

Report 2003

Part 2 Activities and Annual Accounts



Foreword

By Guy Quaden, Governor



Since the start of monetary union, the National Bank of Belgium has been one of the partners in the European System of Central Banks – the group comprising the European Central Bank (ECB) and the national central banks (NCBs) of the European Union – and in the Eurosystem, the smaller but also more operational entity formed by the ECB and the NCBs of the twelve countries which have so far adopted the euro.

The Eurosystem is a novel structure with no equivalent anywhere in the world. It is sometimes said that the NCBs have become subsidiaries of the ECB. In reality, they own it. But it is true that, in each national territory, they are also the transmission channels for the single monetary policy decided in Frankfurt. Even so, it is essential to make it clear that these decisions are taken by a Council on which, alongside the six members of the ECB Executive Board, the governors or presidents of the various NCBs have a seat and a vote, on the basis of one member – one vote. Finally, apart from monetary policy and the Eurosystem, the NCBs continue to fulfil other functions in the public interest.

In accordance with the Treaty establishing the European Community, the ECB and the NCBs of the Eurosystem define and implement the single monetary policy, share the right to issue banknotes denominated in euro, hold and manage the official foreign reserves of the Member States, promote the smooth operation of payment systems and contribute to the stability of the financial sector.

As well as ensuring monetary stability, i.e. price stability, modern central banks also play a key role in regard to financial stability.

While concentration has increased in the financial sector, macroprudential supervision (for which the central bank is traditionally responsible) and microprudential supervision (sometimes entrusted to a separate body, such as the Banking, Finance and Insurance Commission in Belgium) are nowadays two sides of the same coin: separate but indissolubly linked. However, the institutional arrangements differ from one country to another.

In Belgium, the Law of 2 August 2002 on the supervision of the financial sector and on financial services created closer links between the BFIC and the Bank, and structured their cooperation, although each institution retains its own responsibilities.

The inauguration of the Financial Stability Committee in July 2003 was one of the final stages in the implementation of this reform. That Committee, chaired by the governor of the Bank, is a place for dialogue and consultation, for the purpose of preventing, but if necessary also managing, situations of financial instability. In addition, it is the body in charge of organising and managing certain synergies between the two institutions, especially where support services are concerned. In this connection, the goal is to achieve economies of scale and to reallocate the resources thus released to the basic tasks of the institutions, particularly in view of the increased need for financial supervision.

Modern central banks are more than just central banks. They are also service enterprises. Their non-monetary activities result mainly from historical circumstances specific to each country. Those activities are particularly well-developed in Belgium.

Owing to the value placed on the quality of its services and its commercial neutrality, the Bank continues to receive requests from the government and the financial community as soon as certain projects are to be implemented. Thus, in June 2003, the opening of a "positive" Central Office for Credits to Individuals was added to the other services performed by the Bank for businesses and for the population in general.

In 1987 the legislature had given the Bank the task of centralising the data on credit to individuals in default. Although it is useful to record arrears of payment to avoid any worsening of the financial situation of borrowers, it is not a very effective way of averting the risk of excessive debts in the case of consumers who honour their obligations but have reached the limit of their repayment capacity. In 2001, following a recommendation by the Interministerial Conference on Social Integration and Social Economy, the legislature decided to step up the battle against the scourge of excessive debt by extending the registration to include all credit granted to individuals. That task was also entrusted to the Bank. The new "positive" central office became operational on the planned date, 1 June 2003. In the space of a few months, around 6 million transactions were recorded and the central office is consulted, on average, 22,000 times every working day.

Right at the start, in 1850, while giving the Bank the form of a public limited liability company, Minister Frère-Orban stated during the discussion of the draft organic law: "What is our intention in setting up a Bank? We do not want to give profits to individuals, nor do we want to enrich shareholders, but we are establishing a Bank in the public interest, in the general interest."

In a recent ruling, the Court of Arbitration confirmed, if there was any need to do so, "the special status of the National Bank which, though established in the form of a private company, takes on tasks in the public interest."

This status of the Bank is entirely compatible with the interests of the persons and institutions acquiring its shares as a medium- to long-term investment, in view of the security offered by the stock and the regularity of the dividend paid.

Moreover, the fact that the Bank, like any central bank, does not seek primarily to make a profit, obviously does not exempt it from observing the rules of good management.

This constant concern, further reinforced by the strategic debate launched in May 2000, in the new context created by monetary union, but also by the spread of the new technologies and the restructuring in the commercial financial sector, is reflected in particular in the reduction in the Bank's workforce. At the end of 1992, the total stood at 2,864 full time equivalents. By the end of 2003 it was just 2,250 full time equivalents (down by a further 70 units against the end of 2002) whereas, during the past decade, at the request of the legislature, the Bank has taken over

a major part of the activities of the National Statistical Institute and has absorbed the Rediscount and Guarantee Institute. There is every reason to believe that the target set by the strategic debate for 2005 – 2,200 full time equivalents – will be met, thanks to continuing efforts to improve productivity.

FOREWORD	3
ACTIVITIES	10
Chapter 1: Activities linked to monetary policy	11
Research	11
Compilation of economic statistics	13
Implementation of monetary policy	14
Management of the foreign exchange reserves	15
Chapter 2: Management of payment and settlement systems	17
Banknotes and coins	17
Interbank payments	21
Securities settlement	24
Centralised processing of commercial bills	25
Chapter 3: Supervision of the financial system	27
Macroprudential supervision and the Financial Stability Committee	27
Oversight of payment and securities settlement systems	29
Interdepartmental Crisis Unit	32
Management of the Protection Fund for Deposits and Financial Instruments	32
Chapter 4: International cooperation	33
European Union	33
Other multilateral cooperation	33
Technical assistance for the Central Bank of Congo	34
Chapter 5: Role of State Cashier and management of the Securities Regulation Fund	35
State Cashier	35
Securities Regulation Fund	35

Chapter 6: Circulation of information	37
Circulation of macroeconomic research and statistics	37
Microeconomic information centres	38
Communication activities	40
Chapter 7: Management of resources	43
Strategic guideliness	43
Management control	43
Human resources	43
Information technology resources	45
Premises	46
Continuity of service	46
ORGANISATION	48
Chapter 1: Legal proceedings	51
Chapter 2: Administration	53
Governor	53
Board of Directors	53
Council of Regency	54
Chapter 3: Supervision	59
Government Commissioner	60
Auditors	60
Board of Censors	61
Chapter 4: General meeting	65
Composition and powers	65
General meeting 2003	65
Chapter 5: Organisation chart	67
Administration and supervision	68
Departments and services	69

ANNUAL ACCOUNTS	76
Chapter 1: Presentation of Annual Accounts as at 31 December 2003	77
Balance Sheet	78
Profit and Loss Account	80
Off-balance-sheet items	81
Allocation of Profit	82
Social Balance Sheet	83
Chapter 2: Notes to the Annual Accounts	87
Legal framework	87
Accounting principles and valuation rules	88
Notes to the Balance Sheet	91
Notes to the Profit and Loss Account	105
Notes to the off-balance-sheet items	113
Post-balance-sheet events	115
Chapter 3: Comparison over five years	117
Balance Sheet	118
Profit and Loss Account	120
Dividend	120
AUDITORS' REPORT	121
APPROVAL BY THE COUNCIL OF REGENCY	123
ANNEXES	124
1. Shareholder structure as at 31 December 2003	125
2. Opening hours and addresses	127
3. Abbreviations	129
4. List of boxes, tables and charts	131

1. Activities linked to monetary policy

The Bank and the Eurosystem

The Bank, the national central banks (NCBs) of the other EU Member States which have adopted the euro and the European Central Bank (ECB) together form the Eurosystem. ⁽¹⁾

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

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

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

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, the Bank performs an advisory role for the government and maintains regular links with the economic and financial world, via publications (cf. point 6.1), 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 High Council of Finance and the Superior Employment Council. It is also represented on a series of committees at EU and G10 level (cf. chapter 4).

These activities create a need for 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 university world. Thus, in collaboration with Belgian researchers, it conducted a research project entitled *Efficiency and stability in an evolving financial system*. The results of this project will be presented at the international symposium, being held by the Bank on 17 and 18 May 2004. At the same time, in consultation with university researchers, the Bank took the initiative in arranging a series of seminars on monetary and macroeconomic questions. The aim is to encourage economic research on these subjects, both within the

Bank and in the universities, by contact with speakers of international renown. The Bank also decided to arrange an internship programme, from 2004 onwards, intended for young Belgian researchers and aimed at the mutual enrichment of the research conducted by the Bank and the universities.

In addition, the Bank 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.

The Bank and the National Accounts Institute

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

The allocation of the tasks, also stipulated by law, is as follows:

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

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

The NAI's achievements include the transition from the ESA 79 to the ESA 95 methodology in the national accounts, the extension of the regional accounts, the introduction of, and adherence to, publication timetables and the reduction in publication times, e.g. for the quarterly accounts and the foreign trade statistics.

On 30 October the Bank held a symposium in order to make people more familiar with the NAI. Before a large audience, the European Commission highlighted the substantial progress achieved by Belgium in recent years as regards the availability, quality and speed of production of economic statistics.

1.2 Compilation of economic statistics

1.2.1 National accounts and the economic situation

In 2003, the employment estimates in the national accounts were recalculated retrospectively to 1980. Previously available only in terms of the number of persons in work, the estimate of the number of employees has also been supplemented by a previously unpublished measure of the volume of work: the number of hours worked. This new statistic makes it easier to calculate labour costs and productivity in Belgium.

The supply and use tables for 1995, 1997 and 1999 were published during the year under review. These tables examine the economic process from the point of view of products and supplement the information supplied by the detailed national accounts.

Apart from value added and compensation of employees, investments in fixed assets and the number of employees are now also broken down by region. Furthermore, for the first time, information has been supplied on the disposable income of households, broken down by district.

The Bank's consumer confidence survey has also been extended so that, ultimately, it will produce representative results for Wallonia and Flanders.

1.2.2 Financial statistics

In December, the Bank published for the first time, in collaboration with the ECB and the other central banks of the Eurosystem, the results of a new survey of interest rates, conducted in all euro area countries in accordance with a harmonised method. The questions put monthly to credit institutions aim to find out the interest rates applicable to loans to and deposits by households and non-financial corporations.

