data collection work, the Bank also made substantial changes to the collection procedures. These changes stem mainly from developments taking place at European level, notably the adoption of the Regulation of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro within the euro area. This regulation prohibits the collection of any statistical information on transfers of 12,500 euro or less. It led to fundamental restructuring of the system for collecting data from credit institutions by rendering it non-exhaustive.

At the same time, at the instigation of the ECB and Eurostat, a consensus emerged among the Member States on the need to redesign the balance of payments data collection systems by 2006. The Bank therefore initiated a discussion on the development of a new system for collecting the data required to compile the balance of payments and certain related sets of statistics.

1.3 Implementation of monetary policy

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

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

- the regular provision of liquidity via the main refinancing operations conducted weekly and the longer term monthly refinancing operations;
- special fine-tuning operations, if required;
- the standing facilities;
- the minimum reserve system.

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

Counterparties may use any of these assets on a cross-border basis. However, the major part of the collateral consists of national assets.

In 2002, the Eurosystem agreed on refinements to the risk management measures relating to collateral. Given the resulting IT adjustments, these revised measures should take effect during 2004.

The constantly evolving financial markets and the progressive harmonisation within the euro area are leading to in-depth discussion on the gradual adaptation of the range of collateral. Thus, a great deal of research and analysis took place throughout the year under review, in order to assess the feasibility and implications of replacing the dual list with a single list valid for the whole of the Eurosystem. This work is set to continue in 2003.

The Basle II Accords on the new minimum capital requirements for banks will – once they are implemented, probably in 2007 – enable the banks to apply their own credit risk assessment models, subject to the prior approval of the prudential authority. The resulting assessment of debtor quality could therefore offer scope for worthwhile synergy in the evaluation of the eligible assets by NCBs extending credit.

The “bank of banks” function

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

The main refinancing operations of the Eurosystem are conducted by a tendering procedure organised at the level of the euro area. Every month, the ECB Governing Council decides on the minimum bid rate applicable to the forthcoming tenders. Each week, the credit institutions inform the central bank of the country where they are based of the amounts of credit which they wish to obtain and the interest rates – which must be at least equal to the minimum bid rate – which they are prepared to pay on each amount requested. On the basis of these bids and the total liquidity requirement estimated by the Eurosystem, the ECB Executive Board fixes the total amount allotted and hence the (lowest) marginal rate at which the Eurosystem will lend money, credit being extended first to the institutions offering to pay the highest rates of interest. Such credit has a maturity of two weeks and entails lodging collateral with the NCBs.

1.4 Management of the foreign exchange reserves

1.4.1 Basic principles

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

There are three levels at which decisions are taken on the management of the exchange reserves held by the Bank. The Board of Directors defines the general policy and long-term preferences as regards balancing risk and yield. Thus, it essentially determines the foreign currency mix of the reserves, the duration of the portfolios, the permitted instruments and transactions, the criteria for selecting counterparties and the credit risk limits. These decisions are reflected in the formation of reference portfolios, for the purpose of measuring the results of active management. The Board of Directors also defines the latitude available to the portfolio managers.

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

A Bank entity maintains totally independent supervision over compliance with the instructions and directives concerning investment, issued by the Board of Directors and the Investment Committee. It also calculates the results of the active management.

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

In the case of the foreign exchange reserves which the Bank manages for the ECB, the decisions which, at the Bank, fall to the Board of Directors and the Investment Committee are taken by the ECB.

The Bank’s staff allocated to the management of the reserves are subject to specific rules of conduct (see point 6.3).



The foreign exchange reserves

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

Article 141 § 2 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, inserting an Article 9 bis in the Organic Law of 22 February 1998, confirmed that these assets managed by the Bank constitute assets allocated to the tasks and operations within the domain of the ESCB and to the other tasks of public interest conferred on the Bank by the State.

This provision forms the subject of an application for cancellation lodged with the Court of Arbitration⁽¹⁾.

(1) Application for cancellation of certain provisions of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, lodged with the Court of Arbitration in December 2002 by a group of shareholders. The Bank is not a party to these proceedings. However, it considers that this application is unfounded.

1.4.2 Risk management

Management of the foreign exchange reserves entails exposure to operating risks, credit risks and market risks connected with changes in interest and exchange rates, the particular point being that, as the holder of the country's official foreign exchange reserves, the Bank cannot avoid the exchange risk. It has defined a policy which aims to limit and manage these various risks.

In the case of the market risk, the Bank uses the "value at risk" method to assess the level of losses which could be generated by adverse movements in exchange rates and interest rates. These analyses are supplemented by stress testing exercises aimed at estimating the potential losses in the event of a major market crisis. On the basis of these

analyses, it selects a currency mix and an average maturity (duration) for each portfolio, which in principle makes it possible to maintain the risk at the desired level.

In order to limit the credit risk, the Bank pursues a prudent policy featuring a marked preponderance of sovereign risk instruments and collateralised instruments, strict limits on other investments, especially bank deposits, diversification of counterparties and issuers, and rigorous selection in terms of credit quality (high rating).

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



2. Management of payment and settlement systems

2.1 Final changeover to the euro

The replacement of the national currency with the new euro notes and coins and the practical arrangements for the period of dual circulation represented a massive operation, unparalleled in history. This was the final stage in the changeover to the single currency and, for the majority of the population, the most tangible aspect of Economic and Monetary Union. In that sense, this operation was of great historical significance and its smooth completion enabled the public to make the transition to the euro with the minimum of difficulty.

The euro notes and coins were first put in circulation in Belgium and in the eleven other countries of the euro area on 1 January 2002. The general consensus was that the euro cash changeover had gone extremely well throughout the euro area, and especially in Belgium. Indeed, the notes and coins were placed in circulation smoothly and quickly, without any problems or shortages, fully in accordance with the scenario drawn up by the General Commission for the Euro.

This success is attributable to lengthy preparations, the quality of the scenarios drawn up and the extremely meticulous way in which they were implemented. The good cooperation of all the sectors concerned and the dedication of the people involved also merit a special mention. Finally, the public responded very positively to the introduction of the euro.

2.1.1 Introduction of euro notes and coins

The process of the euro cash changeover was based on a series of measures ensuring that the euro notes and coins were introduced on a massive scale immediately

on 1 January 2002, so that about 80 p.c. of cash payments would be made in euro by the end of two weeks. That objective was already achieved by 10 January 2002.

The introduction of the euro notes and coins was a total success, thanks to the decisive role and active collaboration of all parties concerned:

- Before 1 January 2002, the Bank printed 550 million banknotes and the Belgian Royal Mint struck 2 billion coins, thus adhering fully to the planned production schedule.
- To facilitate large-scale introduction of the euro in the first few days of 2002, the Bank organised the transfer of large quantities of coins to the banks and the Post Office from 1 September 2001, plus banknotes by mid-November 2001. These institutions in turn “front-loaded” businesses with small denomination notes and coins from 1 December, and supplied the public with coins from 15 December. The basis of the scenario was that the public would obtain supplies of euro exclusively from credit institutions straightaway, on 1 January 2002. In fact, in the first few minutes of the new year, euro notes were available at all Banksys cash dispensers and almost all those of the *self banking* network.
- The public demonstrated genuine enthusiasm for the new currency, making large-scale withdrawals from cash dispensers, banks and post offices.
- In accordance with the scenario adopted, change was given in euro whenever possible by retailers and supermarkets, so that Belgian francs presented in payment for purchases were systematically withdrawn from circulation.

The General Commission for the Euro

In November 1996, the federal government established a General Commission for the Euro, responsible for encouraging and coordinating the preparations for the introduction of the euro in the various sectors of the Belgian economy. The Commissioner for the Euro was one of the members of the Bank's Board of Directors. The Bank provided the staff and logistical resources required. Having successfully completed its work and published a final report on its activities, the General Commission for the Euro was disbanded on 30 April 2002. The working groups established by this Commission also ceased their activities on that date: ADMI EURO for general government, FIN EURO for the financial sector, ECO EURO for non-financial enterprises and consumers and COM EURO COM for communication.

In addition, measures were taken to ensure that Belgian francs could still be exchanged for euro at credit institutions and post offices for a very long time. At the Bank, there is actually no time limit for exchanging notes which it issued after 1944.

At midnight on 28 February 2002 the Belgian franc finally ceased to be legal tender, ending a history of almost 170 years. The euro then became the only legal tender in Belgium, as in the rest of the euro area.

2.1.2 Cessation of use of the Belgian franc in cashless payments

On 1 January 2002 the switch to exclusive use of the euro for cashless payments was also trouble-free. The *General scenario for an early switchover to the euro* did much to bring about this smooth transition, encouraging an early and consistent switch by the major economic sectors in order to accelerate the use of the euro for cashless transactions and prevent the problems from being concentrated at the end of 2001.

In accordance with this scenario, bank accounts were converted to euro during the second half of 2001 and cashless payments were effected exclusively in euro from 1 January 2002.

2.1.3 Government preparations for the changeover

For the government, the main measures associated with the introduction of the euro concerned IT and legislation. In addition, the training of civil servants and the special information intended for certain target groups received particular attention.

The numerous legislative amendments required were carried out within the allotted time.

As regards the adaptation of IT applications, the main concern was to avoid making a total switch on a massive scale in too short a time. The applications were ready to operate in euro by the beginning of 2002.

2.1.4 Adaptation by SMEs

Overall, the fears that SMEs were inadequately prepared were unjustified. The major effort made in regard to these businesses by the General Commission for the Euro, public authorities, banks and trade associations proved effective.

The *Eurobarometer* survey conducted by the European Commission in mid-February 2002 produced a very satisfactory result, contrasting with the outcome of earlier surveys: many SMEs seem to have made a last-minute, successful changeover to the euro. On 1 January 2002, 98 p.c. of Belgian SMEs were keeping their accounts or setting their prices in euro, and 99 p.c. were producing their invoices in euro. The average figures for the euro area were 95 and 97 p.c. respectively.

2.1.5 Public reactions

Exceptionally lengthy, large-scale publicity campaigns accompanied the changeover to the euro.

The Belgian population was overwhelmingly in favour of the new currency, withdrawing large amounts of the new notes and coins and using them extensively, as is evident from the decline in the proportion of card payments and the rise in the share of cash payments during January 2002.

**TABLE 1** OPINION POLLS ON THE CHANGEOVER TO THE EURO

(Percentages of persons questioned)

	Belgium	Euro area
Between 21 and 31 January 2002, persons who believe		
– they are well-informed about the euro	95	88
– they are well-prepared for the advent of the euro	85	74
– that the changeover to the euro has generally gone smoothly	92	80
– that the changeover to the euro has gone very well, so far as they are concerned	96	87
In September 2002 :		
– persons usually thinking in euro	17	19
– persons thinking as often in euro as in the old national currency	43	34
– persons usually thinking in the old national currency	40	47

Source : Eurobarometer.

The Eurobarometer survey conducted at the end of January 2002 confirms this analysis and highlights, in particular, how well the Belgian people were prepared for the advent of the euro. Nonetheless, as also confirmed by the September 2002 survey, it will be a while before the public becomes accustomed to the new scale of values.

2.2 Banknotes and coins

2.2.1 Protection of euro banknotes and prevention of counterfeiting

In 2002, the Bank continued to produce banknotes denominated in euro in accordance with the production and supply plan adopted by the Eurosystem. These notes

are intended to meet the need to replace worn notes and to maintain stocks at an adequate level. They should also make it possible to cope with any increase in demand.

Hardly any counterfeit euros were produced in the euro area in the initial months following the euro cash changeover, and – taking the year 2002 as a whole – the number of forged notes was well below the level recorded in 2001 for the various national currencies. The measures established to prevent and combat counterfeiting – information campaigns, European database of counterfeit notes and coins, special police resources and close cooperation between the Eurosystem and the police authorities – therefore proved effective.

The right of issue

The Bank retained its right of issue after the creation of the euro⁽¹⁾. The Treaty establishing the European Community indeed provides that the ECB and the NCBs may issue banknotes in euro, and they actually do so pursuant to a decision passed on 6 December 2001 by the Governing Council of the ECB.

The quantity of the euro banknotes issued by each NCB is proportionate to its contribution to the capital of the ECB, with the proviso that the ECB issues 8 p.c. of the total value of euro banknotes.

In accordance with the principle of decentralisation of the Eurosystem's operations, the NCBs are also responsible for placing all euro banknotes in circulation and for their handling and withdrawal.

(1) A group of shareholders claims that the Bank has lost its right of issue and that it should therefore liquidate its reserve fund in accordance with Article 31 of the Organic Law. On 2 July 2002 it instituted proceedings to that end before the Brussels commercial court. The Bank is contesting the applicants' claims.

The Central Counterfeiting Prevention Office – the special federal police service established within the premises of the Bank at the end of 2001 – recorded 4,518 counterfeit euro notes in 2002. That represents 22 p.c. of the number of counterfeit Belgian franc notes discovered in 2001. In Belgium, 86 p.c. of the forgeries recorded concerned the 50 euro note and almost 10 p.c. the 100 euro note. These were crude forgeries which users could easily distinguish from genuine notes by examining the authentication features.

2.2.2 Circulation of notes and coins

The year 2002 saw the introduction of euro notes and coins and the abolition of the Belgian franc as legal tender, after a dual circulation period which ceased at the end of February.

RETURN OF BELGIAN BANKNOTES

Having already started during 2001, the return of Belgian banknotes to the Bank speeded up considerably at the beginning of 2002: over 233 million banknotes representing a value of 8.1 billion euro were returned to the Bank during the first two months of the year.

On 28 February 2002, the last day on which the Belgian franc was legal tender, the value of the francs in circulation came to 1.1 billion euro, representing a volume of 40.7 million banknotes.

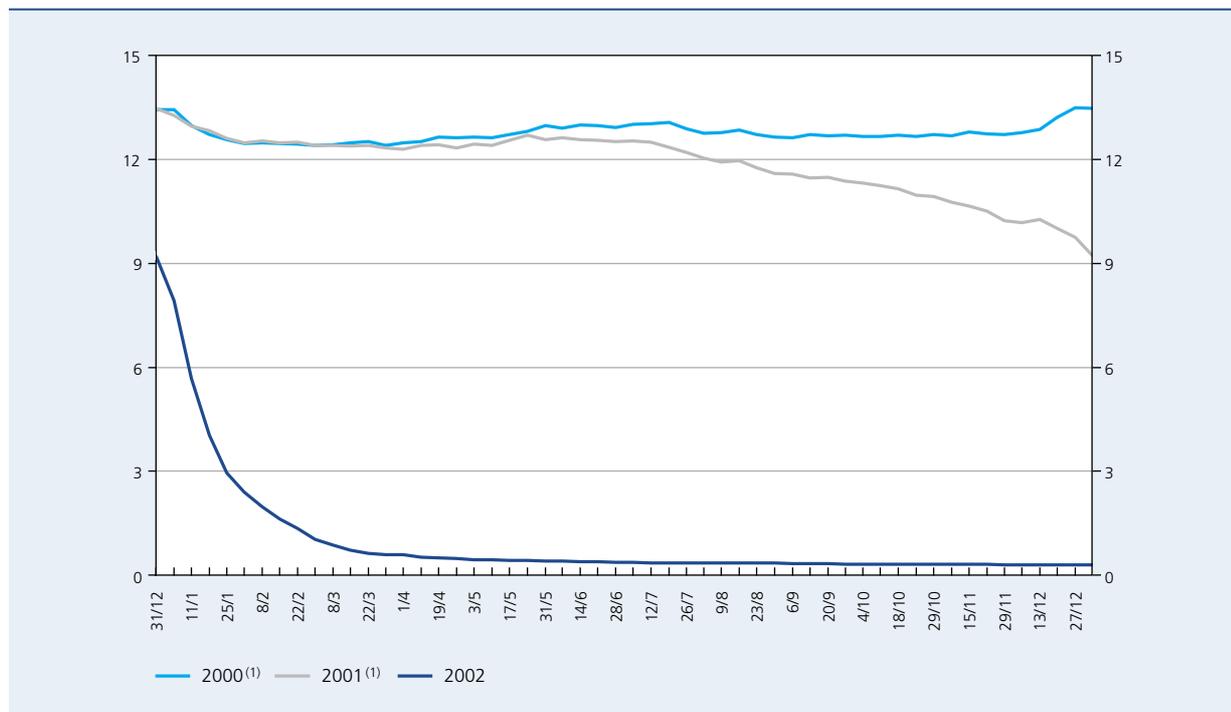
The notes continued to be returned throughout the year. Thus, on 31 December 2002 the value of Belgian banknotes which had not yet been returned to the Bank represented just 0.3 billion euro, or 3.2 p.c. of the total in circulation at the end of the previous year (see table 2).

The withdrawal of banknotes issued by the Bank after 1944 will continue, as there is no time limit on the exchange of these notes.

PLACING OF EURO BANKNOTES IN CIRCULATION BY THE EUROSYSYSTEM

At the beginning of January 2002, 6.4 billion banknotes denominated in euro, representing a total of around 133 billion euro, were placed in circulation by means of the frontloading operations conducted by the twelve NCBs of the Eurosystem (see chart 2). The small denominations and those supplied by cash dispensers (in Belgium, the Banksys dispensers and those of the

CHART 1 BELGIAN FRANC NOTES IN CIRCULATION
(Weekly totals, billions of euro)



(1) Including banknotes in circulation recorded on the balance sheet of the "Banque centrale du Luxembourg".

**TABLE 2** BELGIAN FRANC BANKNOTES IN CIRCULATION ⁽¹⁾

(End-of-year figures)

Denominations	Value (millions of euro)		Number (millions of banknotes)	
	2001	2002	2001	2002
10,000	3,969.3	102.2	16.0	0.4
2,000	2,977.9	94.5	60.1	1.9
1,000	1,633.1	39.1	65.9	1.6
500	290.3	15.5	23.4	1.3
200	132.7	15.5	26.8	3.1
100	202.7	27.7	81.8	11.2
Total ⁽²⁾	9,206.0	294.5	273.9	19.4

(1) These banknotes ceased to be legal tender on 1 March 2002.

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

“self-banking” networks) had been front-loaded with particularly generous stocks in order to ensure that retail payments in euro went smoothly straightaway, in the initial days of the new year.

In the ensuing months, the structure of the circulation gradually adapted to suit the users’ needs. On the one hand, small, 5 and 10 euro denominations were returned to the NCBs, because the front-loading had sometimes exceeded requirements. On the other hand, there was a significant increase in demand for other denominations. Thus, at the end of the year the large denominations

TABLE 3 EURO BANKNOTES PLACED IN CIRCULATION BY THE EUROSISTEM IN 2002 ⁽¹⁾

(End-of-year figures)

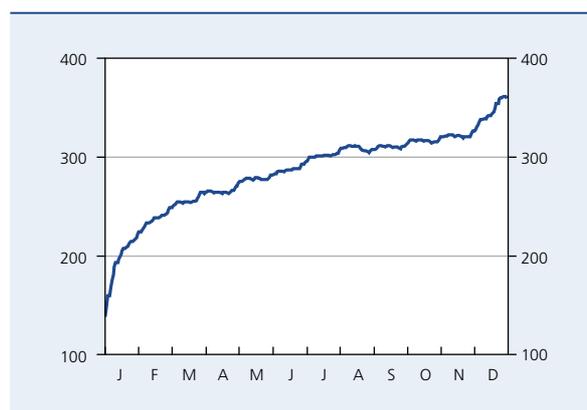
Denominations	Value (billions of euro)	Number (millions of banknotes)
500	83.4	166.9
200	24.2	120.8
100	67.3	673.2
50	121.7	2,434.7
20	39.5	1,974.8
10	16.4	1,643.3
5	6.0	1,190.6
Total ⁽²⁾	358.5	8,204.2

(1) Including notes in the credit institutions’ cash holdings.

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

CHART 2 EURO BANKNOTES PLACED IN CIRCULATION BY THE EUROSISTEM IN 2002

(Daily totals, billions of euro)



(500, 200 and 100 euro), represented almost half the value in circulation. On 31 December 2002, 8.2 billion banknotes denominated in euro, representing a total value of 358.5 billion euro, were in circulation.

MANAGEMENT OF THE STOCKS OF EURO BANKNOTES

The NCBs must have adequate stocks for placing the banknotes in circulation. The management of these stocks involves monitoring the pattern of demand, a good knowledge of the migratory movements of banknotes and forecasting of future requirements. In practice the reserves consist of:

- The logistical stocks held by the NCBs, to cater for an expected increase in demand and to replace banknotes considered unfit for returning to circulation. Each NCB has its own logistical stock which it manages in accordance with the ECB's guidelines.
- The strategic stock, which is intended to cater for exceptional situations such as a sudden and unexpected increase in demand or an interruption in supplies of new banknotes. This stock is managed by the ECB. It is divided among the NCBs in proportion to their share in the capital of the ECB.