Since 2003, there has been a new channel for submitting some of the periodic returns filed by credit institutions, called the *Central Server for Statistical Reporting*. Use of this new server, which facilitates data transfer and validation more or less in real time, will be steadily extended to all statistical returns intended for the Bank, and will eventually become the only permitted communication medium.

The development of new periodic information formats for credit institutions was launched during the year under review, in consultation with the BFC and the Belgian

Bankers Association, in order to enable those institutions to comply with a European regulation whereby, from 1 January 2005, listed companies must compile their consolidated annual accounts in accordance with the *International Accounting Standards* and the *International Financial Reporting Standards*. The Belgian legislation will extend that obligation to all credit institutions.

As regards financial accounts, adjustments have been made to the classification of the economic sectors, to bring them more into line with the European ESA 95 methodology. These revisions concern an improved definition of the sectors comprising financial and non-financial corporations. The financial accounts of general government have also been improved to make them more consistent with the non-financial accounts. Special attention focused on checking the data quality, and a report on that subject was submitted to the ECB Governing Council.

1.2.3 Foreign trade

Application of the European directive on the recording of diamond imports and exports caused a break in the series of published figures. Since January 2003, consignments on approval which are not followed by an actual sale or purchase are no longer included in the diamond import and export figures.

A European regulation has clarified the definition of the term "region of origin/destination of the goods" in order to enhance the quality of the regional statistics. To that end, a transparent, user-friendly decision chart has been developed for enterprises submitting data. Furthermore, in order to guarantee data quality, an additional survey was conducted among the 1,800 biggest companies.

To help Intrastat declarants to meet their obligations, training schemes and courses were held in the various provinces.

In 2003, close attention was also paid to the implementation of an advanced system for the automatic correction of certain declarations. In the long run, this process should lead to better quality statistics.

1.2.4 Balance of payments

Since 2003, all the transitional measures relating to statistical returns, introduced following the abolition of the currency union between Belgium and Luxembourg and the Belgian-Luxembourg Exchange Institute, have ceased to apply.

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. In 2003, close attention focused on the in-depth analysis of the population of potential declarants.

Developments taking place at European level are duly taken into account in the preparation of this new system.

First there is the guideline of the ECB of 2 May 2003 on the statistical reporting requirements of the ECB in the field of balance of payments and international investment position statistics, and the international reserves template.

Eurostat is also completing the preparation of a proposal for a Regulation of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment. That regulation will lay down uniform obligations on the Member States concerning the statistics to be supplied to Eurostat. The aim is to achieve greater harmonisation in order to obtain comparable data throughout the EU. These harmonised figures should be available by 2006.

In 2003, the Bank began using the quarterly data on Belgium's gross external debt in its statistical publications.

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 in order to implement the various instruments of monetary policy:

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

During the first quarter of 2004, several changes will be made to the operational framework in that respect:

- the reserve maintenance period will no longer be fixed and will always begin on the main refinancing operation settlement day following the meeting of the Governing Council at which the monthly assessment of monetary policy took place;
- as a rule, changes to the standing facility rates will take effect at the start of a new reserve maintenance period;
- the duration of the main refinancing operations will be cut from two weeks to one week.

The Bank has adapted its IT systems and working procedures to take account of these changes.

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 tranche of their bids. On the basis of these bids and the total liquidity requirement, estimated by the Eurosystem, the ECB Executive Board fixes the total amount allotted and hence the (lowest) marginal rate at which the Eurosystem will lend money. This credit is extended to the institutions offering to pay the highest rates of interest until the target figure is reached. It is granted by the NCB of the country where the establishments are located and entails lodging collateral with the NCBs.

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

Counterparties may use any of these assets domestically or on a cross-border basis. However, the major part of the collateral provided for the Eurosystem still consists of national assets.

The first quarter of 2004 will see the implementation of more sophisticated measures for managing the risks relating to the guarantees lodged in favour of the Eurosystem.

An in-depth discussion on the gradual adaptation of the range of collateral continued in 2003, in order to take account of market developments while improving the harmonisation of practices within the euro area. Analyses were conducted in order to assess the feasibility and implications of replacing the two lists with a single list valid for the whole of the Eurosystem. Market players were consulted on this subject in a survey, the key elements of which should be published in summary form at the beginning of 2004.

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 stringent requirements regarding investment security and liquidity.

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

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

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 9 bis of the Organic Law of 22 February 1998, inserted by Article 141 § 2 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, 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. These are assets allocated to the performance of the general interest tasks taken on by the Bank, especially as regards monetary policy and foreign exchange policy.

By a judgment passed on 10 December 2003, the Court of Arbitration ruled that Article 9 bis of the Organic Law merely confirms the legal status of Belgium's official foreign exchange reserves, as provided for by European law, and contains only confirmation by the legislature of the purpose for which those reserves have always been used and of the special status of the Bank which, though having been set up in the form of a private company, performs tasks in the public interest (on this subject see the section on Organisation, box entitled "The Bank, an atypical public limited liability company."

management of the portfolios, within the limits set for them by the Investment Committee.

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

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

In the case of the foreign exchange reserves which the Bank manages for the ECB, the ECB takes the decisions which, in the case of the other foreign exchange reserves, fall to the Board of Directors and the investment committee.

The Bank's staff allocated to the management of the reserves are subject to specific rules of conduct (cf. point 7.3).

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 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 for each portfolio a currency mix and a duration 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 Banknotes and coins

2.1.1 Production of euro banknotes

In 2003, the Bank continued to produce banknotes denominated in euro in accordance with the production and supply plan adopted by the Eurosystem. That plan was based on analysis of the various parameters which determine demand for new banknotes: changes in banknote circulation, the need to replace worn notes and the level of stocks required.

2.1.2 Circulation of notes and coins

ISSUE OF EURO BANKNOTES

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

Since the introduction of the euro, the quantity of banknotes placed in circulation by the Bank has declined, while the opposite is happening in the euro area as a whole, which is seeing a strong surge in demand for banknotes following the sharp contraction which occurred before the euro was introduced. This disparity is due essentially to the large volume of banknotes migrating to Belgium, owing to its geographical location, business trips connected with the role of Brussels as the capital of Europe, the proximity of the Luxembourg financial centre

and the fact that cash dispensers do not supply the same denominations in neighbouring countries. Thus, in 2003 more 200 and 500 euro notes were paid in at the Bank's counters than the Bank had issued. This imbalance is not unique to Belgium. It also gives rise to the transportation of banknotes between other euro area countries.

On the balance sheet, the "Banknotes in circulation" item no longer reflects the issue of banknotes in Belgium. The amount recorded there is calculated by applying to the value of the notes placed in circulation by the twelve central banks of the Eurosystem a coefficient – currently 3.5383 p.c. – representing the Bank's share in the paid-up capital of the ECB, in the knowledge that 8 p.c. of the total value of the banknotes in circulation in the Eurosystem is attributed to the ECB. The difference between

The right of issue

The Bank retained its right of issue after the creation of the euro. 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.

By a judgment passed on 10 December 2003, the Court of Arbitration acknowledged the purely interpretative nature of the provision of the law of 2 August 2002 which confirms that the Bank has the right of issue (on this subject, cf. Organisation, chapter 1).

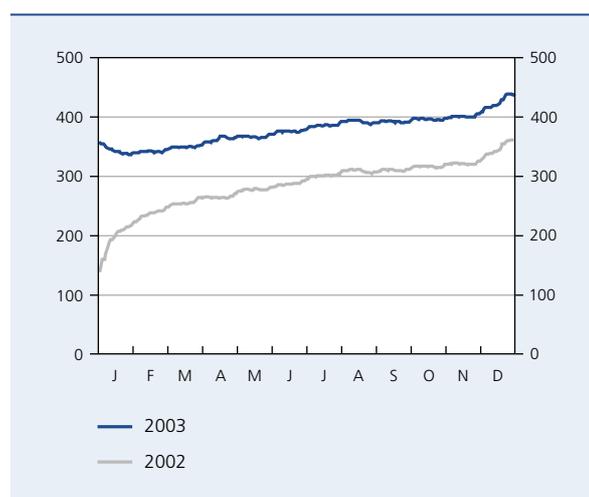
the amount of banknotes allocated to a NCB and the amount of banknotes which it actually issues appears on the balance sheet as a liability to or claim on the Eurosystem, depending on whether the NCB has exceeded or fallen short of its banknote issuance quota. In the Bank's case, the difference between theoretical and actual issuance appears on the assets side of the balance sheet in the item "Net claims related to the allocation of euro banknotes within the Eurosystem." The amount recorded in this item has increased over time (by 6.3 billion in 2003), indicating a net flow of banknotes into Belgium.

CIRCULATION OF EURO BANKNOTES

After falling slightly at the beginning of the year, the value of banknotes in circulation in the euro area has risen steadily. At the end of 2003, the total in circulation came to 436.1 billion euro, 21.6 p.c. higher than a year earlier. The share of the three largest denominations in the value in circulation increased from 48.8 to 52.1 p.c. The number of banknotes in circulation increased by 10.1 p.c.

The amount of cash held in the form of banknotes, which had fallen sharply in the run-up to the introduction of euro notes and coins, soon built up again. A number of factors may have contributed to this rise. Thus, the existence of denominations significantly larger than those of the old banknotes in many euro area countries tends to amplify demand for paper money. Also, the increasingly close links between the euro area and neighbouring countries and the euro's

CHART 1 EURO BANKNOTES PLACED IN CIRCULATION BY THE EUROSISTEM
(Daily totals, billions of euro)



Source : ECB.

reserve currency status probably accentuate demand from non-residents. Finally, the low level of interest rates and low inflation outlook reduce the opportunity cost of holding cash.

TABLE 1 EURO BANKNOTES PLACED IN CIRCULATION BY THE EUROSISTEM
(End of year figures)

Denominations	Number (millions of banknotes)		Amounts (billions of euros)	
	2002	2003	2002	2003
500	166.9	238.5	83.4	119.2
200	120.8	135.4	24.2	27.1
100	673.2	809.8	67.3	81.0
50	2,434.7	2,896.4	121.7	144.8
20	1,974.8	2,053.8	39.5	41.1
10	1,643.3	1,684.6	16.4	16.8
5	1,190.6	1,218.3	6.0	6.1
Total ⁽¹⁾	8,204.2	9,036.7	358.5	436.1

Source : ECB.

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

CIRCULATION OF EURO COINS

In the euro area, the circulation of coins expanded throughout the year. On 31 December 2003 there were 49 billion coins in circulation worth a total of 14.1 billion euro, representing a rise of 13.7 p.c. in value and over 22.7 p.c. in volume in the space of one year. The expansion was strongest in the case of the three smallest coins: 25.6 p.c. for the 5 euro cent coin, 29.3 p.c. for the 2 cent and 39.3 p.c. for the 1 cent. This strong demand, which occurred in most of the euro area countries, is due partly to the fact that these low face value coins are rarely returned to circulation by their holders. In some countries, that created a need to mint additional coins.

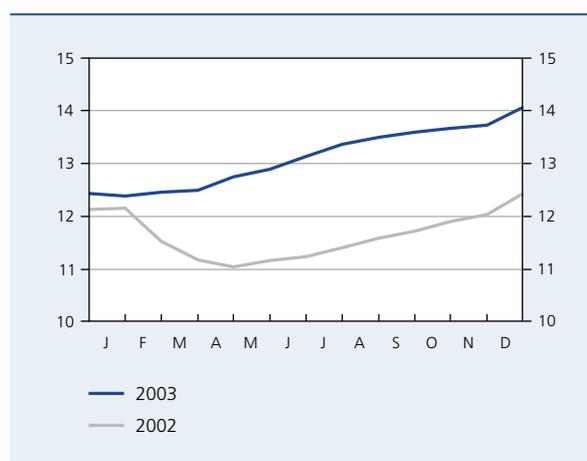
BANKNOTES AND COINS WITHDRAWN AND PAID IN AT THE BANK

The arrangements for withdrawing and paying in banknotes and coins are now set out in contracts between the Bank and the financial institutions. For banknotes, two types of contract are offered:

- the free basic service which central banks in the euro area are required to offer as part of their task of supplying the economy with cash. In this case, the Bank allows banknotes to be paid in or withdrawn in batches of single denominations;
- the service for which there is a charge, and which enables financial institutions to withdraw and pay in banknotes in packs containing different denominations.

CHART 2 EURO COINS PLACED IN CIRCULATION BY THE EUROSISTEM

(End of period, billions of euro)



Source : ECB.

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

Withdrawals are ordered and payments are announced by secure, standardised electronic messages. Containers paid in or withdrawn have a bar code permitting automatic recording and monitoring of transactions.

TABLE 2 EURO COINS PLACED IN CIRCULATION BY THE EUROSISTEM

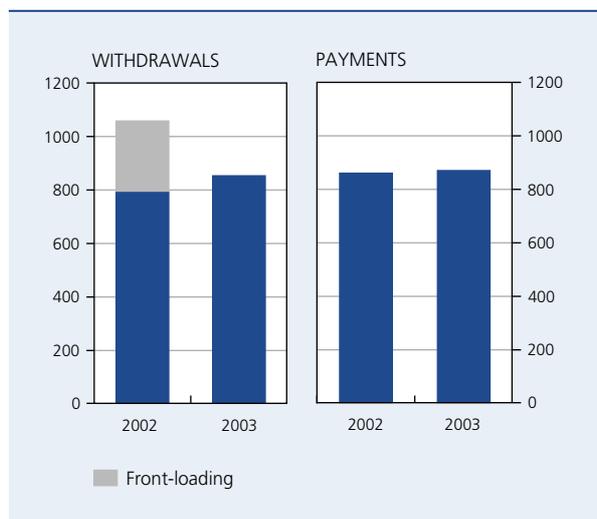
(End of year figures)

Denominations	Number (millions of coins)		Amounts (billions of euros)	
	2002	2003	2002	2003
2	2,499.8	2,804.8	5.0	5.6
1	3,553.6	4,120.1	3.6	4.1
0.50	3,658.3	3,791.4	1.8	1.9
0.20	4,977.8	5,667.9	1.0	1.1
0.10	5,515.2	6,608.5	0.6	0.7
0.05	5,984.2	7,517.3	0.3	0.4
0.02	6,711.8	8,680.0	0.1	0.2
0.01	7,052.4	9,822.9	0.1	0.1
Total ⁽¹⁾	39,953.1	49,012.8	12.4	14.1

Source : ECB.

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

CHART 3 EURO BANKNOTES WITHDRAWALS AND PAYMENTS AT THE BANK
(Millions of banknotes)



In addition, individuals and non-financial enterprises can exchange euro notes and coins at the public counters.⁽¹⁾ In 2003, these transactions totalled over 100 million coins and 5 million notes. Chart 3 shows the total number of euro banknotes withdrawn and paid in at the Bank.

WITHDRAWAL FROM CIRCULATION OF BELGIAN FRANC NOTES AND COINS

The Belgian franc ceased to be legal tender on 1 March 2002. Although most of the Belgian notes and coins in circulation were returned to the Bank in 2002, a further 1.7 million banknotes representing a total value

of 2.3 billion francs and 66 million coins representing 424 million francs were exchanged in 2003. There is no time limit for exchanging Belgian franc banknotes at the Bank's counters, whereas coins can only be exchanged until the end of 2004. The types of Belgian franc banknotes and coins which can be exchanged are shown on the Bank's website (www.nbb.be).

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

In order to guarantee high quality banknote circulation, counterfeit notes must be promptly withdrawn from circulation and soiled or damaged notes must be regularly removed. Quality control is traditionally conducted by the central banks, which use technologically advanced machinery to count and sort the banknotes paid in at their counters. In 2003, the Bank thus dealt with almost 900 million banknotes (cf. chart 3).

A general appraisal of the counterfeit euro banknotes indicates that in 2003, 21,185 forged notes were detected in Belgium: 68.7 p.c. were 50 euro notes, 18.6 p.c. were 100 euro notes and 8.2 p.c. were 20 euro notes. For comparison, the counterfeiting of Belgian franc banknotes totalled 20,511 notes in 2001 and 31,219 notes in 2000. Owing to the changeover to the euro, 2002 had been a totally exceptional year, in which just 4,518 forged euro banknotes had been detected in Belgium.

(1) The addresses and opening hours of the establishments are indicated in Annex 2.

TABLE 3 BELGIAN FRANC BANKNOTES NOT RETURNED ⁽¹⁾
(End of year figures)

Denominations	Amounts (millions of Belgian francs)				2003 (in p.c. of 2000)
	2000	2001	2002	2003	
10,000	276,469.8	160,120.0	4,124.1	2,961.7	1.1
2,000	164,240.1	120,129.8	3,814.3	3,092.0	1.9
1,000	73,249.5	65,879.6	1,576.9	1,327.9	1.8
500	15,697.0	11,710.4	625.1	560.9	3.6
200	6,623.1	5,353.1	624.2	583.5	8.8
100	10,282.2	8,175.4	1,115.5	1,052.7	10.2
Total ⁽²⁾	546,561.7	371,368.3	11,880.1	9,578.7	1.8

(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.

The total of 551,287 counterfeit euro notes withdrawn from circulation in 2003 as a whole is about 20 p.c. lower than the total number of forged banknotes in the old national currencies, recorded by the NCBs in the euro area in 2001. The number of counterfeit banknotes also has to be analysed in a broader context: there are around 9 billion authentic notes in circulation, and some 120 billion cash transactions are effected every year using euro banknotes.

The Eurosystem cooperates very closely with Europol, Interpol and the European Commission in the battle against counterfeiting.

There are numerous regulations governing the various aspects of quality control. At European level, these include:

- the Council Regulation of 28 June 2001 laying down measures necessary for the protection of the euro against counterfeiting;
- the Eurosystem's terms of reference of 24 May 2002 for the use of cash recycling machines by credit institutions and other euro area institutions engaged in the sorting and distribution of banknotes to the public as a professional activity.

In view of these developments, the Bank proposes to test machines designed to facilitate and speed up the recognition of forged banknotes.

Moreover, in Belgium, new legislation on protection against counterfeiting will impose new obligations on those whose occupation involves handling cash. Thus, forged or suspect notes and coins must be taken out of circulation and handed over without delay to the competent national authorities. In addition, cash dispensers may only be filled with banknotes obtained direct from the Bank or checked in advance by machines which the Bank has tested. This rule has already been incorporated in the contracts on banknote withdrawals and payments concluded with financial institutions since 1 September 2003.

2.2 Interbank payments

The Bank plays a key role in various ways in the Belgian payment and securities settlement systems. Thus, it organises and manages ELLIPS and the CEC. These are two integrated, standardised systems for handling interbank payments and settling cashless transfers.

ELLIPS

ELLIPS (Electronic Large-value Interbank Payment System), set up in 1996, is the interbank interface of the Belgian real-time gross settlement system ⁽¹⁾. This system processes payments which are generally for large amounts, often connected with transactions effected on the financial markets. ELLIPS is also the gateway to TARGET, the European cross-border gross settlement system.

(1) The Belgian real-time gross settlement system comprises two elements: ELLIPS and RECOUR, the Bank's system of current accounts.

2.2.1 Large-value payments

In 2003, ELLIPS processed an average of 10,305 payments a day, worth 93.3 billion euro, a rise of 5.2 p.c. in terms of the number of payments and 4.2 p.c. in value.

In 2003, the number of domestic payments dropped by 3.7 p.c. to an average of 3,239 transactions per day. The value of these payments fell to an average of 13.1 billion euro per day, 13.4 p.c. lower than the previous year.

The number of cross-border payments processed by ELLIPS grew by 6 p.c. to reach a daily average of 3,634 in the case of outgoing payments, and by 14 p.c. to a daily average of 3,431 for incoming payments. In terms of value, incoming and outgoing payments increased by 7.7 p.c. to a daily average of 40.1 billion euro. This upward trend is due mainly to the overall expansion in the use of TARGET and the increasing globalisation of the financial markets. Belgium is still in fifth place as a user of TARGET for cross-border payments, in terms of both number of transactions and value.

In the past year, TARGET processed an average of 261,208 payments per day in the EU, for a total of 1,650 billion euro. The number of cross-border payments came to a daily average of 59,816, averaging 537 billion euro. The number of payments is 11.1 p.c. higher than in 2002, while their value has increased by 10.7 p.c.