HANDLING OF NOTES AND COINS

In 2002, almost 255 million *Belgian franc banknotes* were returned to the Bank. After counting and authenticity checks, these banknotes were mechanically destroyed. The total number of *euro banknotes* withdrawn (including front-loading during 2001) and paid in by the credit institutions came to 1.9 billion. The notes paid in, almost 900 million, underwent sorting, counting and authentication.

EXCHANGE OF BANKNOTES OF OTHER EURO AREA COUNTRIES

Euro area banknotes are exchanged at par value in accordance with Article 52 of the Statute of the ESCB and in line with the procedures specified in the 1998⁽¹⁾ and 2000 Reports⁽²⁾. This activity continued until 29 March 2002.

During those last three months, almost 15,000 individuals came to the Bank's counters to exchange around 300,000 banknotes for a total of 11.4 million euro. Business customers paid in over 2 million banknotes worth a total of 85 million euro.

2.3 Interbank payments

The Bank organises and manages the CEC (*Centre for Exchange and Clearing*) and ELLIPS (*ELectronic Large-value Interbank Payment System*), two integrated, computerised systems for handling interbank payments and settling cashless transfers.

2.3.1 Small-value payments

The CEC is a system handling small payments. It processes the bulk of the cashless payments: transfers, domiciliations, cashing of cheques, etc. Apart from the CEC, there is currently still the semi-manual clearing house which mainly deals with cheques for over 10,000 euro. In 2002 the CEC handled over 99 p.c. of the number of interbank payments, but barely 2.4 p.c. of their total value⁽³⁾.

(1) See page 164.

(2) See page 26 of Part II.

(3) The semi-manual clearing house now only deals with 0.2 p.c. of transactions in terms of number and 0.3 p.c. in terms of value.

CHART 3 PAYMENTS AND WITHDRAWALS OF BANKNOTES BY CREDIT INSTITUTIONS

(Millions)

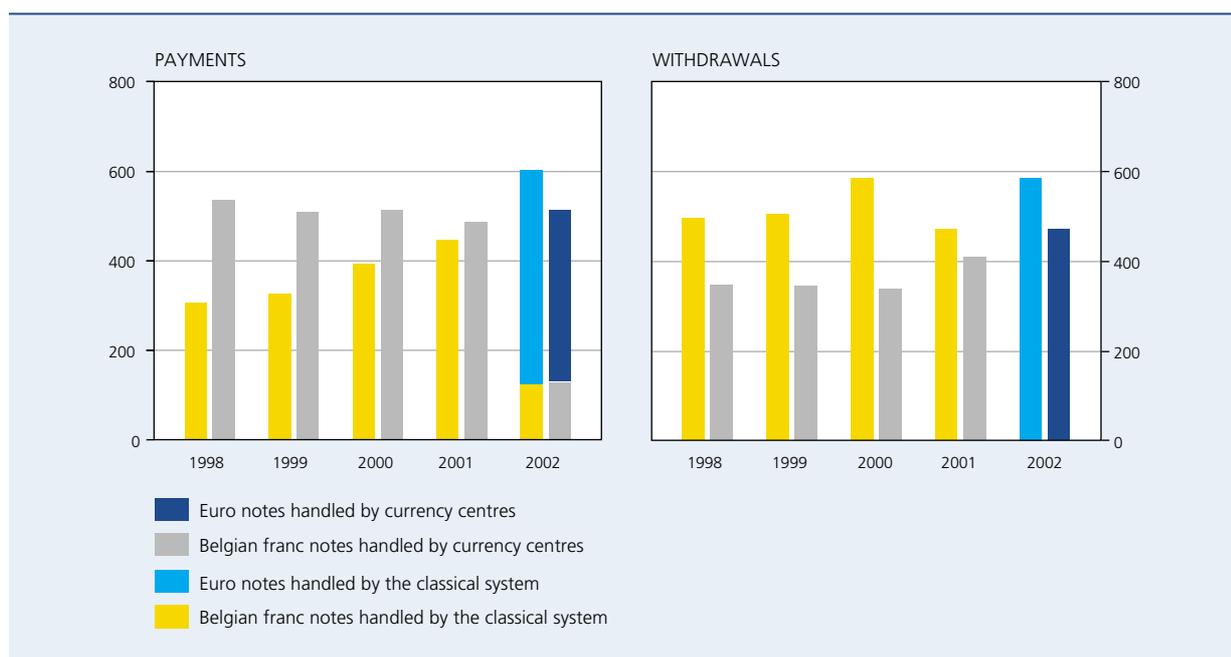
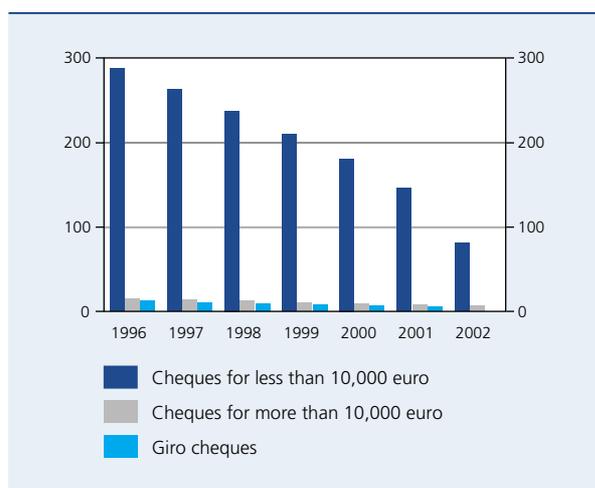




CHART 4 INTERBANK EXCHANGE OF CHEQUES AND GIRO CHEQUES
(Daily averages)



The average number of transactions effected via the CEC each day grew by 6.9 p.c. in 2002, while the amounts involved increased by 4 p.c. The small amounts exchanged via the CEC mainly stem from the use of debit cards and PROTON cards, both of which gained in importance during the past year.

The decline in the use of cheques is a well-known phenomenon which has been encouraged, in particular, by the development of efficient card payment systems. Abolition of the Eurocheque guarantee on 1 January 2002

further accelerated this development. There has also been a reduction in the amounts of large-value cheques (over 10,000 euro) handled by the clearing house.

Since the interbank exchange of giro cheques was abolished in Belgium, these transfers ceased to be handled by the semi-manual clearing house from February 2002.

In 2002, the CEC's top priority was the technical renovation of the system. This project, known as CEC III, involves modernising the CEC in order to guarantee that the system will maintain a high standard of performance, efficiency and reliability in the future, and to prepare for European developments concerning small-value payments.

The switch to the CEC III system will comprise several stages. The preparation stage – conversion to a new communication protocol and adoption of a highly efficient encryption method – has already been completed. During 2003, participants will switch to using a new common interface, and from the end of 2004 onwards a new database management system will be in place.

2.3.2 Large-value payments

ELLIPS is the second computerised payment system managed by the Bank. It processes payments which are generally for large amounts, often connected with transactions effected on the financial markets. ELLIPS is the interbank interface of the Belgian real-time gross

TABLE 4 AMOUNTS PROCESSED BY TARGET AND THE BELGIAN INTERBANK PAYMENT SYSTEMS
(Daily averages, billions of euros)

	1999	2000	2001	2002
TARGET system				
– cross-border payments	360.0	431.5	506.3	485.0
– national payments	564.6	601.0	793.0	1,066.0
ELLIPS				
– outgoing payments ⁽¹⁾	30.6	35.6	40.1	37.2
– incoming payments ⁽²⁾	30.5	35.6	40.1	37.2
– national payments	15.7	14.2	16.3	15.1
CEC	1.9	2.0	2.05	2.1
Clearing house	0.45	0.42	0.36	0.30

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

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

TABLE 5 NUMBER OF TRANSACTIONS PROCESSED BY TARGET AND THE BELGIAN INTERBANK PAYMENT SYSTEMS

(Daily averages, thousands)

	1999	2000	2001	2002
TARGET system				
– cross-border payments	28.8	39.9	45.3	53.9
– national payments	134.4	148.3	166.0	199.2
ELLIPS				
– outgoing payments ⁽¹⁾	2.2	3.2	3.7	3.4
– incoming payments ⁽²⁾	1.8	2.3	2.6	3.0
– national payments	3.7	3.7	3.5	3.4
CEC	3,743.4	3,564.7	3,701.6	3,953.8
Clearing house	20.0	17.1	14.6	8.4

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

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

settlement system⁽¹⁾, forming part of TARGET, the ESCB payment system for the euro. It handles less than 1 p.c. of the number of interbank cashless payments, but more than 97 p.c. in terms of value. ELLIPS participants have automatic access to TARGET.

During the past year, TARGET processed a daily average of 253,016 payments in the EU, worth an average of 1,552 billion euro per day. The daily average number of cross-border payments totalled 53,858, with an average value of 485 billion euro; this represented a rise of 19 p.c. in the number of cross-border payments and a fall of 4.3 p.c. in the average value compared to the previous year.

In Belgium, most TARGET interbank payments are processed by ELLIPS⁽²⁾. The number of domestic payments declined by 3.5 p.c. during the past year and averages 3,379 transactions per day. The value of these payments has fallen to a daily average of 15 billion euro. The number of cross-border payments processed by ELLIPS declined to a daily average of 3,384 in the case of outgoing payments, and increased to a daily average of 2,996 for incoming payments. Both incoming and outgoing payments declined in terms of value.

Despite this contraction, Belgium still retains fifth place overall as a user of TARGET for cross-border payments.

More detailed information may be found in the annual reports of the CEC and ELLIPS, available on the website www.paymentsystems.be.

PARTICIPATION IN THE CLS SYSTEM

The CLS (*Continuous Linked Settlement*) system was launched in September 2002. This system operates on a payment-versus-payment basis, ensuring the simultaneous settlement of both elements of transactions effected on the foreign exchange markets, in order to reduce the systemic risk. The direct participants in this system, the *settlement members*, hold accounts in the various currencies accepted by the system⁽³⁾ with CLS Bank International – an American bank incorporated in New York and owned by the holding company CLS-services, based in London. CLS Bank also has a settlement account in the real-time gross settlement system of each of these currencies. For the euro, CLS Bank has an account with the ECB. Euro payments are routed via TARGET. Two Belgian credit institutions have *settlement member* status. They are required to adhere to very strict deadlines when effecting CLS

(1) The Belgian real-time gross settlement system (RTGS) comprises ELLIPS, the interbank communication interface, and RECOUR, the Bank's system of current accounts.

(2) Certain transactions effected between credit institutions and the Bank are recorded directly in the accounts which the former hold with the latter. The transactions of other national payment and settlement systems (the CEC, the Bank's securities settlement system, etc.) and the transactions of Clearnet and the Caisse interprofessionnelle (CIK) are also settled directly on current account, without the intervention of ELLIPS.

(3) At present, those currencies are: euro, US dollar, pound sterling, Swiss franc, Australian dollar and Japanese yen. Other currencies will be added later.



The TARGET system

TARGET is the abbreviation for *Trans-European Automated Real-time Gross settlement Express Transfers*. This is the European payment system for cross-border payments in euro.

TARGET is composed of the gross settlement systems of the fifteen EU Member States and the ECB's payment system (*European Payment Mechanism*). The existing systems underwent a minimum harmonisation process and are interlinked by a common structure. This approach seemed the best way of ensuring that the system would be operational at the time of the launch of Stage 3 of Economic and Monetary Union. It was designed to guarantee cross-border payment networks which were both rapid and reliable, meeting the needs of the Eurosystem as regards monetary policy operations. Nevertheless, the progressive financial integration within the euro area and the growing similarity of the operational needs of the main TARGET users are making it increasingly necessary to modify the system. The ECB Governing Council therefore took a number of decisions of principle concerning the new version of TARGET, called TARGET 2.

The Eurosystem's main aim in regard to European payment mechanisms is to evolve towards a system which caters for the new needs of users by harmonising the service, which guarantees cost-effectiveness and can rapidly capitalise on future developments, such as the tightening of security and reliability constraints and the forthcoming enlargement of the EU.

TARGET 2 will still be a multiple platform system, but the NCBs will no longer need to have their own individual systems, though they will still be linked to their respective banks. TARGET 2 is based on the principle of a vast array of basic services supplied by all the components of the system. A single price structure will be introduced. It will be based on the costs of the most efficient system. The launch date for TARGET 2 has not yet been fixed. It will be somewhere between 2005 and 2010.

payments in euro. ELLIPS accords absolute priority to the processing of these payments; this has led, in particular, to the development of new cash management functions.

2.4 Securities settlement

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

The expansion of activities already noted in 2001 continued during the year under review. Thus, the number of notifications recorded by the system increased from 751,819 to 828,931, a rise of 9.5 p.c. While this growth was evident in the majority of the activities, it was particularly strong on the secondary market in linear bonds, where new record levels were reached.

During the year under review, the IT environment of the Swift message system was modified without any major problems.

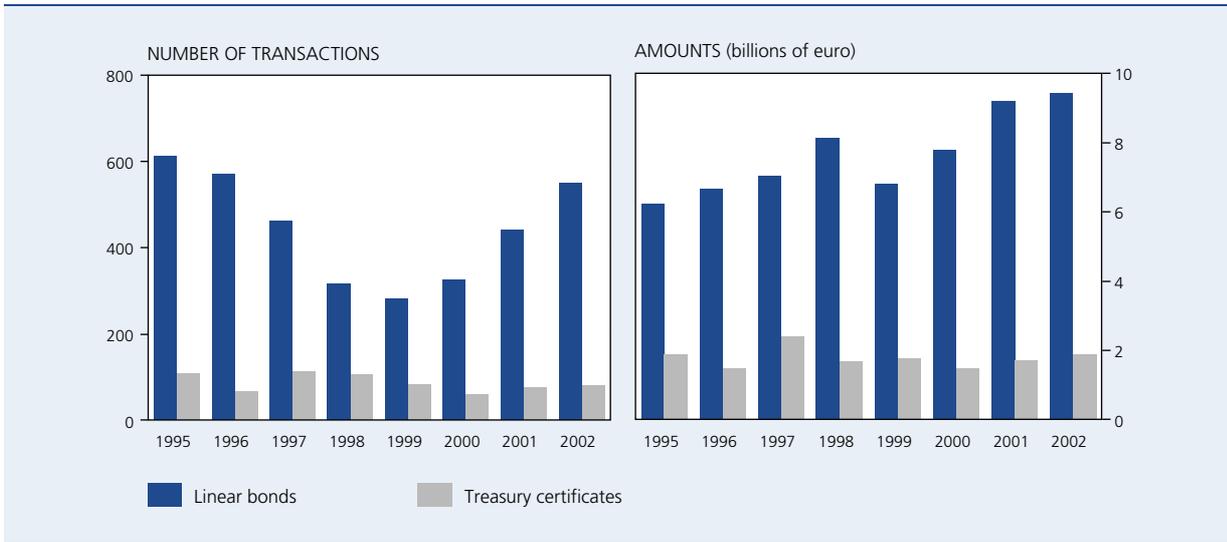
The dematerialisation of public debt securities continued in 2002: the bearer security form was abolished for the Belgian State's five perpetual loans. Furthermore, from 1 August 2002 these loans were denominated in euro.

Chart 5 shows the movement during the year under review in secondary market transactions in linear bonds and Treasury certificates handled by the securities settlement system managed by the Bank.

In 2002, the daily average number of transactions in linear bonds increased sharply. In terms of nominal value, a new record level was reached but the growth was less marked. In the case of Treasury certificates, there was a small rise in both the number of transactions and the nominal value.

CHART 5 SECONDARY MARKET TRANSACTIONS SETTLED BY THE SECURITIES SETTLEMENT SYSTEM

(Daily averages)



2.5 Centralised processing of commercial bills

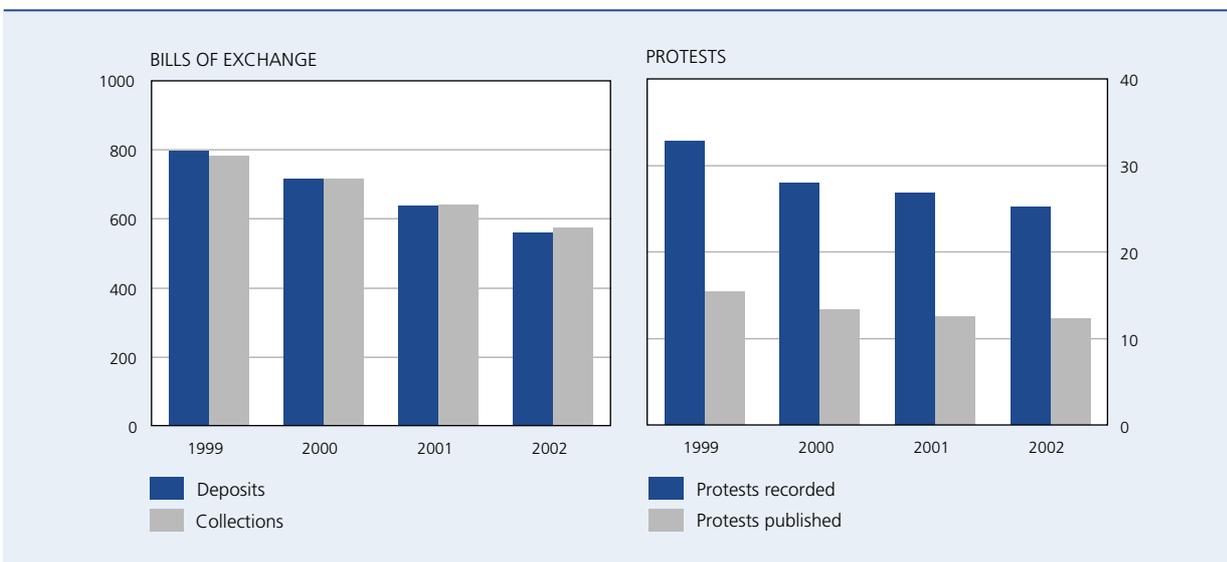
All commercial bills domiciled with credit institutions represented in the Clearing House are handled centrally by the Bank, which retains them and presents them for collection by an automated process. Thus, the *Centralised Processing of Commercial Bills* system arranges the dematerialised interbank circulation of commercial bills by eliminating any exchange of documents and using

computerised data instead. In 2002, 560,000 commercial bills were processed. The downward trend observed in preceding years remained clear.

The original agreement concluded in 1997 expired in September 2002. The Bank and the participating financial institutions decided to continue this activity and signed a new five-year agreement. The most important change concerns the system of charges.

CHART 6 ACTIVITIES OF THE CENTRALISED PROCESSING OF COMMERCIAL BILLS SYSTEM

(Thousands)





In accordance with the law which confers on it the role of central depository of documents of protest, the Bank also takes on the administrative work connected with the preparation, recording and publication of the protests. It passes on any unpaid protests to the registry of the competent court and enters the data in a central record system, offering the public access to that information on written request. In 2002, around 25,000 protests were drawn up. Half of them were paid before the set publication date, thus avoiding publication.



3. International cooperation and supervision of the financial system

3.1 Introduction

Contributing to the maintenance of financial stability is now one of the express tasks of the Bank. At national level, the Bank collaborated closely with the microprudential authorities and analysed the macroeconomic environment in which financial markets and institutions operate. At international level, it collaborated in the work of the various bodies responsible for improving the efficiency of the financial markets and the architecture of the international financial system.

The increased attention which the Bank devotes to financial stability was reflected in the launch, in July 2002, of a new publication, the *Financial Stability Review*, intended to encourage discussion and cooperation between the microprudential and macroprudential authorities, and more generally, among the various operators on the Belgian financial markets. This publication covers the three main areas in which the prudential authorities have to intervene to strengthen the resilience of the financial system: surveillance, risk prevention and crisis resolution. The main item in the first issue, destined to become a recurring feature of this publication, examines the determinants and current conditions of financial stability in Belgium. Four articles on particular topics then address more specific subjects which illustrate the great variety of analysis angles which may be adopted to assess the macroeconomic determinants of financial stability and the microeconomic basis for risk-taking.

3.2 International cooperation

The Bank took part in the work intended to preserve the stability of the international monetary and financial system, and that relating to the institutional aspects of

European integration and international cooperation in general.

The aspects of EU enlargement which fall within the sphere of the central banks received special attention. In addition, in cooperation with the ECB, the Bank organised the 2002 session of the seminar attended every year since 1999 by the most senior representatives of the central banks of both the euro area and the accession countries. The main topics at this session were, on the one hand, the foreign exchange policy in the context of the EU and the changeover to the euro, and on the other hand, the promotion of the stability of the financial system and the role of the central banks in that respect.

In consultation with the national political authorities and, increasingly, with its European partners, the Bank prepared the standpoints taken by the Belgian Executive Director of the IMF, an institution in which Belgium heads a constituency of ten countries, the other nine being Austria, Belarus, the Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey.

The IMF placed the emphasis on developing procedures for the prevention of financial crises and, in particular, on establishing a procedure for orderly, swift resolution. In that context, it was proposed that a sovereign debt restructuring mechanism should be created. In September 2002 the Bank arranged a conference where the debtor countries, bankers and legal and financial advisers debated this proposal.