More detailed statistical information may be found in the annual reports of the CEC and ELLIPS, available on the website www.paymentsystems.be. The ECB's website (www.ecb.int) gives additional information on TARGET.

TARGET

TARGET is the abbreviation for *Trans-European Automated Real-time Gross settlement Express Transfers*. This is the European cross-border gross settlement system. The previous annual report ⁽¹⁾ had already recorded the need to adapt the TARGET system by taking account of factors such as the forthcoming EU enlargement, the increasing financial integration in the euro area and the new needs of the banking sector. In October 2002, decisions in principle were taken concerning the adoption of the new TARGET system (TARGET 2). Those decisions provide for the creation of a shared platform to which the NCBs will be connected, abandoning their own systems. However, the NCBs may, subject to certain conditions, maintain their own system in the new TARGET 2 infrastructure.

During 2003, development of the project continued on the basis of those decisions. Broad consultation of the banking sector led to the compilation of a list of the main basic services which TARGET 2 will have to offer. A methodology for calculating costs was approved. The new system's launch date has been fixed as the beginning of January 2007. It should therefore be possible for the new EU Member States to be connected to TARGET 2 immediately on their accession. The Eurosystem has also examined in greater depth the question of the administration and financing of the system. The Bundesbank, the Banque de France and the Banca d'Italia submitted a joint bid for the development and operation of the shared platform. That bid is currently being assessed by the other central banks concerned and by the ECB.

During the year under review, it emerged that the majority of the NCBs would be able to participate in the shared platform. Ultimately, therefore, TARGET 2 might consist of a single platform to which all NCBs will be connected. The NCBs which have not yet made a formal pronouncement are requested to make known their point of view during 2004, as soon as certain essential points still outstanding have been clarified.

(1) Part 2, p. 28.

TABLE 4 NUMBER OF TRANSACTIONS PROCESSED BY THE TARGET SYSTEM AND THE BELGIAN INTERBANK PAYMENT SYSTEMS
(Daily averages, thousands)

	2000	2001	2002	2003
TARGET system				
– cross-border payments	39.9	45.3	53.9	59.8
– national payments	148.3	166.0	199.2	201.4
ELLIPS				
– outgoing payments ⁽¹⁾	3.2	3.7	3.4	3.6
– incoming payments ⁽²⁾	2.3	2.6	3.0	3.4
– national payments	3.7	3.5	3.4	3.2
CEC	3,565.0	3,702.0	3,954.0	4,090.0
Clearing house	17.1	14.4	7.1	6.4

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

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

TABLE 5 AMOUNTS PROCESSED BY THE TARGET SYSTEM AND THE BELGIAN INTERBANK PAYMENT SYSTEMS

(Daily averages, billions of euro)

	2000	2001	2002	2003
TARGET system				
– cross-border payments	431.5	506.3	485.0	537.0
– national payments	601.0	793.0	1,066.0	1,113.0
ELLIPS				
– outgoing payments ⁽¹⁾	35.6	40.1	37.2	40.1
– incoming payments ⁽²⁾	35.6	40.1	37.2	40.1
– national payments	14.2	16.3	15.1	13.1
CEC	1.95	2.05	2.13	2.22
Clearing house	0.42	0.36	0.30	0.26

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

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

2.2.2 Small-value payments

In 2003, the CEC processed on average over 4 million payments a day, representing a daily total of around 2.2 billion euro. Altogether, in the past year the CEC processed 99.6 p.c. of interbank payments representing 2.4 p.c. of their total value. In 2003, the average number of transactions effected by the CEC each day increased by 3.4 p.c., while the amounts exchanged were 4 p.c. up (cf. tables 4 and 5).

Apart from the CEC, there is also – for the time being – the semi-manual Clearing House which the banks still use exclusively to exchange cheques for over 10,000 euros. In 2003, the Clearing House only processed an average of around 6,300 cheques per day, worth a daily total of 262.1 million euro. That is a decline of 10.2 p.c. in volume and 13.4 p.c. in value.

The decline in the use of cheques, encouraged in particular by the development of efficient card payment systems, has continued. Abolition of the Eurocheque guarantee on 1 January 2002 and the Belgian banks' policy on charges

An information platform for the financial markets

In 2003 work began on the development of an information module, WIROW, intended for professional customers of the Bank's Financial Markets Department. This application is to be developed into a portal providing access for banks, brokerage firms and clearing companies, the Treasury (Federal Public Service Finance) etc. to a wide range of information via a secure Internet connection: accounting data, positions in payment systems, monetary reserve requirements, the Bank's securities settlement system, collateral and credit. On payment of a fee, customers will have a single access point to the various modules of the application.

In mid-2003, an initial draft application was presented to a group of potential users. The participants warmly welcomed this project, which was adapted on the basis of the comments and suggestions made.

At the beginning of 2004, the *Payment systems* module was inaugurated by the Treasury, which is thus free to monitor its cash position at the Bank and obtain detailed accounting data entirely independently. During the year, other current account holders, including ELLIPS participants, will gain access to the application. At the end of 2004, the *Securities settlement* module will be added, followed by the *Credit and collateral* module containing information on collateral and credit.

further accelerated this development. Since 2003, the number of cheques for 10,000 euro or less exchanged per day has fallen to around 66,600 units. In 1996, the CEC was still handling some 288,000 cheques per day. In 2003, cheques represented just 1.6 p.c. of the number of exchanges effected by the CEC, while transfers accounted for 45.8 p.c., domiciliations 10.4 p.c., and card payments 42 p.c.

Since 2001, the CEC has been developing the CEC III project which mainly concerns the renovation of the technical infrastructure to guarantee the system's reliability and the quality of its service in the future. Implementation of this project began in 2003 with the switch to a new common interface, necessary to make the transition from an owner's telecommunication protocol to a general standard. There are also plans for adapting the central application with a view to the switch to a new database technology (phase 2 of the CEC III project). In addition, the CEC III will ensure that the CEC is fully prepared for future developments in payment networks in Belgium and Europe. The euro area is in fact preparing for the transition to the Single Euro Payments Area in which payments between euro area countries will ultimately be effected as quickly as national payments.

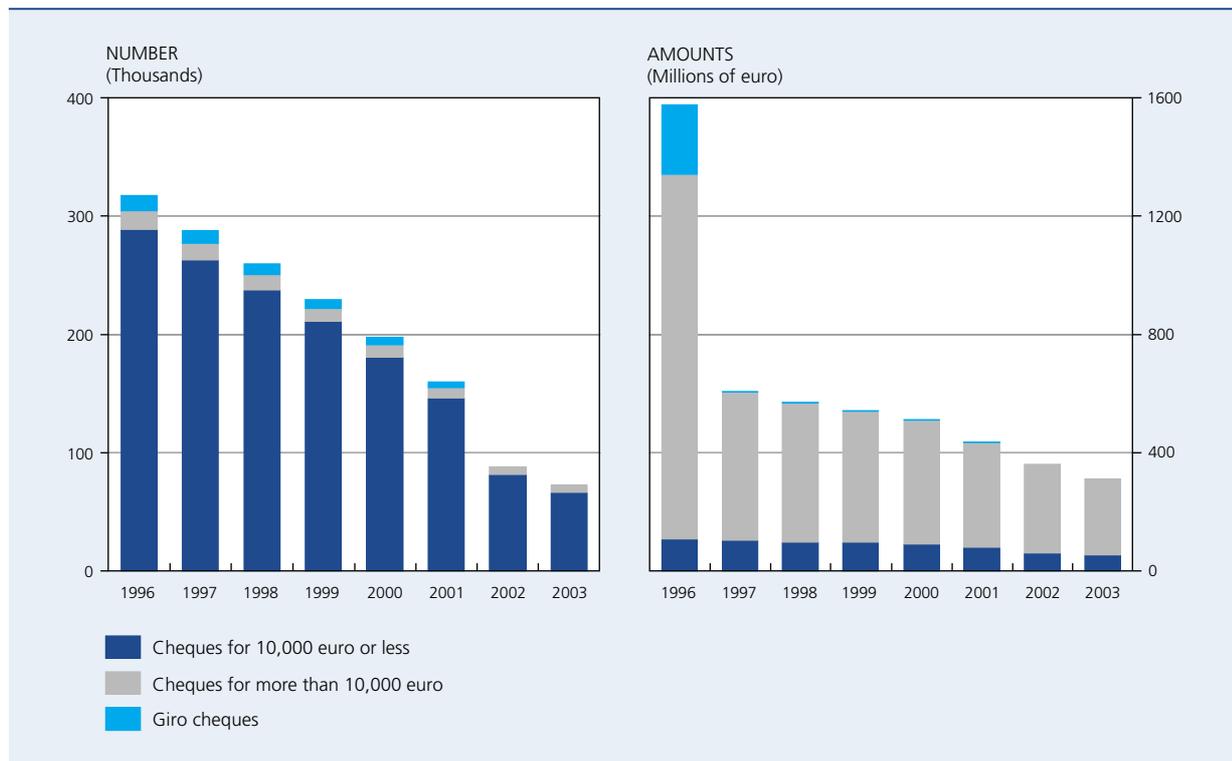
The Centre for Exchange and Clearing

The CEC, which was set up in 1974, is a small-value payments system which handles the great majority of cashless payments: transfers, domiciliations, cashing of cheques for a value of less than 10,000 euro, card payments (debit card, credit card and the PROTON electronic purse) and commercial bills.

2.3 Securities settlement

Overall, there was a strong expansion in the activities of the securities settlement system in the first few months of 2003. That trend was then reversed so that, over the year as a whole, the number of notifications recorded by the system increased from 828,931 to 844,122, a rise of 1.8 p.c. These movements appear to be linked to what was happening on the stock markets.

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



The transactions settled for foreign participants, and particularly the London Clearing House (clearing house based in London which, in addition to its central counterparty role, carries out netting for the settlement of certain repurchase and buy/sale agreements) are playing a steadily increasing part in the system.

Apart from the Belgian State, there are many issuers, both private and public, who are benefiting from the advantages of the X/N settlement system. This system enables any investor, whatever his fiscal status, to hold securities on stock deposit accounts. It also relieves the issuer of most of the formalities in relation to the tax authority, as these are completed by the system. However, the issues are intended mainly for professional investors. They concern both short-term and longer term investments.