The Bank also took part in the work of the Group of Ten (G 10) which, in 2002, was under Belgian presidency. This work concerned the implementation of clauses to be included in contracts for the issue of debt securities. This "contractual" approach may help to provide an orderly

solution to any payment problems by supplementing the “statutory” mechanisms referred to in the preceding paragraph. In addition, the Bank participated in the work of the Group of Ten *Committee on the global financial system*, the activities of various OECD working groups and the work on trade in services by the World Trade Organisation.

3.3 Macroprudential supervision

The Bank continued to take part in the preparation of financial legislation and the definition of policies aimed at promoting the stability of the financial institutions and markets at national, European and international level.

Thus, it collaborated in the work of the *Basle Committee on Banking Supervision* concerning revision of the capital requirements for banks, and the work conducted in parallel by the EU’s *Banking Advisory Committee*.

In addition, it was involved in the macroprudential analysis and the monitoring of structural developments in European banking systems, and in the crisis management studies conducted by the *Banking Supervision Committee* set up by the ESCB.

This work was carried out in close collaboration with the microprudential supervision authorities, collaboration which was further intensified in the context of the institutional links between the Bank, the BFC and the ISO, provided for by the law of 2 August 2002 on the supervision of the financial sector and on financial services (see Part I, section 9.3).

The Bank and prudential supervision

Prudential supervision comprises microprudential supervision, i.e. the oversight of individual financial institutions (credit institutions, insurance companies, investment firms) and macroprudential supervision, i.e. the oversight of the financial system as a whole.

As a result of recent developments in the financial system, the traditional distinction between microprudential and macroprudential concerns has become very blurred. The trend towards concentration in the banking sector is increasing the risk that, if one of the resulting large groups were to fail, the whole system would be affected. Moreover, as many of these groups have diversified their activities, it is no longer appropriate for banking supervision, the supervision of insurance companies and the supervision of investment firms to be kept strictly separate. Finally, the commercial banks are expanding internationally, especially in the euro area. Microprudential supervision therefore requires greater cooperation at that level. The Treaty establishing the European Community provides that the Eurosystem shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

In that context, and in order to step up cooperation between the institutions responsible for microprudential and macroprudential supervision (the BFC, the ISO and the Bank), the law of 2 August 2002 on the supervision of the financial sector and on financial services created two umbrella bodies, both chaired by the Governor of the Bank: the *Financial Services Authority Supervisory Board* (comprising the Governor, the members of the supervisory boards of the BFC and the ISO, and the Bank’s regents) and the *Financial Stability Committee* (composed of the members of the Boards of Directors of the BFC, the ISO and the Bank). This law also provides for the possible merger of the BFC and the ISO by a simplified procedure, as well as requiring the three institutions to cooperate more closely. Finally, two members of the Bank’s Board of Directors now have a seat on the Board of Directors of the BFC and one sits on the board of the ISO. However, these institutions retain their powers of microprudential supervision and autonomy of decision⁽¹⁾.

(1) The provisions of the law of 2 August 2002 on the supervision of the financial sector and on financial services concerning the composition and operating procedures of the Board of Directors of the BFC (Article 49 §§ 6 and 7) form the subject of an application for cancellation lodged with the Court of Arbitration in December 2002 by a group of the Bank’s shareholders. The Bank is not a party to these proceedings. However, it does consider that this application is unfounded.



3.4 Oversight of payment and securities settlement systems

The oversight of payment and settlement systems features two interactive elements: the preparation of standards and codes and the supervision of their implementation by the systems concerned. In 2002, the oversight activities concerned both these aspects.

- The Bank took part in the work of international groups and committees which examine these standards and codes. These included the Group of Ten *Committee on Payment and Settlement Systems*, the ESCB *Committee on Payment and Settlement Systems* and their respective working groups.
- Special attention focused on the organisation and operation of audits and the procedures intended to ensure the operational continuity of SWIFT, Euroclear Bank and Banksys. At Euroclear Bank, other matters examined were the finality of transactions via links with other systems and the management of credit risks and liquidity risks. At Banksys, the main emphasis was on the introduction of euro notes and coins.

Furthermore, the international consolidation of the securities settlement infrastructures centring on Euroclear Bank led to increased international cooperation by the supervisory authorities. The Bank concluded two new memorandums of understanding in 2002: one with the Central Bank of Ireland and the other with the BFC, the *Comité des marchés financiers* (France), the Banque de France, the Nederlandsche Bank and the *Autoriteit*

Financiële Markten (Netherlands). These agreements determine the international cooperation arrangements, and recognise the Bank as the lead overseer of Euroclear Bank and as the single access point for information exchanged among all the supervisory authorities concerned.

The fundamental task which the oversight of securities payment and settlement systems represents for a central bank was presented in detailed, specific form in the first edition of the *Financial Stability Review* (see point 3.1). This publication examines the Bank's approach and the priorities in regard to the systems subject to its oversight (SWIFT, Euroclear Bank, *Caisse interprofessionnelle*, the Bank's securities settlement system, ELLIPS, Banksys, Mastercard Europe and CEC).

3.5 Management of the Protection Fund for Deposits and Financial Instruments

The Protection Fund for Deposits and Financial Instruments is a public institution responsible for paying compensation, within certain limits, to savers and investors who suffer a loss as a result of the failure of a credit institution or investment firm. It is directed by a Board of Directors comprising representatives of the State, credit institutions and investment firms. The Bank is responsible for its daily management. It publishes an annual report on its activities.



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

4.1 State Cashier

As the State Cashier, the Bank centralises the State's current revenue and expenditure items each day. After the addition of the balance of the Post Office transactions, the final surplus or deficit is allocated to investment or covered by short-term borrowing, in collaboration with the Treasury.

In this capacity, the Bank is also responsible for the financial service in respect of loans issued by the State. Apart from a range of practical functions connected with the issue and redemption of these loans, this task entails paying interest coupons due and redeemable instruments.

4.2 Securities Regulation Fund

The Bank is responsible for the daily management of the Securities Regulation Fund, which ensures the liquidity of public loans, essentially for the benefit of non-professional investors, when the daily fixing takes place on Euronext

Brussels. The turnover on the fixing market declined sharply from 418 million euro in 2001 to 361 million euro in 2002. Almost 79 p.c. of the transactions were in Government bonds and classical loans, the remainder concerning linear bonds.

Under the law of 2 August 2002 on the supervision of the financial sector and on financial services, which has only partially entered into force, the current distinction between primary and secondary supervision of the financial markets will be abolished, the BFC becoming the sole supervisory authority. It is the BFC, rather than the Securities Regulation Fund, that will be responsible for supervising compliance with the code of conduct and the regulations on corrupt practices. It will have power to impose penalties for infringements of these rules. The Securities Regulation Fund will be approved as the market organiser for the secondary off-exchange market in linear bonds, split securities and Treasury certificates. It will draw up the market rules, determine the conditions for market membership, ensure market transparency, determine the rules and procedures relating to the notification of

The bond centre

Since 1991, the Bank's head office and its branches have been offering, among the services provided for the financial sector, an additional service called the bond centre, for which a charge is made. For credit institutions, this facility has the advantage of obviating the need for central handling of redeemable securities and coupons due; the branches concerned can themselves present these to the bond centre for collection.

At the request of the sector, the Bank decided to centralise the activities of the bond centre at the Brussels head office. In addition, an agreement was concluded with the banks concerning the complete modernisation of this service, including provision for the transmission of data by means of Internet technology.

transactions, supervise the implementation of those rules and impose penalties for infringements. Unlike the other market organisers, the Securities Regulation Fund will not impose these rules by contract but as now by way of regulation. Decisions by the Securities Regulation Fund may be challenged before the Brussels Court of Appeal.

The law also provides for the transfer to the BFC of the supervision of institutions holding dematerialised public debt instruments for third parties.



5. Circulation of information

5.1 Circulation of macroeconomic research and statistics

5.1.1 Publications

The Bank publishes economic analyses in Part I of its annual report, which is its main publication, and in its *Revue économique/Economisch Tijdschrift* and its *Working Papers*.

The Revue économique/Economisch Tijdschrift, published four times a year, provides information on key economic, financial and monetary developments. In 2002, it contained the statement by the Governor to the parliament's Finance Committee concerning the reform of financial sector supervision in Belgium, as well as articles on the Belgian economy, the savings rate, the level of government debt, the social balance sheet, the Phillips curve, the results of non-financial enterprises and the effects of the euro cash changeover on prices, inflation and demand for money. The February issue contained the report presented by the Governor on behalf of the Council of Regency.

The *Working Papers* are intended for a more specialist readership than the *Revue économique/Economisch Tijdschrift*. Sixteen issues were published in 2002, and included the contributions from speakers at the symposium held by the Bank in May 2002 on the subject of *New Views on Firms' Investment and Finance Decisions*.

As regards statistics, the Bank publishes:

- quarterly, a statistical bulletin in which some of the tables are updated monthly;
- weekly, indicators relating to the Belgian economy;
- at various intervals, statistics on the national or regional accounts and the foreign trade figures (this information is circulated on behalf of the National Accounts Institute);

- monthly, press releases on the performance of the economy.

All the Bank's publications can be consulted on its Internet site, which also offers facilities for subscribing to the various publications, in electronic form or on paper. In addition, this site gives access to Belgostat, a database offering extensive functionalities and containing a wide range of economic and financial statistics, updated daily. All the Bank's statistics and the foreign trade yearbook are also available on CD-rom.

Furthermore, the Bank supplies numerous international organisations (IMF, OECD, ECB, BIS, European Commission, etc.) with the Belgian statistical data which they require.

5.1.2 Scientific library

The Bank's scientific library has one of the largest collections of monographs and periodicals in Belgium on economic, financial and monetary subjects. This collection is located in the head office buildings. A reading room is open to the public from Monday to Friday, from 9 a.m. to 3.30 p.m. The library catalogue can be consulted on the Bank's Internet site.

5.2 Microeconomic information centers

5.2.1 Central Balance Sheet Office

The Central Balance Sheet Office ensures the performance of the tasks entrusted to the Bank by law as regards the collection, circulation and processing of the annual accounts of enterprises.

The catalogue of annual accounts and consolidated accounts lodged with the Bank by enterprises during the year under review and in the three preceding years were already freely available on the Bank's website. Since December 2001, subscribers have also been able to consult the complete contents of these annual accounts on line. In the space of barely a year, over 1,100 requests were recorded, demonstrating that this service meets a real need. All subscribers appreciate this system, which gives them unrestricted access to the information when they want it, without the inevitable waste of time associated with collecting information from a counter, by post or even by e-mail. To some extent, this method of consultation has replaced the traditional channels for circulating information. As well as that, the overall demand has continued to grow.

Owing to its central position in the Belgian system for the publication of annual accounts, the Bank is associated with the various legislative projects intended to enhance the performance and exhaustiveness of the system. Thus, it helped to draft the law on the *Central Enterprise Data Bank* through which the Bank obtains and supplies information (as an authentic source of the references relating to the annual accounts). From 2004 onwards, enterprise identification data – used by the Bank in the course of its work – must be designed for automatic retrieval from the *Central Enterprise Data Bank*, guaranteeing that the data in question are up-to-date. Under the law of 2 May 2002 on non-profit-making institutions, almost 6,000 major non-profit-making organisations will, in principle, have to make their annual accounts available to interested parties via the Bank, from 2005 onwards.

Other changes will take effect shortly. Thus, the Bank is collaborating on the simplification of the "structural" survey conducted each year by the *National Statistical Institute* among tens of thousands of enterprises. This survey will be simplified considerably from 2003 onwards by eliminating the duplication of data appearing in the annual accounts of enterprises. Firms will also be able to opt to communicate the survey data to the Bank at the same time as lodging their annual accounts. Thus, the Bank will play a practical role in the process of administrative simplification instituted by the government for the benefit of the business community.

Before long, it will also be possible to lodge standardised annual accounts via the Internet. This facility will be phased in, being offered first to "reporting agents", i.e. accountants, accountancy firms or other enterprises acting as intermediaries for enterprises required to publish their accounts. In practice, there are several thousand such "reporting agents" who between them file over half

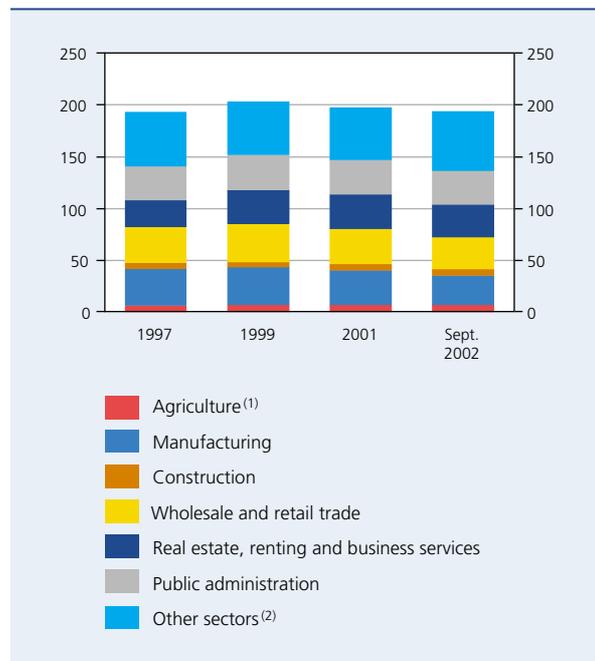
of the annual accounts lodged each year. Development of this new application will accord priority to ease of use and security.

5.2.2 Central Office for Credits to Enterprises

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

At the end of September 2002, 309,769 credit beneficiaries (of whom 2.7 p.c. were non-resident) and 614,233 credits had been recorded. Chart 7 shows the movement since 1997 in payment credits granted to residents, broken down by sector of activity. On 30 September 2002, the total amount of credits opened came to 193.3 billion euro, against 197 billion at the end of the preceding year, a fall of 1.9 p.c.

CHART 7 PAYMENT CREDITS GRANTED TO RESIDENTS BY CREDIT INSTITUTIONS ESTABLISHED IN BELGIUM
(End-of-period credits opened, billions of euro)



(1) Including hunting, forestry and fishing

(2) Mining and quarrying; electricity, gas and water supply; transport, storage and communications; hotels and restaurants; financial intermediation; education, health and miscellaneous services.



A joint discussion with the banking sector was launched on amplifying the data held by the existing Central Office in order to improve the management of credit risk. Such a data base, which would preserve long historical series, would help the banks to apply the advanced method advocated by the Basle Committee to ensure that their capital is adequate for their credit risk. This initiative would also provide an important source of information for those responsible for banking supervision.

Since April 2002, the Central Office has supplied the economic statistics item on the Bank's Internet site devoted to the *Corporate Credit Observatory*. This Observatory provides the public with information on the cost of, and movement in, bank credit extended to companies, with a breakdown by enterprise size.

As part of the cooperation between central credit offices in the euro area, data exchange tests were conducted during 2002, with conclusive results; the tests will continue in 2003. The legal problems in some countries have been or are being resolved. A protocol between the countries concerned specifies that the exchanges will begin by no later than the end of 2004.

5.2.3 Central Office for Credits to Individuals

The law of 10 August 2001 on the *Central Office for Credits to Individuals*, promulgated as part of the government's policy on the prevention of excessive debt, makes the Bank responsible for recording all consumer credit contracts and mortgage loans granted to individuals for private purposes. Lenders must consult these records before granting any new credit. On 7 July 2002, a Royal Decree was published, specifying the Central Office's operating procedures and setting 1 June 2003 as the date for its entry into effect.

In line with existing practice, this "positive" Central Office will record instances of default on payment relating to consumer credit contracts and mortgage loans granted to individuals for private purposes. It will also record all current credit contracts so that, once the new Central Office is launched, the information supplied will be as pertinent as possible for assessing the credit risk. Lenders will be required to consult the Central Office before granting any new credit.

In 2002, the Bank continued the IT development work of the Central Office and published instructions for lenders, for whom several information sessions were held. These instructions were discussed and approved by the Advisory Committee, which comprises representatives of lenders,

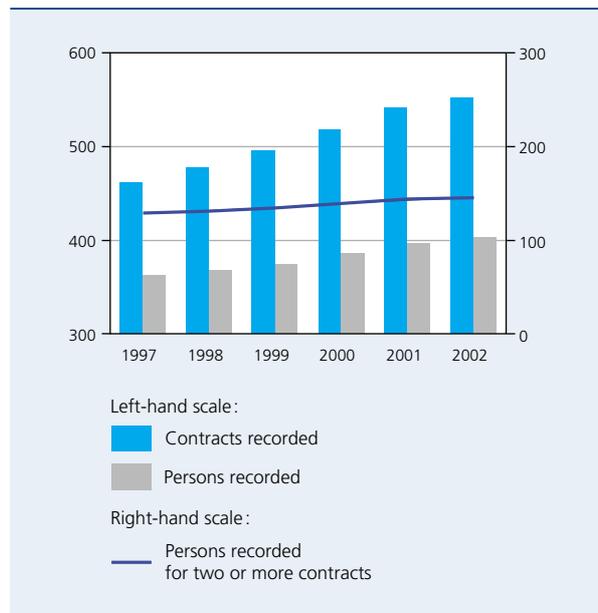
borrowers, the Ministry of Economic Affairs, the Privacy Protection Committee and the Bank.

At the end of 2002, the Central Office records contained data on 402,600 people and around 552,000 credit contracts in arrears, of which 85 p.c. had not been paid. The total amount of these unpaid arrears came to 1.9 billion euro, or around 4,100 euro per contract. In 2002, lenders consulted the records an average of 17,000 times per working day, compared to the figure of 17,850 in the previous year. In 7 p.c. of cases, the check concerned someone who was actually registered.

The Central Office also records the notices of collective debt settlement forwarded by the registries of the courts of first instance. These amicable or judicial settlements concern a reduction in charges or rescheduling of the debts. They are granted to persons on application who are unable, on a long-term basis, to meet their repayments. Around 7,200 new notices of collective debt settlement were recorded in 2002.

More detailed statistical information is available on the Bank's Internet site and is published in a brochure every six months.

CHART 8 CONTRACTS AND PERSONS RECORDED BY THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS
(Thousands)



5.2.4 Microeconomic analysis

At the beginning of 2002 the Board of Directors decided to create, within the Microeconomic Information Department, an entity devoted to microeconomic research. The results of this research are intended for both internal and external target groups. The first external publication, which appeared in the *Revue économique/Economisch Tijdschrift*, concerned analysis of non-financial companies. A study of subcontracting in the vehicle assembly sector in Belgium will be published in 2003.

One of the primary reasons for creating the Microeconomic Analysis Unit is the Bank's desire to contribute to research on the economic situation in various branches of activity, in order to supply trade associations, other specialists and a wider public with information which is not always accessible to them or which is hard to obtain. Thus, the sectoral study mentioned above will endeavour to give an accurate measurement of indirect employment. The Bank also hopes to contribute to research on methods of applied economic analysis.

5.3 Other communication activities

The Bank wants to make its activities better known and demonstrate their usefulness and quality. As the central bank, it is concerned to give an account of its work, that being the essential corollary to its independence. Against this background, it intends to conduct an education campaign to make the public more aware of its work.

For that purpose, it has devised an action plan which, in the near future, will involve upgrading the Bank's Internet site, strengthening contacts with the press, improving the consistency of presentation in its publications (printed and electronic), organising a currency exhibition and creating a new internal communication tool.

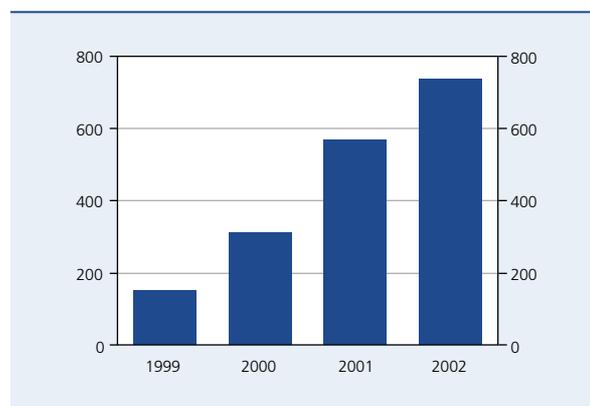
On the Internet site, an item has been created listing the most frequently asked questions put to the Bank. In seven months it has recorded over 12,000 visits to the site, and is updated and developed on a regular basis.

External communication has also been improved by strengthening links with the media and introducing a corporate style guide. This was developed to harmonise the presentation and enhance the visibility of all the publications circulated by the Bank. It is based on a new logo and was launched at the time of production of the 2002 annual report.

A temporary currency exhibition – *The Story of Money* – opened on 28 February 2002, the last day on which the Belgian franc was legal tender. In view of its success – in nine months it received almost 35,000 visitors – the Bank decided to make it into a permanent exhibition. This new museum, which is primarily aimed at schools, is attractive and accessible to every sector of the public.

All employees pass on to outsiders their perceived image of the organisation for which they work and what they know about it. Internal communication therefore has a vital role. The Bank's Intranet site has been developed, and there is now a portal providing access to the most important information on the life of the Bank. Finally, a new house journal has been launched, and the first issue appeared at the beginning of 2003.

CHART 9 VISITS TO THE INTERNET SITE
(Thousands)





6. Management of resources

6.1 Strategic guidelines

In accordance with the strategic options of the Board of Directors, a coordinated plan was set up in 2001 and developed during the year under review: each department and independent service has updated and supplemented its three-year master plan. These plans were presented to the Board of Directors, which discussed the objectives, the main action plans and the resources to be used over the next three financial years.

With a view to the strategic reorientation of activities and cost control, all the activities concerning the handling of banknotes and coins were regrouped in a single *Monetary Circulation and Provincial Establishments Department*, and were analysed in depth to step up productivity by harmonising working procedures, improving IT applications and adapting the organisational structures.

The network restructuring is continuing: in 2002, the Bruges and Charleroi branches closed down and the Arlon, Ghent, Louvain, Namur and Wavre branches became representative agencies.

The Bank's workforce should be cut to 2,200 full-time equivalents in 2005 (see point 6.3).

6.2 Management control

The strategic guidelines also led to the initiation of some major changes to the management control instruments.

In order to ensure optimum monitoring of the master plans and the attainment of the strategic goals, a *balanced scorecard* project was launched, initially for two pilot entities: the General Statistics Department and the Central Balance Sheet Office.

Next, in the final quarter of 2002, the Bank started devising a *corporate balanced scorecard* intended for monitoring the implementation of the strategy and the priorities for the organisation as a whole, by means of both financial and non-financial indicators (customer satisfaction, improvements to operating processes, etc.).

The installation of *Enterprise Resource Planning software*, associated with a business process reengineering project and a coordinated approach to *change management* will contribute to improvements in operating processes. In phase 1, the financial accounts and staff administration will be adapted to the new IT environment. Other functions will follow: purchasing, sales, budget management and analytical accounting.

The business recovery plan

Following the events of 11 September 2001, the business recovery arrangements became a key priority for both the Bank and the financial sector as a whole. The business recovery plan, which already existed and was regularly updated, was subjected to critical reappraisal in the light of these events. The Bank also reorganised its crisis management so that, in the event of a catastrophe, it would be able to respond more flexibly than before.

6.3 Human resources

One of the measures taken by the Bank to render human resources management more dynamic was the introduction of a skills management model. Skills management will be the cornerstone of the reorganisation of the various human resources processes (recruitment, training, assessment, promotion, transfer). The aim is to match individual skills as closely as possible to the goals and strategy of the Bank. Apart from the assessment interviews which were already being conducted annually, functional interviews were also held, significantly improving communication between higher ranking officials and their staff. The allocation of the available potential should therefore continue to improve, enabling the Bank to adapt flexibly to circumstances and new needs.

In accordance with the sectoral collective labour agreement of 27 November 2001, a development plan is devised during the functional interview. This enables all employees to make their training requirements known and to attend the necessary courses.

An *Enterprise Resource Planning* project was launched in order to harmonise the handling of human resources processes. It will be phased in over several years (see point 6.2).

In 2002, over 63,000 hours of training were provided. While information technology remains the primary focus (one third of the total), there was a marked rise in the proportion of training devoted to language courses, which now account for 26 p.c. Next come economics

and finance (14 p.c.), followed by communication and management courses (12 p.c.). In addition, to facilitate the establishment of the new staff assessment system, a programme concentrating on the conduct of functional interviews was arranged for over 400 line managers.

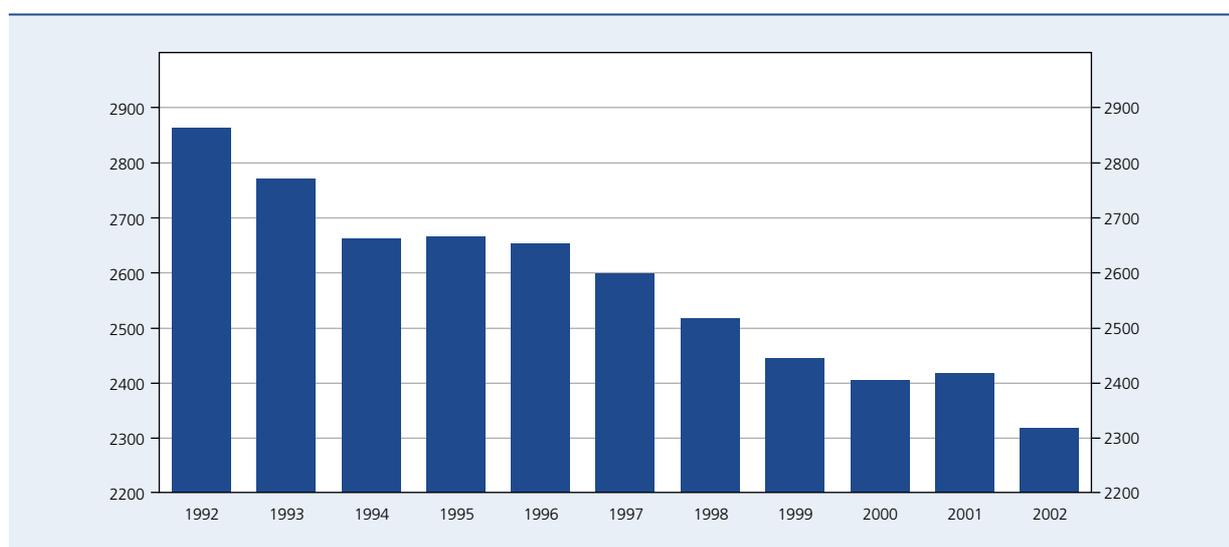
Following the changeover to the euro and restructuring of the provincial establishments, many members of staff were transferred to new units. The wishes of the persons concerned were taken into account wherever possible in carrying out this operation. The Bank provided support and training for the persons concerned.

The size of the workforce continued to decline last year. At the end of 2002 the number of permanent staff expressed as full-time equivalents came to 2,320, or 98 fewer than at the end of the previous year. This significant reduction is due mainly to early departures in accordance with the social contract concluded with staff representatives. One of the aims of this agreement is to allow staffing to be geared to changes in the environment and requirements following the switch to the euro.

Taking account of the departures scheduled between now and 2005 and the priorities set for the coming years, the Board of Directors decided to continue cutting staff. By 2005, the Bank's workforce is to be reduced to 2,200 full-time equivalents. In accordance with the Bank's social tradition, these staff cuts will not entail any redundancies.

One of the Bank's key attractions as an employer is that it enables its staff to achieve a good balance between their working life and their private life. Many members of staff

CHART 10 PERMANENT STAFF
(End-of-period, full-time equivalents)





have opted for time credit and part-time working. At the end of 2002, nearly 25 p.c. of staff were working part-time. The scheme for working 80 p.c. of normal hours continues to be highly successful, but a 95 p.c. scheme is also gaining ground. In accordance with the law, the Bank has also offered "first-job contracts" since 2000. At the end of 2002 it was employing 80 people under this scheme.

Given its strategic objective of being among the elite of the NCBs in Europe, the Bank wishes to maintain harmony in the workplace. To that end, it keeps in close contact with the staff organisations and arranges regular employee consultation. The master plans relating, in particular to the strategic repositioning of the Bank, were discussed at length by the Works Council.

It must be possible for all the necessary changes to be implemented in a manner which is acceptable in social terms. In 2001 the Bank had already concluded a social contract giving employees security of employment.

On 23 October 2002, the Council of Regency approved a code of ethics applicable to members of the Board of Directors and employees involved in monetary policy operations, foreign exchange transactions and the management of the financial assets of the ECB and the Bank, and to those who may have regular access to confidential information which may influence prices. This code requires compliance with rules of conduct intended to prevent conflicts of interest, the misuse of privileged information and the illicit use of confidential information. It also makes provision for a series of control measures. It was adopted in response to the ECB guidelines on the execution of the above tasks by the NCBs and the law of 2 August 2002 on the supervision of the financial sector and on financial services.

The Bank was saddened by the death of Mrs Godelieve Van Poucke, honorary secretary, on 23 July 2002. Mrs Van Poucke joined the Bank in 1945 and worked as Secretary from 1972 to 1977. The Bank remembers her with respect and is grateful for her particularly capable and dedicated service.

The Bank was also saddened in 2002 by the death of four members of its staff: Messrs. E. Crasset, F. De Valck, G. Lauwers and G. Peeters.

They will always be remembered.

In addition, the Bank wishes to express its gratitude to the members of the managerial and supervisory staff who reached the end of their careers:

Mr	J.-P. Brisé	A. Kozyns
Mrs	A.-M. Peeters	F. Serckx
Messrs	J. Moerman	A. Bevernage
	F. Depuydt	J.-C. Navez
	G. Melis	G. Van Den Broeck
	W. Steppé	

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

Mrs	M. Baecke	R. Brackeva	Mrs	N. Cobbaert	
Mrs	A.-M. Beguin	Mrs	J. Braeckman	Mr	L. Coene
Mr	P. Benda	Mrs	M. Camberlin	Mrs	M. Collijns
Mrs	R. Bertels	Mr	G. Cardoen	Messrs	S. Colpaert
Mrs	C. Biondolillo	Mrs	C. Carlier		C. De Bakker
Messrs	D. Boinnard	Mr	G. Champagne		R. Debeurme

Mrs	G. De Bondt	Mr	R. Knipper	Messrs	R. Thielemans
Mrs	A. Debontridder	Mrs	M.-J. Lambrechts		B. Thijs
Mr	G. De Bruyn	Mr	E. Leemans		G. Trappeniers
Mrs	M. De Bruyn	Mrs	C. Limage		J. Vaes
Mrs	M. Decaluwé	Mr	R. Lonys	Mrs	C. Van Bever
Mrs	C. De Cleyne	Mrs	J. Lucas	Mrs	A. Van Cauwenberghe
Messrs	F. Decoster	Mrs	M.-R. Mat	Miss	D. Vandendamme
	P. De Haeck	Mr	L. Meersman	Mr	E. Vanden Driessche
Mrs	M. De Hertogh	Mrs	E. Mengels	Mrs	E. Van Den Stock
Mrs	N. De Hondt	Mr	J. Merckx	Mr	D. Vanderkelen
Messrs	W. De Jonghe	Mrs	J. Moens	Mrs	D. Vandervelde
	M. De Kesel	Messrs	R. Moens	Mrs	M. Vandeveld
	J. Dekimpe		R. Momers	Mrs	C. Van Eeckhoudt
Mrs	E. Delanghe	Mrs	A. Mouton	Mrs	J. Van Geysse
Mrs	L. Delbroek	Mr	R. Neyt	Mrs	N. Van Hese
Messrs	J.-P. Delsaux	Mrs	M.-L. Pareng	Mr	A. Van Holsbeeck
	N. Dendas	Messrs	J. Permentiers	Miss	L. Van Hove
	J. De Pauw		F. Peypops	Mrs	N. Van Malderen
	M. De Portemont		J.-C. Piret	Mrs	C. Van Praet
	E. De Ron		P. Premereur	Mrs	M. Van Schandevyl
Mrs	M. Dethier		M. Raes	Messrs	C. Van Sebroeck
Mrs	N. De Vrieze		F. Rans		R. Van Vlaenderen
Mr	M. Dewitte	Mrs	A. Raziano	Mrs	M. Verbeurgt
Mrs	C. Donkerwolcke	Mrs	J. Reniers	Messrs	E. Verbist
Mr	G. Evens	Messrs	G. Ribbens		R. Verdingh
Miss	H. Félix		J. Riga	Mrs	J. Verheyden
Messrs	W. Fripiat		J. Roeckens	Mrs	M. Verheyden
	M. Gauquier		R. Roelofs	Mrs	M. Verhoonhove
Mrs	C. Godfriaux		M. Roland	Messrs	F. Verschaffel
Mrs	M. Govaerts	Mrs	A.-M. Ruth		P. Verstraeten
Mrs	J. Harnie	Mr	F. Sallustin		G. Vertonghen
Messrs	A. Hoefman	Mrs	C. Sellicaerts	Mrs	J. Volkaerts
	E. Holemans	Mr	R. Simon	Mrs	A. Wayenbergh
	E. Hoste	Mrs	R.-M. Spinnoy	Messrs	J.-M. Wicken
	A. Huijbregts	Mr	P. Stessens		E. Wirken
Mrs	M.-T. Jenaer	Mrs	N. Strompers		D. Wynants

6.4 Information technology resources

Two major projects dominated the Bank's information technology activities in 2002:

- The implementation of the new IT architecture, started within the last few years and providing for the use of the Internet technology for the secure exchange of data between the Bank and its partners, continued in 2002. Certain applications connected with the Bank's basic activities (and particularly the exchange of messages intended for the CEC and the "positive" *Central Office for Credits to Individuals*) will use this infrastructure in the fairly near future. For the design and installation of these environments, the Bank enlisted

the aid of outside firms which had demonstrated their expertise in the subject.

- The Bank also decided to integrate a major part of the existing IT applications associated with internal management by progressively converting them to an *Enterprise Resource Planning* environment. For that purpose it acquired a software package which will be installed via a planned approach, in collaboration with an external partner.



Furthermore, the Bank is devoting much effort to providing its staff with IT facilities outside the working environment. Accordingly, members of the Bank's managerial and supervisory staff are offered a portable computer and a broad band connection giving them remote access (e.g. from home) to the Bank's IT environment.

The continuity of the operation of vital applications remains a key concern: the effectiveness of the emergency plan is regularly tested using various scenarios, and the back-up arrangements are updated as the infrastructure evolves.

6.5 Premises

The Bank is disposing of buildings which it no longer uses, thus avoiding maintenance costs. The buildings are valued by independent experts, and the sales are publicised in the press. As a rule, the very specific characteristics of the Bank's buildings, including their special security devices, reduce their market value and make valuation difficult.

Over the past ten years, the Bank has sold off about twenty buildings to the highest bidders, including two in 2002 which housed the Courtrai and Hasselt branches. These two properties were subsequently resold by the buyers, at a higher price, to takers who had not come forward at the time of the sale by the Bank. As soon as the Bank heard of these new deals, it launched internal inquiries, but these did not reveal any anomalies at the Bank. It also brought an action for annulment and liability proceedings against the external expert involved in the sale of the Hasselt property. Against that background, in order to further enhance the transparency of its property transactions, it has decided that from now on it will dispose of its buildings by public sale. This method will be reviewed periodically.



The Bank, an atypical public limited liability company

The Bank is governed by the Treaty establishing the European Community, the law of 22 February 1998 establishing its organic statute, the Statutes of the Bank and additionally by the provisions relating to public limited liability companies.

It therefore has its own specific legal status, organs and rules of operation which distinguish it from other public limited liability companies.

The governor directs the Bank. He presides over the Board of Directors and the Council of Regency.

The Board of Directors is responsible for the administration and management of the Bank, it draws up the budget, the report on operations and the annual accounts, and has the residual powers which are vested in the executive board of a conventional public limited company.

The King appoints the governor and the other members of the Board of Directors, the latter on the proposal of the Council of Regency.

The approval of the budget, the annual accounts and the report on operations, and the distribution of the profits are the responsibility of the Council of Regency. This is the body which discharges the members of the Board of Directors. The Council of Regency also has power to amend the Statutes to bring them into line with the Organic Law and with Belgium's international obligations.

The general meeting of the Bank represents the totality of the shareholders. It is presided over by the Governor who presents the annual report on operations. The law does not regard the general meeting as an organ, in contrast to that of other public limited liability companies. Its powers are limited. It hears the administration's report on the activities of the past year, elects the regents (from dual lists proposed by the organisations designated in the Organic Law and by the Minister of Finance) and the censors (from among candidates with particular competence as supervisors). It also appoints the auditors on the proposal of the Works Council. The general meeting has power to amend the Statutes in cases where that power is not reserved for the Council of Regency. It may also deliberate on the matters mentioned in the convening notices, matters submitted to it by the Council of Regency or the Board of Censors, and proposals, signed by five members, and brought to the attention of the Council of Regency at least ten days before the meeting for inclusion on the agenda.

The Minister of Finance has the right to supervise the tasks and operations of the Bank which are not within the domain of the ESCB and may in that connection oppose the execution of any measure which would be contrary to the law, the Statutes or the interests of the State. His representative attends, ex officio, the meetings of the Council of Regency and those of the Board of Censors.

A Board comprising two auditors, appointed by the general meeting of the Bank on the proposal of the Works Council, exercises the supervisory function prescribed by Article 27.1 of the Statute of the ESCB. It renders account to the Council of Regency, the body responsible for approving the annual accounts. It also performs a specific supervision and information function vis-à-vis the Works Council.



1. Amendment of the Statutes

In 2002, the Bank's Statutes were twice amended by the Council of Regency.

On 23 January 2002, they were adapted to convert the capital to euro, in accordance with the amendment made to the Organic Law by Article 2 point 38 of the Royal Decree of 20 July 2000 implementing the Law of 26 June 2000 on the introduction of the euro in legislation concerning the matters referred to in Article 78 of the Constitution and falling within the competence of the Ministry of Finance. This amendment to the Statutes was approved by a Royal Decree dated 21 February 2002, published in the *Moniteur belge/Belgisch Staatsblad* on 28 May 2002.

On 18 September 2002, the Statutes were amended to bring them into line with Article 879 of the Companies Code (introduced by Article 206 of the Programme Law of 2 August 2002) giving the Council of Regency power to amend the Statutes of the Bank in order to indicate its status as a public limited liability company issuing or having issued securities for public subscription, and with the Law of 22 February 1998 establishing the Organic Statute of the Bank. The latter has indeed been amended several times as a result of:

- Article 16 of the Law of 28 February 2002 organising the compilation of the balance of payments and of the overall external position of Belgium, and amending the Decree-Law of 6 October 1944 on exchange control and miscellaneous legal provisions;
- Article 141 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, partially entered into force.

These amendments to the Statutes were approved by a Royal Decree dated 12 December 2002, published in the *Moniteur belge / Belgisch Staatsblad* on 8 January 2003.



2. Registration of the Bank on the list of companies issuing or having issued securities for public subscription

Pursuant to Article 879 of the Companies Code, introduced by Article 206 of the Programme Law of 2 August 2002, the BFC recorded the Bank on the list of companies issuing or having issued securities for public subscription, with a note drawing the public's attention to the fact that the Bank is governed only additionally by the provisions on public limited liability companies. This note reads as follows:

Article 879 of the Companies Code provides that: "The National Bank of Belgium shall be governed only additionally by the provisions relating to public limited liability companies."

Article 2 of the Law of 22 February 1998 establishing the Organic Statute of the National Bank of Belgium is in turn worded as follows:

"The National Bank of Belgium [...] shall form an integral part of the European System of Central Banks [...] whose Statute has been established by the Protocol relating to it and annexed to the Treaty establishing the European Community.

Furthermore, the Bank shall be governed by this law, its own Statutes and, additionally, by the provisions relating to public limited liability companies."

In accordance with Article 141, § 1 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, the words "and, additionally, by the provisions relating to public limited liability companies" shall be interpreted as meaning that the provisions relating to public limited liability companies shall not apply to the National Bank of Belgium except:

- 1° in the case of matters which are not regulated either by the provisions of Title VII of Part 3 of the Treaty establishing the European Community and of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, or by the Law of 22 February 1998 mentioned above or the Statutes of the National Bank of Belgium; and*
- 2° in so far as they are not contrary to the provisions referred to in 1°.*



3. Administration

3.1 Governor

Mr Guy Quaden has held the office of Governor since 1 March 1999.

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

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

3.2 Board of Directors

3.2.1 Powers

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

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

3.2.2 Composition

The Board of Directors is composed of the Governor and five to seven directors (six in 2002). It includes an equal number of French and Dutch speakers, with the possible exception of the Governor. The King confers the title of vice-governor on one of the directors. That title was given to Mrs Marcia De Wachter on 1 March 1999.

The directors are appointed by the King, on the proposal of the Council of Regency, for a renewable term of six years. They may be removed from office only if they have been guilty of serious misconduct or if they no longer fulfil the conditions necessary for the performance of their duties.

In order to guarantee their independence, the Organic Law prohibits the members of the Board of Directors, except in certain cases, from holding office in a commercial company or a company which is commercial in form, or in any public body which carries on an industrial, commercial or financial activity. Moreover, members of the Legislative Chambers, the European Parliament, the Councils of the Communities and Regions, persons who hold the position of minister or secretary of State or of member of the Government of a Community or Region and members of the staff of a member of the Federal Government or of the Government of a Community or Region may not be members of the Board of Directors. This last-mentioned incompatibility also applies to the regents and censors.