Altogether, 8,482 new securities were accepted in 2003 and the gross face value issued exceeded 261 billion euro. The great majority of these issues (over 230 billion) have a maturity of one year or less.

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. There was a significant increase in the number of daily transactions in both linear bonds and Treasury certificates. In nominal value, the growth was considerably stronger and the secondary market in linear bonds reached its highest level since the system was set up.

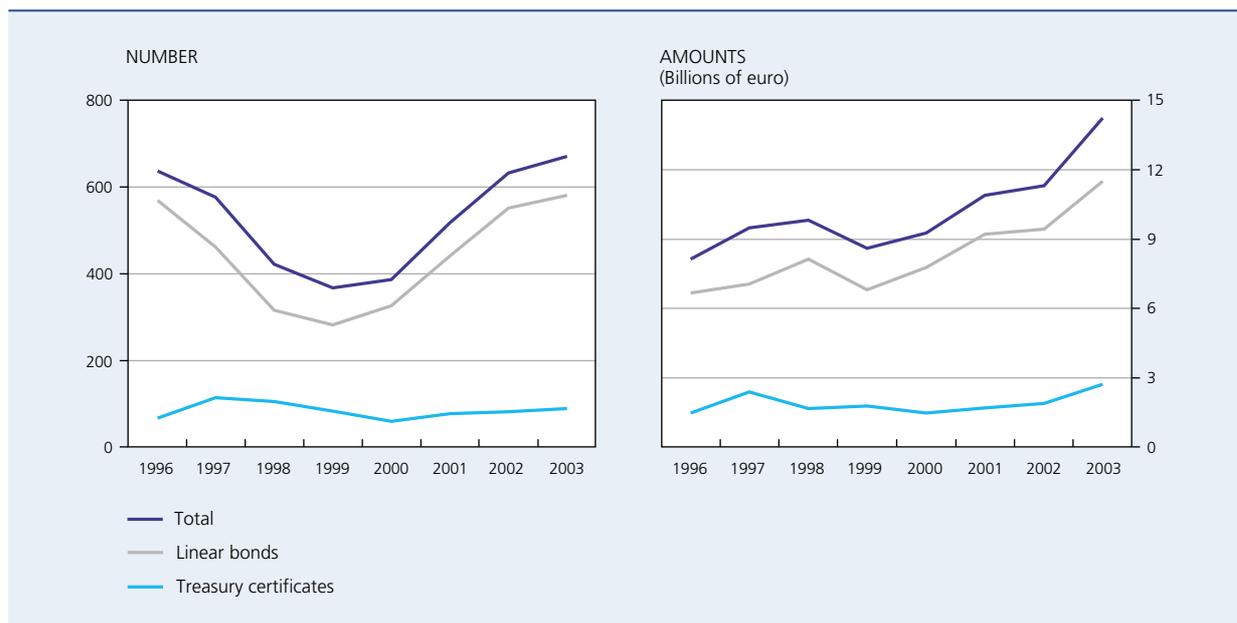
The securities settlement system

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.

2.4 Centralised processing of commercial bills

The commercial bills domiciled with credit institutions represented in the Clearing House are handled centrally by the Bank, which retains them and presents them for collection by an automated process. The 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.

CHART 5 SECONDARY MARKET TRANSACTIONS SETTLED BY THE SECURITIES SETTLEMENT SYSTEM
(Daily averages)



The centralised processing of commercial bills

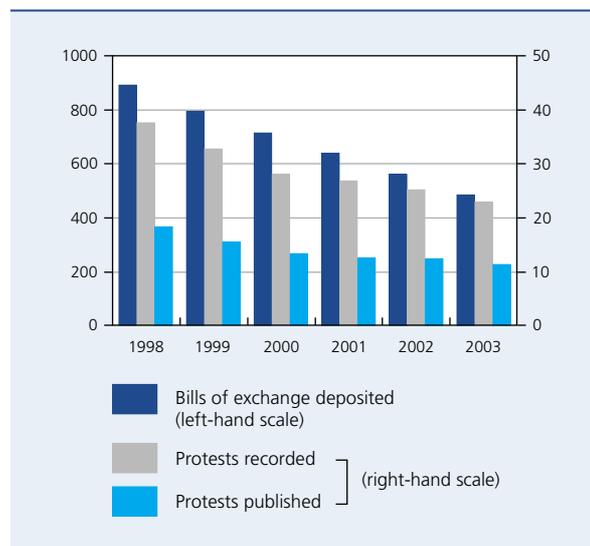
The commercial bills domiciled with credit institutions represented in the Clearing House are handled centrally by the Bank, which retains them and presents them for collection by an automated process. The Centralised Processing of Commercial Bills system arranges the dematerialised interbank circulation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

In 2003, 485,000 commercial bills were processed by the Centralised Processing of Commercial Bills system, confirming the downward trend observed in previous years.

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 2003, around 23,000 protests were drawn up. Half of them were paid before the set publication date, thus avoiding publication.

CHART 6 ACTIVITIES OF THE CENTRALISED PROCESSING OF COMMERCIAL BILLS SYSTEM

(Thousands)



3. Supervision of the financial system

3.1 Macroprudential supervision and the Financial Stability Committee

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 ESCB 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, the Banking and Finance Commission and the Insurance Supervision Office have merged to form, from 1 January 2004, the Banking, Financial and Insurance Commission (BFIC). Also, to step up cooperation between the institutions responsible for microprudential and macroprudential supervision, 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 BFIC supervisory board, and the Bank's regents) and the Financial Stability Committee (cf. the box below on the subject of this Committee). This law has also stepped up the cooperation between the BFIC and the Bank, making it mandatory. Finally, three members of the Bank's Board of Directors now have a seat on the Board of Directors of the BFIC ⁽¹⁾. However, the latter retains its powers of microprudential supervision and autonomy of decision.

As prescribed by law, the BFIC and the Bank have agreed the arrangements for pooling their resources in a number of areas, such as prudential policy, the processing of information supplied by financial institutions, IT, documentation, the reproduction of documents, and facilities and general services.

(1) The group of the Bank's shareholders led by the Déminor company brought an action before the Court of Arbitration seeking cancellation of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, and in particular Article 49 § 6 and § 7 of that law, on the grounds that the presence of members of the Bank's Board of Directors on the Board of Directors of the BFIC would create a conflict of interests prejudicial to the Bank's shareholders. By a judgment dated 10 December 2003, the Court of Arbitration rejected this application. It ruled that the composition and operation of the Board of Directors of the BFIC are surrounded by adequate safeguards to ensure that any decisions are impartial.

Owing to the increasing integration of the financial markets, the maintenance of financial stability requires greater consultation between the authorities responsible for microprudential supervision and those in charge of macroprudential supervision, at both national and international level, in collaboration with market operators.

To that end, the Bank is collaborating more closely with the supervisory authorities of the banking and insurance sectors. Thus, on 30 July 2003 the inauguration of the Financial Stability Committee under the chairmanship of the Bank's Governor was one of the key stages in the implementation of the Law of 2 August 2002, which has modernised the financial markets and tightened up their supervision.

At European and international levels, the Bank was involved in the work of the Basle Committee on Banking Supervision, aimed among other things at revising the capital requirements for banks, and in the work conducted in parallel by the EU's Banking Advisory Committee (which has become the European Banking Committee). Furthermore, in connection with the work of the Banking Supervision Committee set up by the ESCB, the Bank was involved in the work of macroprudential analysis and monitoring of structural developments in European banking systems, and in the research on crisis management.

At regulatory level, the Basle Committee clarified some of the parameters used in the calculation of the new capital requirements. Taking account of the comments made following the third consultation document, the Committee more particularly simplified the method of calculating the capital requirements for securitisation operations, revised the treatment of credit card liabilities and adapted certain credit risk limitation techniques. The adaptations mainly concerned the treatment of losses, foreseeable or otherwise, in the internal risk management models used by the banks. Despite these changes, the aim is still to implement the new Basle rules at the beginning of 2007.

The progressive integration and globalisation of the financial markets have greatly increased the importance of macroprudential supervision. This development is due partly to the emergence of large, systemically important groups which, by their activities in different countries and financial market segments, could engender contagion processes. Also, the ever closer links between the various components of the financial markets enable operators to react much faster to common sources of information. That increases the risks associated with group behaviour, whereby strategies which are justified for individuals may cause problems when adopted simultaneously by a large number of institutions. The growing number of central banks conducting specific research on financial stability bears witness to the importance of this subject.

The Financial Stability Committee

The FSC is the cornerstone of the new structure for the supervision of the financial sector, set up by the Law of 2 August 2002 on the supervision of the financial sector and on financial services. It is chaired by the Governor of the Bank or, in his absence, by the chairman of the BFIC, and is composed of the members of the Boards of Directors of the Bank and the BFIC.

Its statutory function consists in examining all questions of mutual interest to the Bank and the BFIC, in particular the stability of the financial system in general, the coordination of crisis management and the designation and management of the activities pursued jointly to satisfy the cooperation obligation imposed by law, including the management of the staff assigned to those activities.

To enable the FSC to perform its duties, the BFIC and the Bank were requested to assign staff to the FSC secretariat. That secretariat is included in the Bank's organisation chart as an independent unit reporting to the chairman of the FSC.

Among the projects to be coordinated by the FSC, one of the most prominent is the launching of a national initiative on *Business Continuity Planning*. The aim is to ensure that all financial institutions and critical payment systems have emergency plans to cope with any operating problems or serious disruption caused by external factors (acts of terrorism, natural disasters, etc.).

The Bank also continued its work on macroprudential supervision and analysis, activities which culminated primarily in the publication, in June, of the second issue of the *Financial Stability Review*. This publication, intended to encourage discussion and cooperation between microprudential and macroprudential authorities and more generally between the various operators on the Belgian financial markets, covers the three main areas where the prudential authorities have to intervene to improve the robustness of the financial system: supervision, preventive measures and the resolution of crises. Apart from the regular article on macroprudential analysis of the determinants and the current situation of financial stability in Belgium, the second issue of the *Financial Stability Review* contained five articles on more specific topics in areas where the Bank conducted in-depth macroprudential research last year: New structure for clearing and settlement systems in the EU; The Belgian interbank market; An analytical review of credit risk transfer instruments; The Basel II Capital Accord, SME loans and implications for Belgium and The governance of the International Monetary Fund with a single EU-chair.

3.2 Oversight of payment and securities settlement systems.

2003 saw the publication of a number of documents containing guidelines on payment and securities settlement systems and their oversight.

In April 2003, the CPSS published a report entitled *The Role of Central Bank Money in Payment Systems*. This report explains the potential role and use of central bank money in payment systems.

In June 2003, the CPSS published a document entitled *Oversight Standards for Retail Payment Systems*, containing standards for systems dealing with small-value payments. These are some of the *Core Principles for Systemically Important Payment Systems* (cf. box on the next page).

The cooperation which began in 2001 between the ESCB and the Committee of European Securities Regulators led, in August 2003, to the publication of the consultation document entitled *Standards for Securities Clearing and Settlement Systems in the European Union*. This is a transposition to the European context of the report published in 2001 by the PSSC and the *International Organisation of Securities Commissions* on the standards applicable to securities settlement systems, namely the *Recommendations for securities settlement systems*.

3.2.1 Oversight of payment systems

The Bank oversees two payment systems established in Belgium and operated by the private sector: Banksys and MasterCard Europe (formerly Europay).

Banksys manages credit and debit card payment systems, the Proton electronic purse and part of the network of cash dispensers. This company also designs payment terminals, networks and security modules. In 2003, the oversight focused mainly on security (both data security and fraud prevention and control), procedures intended to ensure the operational continuity of the system, monitoring of the audit function and the Europay/MasterCard/Visa migration. Once that migration is complete, all credit and debit cards will carry a silicon chip, as well as the magnetic strip. This innovation, which entails substantial investment, will make transactions more secure.

The oversight by the Bank of payment and securities settlement systems

The oversight of payment and securities settlement systems established in Belgium is one of the Bank's important functions. Secure systems in fact make it possible to prevent or minimise systemic risk, i.e. the risk that problems encountered by one participant in the system may affect the other participants and thus trigger a chain reaction. For the Bank, this oversight entails both participating in the establishment of codes and ensuring that they are actually applied.

The codes and the arrangements for their implementation are laid down by specialised international bodies, namely the Group of Ten (G10) Committee on Payment and Settlement Systems (CPSS) and the ESCB Payment and Settlement Systems Committee (PSSC).

The Core Principles for Systemically Important Payment Systems

The Core Principles for Systemically Important Payment Systems comprise a set of ten rules which must be satisfied by any system handling large-value payments of systemic importance. These ten rules are intended to minimise or neutralise that systemic risk.

- I.* The system should have a well-founded legal basis under all relevant jurisdictions.
- II.* The system's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur through participation in it.
- III. The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants, and which provide appropriate incentives to manage and contain those risks.
- IV. The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day.
- V. A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest settlement obligation.
- VI. Assets used for settlement should preferably be a claim on a central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity.
- VII.* The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.
- VIII.* The system should provide a means of making payments, which is practical for its users and efficient for the economy.
- IX.* The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.
- X.* The system's government arrangements should be effective, accountable and transparent.

* According to the PSSC report entitled *Oversight Standards for Retail Payment Systems*, small-value payment systems must satisfy these six rules.

MasterCard Europe, the European branch of MasterCard International, is mainly responsible for processing cross-border payments effected by means of MasterCard products (particularly the MasterCard credit card and the Maestro debit card). In 2003, the oversight concentrated on collecting data relating to the operation of the system, so that the assessment of its settlement activities could begin.

Apart from the above systems, the Bank is also involved in the oversight of *Continuous Linked Settlement (CLS)*. This system of payment for foreign exchange transactions is based on the principle of "payment against payment" and ensures that both elements of a foreign exchange transaction are settled simultaneously at CLS Bank in New York, substantially reducing the risk of a time-lag between the two components of the transaction. The oversight of CLS is exercised jointly with the central banks of the countries whose currency is handled by the system. Since the CLS Bank is based in New York, the Federal Reserve Bank of New York is lead overseer.

The Bank also oversees the systems which it manages itself. ELLIPS is the Belgian large-value payments system and thus the Belgian access point for TARGET (cf. point 2.2.1). During 2003, in its oversight activities relating to ELLIPS, the Bank concentrated mainly on the conclusions of the assessment which it had conducted on the basis of the above *Core Principles for Systemically Important Payment Systems*. Following that assessment, the necessary measures were taken to further improve the operation of ELLIPS.

The small-value payments system, CEC (cf. point 2.2.2), was assessed in 2003 on the basis of the *Oversight Standards for Retail Payment Systems* mentioned above. That assessment also prompted the implementation of changes to improve the operation of the CEC.

3.2.2 Oversight of securities settlement systems

The primary securities settlement system overseen by the Bank is Euroclear. In 2003, an examination of that company commenced on the basis of the *recommendations for securities settlement systems*. Euroclear will be notified of the conclusions of that assessment during 2004. In 2003, attention also focused on the monitoring of the main projects implemented by Euroclear, such as the settlement of Euronext transactions, restructuring operations (mergers with the central securities depositaries of France, the Netherlands and the United Kingdom) and the *Single Settlement Engine*, a joint IT platform facilitating the settlement of transactions in Belgium, France, Ireland, the Netherlands and the United Kingdom.

Following the 2002 merger between Euroclear and CRESTCo, the British central securities depositary, the Bank (as the authority overseeing the Euroclear settlement system) and the BFC (as the authority supervising Euroclear Bank) concluded a cooperation agreement (*memorandum of understanding*) with the Bank of England and the *Financial Services Authority*, the British supervisory authority. This agreement sets out the terms of international cooperation between the institutions concerned and acknowledges the Bank and the BFC as the main authorities overseeing Euroclear, with the British authorities as the main bodies overseeing CRESTCo.

In 2003, an assessment of the CIK and the securities settlement system operated by the Bank (cf. point 2.3) was launched on the basis of the *recommendations for securities settlement systems*. The results of the two assessments are to be published in 2004. A protocol was concluded with the CIK in order to settle the practical aspects of the oversight of that institution.

Apart from the systems mentioned above, the Bank is involved in the international joint oversight of LCH. Clearnet SA (cf. box).

3.2.3 Oversight of SWIFT

SWIFT offers highly secure services for the transmission of financial and related information between its members. This company has become an important supplier for the global banking community. The oversight of SWIFT is organised jointly with other G10 central banks. Since SWIFT is based in Belgium, the Bank is the lead overseer. Generally speaking, the oversight of SWIFT centres mainly on the security and operational reliability of the infrastructures. In 2003, measures intended to ensure operational continuity and the SWIFTNET migration were the main matters examined. The SWIFTNET migration involves the transfer of the central IT application, which stores the messages of the financial institutions and transmits them to a network using the Internet protocol technology. At the same time, the revision of the practical aspects of the international agreements governing the joint oversight of SWIFT was set in motion.

Securities settlement systems operated by the private sector

EUROCLEAR

Euroclear acts as an international central securities depositary. Apart from that function, its activities consist mainly in the settlement of securities transactions (euro-bonds, domestic bonds, equities, etc.) on an international scale. In recent years, Euroclear has merged with a number of national central securities depositaries, namely Sicovam (now Euroclear France), CRESTCo and Necigef (which has become Euroclear Netherlands).

CIK

The *Caisse interprofessionnelle de Dépôts et de Virements de Titres* (CIK) is the central Belgian securities depositary, principally for shares and warrants. The CIK also operates a system for the settlement of transactions in these securities.

LCH.CLEARNET SA

LCH.Clearnet SA is the central counterparty for, among other things, spot market transactions and trading in derivatives on Euronext. A central counterparty is positioned between the seller and the buyer, taking on the risk of default by either party: if the seller is unable to deliver the shares, the central counterparty ensures that the buyer nevertheless receives all the shares requested. Conversely, if the buyer fails to pay, the central counterparty pays the seller.

3.3 Interdepartmental Crisis Unit

The creation of close institutional links with the BFIC led the Bank to redefine the functions and composition of the Interdepartmental Prudential Unit composed of representatives of the various departments and services of the Bank concerned with the stability of the financial system.

The functions of the unit, renamed the “Interdepartmental Crisis Unit”, were refocused on the management of any crises arising in the financial sector: its work is intended to improve the Bank’s preparations and to organise coordinated action by its various departments and services in the event of a crisis.

In addition, procedures have been set up to limit access at the Bank to the confidential prudential information from the BFIC or other prudential authorities, in order to avoid any conflicts of interest between the Bank’s statutory function – to promote the stability of the financial system – and the safeguarding of its assets. A small unit was therefore created within the Interdepartmental Crisis Unit.

3.4 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. International cooperation

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

4.1 European Union

In connection with the work on the institutional aspects of European integration, the Bank took part in discussions on aspects of EU enlargement which affect the areas in which central banks operate, and more particularly the strategy of the future Member States as regards membership of Exchange Rate Mechanism II and adoption of the euro. The Bank was also involved in the discussions concerning the stability and convergence programmes and the drafting of the broad economic policy guidelines.

These subjects were discussed, in particular, by the ESCB International Relations Committee and the EU Economic and Financial Committee, two bodies which underwent some major changes in 2003 on account of the admission of representatives of the new Member States. Following the signing of the Accession Treaty on 16 April 2003, in Athens, the future Member States sent observers who take part in the meetings of these committees and their working groups. The integration of the future Member States in the Economic and Financial Committee has had some repercussions on the participation of the NCBs. In order to limit the number of participants at these meetings, it was decided that, from now on, the NCBs will take part in fewer meetings, mainly the ones addressing topics of direct concern to the NCBs, such as financial stability, monetary union and analysis of the economic situation.

The Bank also continued to participate in the work aimed at strengthening the single market in financial services.

4.2 Other multilateral cooperation

4.2.1 International Monetary Fund

At international level, in consultation with the federal authorities and, increasingly, with its European partners, the Bank helped to prepare the standpoints taken by the Belgian Executive Director of the IMF, an institution in which Belgium heads a constituency of ten countries, the other nine being Austria, Belarus, the Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey. On 8 October 2003, the agreement governing the constituency and organising the joint election of the executive directors with a seat on the governing boards of the IMF and World Bank was renewed in Brussels for a further ten years.