3.3 Council of Regency

3.3.1 Powers

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

It takes cognisance every month of the Bank's financial situation. It approves the expenditure budget and the annual accounts, and finally determines the distribution of the profits proposed by the Board of Directors (see also the approval for 2002 by the Council of Regency). It approves the Annual Report on the Bank's operations. It has power to amend the Statutes of the Bank in order to bring them into line with the Organic Law and the international obligations which are binding on Belgium. On a proposal from the Board of Directors, it lays down the internal regulations, containing the basic rules for the operation of the Bank's organs and the organisation of its departments, services and outside offices. It may specially delegate some of these powers to the Board of Directors.

The Council of Regency fixes the individual salaries and pensions of the members of the Board of Directors. These salaries and pensions may not include a share in the profits, and no remuneration whatsoever may be added thereto by the Bank. It fixes the amount of the allowance received by the censors.

It meets at least twice a month. Resolutions are adopted by a majority of the votes.

3.3.2 Composition

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

The regents are elected by the general meeting for a renewable term of three years. Two regents are chosen on the proposal of the most representative labour organisations, three on the proposal of the most representative organisations from industry and commerce, from agriculture and from small and medium-sized enterprises and traders, and five on the proposal of the Minister of Finance. They may not hold office as managing director, director or manager in a credit institution.

In 2002, Messrs Philippe Wilmès and Jacques Forest were re-elected on the respective proposals of the Minister of Finance and the most representative organisations from industry and commerce, from agriculture and from small and medium-sized enterprises and traders. Mrs Mia De Vits was elected on the proposal of the most representative labour organisations to succeed Mr Michel Nollet. Mr Jean-Pierre Hansen and Mrs Martine Durez, a former censor, were elected on the proposal of the Minister of Finance to succeed Mr Eddy Wymeersch and Baron Dominique Collinet, respectively, who had resigned. Messrs Nollet and Wymeersch and Baron Collinet received the honorary title of their office.



3.3.3 Activities in 2002

In 2002, the Council of Regency discussed general questions relating to the Bank and monitored the development of economic activity, prices, employment, labour costs, public finances and the financial markets.

In particular, it also examined the following questions, most of which were addressed at both Belgian and European level:

- credit management by the banks;
- the role of the Stability and Growth Pact;
- the effects of the euro cash changeover;
- employment policy;
- links between inflation and growth;
- inflation differentials in the monetary union;
- the characteristics of the services sector;
- factors determining the development of private consumption;
- the impact of public spending on growth;
- the process of convergence of the economies of the EU accession countries.

It also received information on the question of financial stability, the bursting of the financial bubble in the United States and the activities of the main international financial institutions.

4. Supervision

Operating control mechanisms

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

As stipulated by the internal regulations updated in 2002 and approved by the Council of Regency, the internal control structure is based on the principle whereby each organisational unit carries primary responsibility for its activities and its efficiency in executing the decisions taken by the Board of Directors (see also Activities, chapter 6). The implementation of the internal management systems is monitored by the Strategy and Organisation service. From now on, budget proposals are linked to medium-term master plans. In addition, a *balanced scorecard* is being introduced. This control instrument will enable the management to monitor the implementation of the strategy by means of both financial and non-financial indicators.

A code of ethics has been adopted and now applies to the persons involved at all levels of the hierarchy in monetary policy transactions, foreign exchange transactions and the management of the financial assets of the ECB and of the Bank, and to persons who have regular access to confidential information which may influence prices.

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

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

The Bank is also subject to various forms of external control.

The external auditors represent the first level. They verify and certify the Bank's accounts on the basis of the accounting data and the audits conducted by the Internal Audit service.

The Board of Censors supervises the preparation and execution of the budget and takes cognisance of the activities of the Internal Audit service.



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

The Government Commissioner, who represents the Minister of Finance, is entitled to monitor the Bank's operations – except those concerning the ESCB – and to oppose the execution of any measure which would be contrary to the law, the Statutes or the interests of the State.

Finally, the Governor may be heard by the competent committees of the lower and upper houses of the Belgian parliament, at their request or on his own initiative.

Furthermore, under the Statute of the ESCB and of the ECB, the Bank acts in accordance with the guidelines and instructions of the ECB. The Governing Council takes the necessary steps to ensure compliance with the guidelines and instructions of the ECB, and requires that any necessary information be given it.

4.1 Government Commissioner

The Government Commissioner represents the Minister of Finance. He attends, *ex officio*, in an advisory capacity, the meetings of the Council of Regency and the Board of Censors. He supervises the Bank's activities. Except as regards the tasks and operations within the domain of the ESCB, he suspends and brings to the attention of the Minister of Finance any decision which is contrary to the law, the Statutes or the interests of the State. If the Minister of Finance has not given a decision within eight days of the suspension, the decision may be implemented.

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

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

Mr Grégoire Brouhns has held the position of Government Commissioner since 1 November 1990.

4.2 Auditors

The auditors perform the auditing functions prescribed by Article 27.1 of the Protocol on the Statute of the ESCB and of the ECB. They certify the annual accounts. In addition, they perform a specific supervision and information role in relation to the Works Council. The general meeting on 25 March 2002 reappointed for a three-year period the auditors KPMG and Deloitte & Touche, represented respectively by Mr Pierre Berger and Mrs Danielle Jacobs.



4.3 Board of censors

4.3.1 Powers

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

4.3.2 Composition

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

The general meeting of 25 March 2002 renewed the term of office of Messrs Paul-F. Smets, Rik Branson and Guy Haaze. It also decided that Mr André Duchêne should take over the office of Mrs Martine Durez, who has been elected regent.

Mr Lucien Roegiers, an honorary censor, died on 8 February 2002. He was a censor from 1973 to 1991. The Bank will remember him as competent, courteous and a man of integrity.

4.3.3. Activities in 2002

In accordance with the Statutes of the Bank, the censors supervised the implementation of the 2002 budget and the preparation of the 2003 budget, notably on the basis of a report by Mrs Marcia De Wachter, vice-governor.

They took cognisance of the Internal Audit service's programme of work and monitored its execution.

They gave their opinion on numerous other aspects concerning the management of the Bank, including the master plans, portfolio management, IT security and the interim results, and took cognisance of the Eurosystem's new system of allocating monetary income for the years 2002 to 2007.

In addition, they addressed a range of macroeconomic subjects, partly on the basis of reports on the economic situation and financial stability, and on the effects on inflation and demand for money caused by the introduction of banknotes and coins denominated in euro.



5. General meeting

5.1 Composition and powers

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

The ordinary general meeting hears the administration's report on the past year's operations and elects the regents and censors for the offices which have become vacant. It meets on the last Monday in March or, if that day happens to be a public holiday, the first subsequent bank working day.

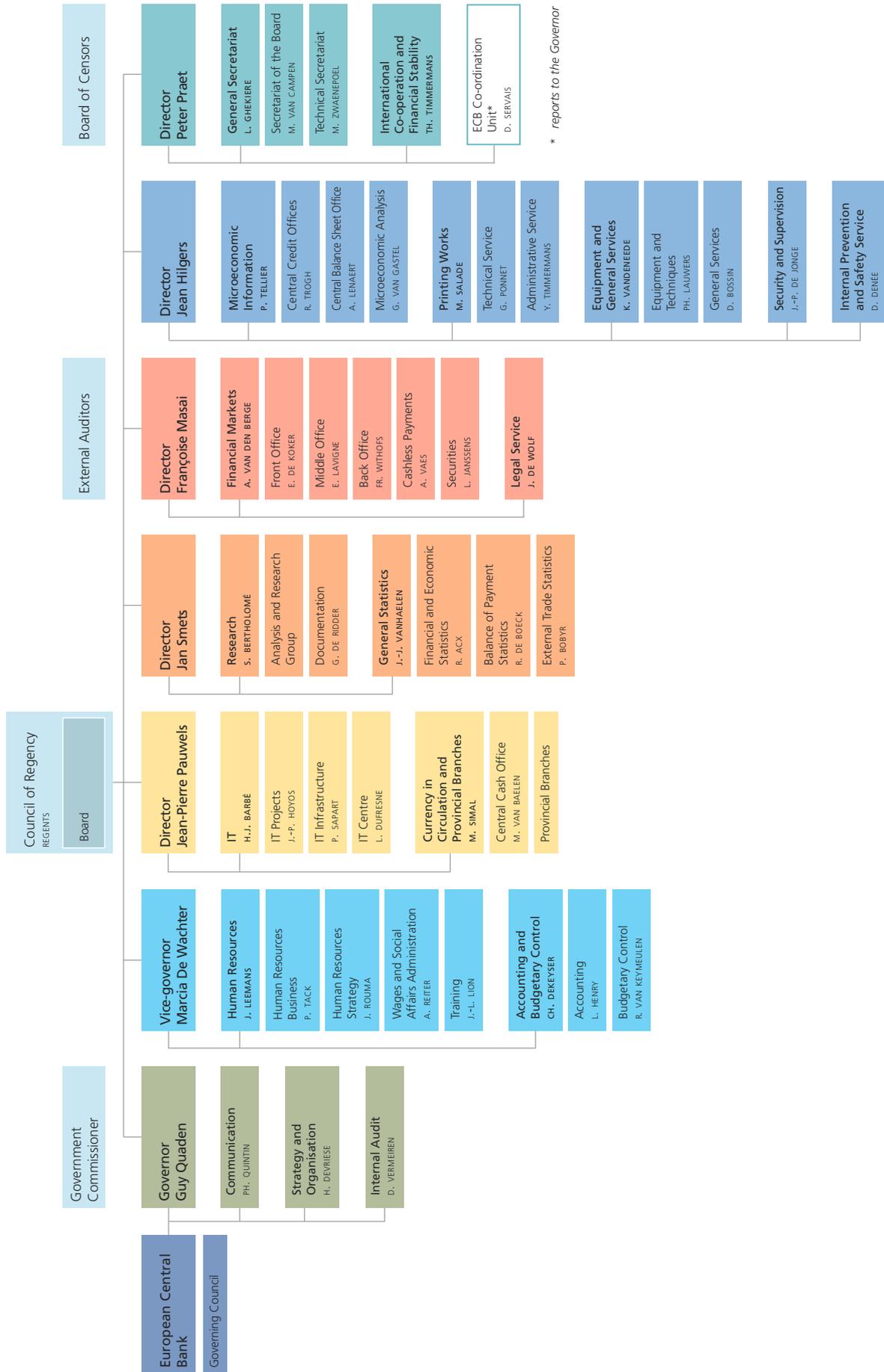
An extraordinary general meeting may be convened whenever the Council of Regency deems fit. A meeting must be convened if the number of regents or of censors falls below the absolute majority, or if it is requested either by the Board of Censors or by shareholders representing one tenth of the capital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

The general meeting deliberates concerning the matters mentioned in the convening notices and concerning those submitted to it by the Council of Regency or by the Board of Censors. It may also deliberate concerning proposals, signed by five members, which have been brought to the attention of the Council of Regency at least ten days before the meeting for inclusion in the agenda.

5.2 General meeting 2002

At the ordinary general meeting held on 25 March 2002, the Governor reported on the operations of the financial year 2001 and read out the report of the Works Council on the annual information. He also answered numerous questions from shareholders. The shareholders present then conducted the necessary elections to fill the offices of regent, censor and auditor which had expired or become vacant.

6. Organisation chart



6.1 Administration and supervision⁽¹⁾

Governor: Mr Guy QUADEN

Vice-governor: Mrs Marcia DE WACHTER

Directors: Messrs Jean-Pierre PAUWELS
Jan SMETS
Mrs Françoise MASAI
Messrs Jean HILGERS, Director-Treasurer
Peter PRAET, Director-Secretary

Regents:

Messrs Tony VANDEPUTTE
Philippe WILMÈS
Noël DEVISCH
Christian DUMOLIN
Gérald FRÈRE
Jacques FOREST
Luc CORTEBEECK
Mrs Mia DE VITS⁽²⁾
Mr Jean-Pierre HANSEN⁽³⁾
Mrs Martine DUREZ⁽⁴⁾

Censors:

Messrs Baron Paul BUYSSE, chairman
Philippe GRULOIS, secretary
Maurice CHARLOTEAUX
Herman VERWILST
Paul-F. SMETS
Rik BRANSON
Jean-François HOFFELT
Mrs Guy HAAZE
Mr Danielle JANSSEN
Mrs André DUCHÊNE⁽⁵⁾

Government Commissioner: Mr Grégoire BROUHNS

Chief Advisor to the Board of Directors: Mr Serge BERTHOLOMÉ

Advisors to the Board of Directors:

Messrs Henri BARBÉ
Jos LEEMANS

Auditors⁽⁶⁾:

KPMG Auditors, represented by Mr Pierre BERGER
Deloitte & Touche Auditors, represented by Mrs Danielle JACOBS

(1) Situation on 31 December 2002.

(2) Elected by the ordinary general meeting on 25 March 2002 to succeed Mr Michel Nollet.

(3) Elected by the ordinary general meeting on 25 March 2002 to succeed Mr Eddy Wymeersch.

(4) Elected by the ordinary general meeting on 25 March 2002 to succeed Baron Dominique Collinet.

(5) Elected by the ordinary general meeting on 25 March 2002 to succeed Mrs Martine Durez.

(6) Appointment renewed by the ordinary general meeting on 25 March 2002 for a term of three years.



6.2 Departments and services

Accounting and Budgetary Control Department – Mr C. DEKEYSER, Assistant Director

Accounting	
Head	Mr L. HENRY, Inspector General
Head of division	Mr M. HINCK
Budgetary control	
Head	Mr R. VAN KEYMEULEN, Head of division

Equipment and General Services Department – M. K. VANDENEEDÉ, Assistant Director

Equipment and Technical Services	
Head	Mr Ph. LAUWERS, Inspector General
Architect	Mr J.-M. DE VOS
Heads of division	Messrs H. DE TROYER, M. JOOS, D. VANDE PUTTE, R. VAN CAUWENBERGE
General Services	
Head	Mr D. BOSSIN, Assistant Advisor

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

Securities Regulation Fund	
Coordinator	Mr H. SMISSAERT, Inspector General
Intervention Fund	Mr H. DEBREMAEKER, Department Advisor
Back Office	
Head	Mr F. WITHOFS, Head of division
Head of division	Mr C. STAS
Front Office	
Head	Mr E. DE KOKER, Head of division
Advisors	Messrs N. VANDECAN, Y. PIRLET, P. DEMARSIN
Head of division	Mr M. RUBENS
Middle Office	
Head	Mr E. LAVIGNE, Inspector General
Heads of division	Mrs M. HUART, Mr J. DHONDT
Book-entry payments	
Head	Mr A. VAES, Inspector General
Heads of division	Mr V. DECONINCK, Mrs S. MASKENS, Mr J. VERMEULEN
Securities	
Head	Mr L. JANSSENS, Inspector General
Heads of division	Messrs R. ROOTHANS, L. EICHER, J.-M. BRAET

General Secretariat Department – Mr L. GHEKIERE, Assistant Director

Inspector General	Mr J. MAKART
Head of division	Mr G. TEMMERMAN
Minutes Unit	
Head of division	Mr L. AELES
Secretariat of the Board of Directors	
Head	Mr M. VAN CAMPEN, Inspector General
Advisor	Mr S. ESSIQUE
Heads of division	Mr J. CALLEBAUT, Mrs G. VAN HOVE
Technical Secretariat	
Head	Mr M. ZWAENEPOEL, Head of division

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

Inspectors General	Messrs A. WOUTERS, Gh. POULLET
Research and Development Unit	
Advisor	Mr J. PALATE
Statistical Information Systems Unit	
Head of division	Mr J. DECUYPER
Balance of Payments	
Head	Mr R. DE BOECK, Head of division
Heads of division	Messrs M. EECKHOUT, P. LAMBOT, P. SARLET, P. D'HAVÉ, B. VEREERTBRUGGHEN, N. JIJAKLI
External Trade Statistics	
Head	Mr P. BOBYR, Inspector General
Financial and Economic Statistics	
Head	Mr R. ACX, Inspector General
Advisors	Messrs B. DEKEYSER, H. SAUVENIÈRE, G. DETOMBE, O. COENE, C. MODART
Head of division	Mr J. WIELEMANS
Economist	Mr D. GOSSET

Human Resources Department – Mr J. LEEMANS, Advisor to the Board of Directors, Head of personnel

Enterprise Resource Planning Unit	
Department advisor	Mr R. VAN KEYMEULEN
Inspector General	Mr B. GROETEMBRIL
Wages and Social Affairs Administration	
Head	Mr A. REITER, Inspector General
Head of division	Mr P. VAN GYSEGEM



Training	
Head	Mr J.-L. LION, Inspector General
Advisor	Mrs S. ZONIOS
Head of division	Mr L. LAGAE
Human Resources Business	
Head	Mr P. TACK, Inspector General
Head of division	Mr M. DRION
Human Resources Strategy	
Head	Mrs J. ROUMA, Head of division
Head of division	Mr G. VAN CAMP
Advisor	Mr J. DEVARREWAERE

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

Department Advisor	Mr D. OOMS
Advisors	Mrs G. BIRON, Messrs Ph. LEFÈVRE, J. PISSENS
Head of division	Mr B. BOURTEMBOURG

IT Department – Mr H. BARBÉ, Advisor to the Board of Directors

IT Procurement and Finance Unit	
Advisor	Mr P. MOUS
IT Planning Unit	
Systems Engineer	Mr G. DUMAY
Advisor	Mrs C. SWARTENBROEKX
Data Security Management	
Inspector General	Mr A. HUET
Advisor	Mr L. DELAISSE
Electronic Centre	
Head	Mr L. DUFRESNE, Inspector General
Systems Engineers	Messrs M. CHARLIER, L. ESPAGNET
Senior Analyst	Mrs A. VANDERBUSSE
IT Development	
Head	Mr J.-P. HOYOS, Inspector General
Inspectors General	Messrs P. LAUWERS, J. FRANÇOIS, Mrs H. VAN HECKE
Senior Analysts	Messrs J.-M. PLISNIER, E. DE SMET, M. DUCHATEAU, Mrs J. MERTENS
Systems Engineer	Mr P. MARÉCHAL
IT Infrastructure	
Head	Mr P. SAPART, Inspector General
Inspector General	Mr G. VANGHELUWE

Systems Engineers	Messrs U. MOMMEN, S. PIERLOT, R. LEYBAERT
Advisor	Mr P. DEHOORNE

Microeconomic Information Department – Mr P. TELLIER, Assistant Director

Microeconomic analysis Head of division	Mr G. VAN GASTEL
Central Balance Sheet Office Head Heads of division	Mr A. LENAERT, Inspector General Mrs E. DE GROOTE, Mrs C. BUYDENS
Central Credit Offices Head Heads of division	Mr R. TROGH, Inspector General Messrs D. MURAILLE, P. BISSOT

Monetary Circulation and Provincial Establishments Department – M. M. SIMAL, Assistant Director

Department Advisor	Mr J. HELFGOTT
Inspector General	Mr R. COLSON
Head of division	Mr M. MATTENS

Control and Coordination of Procedures Unit Advisor	Mr E. COLMAN
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Central Cash Office Chief Cashier Heads of division	Mr M. VAN BAELEN Messrs M. VANVOOREN, G. PIROT
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Provincial Establishments

Antwerp Administrator Heads of division	Mr L. MUYLAERT, Inspector General Messrs M. DE GEYTER, F. VAN NIEUWENHOVE, J. LIBENS
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Arlon Agent	Mr R. HAENECOUR, Head of division
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Courtrai Agent Head of division	Mr J. VICTOR, Inspector General Mr J. PANNEEL
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Ghent Agent	Mr Ph. BOGAERT, Head of division
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Hasselt Agent Head of division	Mr A. VERHELST, Inspector General Mr R. MAES
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Liège Administrator	Mr Y. LEBLANC, Assistant Director
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Louvain Manager	Mr E. CIELEN, Rédacteur principal
Mons Agent	Mrs J. DE BEER, Inspector General
Namur Agent	Mr J. MONT, Head of division
Wavre Agent	Mr D. LOZET, Head of division

Printing Department – Mr M. SALADE, Assistant Director

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

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

Chief Advisor	Mr H. FAMERÉE
Deputy Head of Department	Mr I. MAES, Economist
Department Advisors	Messrs A. NYSENS, E. JACOBS, J. CLAEYS, Mrs F. DONKERS, Messrs V. PÉRILLEUX, M. DOMBRECHT
Economists	Messrs P. DELHEZ, L. AUCREMANNE, L. DRESSE, Mrs E. DE PREST, Messrs Ph. MOËS, R. WOUTERS, Ph. JEANFILS
Documentation Head	Mr G. DE RIDDER, Inspector General