The IMF continued its efforts to implement the various initiatives which it has taken in recent years to strengthen its supervision arrangements and promote financial stability. Thus, it extended its supervision to include analysis of the assets and liabilities of the sectoral and aggregate balance sheets of countries, by developing a new analytical framework which permits assessment of the balance sheet risks and more accurate measurement of the sustainability of the debt. In order to reinforce IMF supervision, the consultation cycle for countries subject to an IMF programme was made more flexible to permit consultations at key moments in the programme. In order to enhance the transparency of the IMF's advice, it was also decided to publish reports on the economic situation of the members and the documents relating to the programme, unless the countries concerned raised explicit

objections. The conditions for access to exceptional IMF funding were also tightened up.

In November 2003, the IMF Executive Board decided not to extend the "Precautionary Credit Line" facility, noting that no country had made use of it since its creation in 1999. This facility, which was intended to protect the countries pursuing sound economic policies from potential financial contagion, allowed funds to be granted in the case of financial pressures due to external events. However, the countries potentially eligible feared that the markets might interpret the granting of this facility as a sign of weakness. In the end, judging that the IMF's current resources were adequate, the IMF Board of Governors concluded the twelfth general quota review without making any increase.

4.2.2 Group of Ten and Organisation for Economic Cooperation and Development

The Bank also took part in the completion of the work of the G10 at ministerial and governor level relating to the implementation of the clauses on joint action in contracts for the issue of debt securities. After consultation with sovereign issuers and market participants, a report was published in March 2003, while many sovereign issuers were questioning the point of including such provisions for the issue of bonds. The clauses recommended by the G10 report are also very similar to the reference clauses adopted by the EU in September 2003. A number of countries have already introduced these clauses in their issues of debt securities (South Africa, Brazil, Korea, Egypt, Italy, Lebanon, Mexico, Qatar, United Kingdom, Uruguay, etc.). Finally, the Bank took part in the activities of the Committee on the Global Financial System (G10) and various OECD working groups.

4.2.3 Financial embargos

In line with the practice which it has followed for a number of years now, the Bank provided the Treasury with legal advice to assist it in its activity of monitoring the implementation of financial embargos (freezing of funds, other financial assets or economic resources of individuals or legal entities mentioned by the relevant legislation). In 2003, such embargos were applied within the framework of the United Nations and the European Union to Burma/Myanmar, Iraq, Serbia-Montenegro, Zimbabwe, and to the Taliban of Afghanistan, the Al-Qaida network and other terrorist organisations

4.3 Technical assistance for the Central Bank of Congo

As part of Belgium's programme supporting the efforts of the international community to promote peace in the Democratic Republic of Congo, the Bank launched a programme of technical assistance for the Central Bank of Congo, in consultation with the Federal Government. The latter made a grant to the Bank for that purpose for a maximum of 500,000 euro, chargeable to the budget of the Federal Public Service Foreign Affairs and Foreign Trade.

The programme extends over 2003 and 2004. It includes special training for Congolese managerial staff, consultancy on various subjects and the provision of IT equipment. The Bank took care to coordinate its programme with the IMF action plan on the Congolese financial system.

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

5.1 State Cashier

Since the entry into service of a new information module (cf. end of point 2.2.2) at the beginning of 2004, the Treasury is now able to monitor its cash position with the Bank for itself, in real time.

As the State Cashier, 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.

The bond centre

Among the services provided for the financial sector, the Bank offers 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. Since the beginning of 2003, the activities of the bond centre have been centralised at the Brussels head office. During the year, the modernisation of this service continued, in close consultation with the big banks. The main improvement is the use of Internet technology for data transmission, a procedure which is now operational. Banks using this new facility are charged a preferential rate.

The role of 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.

5.2 Securities Regulation Fund

The turnover of the Securities Regulation Fund on the fixing market declined from 361 million euro in 2002 to 340 million euro in 2003. Over 80 p.c. of the transactions were in Government bonds and traditional loans, the remainder concerning linear bonds.

The Law of 2 August 2002 on the supervision of the financial sector and on financial services and the Royal Decree of 16 May 2003 on the off-exchange market in linear bonds, split securities and Treasury certificates changed the supervision of this regulated

The 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.

off-exchange market with effect from 1 June 2003. The BFIC is responsible for supervising compliance with the code of conduct and the regulations on corrupt practices, and imposes penalties for any infringements of these rules. Having the status of an autonomous public institution, the Securities Regulation Fund will continue to supervise the application of these rules, unlike the other market organisers. From now on it will do so by acting on the behalf and on the responsibility of the BFIC. To avoid duplication, the said Royal Decree stipulates that, as a rule, it is for the Securities Regulation Fund to take charge of investigations, except in the cases listed in the decree. For efficiency and convenience, the two institutions concluded a protocol, on 4 June 2003, which goes into more detail on the collaboration and the exchange of information.

The supervision of institutions holding dematerialised public debt instruments for third parties was transferred to the BFIC at the beginning of 2004.

6. Circulation of information

6.1 Circulation of macroeconomic research and statistics

6.1.1 Publications

The Bank publishes the results of its research and economic analyses in Part I of its Annual Report, which is its main publication, and in the *Economic Review*, the *Working Papers* and the *Financial Stability Review* (cf. end of point 3.1). It also publishes *Belgian Prime News*, jointly with the Federal Public Service Finance and a number of *primary dealers*.

The *Economic Review*, published four times a year, provides information on key economic, financial and monetary developments. In 2003, it contained articles on the Belgian economy, inflation, the adaptation of prices to the changeover to the euro, monetary policy assessment tools, net lending by the Belgian economy to the rest of the world, bank lending, the housing market, the social balance sheet and the results of non-financial corporations. The first issue contained the report presented by the Governor on behalf of the Council of Regency. Since June 2003, the articles published in the *Economic Review* have been signed by their authors, except in cases where many staff were involved in their preparation.

The *Working Papers* are intended for a more specialist readership than the *Economic Review*. They comprise a series entitled *Research*, presenting the results of theoretical or empirical economic research, and a series entitled *Documents*, containing more general and descriptive information or analyses. They contain studies conducted by the Bank's researchers and published by them personally. Papers produced jointly by the Bank's economists and researchers from other institutions may also be published here, as well as articles presented by third parties at

conferences held under the auspices of the Bank. Six issues were published in 2003 including the following titles: *The labour market and fiscal impact of labour tax reductions*; *Scope of asymmetries in the euro area*; *La consommation privée en Belgique*; *The process of European monetary integration and Stock market valuation in the United States*.

Also, during the year under review, the proceedings of the symposium on *Firms' Investment and Finance Decisions* were the subject of an academic work edited by Paul Butzen and Catherine Fuss and published by *Edward Elgar* (Cheltenham, UK – Northampton, MA, USA).

As regards statistics, the Bank publishes:

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

All the Bank's publications can be consulted on its Internet site, which also offers facilities for subscribing to the various publications, in electronic form or on paper. In addition, this website gives access to Belgostat, a database offering extensive access functionalities (multi-dimensional search or search by thesaurus) and containing a wide range of economic and financial statistics, updated daily.

Increasingly encouraging the electronic circulation of statistical information, the Bank also provides a facility on its website for consulting the foreign trade yearbook and the supply and use tables of the national accounts.

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

6.1.2 Scientific library

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

6.2 Microeconomic information centres

6.2.1 Central Balance Sheet Office

The number of sets of annual accounts lodged with the Central Balance Sheet Office in 2003 increased by 11.6 p.c. compared to the previous year. This rise is largely attributable to the introduction of administrative fines in cases of failure to submit annual accounts, or where accounts are not submitted on time; these fines replace the penalties which used to be imposed for the same offences. These provisions, for which the implementing decree has yet to be issued, make it mandatory to lodge statutory and consolidated annual accounts closed on or after 31 December 2002 within seven months of the closure date, otherwise a fine will be imposed by the Minister of Economic Affairs and collected by the Federal Public Service Finance. These new rules already produced effects in 2003: the number of sets of accounts lodged in the first seven months came to 197,329, against 147,969 during the corresponding period in 2002. The main aim of this measure is to eliminate the unfair competitive advantage enjoyed by companies which do not adhere to the statutory deadlines for

The Central Balance Sheet Office

In line with the practice in other countries, most Belgian enterprises are required to publish their annual accounts each year. In Belgium, it is the Central Balance Sheet Office which ensures that, in accordance with the current legislation, these annual accounts are collected, processed and made available to the public.

the publication of annual accounts. Apart from giving the public speedier access to individual accounting information, this will lead to prompter compilation of the Central Balance Sheet Office's sectoral statistics.

The number of active subscriptions to the application *Supply of images of the annual accounts via the Internet* also soared in 2003, increasing by almost 40 p.c. 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.

The Bank also lent its assistance to the project for simplification of the structural survey conducted each year by the National Statistical Institute. This project has considerably alleviated the administrative burden which this formality entails for tens of thousands of enterprises concerned. Since last year, they have submitted their survey questionnaires to the Central Balance Sheet Office at the same time as their annual accounts.

In 2003, the Bank developed an integrated application permitting standardised annual accounts to be submitted via the Internet from the beginning of 2004. This facility will be introduced progressively, and offered first to "reporting agents", i.e. auditors, 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 accorded priority to ease of use and security.

Under the Law of 2 May 2002 on non-profit associations, almost 6,000 large associations will be required to lodge their annual accounts with the Central Balance Sheet Office, which will take responsibility for their publication from 2006. To that end, the Central Balance Sheet Office has launched the initial preparations, collaborating, on the one hand, in the drafting of a brochure which is intended for the associations and aims to support and facilitate the reform, and, on the other hand, in the definition of the specific formats which they will be offered.