Services reporting directly to a member of the Board of Directors

Internal Audit	
Head	Mr D. VERMEIREN, Inspector General
Inspectors	Mrs J. SIMAR, Messrs F. PIRSOUL, D. CASIER
Heads of division	Messrs D. VANDEN BROECK, Ph. DE PICKER
ECB Coordination Unit	
Inspector General	Mr D. SERVAIS
Head of division	Mrs D. CAPPUYNS
Communication	
Head	Mr Ph. QUINTIN, Inspector General
Advisor	Mrs K. BOSMAN
Head of division	Mr Y. RANDAXHE
Internal Prevention and Safety Service	
Head	Mr D. DENÉE, Inspector General
Head of Medical Supervision	Mr A. DE LANDTSHEER
Doctors	Messrs V. DONS, C. VAN LAETHEM
Legal Service	
Head	Mr J. DE WOLF, Department Advisor
Advisor	Mr C. RUBENS
Strategy and Organisation	
Head	Mr H. DEVRIESE, Head of division
Advisor	Mr R. VANDEN EYNDE
Senior Analysts	Mrs A.-M. LEJEUNE, Mr E. CHARTIER
Security and Supervision	
Head	Mr J.-P. DE JONGE, Inspector General

Seconded to the Office of Mr Reynders, Minister of Finance,
Mr M. MARÉCHAL, Economist

Seconded to the Office of Mr Michel, Minister of Internal Affairs and the Civil Service (Walloon Government),
Mr J.-M. VAN ESPEN, Advisor

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

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

On mission at the Office of the Belgian Executive Director at the IMF, Washington,
Mr C. JOSZ, Advisor



1. Presentation of Annual Accounts as at 31 december 2002

1.1 Balance Sheet

(before distribution of profit)

Assets

(thousands of euros)

	31-12-2002	31-12-2001
1. Gold and gold receivables	2,710,680	2,613,494
2. Claims on non-euro area residents denominated in foreign currency	11,304,447	12,780,672
2.1 Receivables from the IMF	3,169,845	3,255,684
2.2 Balances with banks and security investments, external loans and other external assets	8,134,602	9,524,988
3. Claims on euro area residents denominated in foreign currency	297,976	799,055
4. Claims on non-euro area residents denominated in euro	3,656	7,610
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	10,876,706	7,570,189
5.1 Main refinancing operations	10,876,706	7,500,000
5.2 Longer-term refinancing operations	–	70,189
5.3 Fine-tuning reverse operations	–	–
5.4 Structural reverse operations	–	–
5.5 Marginal lending facility	–	–
5.6 Credits related to margin calls	–	–
6. Other claims on euro area credit institutions denominated in euro	357	220
7. Securities of euro area residents denominated in euro	3,663,289	3,621,955
8. Intra-Eurosystem claims	6,404,410	1,576,431
8.1 Participating interest in ECB capital	143,290	143,290
8.2 Claims equivalent to the transfer of foreign currency reserves	1,432,900	1,432,900
8.3 Net claims related to the allocation of euro banknotes within the Eurosystem	4,790,823	
8.4 Other claims within the Eurosystem (net)	37,397	241
9. Other assets	2,345,715	2,233,336
9.1 Coins of euro area	10,315	26,408
9.2 Tangible fixed assets	370,526	352,518
9.3 Other financial assets	1,528,380	1,438,009
9.4 Off-balance-sheet instruments revaluation differences	117,700	–
9.5 Accruals and prepaid expenditure	217,117	242,864
9.6 Sundry	101,677	173,537
Total assets	37,607,236	31,202,962



Liabilities

(thousands of euros)

	31-12-2002	31-12-2001
1. Banknotes in circulation	11,964,293	8,627,226
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4,481,622	5,945,181
2.1 Current accounts (covering the minimum reserve system)	4,481,622	5,922,368
2.2 Deposit facility	–	22,813
2.3 Fixed-term deposits	–	–
2.4 Fine-tuning reverse operations	–	–
2.5 Deposits related to margin calls	–	–
3. Other liabilities to euro area credit institutions denominated in euro	–	–
4. Liabilities to other euro area residents denominated in euro	123,637	127,485
4.1 General government	115,411	118,528
4.2 Other liabilities	8,226	8,957
5. Liabilities to non-euro area residents denominated in euro	233,479	80,691
6. Liabilities to euro area residents denominated in foreign currency	–	–
7. Liabilities to non-euro area residents denominated in foreign currency	854,184	1,869,018
8. Counterpart of special drawing rights allocated by the IMF	629,023	691,238
9. Intra-Eurosystem liabilities	12,916,449	5,168,960
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–
9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–
9.3 Other liabilities within the Eurosystem (net)	12,916,449	5,168,960
10. Other liabilities	459,045	1,652,207
10.1 Off-balance-sheet instruments revaluation differences	–	8,159
10.2 Accruals and income collected in advance	6,426	7,702
10.3 Sundry	452,619	1,636,346
11. Provisions	1,387,068	1,181,106
11.1 For future exchange losses	925,519	756,120
11.2 For new premises	–	7,060
11.3 For contingencies	461,549	417,926
12. Revaluation accounts	2,902,378	4,294,569
13. Capital and reserve fund	1,549,232	1,459,707
13.1 Capital	10,000	9,916
13.2 Reserve fund:		
Statutory reserve	100,780	96,975
Extraordinary reserve	1,082,180	1,014,616
Amortisation accounts in respect of tangible fixed assets	356,272	338,200
14. Profit for the year	106,826	105,574
Total liabilities	37,607,236	31,202,962

1.2 Profit and Loss Account

(thousands of euros)

	2002	2001
I. Proceeds of net interest-bearing assets	658,465	968,528
1. Interest income	839,836	1,257,070
2. Interest expenses (-)	-446,909	-567,480
3. Capital gains (-losses (-)) on securities	176,572	220,895
4. Allocation of monetary income from the ESCB	15,955	243
5. Income from the ECB	73,011	57,800
II. Foreign exchange difference results	94,206	139,957
1. Foreign exchange difference results	263,606	281,757
2. Write-back of provision for future exchange losses (appropriation (-))	-169,400	-141,800
III. Commission	1,181	2,591
1. Commission received	3,244	4,320
2. Commission paid (-)	-2,063	-1,729
IV. Amounts recovered from third parties	54,123	61,714
V. Proceeds from statutory investments	101,091	98,409
VI. Other proceeds	1,371	4,822
VII. State share (-)	-307,555	-648,656
1. Proceeds from net interest-bearing assets (art. 29)	-293,817	-558,351
2. Proceeds fully assigned to the State	-33,209	-45,548
3. Foreign exchange difference results	19,471	-44,757
VIII. Transfer to the unavailable reserve of capital gains on gold (-)	-	-
IX. General expenses (-)	-235,097	-237,067
1. Remuneration and social costs	-187,524	-191,118
2. Other expenses	-47,573	-45,949
X. Exceptional costs (-)	-4,827	-11,327
XI. Depreciation of tangible fixed assets (-)	-20,774	-28,499
XII. Provisions	-36,563	-51,150
1. Write-back of provisions for new premises (appropriation (-))	7,060	3,480
2. Write-back of provisions for contingencies (appropriation (-))	-43,623	-54,630
XIII. Taxes and dues (-)	-198,547	-193,748
XIV. Transfer to the tax-free reserves (-)	-248	-
Net profit for the financial year	106,826	105,574



1.3 Off-Balance-Sheet Items

(thousands of euros)

	31-12-2002	31-12-2001
Forward transactions in foreign currencies and in euro		
Forward claims	3,322,676	1,231,040
Forward liabilities	3,192,478	1,238,801
Forward transactions on interest rate and fixed-income securities	14,303	209,690
Liabilities which could lead to a credit risk		
Commitments towards international institutions	453,704	498,579
Commitments towards other institutions	10,229	
Valuables and claims entrusted to the Institution		
For encashment	318	360
Assets managed on behalf of the Treasury	94,436	89,296
Assets managed on behalf of the ECB	1,491,095	1,630,435
Custody deposits	319,751,472	303,079,632
Capital to be paid up on shares of the BIS	106,612	126,863

1.4 Allocation of Profit

(thousands of euros)

	2002	2001
Profit for the year	106,826	105,574
The profit is distributed as follows :		
Allocation to the extraordinary reserve in accordance with Article 45 of the statutes :	68,000	67,400
Allocation of the balance in accordance with Article 49 of the statutes :		
1. To the shareholders a first dividend of 6 %	600	595
2. Of the amount in excess of this :		
a) 10 % to the statutory reserve	3,823	3,758
b) 8 % to the staff	3,058	3,006
3. Of the amount in excess of this :		
a) to the State, one fifth	6,269	6,163
b) to the shareholders, a second dividend	25,052	24,605
c) the balance to the statutory reserve	24	47

In accordance with the decision of the general meeting of 26 March 2001, the dividend will be payable from the second bankworking day following the general meeting namely 2 April 2003, on presentation of coupon No. 201 :

	Gross amount	Withholding tax	Net amount
Dividend per share in euro	64.13	16.03	48.10



1.5 Social Balance Sheet

1. Status of the staff employed

A. Staff recorded in the personnel register

			2002	2001
	1. Full-time	2. Part-time	3. Total (T) of total in full-time equivalents (FTE)	4. Total (T) of total in full-time equivalents (FTE)
1. During the financial year under review and the previous financial year				
Average number of staff	2,175.48	643.75	2,652.32 (FTE)	2,713.24 (FTE)
Actual number of hours worked	3,224,076.00	697,849	3,921,925 (T)	4,022,775 (T)
Staff costs (<i>in thousands of euro</i>)	155,736.00	27,983	183,719 (T)	181,636 (T)
Benefits in addition to salary (<i>in thousands of euro</i>)	–	–	2,034 (T)	4,062 (T)
2. As of year-end				
	1. Full-time	2. Part-time	3. Total (T) in full-time equivalents	
a. Number of staff recorded on the personnel register	1,978	669	2,485.86	
b. By type of employment contract				
Open-ended contract	1,874	667	2,380.86	
Term contract	104	2	105.00	
Contract for clearly defined work	–	–	–	
Substitute contract	–	–	–	
c. By gender				
Men	1,479	164	1,613.85	
Women	499	505	872.01	
d. By professional category				
Board of Directors and advisors	13	1	13.95	
Employees	1,965	668	2,471.91	
Workers	–	–	–	
Other	–	–	–	

B. Temporary staff and other persons placed at the disposal of the enterprise

During the financial year		
	1. Temporary staff	2. Persons placed at the disposal of the enterprise
Average number of persons employed	18.10	32.17
Actual number of hours worked	28,869	51,311
Cost to the enterprise (<i>in thousands of euro</i>)	646	4,014

2. Table showing staff movements during the financial year

A. Entries into employment

	2002		
	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of staff added to the personnel register during the financial year	596	8	600.70
b. By type of employment contract			
Open-ended contract	57	3	58.90
Term contract	539	5	541.80
Employment for clearly defined work	–	–	–
Substitute contract	–	–	–
c. By gender and level of education			
Men:			
Primary	3	0	3
Secondary	182	0	182
Further (non-university)	23	0	23
University	33	0	33
Women:			
Primary	6	3	7.50
Secondary	249	3	250.90
Further (non-university)	67	1	67.50
University	33	1	33.80

B. Departures

	1. Full-time	2. Part-time	3. Total in full-time equivalents
	a. Number of staff the date of whose end of contract was recorded in the personnel register this financial year	820	56
b. By type of employment contract			
Open-ended contract	120	43	146.67
Term contract	640	11	647.40
Contract for clearly defined work	–	–	–
Substitute contract	60	2	61.40
c. By gender and level of education			
Men:			
Primary	14	1	14.50
Secondary	287	7	291.40
Further (non-university)	23	1	23.50
University	22	0	22
Women:			
Primary	19	7	23.32
Secondary	347	31	366.90
Further (non-university)	87	8	91.95
University	21	1	21.90
d. According to reason for departure			
Retirement	95	36	116.87
Early retirement	–	–	–
Dismissal	6	3	7.80
Other reasons	719	17	730.80
of which: the number of staff remaining self-employed on at least a half-time basis and continuing to provide services to the enterprise	–	–	–



3. Situation concerning the use, during the financial year, of measures to encourage employment

Measures to encourage employment

	2002		
	Number of employees concerned		
	1. Number	2. In full-time equivalents	3. Financial advantage (In thousands of euro)
1. Measures carrying a financial advantage⁽¹⁾			
1.1. Advantage job scheme (in view of encouraging the engagement of job-seekers from high-risk groups)	1	0.33	1
1.3. Full-time career break	22	8.73	4
1.4. Reduction in working hours (part-time career break)	38	8.92	1
1.11. "First job" agreement	108	52.38	6
2. Other measures			
2.2. Successive fixed-term employment contracts	126	125.30	
Number of staff involved in one or more measures to encourage employment:			
– total for the financial year	295	195.66	
– total for the previous financial year	282	197.52	

(1) Financial advantage for the employer with regard to the holder of the job or his replacement.

4. Information on training for employees during the financial year

	1. Number of employees concerned	2. Number of training hours followed	3. Cost to the enterprise (In thousands of euro)
Total number of training initiatives undertaken by the enterprise			
– Men	1,216	42,854	5,969
– Women	720	23,296	3,245

2. Notes to the Annual Accounts

2.1 Legal framework

The annual accounts are drawn up in accordance with Article 33 of the Law of 22 February 1998 establishing the Organic Statute of the National Bank of Belgium⁽¹⁾ which provides that:

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

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

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

The Council of Regency, competent to fix the accounting rules for all aspects of the annual accounts which are neither the consequence of provisions of the Bank's Organic Law nor mandatory for the compilation of the consolidated balance sheet of the ESCB, approved the accounting rules applied to the accounts for the year under review at its meeting on 8 January 2003.

Since the 1999 financial year, the Bank has, when compiling its annual accounts, voluntarily adhered to the rules which the Governing Council has made mandatory for the compilation of the consolidated balance sheet of the ESCB, which comprises the accounts of the ECB and the assets and liabilities of the national central banks within the domain of the ESCB⁽²⁾.

(1) As re-established by Article 141 § 10 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services.

(2) ECB guideline of 5 December 2002, repealing with effect from 1 January 2003 Guideline 2000/18, on the legal framework for accounting and reporting in the European System of Central Banks (ECB/2002/10).

2.2 Accounting principles and valuation rules

General

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

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

Assets and liabilities in gold and foreign currencies

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

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

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

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

Securities

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

Participations

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

(Reverse) repurchase agreements

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

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

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



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

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

Income recognition

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

Post-balance-sheet events

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

Treatment of tangible fixed assets

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

Buildings under construction are recorded at the cost actually paid.

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

Valuation of stocks

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

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

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

Notes in circulation (in euro)

The ECB and the twelve participating NCBs which together comprise the Eurosystem have issued euro banknotes since 1 January 2002⁽¹⁾. The total value of the euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key⁽²⁾.

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation by each NCB gives rise to intra-Eurosystem balances. These claims or liabilities, which incur interest⁽³⁾, are disclosed under the sub-item "Intra-Eurosystem: claims/liabilities related to the allocation of euro banknotes within the Eurosystem".

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

The Governing Council of the ECB has decided that the seigniorage income of the ECB arising from the 8% share in euro banknotes allocated to the ECB shall be distributed separately to the NCBs in the form of an interim distribution of profit⁽⁴⁾. That profit will be distributed in full unless the ECB's net profit for the financial year is less than its income on banknotes in circulation, subject to any decision by the Governing Council to reduce that income in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. For 2002, one interim distribution was made on the second working day of 2003. This is disclosed in the Bank's Profit and Loss Account under "Income from the ECB".

From 2003 onwards, interim distributions will be made at the end of each quarter.

Off-balance-sheet instruments

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

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

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

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

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



2.3 Notes to the Balance Sheet

ASSETS

1. Gold and gold receivables

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

Gold holdings

	31-12-2002	31-12-2001
in ounces of fine gold	8,293,854.2	8,297,069.7
in kg of fine gold ⁽¹⁾	257,967.7	258,067.8
at market price (in millions of euros)	2,710.7	2,613.5

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

The reduction in the gold stocks is due to the sale of 100 kg of gold, at market price, to the Belgian Royal Mint.

Pursuant to Article 37 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, the capital gain realised on the sale of gold to the Belgian Royal Mint was handed over to the State. Sales of gold to that institution with a view to the issuance by the State of collectors' or commemorative coins may not exceed the balance of 2.75% of the weight of gold shown under the assets of the Bank as at 1 January 1987. As at 31 December 2002, 0.72% of that weight of gold remained available, namely 9.5 tonnes of gold.

On the balance sheet date, gold is valued on the basis of the euro price per fine ounce derived from the quotation in US dollars established at the London fixing on 31 December 2002.

This price, notified by the ECB, amounts to € 326.83 per fine ounce of gold (€ 10,507.83 per kilogram of fine gold), against € 314.99 per fine ounce (€ 10,127.16 per fine kilogram) as at 28 December 2001.

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

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

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

This item is broken down into two sub-items:

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

2.1 RECEIVABLES FROM THE IMF

This sub-item is broken down as follows (in millions):

	31-12-2002		31-12-2001	
	Assets (in SDR)	Market value (in euros)	Assets (in SDR)	Market value (in euros)
Special drawing rights	407.9	528.7	375.7	535.2
Participation in the IMF	1,759.4	2,280.7	1,631.7	2,324.4
Loans to the IMF	–	–	–	–
Loans to the PRGF Trust	198.0	256.7	198.0	282.1
PRGF deposits	80.0	103.7	80.0	114.0
	2,445.3	3,169.8	2,285.4	3,255.7

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

These receivables are valued at the market rate as communicated by the ECB on 31 December 2002. On the balance sheet date this rate was 1 € = SDR 0.7714 (1 € = SDR 0.7020 SDR at the end of 2001).

– Special drawing rights (SDRs)

SDRs are reserve assets created ex nihilo by the IMF and allocated by it to its members. SDRs are used in transactions between official monetary authorities. This item is subject to fluctuations as a result of encashments and interest payments and transactions with other countries and with the Fund. The most recent allocation was made in 1981.

The SDR holding recorded on the SDR account reached SDR 407.9 million on 31 December 2002, against SDR 375.7 million a year earlier. Net usage of the SDR holding, i.e. the difference between the SDR allocation and the SDR holdings on the balance sheet date, amounted to SDR 77.3 million.

– Participation in the IMF

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

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

On the balance sheet date, the reserve tranche amounted to SDR 1,759.4 million, against SDR 1,631.7 million a year earlier.



– Loans to the IMF

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

In the course of the year 2002, the Fund's liquidity position enabled it to meet its commitments without resorting to the borrowing arrangements.

– Loans to the PRGF Trust

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

Pursuant to the lending agreement which was concluded on 2 July 1999, the PRGF Trust has a credit line with the Bank; since 4 December 2001 this line has totalled SDR 350 million. The Bank's claims under this heading amounted on 31 December 2002 to SDR 198 million, the same as the previous year's figure.

– Deposits with the IMF under the PRGF

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

As at 31 December 2002, the balance of the deposits came to SDR 80 million, the same as the previous year's figure.

2.2. BALANCES WITH BANKS AND SECURITY INVESTMENTS, EXTERNAL LOANS AND OTHER EXTERNAL ASSETS

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

Breakdown of foreign currency assets by type of investment

(in millions of euros)

	31-12-2002	31-12-2001
Sight deposits	361.2	598.6
Time deposits	456.8	442.5
Securities	6,467.0	6,608.2
Reverse repurchase agreements	849.6	1,875.7
	8,134.6	9,525.0

Foreign currency assets are shown under this sub-item at their euro equivalent as calculated on the basis of market exchange rates on 31 December 2002. On the balance sheet closing date, the value of the securities at their market price was € 106.8 million more than their average historical cost value owing to the sharp fall in yields on the US bond market.

Breakdown by currency of foreign currency assets with non-residents

(in millions)

	31-12-2002		31-12-2001	
	Holdings (in foreign currency terms)	Market value (in euros)	Holdings (in foreign currency terms)	Market value (in euros)
USD	7,839.6	7,475.5	7,687.0	8,722.4
JPY	76,820.1	617.6	88,151.5	764.3
CHF	57.9	39.9	53.5	36.0
Other		1.6		2.3
		8,134.6		9,525.0

The net foreign currency position resulting from the balance sheet items and the off-balance-sheet items denominated in foreign currencies, taken as a whole (spot and forward claims and liabilities) declined as follows in 2002 :

Net foreign currency position

(expressed at market price in billions of euros)

	31-12-2002	31-12-2001	Variation
USD	4.8	6.6	-1.8
JPY	-	0.6	-0.6
CHF	-	-	-
	4.8	7.2	-2.4

- During the year just ended, the net dollar position expressed in euro declined by € 1.8 billion following the sale of dollars for euro (€ 1.5 billion), partly offset by the acquisition of dollars for yen (€ 0.3 billion).

The residual change is due partly to the encashment of interest income (€ 0.4 billion) and the foreign exchange gains realised during the year (€ 0.2 billion) and partly to the reduction in latent gains recorded at the time of the end-of-year revaluation (€ 1.2 billion).

- The disappearance of the net position in yen is due mainly to the sale of yen against dollars, as stated above (€ 0.3 billion), and against euro (€ 0.3 billion).
- However, the dollar sales had no effect on the assets shown under items 2.2 and 3 in the balance sheet, as the dollars sold were simultaneously repurchased spot and resold forward via swaps, the forward leg being recorded off-balance-sheet.

Similarly, the yen assets in item 2.2 do not reflect only the sales of that currency but also take account of the yen received spot via USD/JPY swaps used by the Bank as an instrument for managing its foreign currency holdings.



3. Claims on euro area residents denominated in foreign currency

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

Breakdown by currency of foreign currency assets with residents

(in millions)

	31-12-2002		31-12-2001	
	Holdings (in foreign currency terms)	Market value (in euros)	Holdings (in foreign currency terms)	Market value (in euros)
USD	312.5	298.0	680.0	771.7
JPY	–	–	3,159.6	27.4
		298.0		799.1

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

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

As at 31 December 2002, the balance under this heading amounted to € 3.7 million and consisted exclusively of holdings on sight accounts.

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

This heading records credit granted to credit institutions resulting from the execution of the Eurosystem's monetary policy by the Bank.

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

5.1 MAIN REFINANCING OPERATIONS

This sub-item records the amount of liquidity provided to credit institutions by way of weekly 14-day tenders.

As in 2001, in participating in these operations, credit institutions in Belgium obtained structurally more than the liquidity required to meet their monetary reserve obligations and the needs generated by autonomous factors. Thus, credit institutions had a cash surplus which was transferred to other financial institutions via TARGET (see item 9.3 on the liabilities side of the balance sheet "Other liabilities within the Eurosystem (net)").

5.2 LONGER-TERM REFINANCING OPERATIONS

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

Traditionally, Belgian credit institutions are not very interested in these operations, which are geared to the forecast of the longer term refinancing requirements of the financial sector. In 2002, interest in these operations declined still further, and the average amount outstanding was down to just 62 million, against 637 million in 2001.

5.3 FINE-TUNING REVERSE OPERATIONS

This sub-item records open market operations carried out on a non-regular basis, intended primarily to meet unexpected fluctuations in market liquidity.

Thus, the Eurosystem carried out three fine-tuning operations to provide liquidity: two at the beginning and one at the end of the year.

In order to meet the unexpectedly strong demand for liquidity, associated with the euro cash changeover, the Eurosystem carried out overnight operations on 4 and 10 January.

To mitigate the lack of liquidity and the money market tension following the underbidding for the main refinancing operation on 18 December, the Eurosystem carried out a one-week fine-tuning operation on that date.

5.4 STRUCTURAL REVERSE OPERATIONS

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

No such operations took place during the year just ended.

5.5 MARGINAL LENDING FACILITY

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

5.6 CREDITS RELATED TO MARGIN CALLS

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

No such operations took place during the year just ended.

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

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

7. Securities of euro area residents denominated in euro

Portfolio of euro securities held for investment purposes and consisting solely of negotiable government bonds denominated in euro issued by Member States of the European Union, and bonds issued by certain German credit institutions and backed by claims on the public sector (Öffentliche Pfandbriefe). On the balance sheet date their value at market prices was € 99 million more than their average historical cost value because of a fall in yields on the euro bond market.



8. Intra-Eurosystem claims

8.1 PARTICIPATING INTEREST IN ECB CAPITAL

The Bank's participating interest, which is fully paid, in the capital of the European Central Bank (€ 5 billion) totals € 143.3 million, or 2.8658% of that capital. This percentage has remained unchanged since 1999.

8.2 CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN CURRENCY RESERVES

This sub-item shows the Bank's euro claim, amounting to € 1,432.9 million, on the ECB owing to the transfer of part of its foreign reserves to that institution at the beginning of 1999 (85% in foreign currencies and 15% in gold), in proportion to its share in the paid-up capital of the ECB.

The claim in euro bears interest at the rate of 85% of the marginal rate charged on the main refinancing operations, the part transferred in gold not being remunerated.

These transferred reserves continue to be managed by the Bank, but on behalf of the European Central Bank. They do not appear in the balance sheet but are recorded off-balance-sheet.

8.3 NET CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSISTEM

This item records net claims on the Eurosystem relating to the allocation of euro banknotes in the Eurosystem (see accounting principles and valuation rules relating to the item "euro banknotes in circulation").

8.4 OTHER CLAIMS WITHIN THE EUROSISTEM (NET)

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

This sub-item also records the claim on the ECB resulting from the mechanism for pooling and allocating monetary income in the Eurosystem (€ 16 million). Other intra-Eurosystem claims are shown under this sub-item, such as the provisional distribution of the ECB's income relating to euro banknotes (€ 21.4 million).

9. Other assets

9.1 COINS OF EURO AREA

This sub-item is used to record the Bank's holding of euro (€ 8.7 million) and Belgian franc (€ 1.6 million) coins. The coins are put into circulation by the Bank on behalf of the Treasury, and credited to the latter's account. In accordance with the ECB Decision of 20 December 2001 on the approval of the volume of coin issuance in 2002, the maximum amount of the euro coins issued is € 854.5 million for Belgium.

9.2 TANGIBLE FIXED ASSETS

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

In 2002 the Bank's investment in fixed assets totalled € 20.8 million, including ancillary costs. Apart from land, they are written off entirely within the year in which they are acquired. In addition, an amount corresponding to the book value of assets disposed of or taken out of use has been deducted from the "Tangible fixed assets" account.

9.3 OTHER FINANCIAL ASSETS

This sub-item records the securities which the Bank holds as the counterpart to its capital, reserves and amortisation accounts. Under Article 29, point 4, of its Statutes, the Bank decides freely on the investments which it carries out in this connection, after consultation with the Council of Regency and without prejudice to the regulations adopted by the ECB.

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

9.4 OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This sub-item consists of any positive revaluation differences on forward foreign exchange transactions. These differences have their counterpart in item "12. Revaluation accounts" on the liabilities side.

9.5 ACCRUALS AND PREPAID EXPENDITURE

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

9.6 SUNDRY

These are mainly interest due on the claim resulting from the transfer of external reserves to the ECB and on the net claim relating to the allocation of euro banknotes in the Eurosystem. This item also records trade and other receivables, stocks and work in progress in the Printing Works (excluding stocks of banknote paper for its own use).



LIABILITIES

1. Banknotes in circulation

Since 2002, this item has recorded, in addition to the amount of Belgian franc banknotes remaining in circulation at the end of the financial year (294.5 million), the Bank's share in the circulation of euro banknotes issued by the twelve central banks of the Eurosystem in proportion to its participation in the capital of the ECB, namely 11,669.8 millions (see the accounting principles and valuation rules relating to the item "euro banknotes in circulation").

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

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

2.1 CURRENT ACCOUNTS (COVERING THE MINIMUM RESERVE SYSTEM)

Accounts denominated in euro of the financial institutions which mainly serve to meet minimum reserve requirements. These requirements have to be respected over an average period of one month starting on the 24th of one month and ending on the 23rd of the following month.

2.2 DEPOSIT FACILITY

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

2.3 FIXED-TERM DEPOSITS

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

No such transactions took place during the year just ended.

2.4 FINE-TUNING REVERSE OPERATIONS

Other monetary policy transactions aimed at tightening liquidity.

No such transactions took place during the year just ended.

2.5 DEPOSITS RELATED TO MARGIN CALLS

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

No such transactions took place during the year just ended.

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

Liabilities to credit institutions which are not related to monetary policy operations.

These are mainly repurchase agreements relating to the management of the securities portfolio in euros recorded in asset item 7.

4. Liabilities to other euro area residents denominated in euro

4.1 GENERAL GOVERNMENT

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

4.2 OTHER LIABILITIES

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

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

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

6. Liabilities to euro area residents denominated in foreign currency

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

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

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

(in millions)

	31-12-2002		31-12-2001	
	Liabilities (in foreign currency)	Market value (in euros)	Liabilities (in foreign currency)	Market value (in euros)
USD	895.8	854.2	1,647.2	1,869.0

8. Counterpart of special drawing rights allocated by the IMF

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



9. Intra-eurosystem liabilities

9.1 LIABILITIES RELATED TO PROMISSORY NOTES BACKING THE ISSUANCE OF ECB DEBT CERTIFICATES

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

9.2 NET LIABILITIES RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSISTEM

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

9.3 OTHER LIABILITIES WITHIN THE EUROSISTEM (NET)

This sub-item records the Bank's net debt to the European Central Bank resulting from cross-border payments made via TARGET.

The net position vis-à-vis the European Central Bank bears interest at the marginal rate applying to the main refinancing operations.

The net debt resulting from payments made via correspondent accounts opened by the Bank with other NCBs of the Eurosystem is also recorded in this sub-item.

10. Other liabilities

10.1 OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

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

10.2 ACCRUALS AND INCOME COLLECTED IN ADVANCE

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

10.3 SUNDRY

The amounts recorded here are debts in respect of taxes and social contributions, the sums payable to the State for the year in question relating to the State's share in the Bank's earnings and costs, and the interest payable by the Bank on its net debt to the ECB in connection with TARGET.

The reduction in this item is due mainly to the payment to the State, pursuant to the Law of 10 December 2001 on the final changeover to the euro, of the capital gains previously realised by the Bank on arbitrage transactions of gold assets which were entered in a special unavailable reserve account (€ 177.1 million), and the disappearance of the non-interest-bearing debt relating to the theoretical amount of Belgian banknotes in circulation in the Grand Duchy of Luxembourg (€ 578.6 million).

11. Provisions

11.1 PROVISION FOR FUTURE EXCHANGE LOSSES

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

(millions of euros)

Balance as at 31 December 2001	756.1
Write-back	–
Appropriation	169.4
Balance as at 31 December 2002	925.5

11.2. PROVISION FOR NEW PREMISES

This provision has become irrelevant and was written back in full at the end of the financial year.

(millions of euros)

Balance as at 31 December 2001	7.1
Write-back	–7.1
Appropriation	–
Balance as at 31 December 2002	–

11.3 PROVISION FOR CONTINGENCIES

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

A central bank is also exposed to risks. The fact that the Bank has such a fund demonstrates its desire to practise a prudent policy in the light of the special risks inherent in central bank operations.



This provision includes the amounts for covering the following risks and costs:

	(millions of euros)
Contingency Fund created at the end of 1957 in view of the risks inherent in the Bank's activity and of the fluctuations to which its results are subject	395.5
Costs arising from the introduction of the euro :	
– information campaign on the euro	2.6
– transport, storage and sorting costs connected with the exchanging of Belgian banknotes and coins against euro	19.8
Balance as at 31 December 2001	417.9
Write-back	–22.4
Appropriation	66.0
Balance as at 31 December 2002	461.5

Since the provision formed to cover the information campaign on the euro and expenditure on transport, storage and sorting costs connected with the exchanging of Belgian franc notes against euro has become irrelevant, it was fully written back at the end of the financial year.

The appropriation is intended to replenish the Contingency Fund.

12. Revaluation accounts

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

	Balance as at 31-12-2002	Balance as at 31-12-2001
Positive foreign exchange revaluation differences on :		
– gold	2,351.1	2,253.8
– spot and forward positions in foreign currencies	345.1	1,689.1
– the net position in SDR	–	219.2
Positive price revaluation differences on :		
– securities in foreign currencies	107.2	83.2
– securities in euro (with the exception of statutory investments)	99.0	49.3
	2,902.4	4,294.6

13 Capital and reserve fund

13.1 CAPITAL

At the time of the changeover to the euro, the Bank's share capital of BEF 400 million was converted and rounded off to € 10 million. The Law of 26 June 2000 on the introduction of the euro concerning the matters referred to in Article 78 of the Constitution gives the King the power to adapt to the euro the laws which state amounts in Belgian francs.

Thus, Article 4 of the Law of 22 February 1998 establishing the Organic Statute of the Bank was amended by Article 2 point 38 of the Royal Decree of 20 July 2000 implementing the said law, and the Statutes were adapted by the Council of Regency on 23 January 2002. This amendment to the Statutes was then approved by a Royal Decree dated 21 February 2002.

13.2 RESERVE FUND

The Reserve Fund, provided for in Article 46 of the Bank's Statutes, consists of the Statutory Reserve, the Extraordinary Reserve and the Accounts for the Amortisation of Tangible Fixed Assets.

The increase in the Statutory Reserve is the result of the distribution of the profit for the previous year. The Amortisation Accounts for Tangible Fixed Assets show an increase of € 18.1 million, corresponding to the amount of investments made in 2002, less an amount equivalent to the book value of assets sold or no longer used.

The Extraordinary Reserve increased by € 67.6 million as a result of the allocation by the Council of Regency, pursuant to Article 45 of the Statutes, of part of the profits for the previous year to this reserve (€ 67.4 million), by way of priority, and the transfer in 2002 of the tax-exempt gains realised on the sale of tangible fixed assets (€ 0.2 million).

The tax-exempt part of the Extraordinary Reserve amounts to € 15.1 million.

14. PROFIT FOR THE YEAR

The profit for the year amounted to € 106.8 million, against € 105.6 million in 2001.



2.4 Notes to the Profit and Loss Account

I. PROCEEDS OF NET INTEREST-BEARING ASSETS

The net interest-bearing assets comprise the total amount of the assets and liabilities in foreign currencies and in euro, of which the income and expenses are subject to distribution between the State and the Bank in accordance with the conditions set forth under item VII "State share".

1. Interest income

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

(millions of euros)

	31-12-2002	31-12-2001	Differences
Interest proceeds of assets in euros ⁽¹⁾	501.8	747.5	-245.7
Interest proceeds of external assets	338.0	509.6	-171.6
Total	839.8	1,257.1	-417.3

(1) From the financial year 2002 onwards, the dividend received from the ECB is recorded under item "1.5 Income from by the ECB". The amount relating to the financial year 2001 has therefore been treated in the same way.

1.1 INTEREST PROCEEDS OF ASSETS IN EUROS

These come from :

- credit transactions relating to monetary policy;
- the securities portfolio in euro;
- the claim arising from the transfer of external reserves to the ECB;
- the net claims relating to the allocation of euro banknotes in the Eurosystem.

1.1.1 Credit transactions relating to monetary policy

The income from these transactions is down by € 271.7 million, owing to the fall in both the average rate on the main refinancing operations and the average volume of the credit allocations compared to 2001.

1.1.2 Securities portfolio in euro

The interest income on securities in euro is also down by €17.2 million compared to 2001, the main reason being the fall in average interest rates.

1.1.3 Claim arising from the transfer of external reserves to the ECB

The Bank's claim on the ECB in respect of the external reserve holdings transferred bears interest at 85% of the marginal rate on the main refinancing operations. In consequence of the fall in the average marginal interest rate, that remuneration was € 13 million lower than in 2001.

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

This concerns interest proceeds totalling € 56.6 million for the year 2002.

1.2 INTEREST PROCEEDS OF EXTERNAL ASSETS

These come from:

- the interest income on international cooperation transactions;
- the interest income on investments.

1.2.1 Interest income on international cooperation transactions

The interest income on transactions relating to international cooperation, more particularly in connection with the IMF, was down by € 17.7 million in 2002 following a fall in the rate of interest payable on the resulting claims and depreciation of the SDR against the euro. The increase in the average volume of these claims partly offset those effects.

1.2.2 Interest income on investments

The interest income on investments in foreign currencies was down by € 153.9 million, mainly because of a fall in the dollar interest rates but also because of the depreciation of the dollar against the euro. That effect was partly offset by expansion in the average volume of these investments.

2. Interest expenses

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

(millions of euros)

	31-12-2002	31-12-2001	Differences
Interest expenses on liabilities in euro	430.6	525.4	–94.8
Interest expenses on external liabilities	16.3	42.1	–25.8
	446.9	567.5	–120.6

2.1 INTEREST EXPENSES ON LIABILITIES IN EUROS

These come from:

- the monetary reserve accounts, the deposit facility and other interest-bearing deposits;
- net liabilities related to the allocation of euro banknotes within the Eurosystem;
- net amounts owed to the ECB in connection with TARGET.

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

Compared to 2001, the interest expense is down by € 72.6 million, mainly because of the fall in the marginal interest rate on the main refinancing operations applied to these accounts. The increase in their volume partly offset that effect.



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

This concerns the interest charges totalling € 5.5 million, paid by the Bank on the liabilities which existed in the first quarter of 2002.

2.1.3 Net amounts owed to the ECB in connection with Target

The € 27.7 million increase in interest charges on net debts relating to Target is due to the fall in the marginal interest rate on the main refinancing operations. That effect was partly offset by the increase in the average volume of those liabilities.

2.2 INTEREST EXPENSES ON EXTERNAL LIABILITIES

These come from:

- repurchase agreement transactions in foreign currencies
- net use of assets in SDRs.

2.2.1 Repurchase agreement transactions in foreign currencies

The interest expenses on these transactions were down slightly against 2001 (€ 22.1 million), mainly owing to a reduction in the interest rates applied to them and in the average volume of these transactions.

2.2.2 Use of the net assets in SDR

The interest expense on the net liability in SDR was down by € 3.7 million in 2002, as a result of a decline in both the average volume of the SDR assets and the interest rate on the net use of the SDR assets.

3. Capital gains and losses on securities

During the financial period under review, net capital gains amounting to € 176.6 million were recorded on the sale of securities, against € 220.9 million in 2001. It should be kept in mind that positive revaluation differences on securities (€ 206.2 million) are recorded in the revaluation accounts on the liabilities side of the balance sheet.

4. Allocation of monetary income from the ESCB

In 2002, the monetary income of each NCB was determined by multiplying each NCB's basis of calculation by the marginal interest rate on the main refinancing operations.

The basis of calculation comprises the following items:

- banknotes in circulation (euro banknotes and Belgian franc banknotes not presented for repayment);
- liabilities to credit institutions related to monetary policy operations and denominated in euro;
- net intra-Eurosystem liabilities resulting from TARGET transactions;
- net intra-Eurosystem liabilities relating to the allocation of euro banknotes in the Eurosystem.

Any interest paid on the liabilities included in the basis of calculation will be deducted from the monetary income to be pooled.

The monetary income pooled in the Eurosystem is allocated to the NCBs in accordance with the subscribed capital key (3.5383% for the Bank).

Breakdown of the net monetary income allocated to the Bank for the financial year 2002 :

(millions of euros)

– monetary income pooled in the Eurosystem	–324.7
– monetary income allocated by the Eurosystem	340.7
Net monetary income allocated	16.0

5. Income from the ECB

In 2002 the Bank collected a dividend of € 51.6 million on its participation in the capital of the ECB for the 2001 financial year, against € 57.8 million the previous year.

This item also includes the distribution of the ECB's income on euro banknotes totalling € 21.4 million.

In 2002 the ECB's income on euro banknotes distributed to the NCBs was reduced in accordance with a decision by the ECB Governing Council in respect of the expenses which the ECB had incurred in issuing and handling euro banknotes. Those expenses relate to the costs borne by the ECB in forming a strategic stock of euro banknotes for the Eurosystem.

II. FOREIGN EXCHANGE DIFFERENCE RESULTS

1. Foreign exchange difference results

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

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

The amount of the sub-item consists mainly of the results of the foreign exchange differences realised on the sale of dollars (€ 183.7 million) and of yens (€ 98.7 million), net exchange losses on transactions in SDRs (€ 20.4 million) and the capital gains on sales of gold to the Belgian Royal Mint (€ 0.9 million).

2. Provision for future exchange losses

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

III. COMMISSION

The commission received as a remuneration for the Bank's services as financial intermediary as well as the commission paid by the Bank for financial services rendered by third parties to the Bank are contained in this item.



IV. AMOUNTS RECOVERED FROM THIRD PARTIES

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

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

V. PROCEEDS FROM STATUTORY INVESTMENTS

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

The increase in these proceeds is mainly due to the expansion of the securities portfolio following the transfer to the reserve fund at the end of the preceding financial year, the effect of which more than offset the decline in interest income following the reduction in rates on the Belgian capital market.

VI. OTHER PROCEEDS

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

VII. STATE SHARE

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

By virtue of Article 29 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, the net financial proceeds in excess of 3% of the difference between the average amount, calculated on an annual basis, of the Bank's profit-earning assets and remunerated liabilities shall be assigned to the State. These proceeds do not therefore include the share in the distribution of the net profit allocated to the State.

Net financial proceeds shall mean:

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

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

This provision shall not apply to the bills and securities acquired in representation of the capital, reserves and depreciation accounts whose proceeds are at the Bank's free disposal.

2. Proceeds fully assigned to the State

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

Furthermore, by virtue of Article 30 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, the net income from the assets forming the counterpart to the capital gains obtained by the Bank through arbitrage transactions of assets in gold against other external reserve elements, entered in a special unavailable reserve account, is also assigned to the State.

Finally, the Bank pays annually to the Treasury, in accordance with the Law of 2 January 1991 on the market in public debt securities and monetary policy instruments, a sum of € 24.4 million to compensate for the additional expenses resulting for the latter from the conversion, in 1991, of the Treasury's consolidated debt to the Bank into freely negotiable securities.

3. Foreign exchange difference results

In accordance with Article 9 of the Law of 22 February 1998 establishing the Bank's Organic Statute, the international monetary cooperation agreements or transactions which the bank carries out on behalf of the State or with its explicit approval are guaranteed by the State. The foreign exchange gains realised on these operations accrue entirely to the State. In 2002, transactions in SDR incurred net foreign exchange losses totalling € 20.4 million.

The capital gain of € 0.9 million realised on the sale of gold to the Belgian Royal Mint (Article 37 of the Law of 22 February 1998 establishing the Bank's Organic Statute) also accrues to the State.

VIII. TRANSFER TO THE UNAVAILABLE RESERVE OF CAPITAL GAINS ON GOLD

In this item is recorded the transfer, if any, to the special unavailable reserve account of the capital gains obtained on arbitrages of gold assets against other external reserve elements, in accordance with Article 30 of the Organic Law of the Bank.

IX. GENERAL EXPENSES

1. Remuneration and social costs

These costs comprise the remuneration and social costs of the staff, the Board of Directors, temporary staff and students, and also the pensions of former members of the Board of Directors and the attendance fees of the members of the supervisory bodies.

2. Other expenses

This item consists mainly of operating expenses relating to the repair and maintenance of premises, the manufacture and processing of banknotes, IT expenses and expenditure in respect of staff hired from employment agencies.



X. EXCEPTIONAL COSTS

This item includes the expenses relating to the exchange of Belgian banknotes and coins for euro, the information campaign about the euro, and the Bank's share in the compensation paid to members of Belgium's Jewish community for property confiscated or relinquished during the 1940-1945 war.

XI. DEPRECIATION OF TANGIBLE FIXED ASSETS

The depreciation applied as at 31 December 2002 covers the following investments:

	(millions of euros)
– new premises and technical installations	0.1
– renovation of premises	3.5
– software and hardware	11.4
– equipment for the Printing Works	1.6
– equipment for processing banknotes and coins	0.9
– other equipment and furniture	3.3
Total	20.8

XII. PROVISIONS

The changes in the following provisions are recorded in this item:

1. Provision for new premises (see liabilities sub-item 11.2)
2. Provision for contingencies (see liabilities sub-item 11.3)

XIII. TAXES AND DUES

This item covers, in addition to corporation tax, the withholding tax on income from financial assets and the withholding tax on income from immovable assets, the non-deductible part of VAT and regional, provincial and municipal taxes.

The Bank shows in its accounts as costs relating to the year all taxes, whatever their nature, payable by it, less any tax repayments received during the same year. If, at the close of the year, the estimated amount of corporation tax shown under this heading exceeds imputable advance payments and withholding taxes, the additional amount due is recorded under the balance sheet sub-item 10.3 "Other liabilities, sundry"; in the opposite case, the surplus is shown under sub-item 9.6 "Other assets, sundry".

XIV. TRANSFER TO THE TAX-FREE RESERVES

This item records the tax-free amount, included in the extraordinary reserve (see liabilities item 13.2) of the capital gains realised on the sale of tangible fixed assets (Article 44 § 1, 2° and Article 190 of the C.I.R. 1992).

2.5 Notes to the Off-Balance-Sheet Items

FORWARD TRANSACTIONS IN FOREIGN CURRENCIES AND IN EURO

As at 31 December 2002, the forward position consists of swap transactions; the breakdown is as follows:

	(millions)	
	in foreign currency	in euros
forward claims		
– in euros		2,744.7
– in USD	606.1	578.0
forward liabilities		
– in USD	2,703.0	2,577.5
– in JPY	76,500.0	615.0

These swap transactions in foreign currencies were concluded for the major part against euro. The forward claims and liabilities in foreign currencies were revalued in euro at the same exchange rates as those used for spot holdings in foreign currencies.

During the financial year, the Bank sold spot dollars and yen for the equivalent of 1.8 billion euro⁽¹⁾. This spot currency selling combined with currency swaps enabled the Bank to maintain the gross volume of its investments in foreign currencies while reducing the exchange risk to which it is exposed.

FORWARD TRANSACTIONS ON INTEREST RATE AND FIXED-INCOME SECURITIES

At the end of the financial year, the Bank holds a short position in futures in US government securities and 3-month euro-dollar rate futures. These contracts were revalued at market price. As at 31 December 2002, their net value is € 14.3 million.

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

LIABILITIES WHICH COULD LEAD TO A CREDIT RISK

	(millions of euros)
Commitments towards international institutions	453.7

This item records the undertaking entered into by the Bank to lend SDR 350 million (€ 453.7 millions) to the PRGF Trust. The amount of the drawings remaining open is SDR 152 million (€ 197 million). This loan is guaranteed by the Belgian State.

	(millions of euros)
Commitments towards other institutions	10.2

(1) See note on asset item 2.2 of the balance sheet.



VALUABLES AND CLAIMS ENTRUSTED TO THE INSTITUTION

(millions of euros)

For encashment	0.3
Assets managed on behalf of the Treasury	94.4
Assets managed on behalf of the ECB	1,491.1

This last sub-item contains the value at the market rate of the external reserves managed by the Bank on behalf of the ECB.

(millions of euros)

Custody deposits	319,751.5
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This item consists mainly of the nominal amount of securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills, certificates of deposit and certain classical loans) recorded under the securities settlement system (clearing) and held on behalf of third parties.

CAPITAL TO BE PAID UP ON SHARES OF THE BIS

The BIS shares held by the Bank are paid up to the extent of 25%. The amount shown under this item is that of uncalled capital, totalling USD 111.8 million (the same as at the end of 2001), converted at the dollar exchange rate as at 31 December 2002, namely € 106.6 million.

Brussels, 26 February 2003

3. Comparison over five years

3.1 Balance Sheet

Assets

(thousands of euros)

	2002	2001	2000	1999	1998 ⁽¹⁾
1. Gold and gold receivables	2,710,680	2,613,494	2,431,485	2,402,507	2,346,536
2. Claims on non-euro area residents denominated in foreign currency	11,304,447	12,780,672	10,740,780	10,885,054	10,897,610
2.1 Receivables from the IMF	3,169,845	3,255,684	2,615,983	2,807,152	2,362,680
2.2 Balances with banks and security investments, external loans and other external assets	8,134,602	9,524,988	8,124,797	8,077,902	8,534,930
3. Claims on euro area residents denominated in foreign currency	297,976	799,055	459,103	138,167	47,467
4. Claims on non-euro area residents denominated in euro	3,656	7,610	9,456	9,071	927,644
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	10,876,706	7,570,189	15,441,034	20,456,952	4,587,717
5.1 Main refinancing operations	10,876,706	7,500,000	14,811,034	5,436,956	4,584,171
5.2 Longer-term refinancing operations	–	70,189	630,000	15,015,000	–
5.3 Fine-tuning reverse operations	–	–	–	–	–
5.4 Structural reverse operations	–	–	–	–	–
5.5 Marginal lending facility	–	–	–	4,996	3,546
5.6 Credits related to margin calls	–	–	–	–	–
6. Other claims on euro area credit institutions denominated in euro	357	220	313	1,288	392,134
7. Securities of euro area residents denominated in euro	3,663,289	3,621,955	3,629,307	3,683,056	3,779,431
8. Intra-Eurosystem claims	6,404,410	1,576,431	1,576,611	1,576,362	143,290
8.1 Participating interest in ECB capital	143,290	143,290	143,290	143,290	143,290
8.2 Claims equivalent to the transfer of foreign currency reserves	1,432,900	1,432,900	1,432,900	1,432,900	–
8.3 Net claims related to the allocation of euro banknotes within the Eurosystem	4,790,823	–	–	–	–
8.4 Other claims within the Eurosystem (net)	37,397	241	421	172	–
9. Other assets	2,345,715	2,233,336	2,226,502	2,159,269	2,029,800
9.1 Coins of euro area	10,315	26,408	6,795	9,966	5,688
9.2 Tangible fixed assets	370,526	352,518	326,607	320,235	311,618
9.3 Other financial assets	1,528,380	1,438,009	1,359,671	1,325,696	1,324,743
9.4 Off-balance-sheet instruments revaluation differences	117,700	–	996	–	–
9.5 Accruals and prepaid expenditure	217,117	242,864	309,114	308,924	257,057
9.6 Sundry	101,677	173,537	223,319	194,448	130,694
Total assets	37,607,236	31,202,962	36,514,591	41,311,726	25,151,629

(1) Opening balance sheet as at 1 January 1999 in which the balance sheet items as at 31 December 1998 were rearranged and revalued corresponding to the accounting rules established in the guideline of the European Central Bank of 1 December 1998.

Liabilities

(thousands of euros)

	2002	2001	2000	1999	1998 ⁽¹⁾
1. Banknotes in circulation	11,964,293	8,627,226	12,905,356	12,947,255	11,971,273
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4,481,622	5,945,181	7,129,800	3,509,187	6,916,380
2.1 Current accounts (covering the minimum reserve system)	4,481,622	5,922,368	7,129,800	3,458,846	6,910,381
2.2 Deposit facility	–	22,813	–	50,341	5,999
2.3 Fixed-term deposits	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–
2.5 Deposits related to margin calls	–	–	–	–	–
3. Other liabilities to euro area credit institutions denominated in euro	–	–	–	–	–
4. Liabilities to other euro area residents denominated in euro	123,637	127,485	83,479	95,880	168,724
4.1 General government	115,411	118,528	62,176	64,270	88,688
4.2 Other liabilities	8,226	8,957	21,303	31,610	80,036
5. Liabilities to non-euro area residents denominated in euro	233,479	80,691	179,736	337,368	165,397
6. Liabilities to euro area residents denominated in foreign currency	–	–	–	–	–
7. Liabilities to non-euro area residents denominated in foreign currency	854,184	1,869,018	982,736	569,854	108,725
8. Counterpart of special drawing rights allocated by the IMF	629,023	691,238	679,386	662,349	584,459
9. Intra-Eurosystem liabilities	12,916,449	5,168,960	6,536,213	16,275,947	1,988
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–	–	–	–
9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–	–	–	–
9.3 Other liabilities within the Eurosystem (net)	12,916,449	5,168,960	6,536,213	16,275,947	1,988
10. Other liabilities	459,045	1,652,207	1,481,878	1,046,929	899,155
10.1 Off-balance-sheet instruments revaluation differences	–	8,159	–	10,049	22,810
10.2 Accruals and income collected in advance	6,426	7,702	14,279	8,523	8,681
10.3 Sundry	452,619	1,636,346	1,467,599	1,028,357	867,664
11. Provisions	1,387,068	1,181,106	988,156	798,141	676,674
11.1 For future exchange losses	925,519	756,120	614,320	441,120	327,219
11.2 For new premises	–	7,060	10,540	19,040	34,630
11.3 For contingencies	461,549	417,926	363,296	330,003	314,825
11.4 For loss from the ECB	–	–	–	7,978	–
12. Revaluation accounts	2,902,378	4,294,569	4,080,642	3,674,206	2,298,241
13. Capital and reserve fund	1,549,232	1,459,707	1,368,499	1,337,721	1,324,586
13.1 Capital	10,000	9,916	9,916	9,916	9,916
13.2 Reserve fund:					
Statutory reserve	100,780	96,975	93,287	89,580	85,864
Extraordinary reserve	1,082,180	1,014,616	953,116	932,616	932,616
Amortisation accounts in respect of tangible fixed assets	356,272	338,200	312,180	305,609	296,190
14. Profit for the year	106,826	105,574	98,710	56,889	36,027
Total liabilities	37,607,236	31,202,962	36,514,591	41,311,726	25,151,629

(1) Opening balance sheet as at 1 January 1999 in which the balance sheet items as at 31 December 1998 were rearranged and revalued corresponding to the accounting rules established in the guideline of the European Central Bank of 1 December 1998.

3.2 Profit and Loss Account

(thousands of euros)

	2002	2001	2000	1999	1998
I. Proceeds of net interest-bearing assets	658,465	968,528	792,153	349,234	667,633
1. Interest income	839,836	1,257,070	1,286,299	900,427	851,180
2. Interest expenses (-)	-446,909	-567,480	-480,303	-321,109	-228,891
3. Capital gains (-losses (-)) on securities	176,572	220,895	-14,271	-222,278	45,344
4. Allocation of monetary income from the ESCB	15,955	243	428	172	
5. Income from the ECB	73,011	57,800			
6. Appropriation to the provision for covering losses from the ECB (-)		-	-	-7,978	
II. Foreign exchange difference results	94,206	139,957	200,223	260,956	153,975
1. Foreign exchange difference results	263,606	281,757	373,423	374,856	481,194
2. Write-back of provision for future exchange losses (appropriation (-))	-169,400	-141,800	-173,200	-113,900	-327,219
III. Commission	1,181	2,591	3,531	2,576	2,514
1. Commission received	3,244	4,320	5,041	3,251	3,509
2. Commission paid (-)	-2,063	-1,729	-1,510	-675	-995
IV. Amounts recovered from third parties	54,123	61,714	53,426	50,553	49,184
V. Proceeds from statutory investments	101,091	98,409	95,004	95,857	105,893
VI. Other proceeds	1,371	4,822	2,555	404	7,953
VII. State share (-)	-307,555	-648,656	-495,640	-123,526	-338,330
1. Proceeds from net interest-bearing assets (art. 29)	-293,817	-558,351	-369,752	-86,121	-218,124
2. Proceeds fully assigned to the State	-33,209	-45,548	-41,931	-29,981	-117,713
3. Foreign exchange difference results	19,471	-44,757	-83,957	-7,424	-2,493
VIII. Transfer to the unavailable reserve of capital gains on gold (-)	-	-	-	-177,115	-
IX. General expenses (-)	-235,097	-237,067	-233,022	-213,580	-215,825
1. Remuneration and social costs	-187,524	-191,118	-185,791	-175,277	-172,487
2. Other expenses	-47,573	-45,949	-47,231	-38,303	-43,338
X. Exceptional costs (-)	-4,827	-11,327	-12,508	-28,192	-52,580
XI. Depreciation of tangible fixed assets (-)	-20,774	-28,499	-29,415	-30,456	-22,874
XII. Provisions	-36,563	-51,150	-24,793	411	-22,261
1. Write-back of provisions for new premises (appropriation (-))	7,060	3,480	8,500	15,590	-3,669
2. Write-back of provisions for contingencies (appropriation (-))	-43,623	-54,630	-33,293	-15,179	-18,592
XIII. Taxes and dues (-)	-198,547	-193,748	-252,804	-130,233	-299,255
XIV. Transfer to the tax-free reserves (-)	-248				
Net profit for the financial year	106,826	105,574	98,710	56,889	36,027

3.3 Dividend

	2002	2001	2000	1999	1998
Net dividend allocated per share	48.10	47.25	46.10	44.90	44.37
Withholding tax deducted per share	16.03	15.75	15.37	14.97	14.79
Gross dividend allocated per share	64.13	63.00	61.47	59.87	59.16

Auditors' report

Annual accounts for the year ended December 31, 2002

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

We have audited the financial statements as of and for the year ended December 31, 2002 with a balance sheet total of Euro 37.607.236 (000) and a profit for the year of Euro 106.826 (000). These financial statements have been prepared under the responsibility of the Board of Directors of the National Bank of Belgium. In addition we have carried out the specific additional audit procedures required by applicable laws and regulations.

Unqualified audit opinion on the financial statements

We conducted our audit in accordance with the standards of the "Institut des Reviseurs d'Entreprises-Instituut der Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to the annual accounts of the National Bank of Belgium.

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

In our opinion, taking into account the prevailing legal and regulatory requirements, the financial statements present fairly the National Bank of Belgium's net worth and financial position as of December 31, 2002 and the results of its operations for the year then ended and the disclosures made in the notes to the financial statements are adequate.

Additional assertions

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

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

Brussels, February 26, 2003

The Joint Auditors

KPMG Bedrijfsrevisoren b.c.v.
represented by
Pierre P. Berger

Deloitte & Touche Bedrijfsrevisoren b.c.v.
represented by
Danielle J. Jacobs

Approval by the Council of Regency

The Council of Regency examined the annual accounts drawn up at 31 December 2002, which were submitted to it by the Board of Directors in accordance with the provisions of Article 44 of the Statutes. It took note of the report submitted by the auditors for the financial year 2002.

On 26 February 2003, the Council approved the annual report on the company's operations and the annual accounts for the financial year 2002, and the administration was thus given a discharge. Finally, during the same session it definitively determined the distribution of profits for the financial year.

The Council of Regency

Mr Guy QUADEN, Governor
 Mrs Marcia DE WACHTER, Vice-Governor
 Messrs Jean-Pierre PAUWELS, Director
 Jan SMETS, Director
 Mrs Françoise MASAI, Director
 Messrs Jean HILGERS, Director
 Peter PRAET, Director
 Tony VANDEPUTTE, Regent
 Philippe WILMÈS, Regent
 Noël DEVISCH, Regent
 Christian DUMOLIN, Regent
 Gérald FRÈRE, Regent
 Jacques FOREST, Regent
 Luc CORTEBEECK, Regent
 Mrs Mia DE VITS, Regent
 Mr Jean-Pierre HANSEN, Regent
 Mrs Martine DUREZ, Regent



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Abbreviations

BFC	Banking and Finance Commission
BIS	Bank for International Settlements
CEC	Centre for Exchange and Clearing
ECB	European Central Bank
ELLIPS	ELectronic Large-value Interbank Payment System
ESAF	Enhanced Structural Adjustment Facility
ESCB	European System of Central Banks
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISO	Insurance Supervision Office
NCB	National Central Bank
OECD	Organisation for Economic Co-operation and Development
OLO	Linear bond
PRGF	Poverty Reduction and Growth Facility
SDR	Special Drawing Rights
SME	Small and medium-sized enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer



Opening hours and addresses

SERVICES	ESTABLISHMENTS OFFERING THE SERVICES	OPENING HOURS
Banknotes and coins, Central Balance Sheet Office and Central Office for Credits to Individuals	Brussels, Antwerp, Courtrai, Hasselt, Liège and Mons	9.00 to 15.30 hrs
	Arlon, Ghent, Louvain, Namur and Wavre ⁽¹⁾	9.00 to 13.00 and 14.00 to 15.30 hrs
State Cashier	Brussels, Antwerp, Courtrai, Hasselt, Liège and Mons	9.00 to 15.30 hrs
Scientific Library	Brussels	9.00 to 15.30 hrs
Museum	Brussels	10.00 to 18.00 hrs (daily except Mondays)

Requests for information: E-mail: secretariat@nbb.be
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Internet site: www.bnb.be

(1) These establishments offer limited services for banknotes and coins. The representative agencies at Louvain and Wavre will close permanently on 1 July 2003.

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Wavre ⁽¹⁾ :	place Alphonse Bosch 38, 1300 Wavre Tel: +32 10 22 62 52 Fax: +32 10 22 40 37 E-mail: wavres@g@nbb.be		

Departments and services : see Internet site

(1) This establishment will close permanently on 1 July 2003.

Annex 1

List of laws and Royal Decrees promulgated in 2002 concerning the organisation and Statutes of the Bank

- Royal Decree of 21 February 2002 approving the amendment to the Statutes of the National Bank of Belgium made on 23 January 2002 (*Moniteur belge/Belgisch Staatsblad* of 28 May 2002).
- Law of 28 February 2002 organising the compilation of the balance of payments and the overall external position of Belgium and amending the Decree-Law of 6 October 1944 on exchange control and miscellaneous statutory provisions (*Moniteur belge/Belgisch Staatsblad* of 3 May 2002), in particular Article 16 thereof.
- Law of 2 August 2002 on the supervision of the financial sector and on financial services (*Moniteur belge/Belgisch Staatsblad* of 4 September 2002) and Royal Decrees of 22 August 2002 (*Moniteur belge/Belgisch Staatsblad* of 4 September 2002), 29 October 2002 (*Moniteur belge/Belgisch Staatsblad* of 30 October 2002) and 3 December 2002 (*Moniteur belge/Belgisch Staatsblad* of 14 December 2002) fixing the dates of entry into force of certain provisions of the said law.
- Programme Law of 2 August 2002, Article 206 (*Moniteur belge/Belgisch Staatsblad* of 29 August 2002).
- Royal Decree of 12 December 2002 approving the amendment to the Statutes of the National Bank of Belgium made on 18 September 2002 (*Moniteur belge/Belgisch Staatsblad* of 8 January 2003).

The coordinated text of the Law of 22 February 1998 establishing the Organic Statute of the National Bank of Belgium and the coordinated text of the Statutes of the National Bank of Belgium are available on the Internet site.

Annex 2

Shareholder structure as at 31 december 2002

(Application of Article 4 § 2 (2) of the Law of 2 March 1989 on the disclosure of major shareholdings in listed companies)

Declarant:	Belgian State, represented by the Minister of Finance
Number of voting rights declared:	200,000
Share of the voting rights:	50 p.c.