6.2.2 Central Office for Credits to Enterprises

At the end of September 2003, the Central Office for Credits to Enterprises had recorded 321,526 credit beneficiaries (of whom 2.7 p.c. were non-resident) and 666,205 credits. Chart 7 shows the movement since 1997 in credits granted to residents, broken down by sector of activity. On 30 September 2003, the total amount of credits

The Central Office for Credits to Enterprises

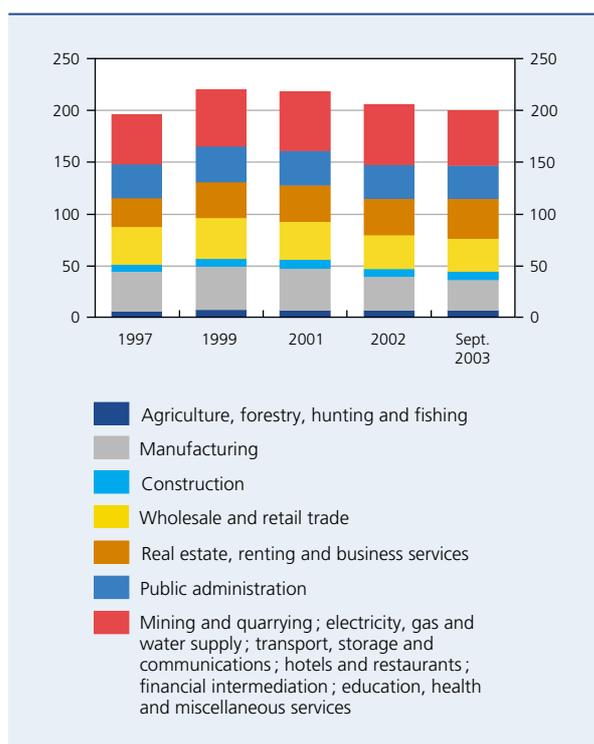
The Central Office for Credits to Enterprises records, by beneficiary (resident and non-resident natural and legal persons), credits of 25,000 euro or more granted for business purposes by credit institutions, and supplier credit and guarantees granted by insurance undertakings with approval for these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

opened came to 199.4 billion euro, against 205.5 billion at the end of the preceding year, a fall of 3 p.c.

The discussion with the banking sector, launched in 2002, on amplifying the data held by the Central Office continued in 2003. It is intended to meet the increased need for information in connection with the reform of the capital requirements to improve the management of credit risk. It has not yet been possible to carry out this reform since the Basle Committee's decisions have been postponed until 2004 (cf. point 3.1).

CHART 7

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



In connection with the cooperation between central credit offices in the EU, a protocol was signed on 22 February 2003 by the governors of the central banks of the seven countries concerned (Austria, Belgium, France, Germany, Italy, Portugal and Spain). It provides for the exchange of data to begin no later than two years after the date of signature. The aim is to forward to Central Office participants information on the debts of Belgian enterprises which have received credit from abroad, and conversely, to notify to the foreign financial institutions, via the central banks concerned, data on credit granted in Belgium to enterprises of their country.

6.2.3 Central Office for Credits to Individuals

The new Central Office for Credits to Individuals was launched on 1 June 2003 and got off to an excellent start: in three months, around 6 million "positive" credit agreements were recorded.

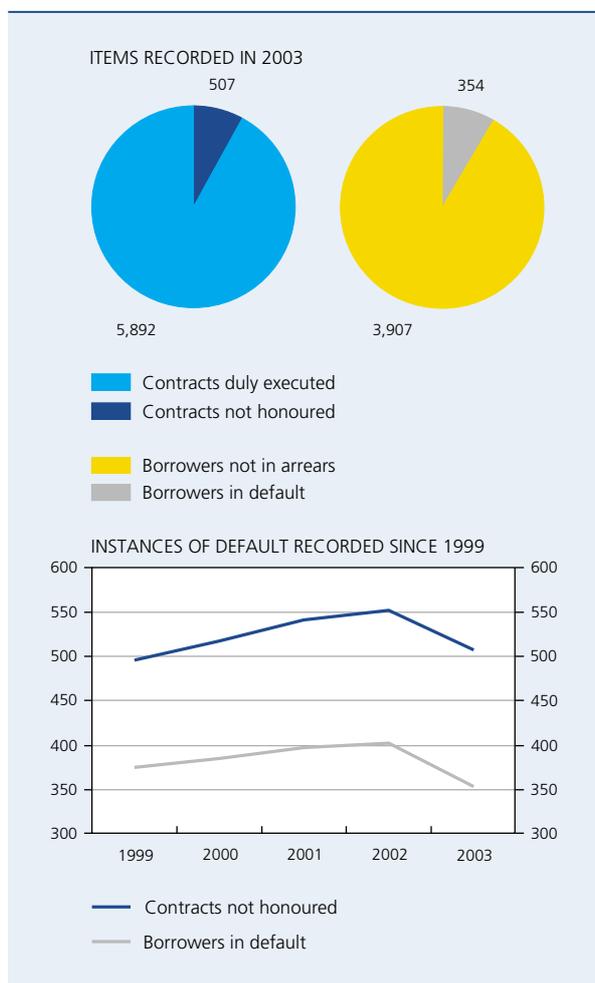
At the end of 2003, the Central Office records contained data on 4.3 million people and 6.4 million credit contracts; of these, 353,520 people and 507,145 contracts had arrears of payment (8.3 and 7.9 p.c. respectively of the total). The decline in the number of persons and contracts recorded in comparison with the end of 2002 (down by 12.2 and 8.1 p.c. respectively) is due both to the reduction in the statutory periods for retaining data and to the lenders tidying up their records. 88 p.c. of the arrears had not been settled, representing a total of 2 billion euro, or an average of 3,900 euro per "negative" contract.

The Central Office for Credits to Individuals

The Law of 10 August 2001 on the Central Office for Credits to Individuals, promulgated as part of the policy on the prevention of excessive debt, makes the Bank responsible for recording all consumer credit contracts and mortgage loans granted to individuals for private purposes.

From now on, the "positive" Central Office will record not only instances of default on payment, but also current credit contracts without any arrears of payment. Lenders, who must consult the Central Office before granting any new credit, thus have a better overall view of the financial commitments of would-be borrowers, which makes the credit risk assessment easier.

CHART 8 ACTIVITIES OF THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS
(Thousands)



Since the new Central Office was launched, lenders have consulted the records on average 22,000 times per working day. In 65 p.c. of cases, these checks concerned persons who were on the register. Almost 7 p.c. of persons were recorded with arrears of payment.

The register 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 8,100 new notices of collective debt settlement were recorded in 2003.

More detailed statistical information is available on the Bank's website (www.nbb.be) and is published in a brochure every six months.

The use of microeconomic data

The effective use of the Central Balance Sheet Office data, the information from the Central Credit Offices and the data available to the Bank in connection with its statistical work in the National Accounts Institute enables branches of activity to be studied from a new angle. This approach aims to supply interesting and clear statistical information to both experts and a wider public, and to encourage innovation in microeconomic research.

6.2.4 Microeconomic analysis

In 2003, the microeconomic analysis – whose results are intended for publication – concentrated on two branches of activity (the subcontracting network in the motor vehicle assembly sector in Belgium and information and communication technologies) and the examination of the results of non-financial corporations.

The analysis of subcontracting in the motor vehicle assembly sector in Belgium, published in the *Documents* series of the Bank's *Working Papers*, contains not only a general description of the branch of activity but also a method which should permit the overall economic impact of an economic activity to be estimated with maximum accuracy. By developing this method, the Bank supplies additional high-quality statistical information for both experts and a wider public, for whom access to the database facilitating such calculations is difficult or impossible.

The use of the microeconomic data enables a branch of activity to be studied from a new angle. Thus, the importance of the ICT sector was assessed by a product-based approach in all branches of activity, and not only via the traditional sectoral classification. This was done in an attempt to encourage innovation in the field of microeconomic research.

6.3 Communication activities

The Bank wants the public to have a broader and deeper knowledge of its functions and activities. A number of measures extended and augmented the initiatives adopted in 2002 when the new Communication service was launched.

History of Money: a permanent exhibition

The History of Money exhibition has been converted into a permanent museum on the subject of money. It is intended to become an information centre where the general public can learn about all aspects of money, understand the role of money in the economy or find out about the duties of a central bank in the euro area. The museum pays special attention to students and teachers. In December, it welcomed its 50,000th visitor, a member of a school party.

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

Since the previous year there has been an increase of almost 23 p.c. in the number of visits to the website, representing on average 800 additional users per day. The complete redesign of the website and a new publicity campaign about the functions and activities of the Bank are two major projects for 2004.

The Bank also took part in the *Heritage day* and the *Enterprises day* at which it welcomed large numbers of visitors.

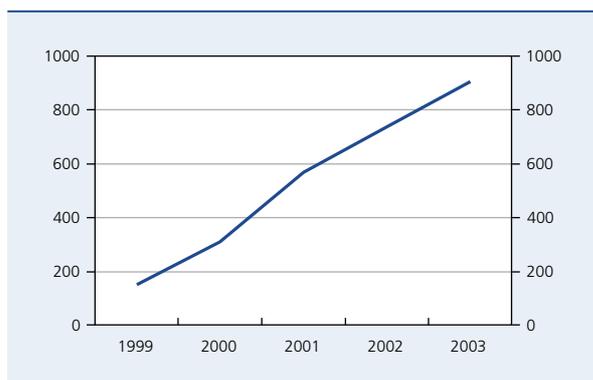
The development of the Intranet and the new format adopted for the house journal (*Connect*) are intended to improve communication aimed at all staff, in line with the wishes expressed in the 2001 communication audit. On the Intranet, there has been a daily average increase of 12 p.c. in the number of pages consulted, and the number of users has risen by 16 p.c.

At present, the Bank's collection of contemporary art is particularly concerned with the work of young Belgian photographers, on the subject of the relationship between man and his environment.

In 2004, internal communication will adhere to the corporate values defined in the 2001 strategic realignment (cf. the Bank's website: www.bnb.be).

Finally, the various documents circulated by the Bank, be it in printed or electronic form, have been adapted in line with the new corporate style guide. This has led to harmonisation of presentation and enhanced the visibility of all the publications.

CHART 9 VISITS TO THE WEBSITE
(Thousands)



7. Management of resources

7.1 Strategic guidelines

In accordance with the strategic options of the Board of Directors, a coordinated plan was set up in 2001 and gives rise to the annual updating of the three-year master plans by the departments and the independent services. These plans are presented to the Board of Directors, which considers any changes to the objectives, discusses the main action plans and assesses the resources to be used over the next three financial years. In 2003, attention focused more specifically on the new IT projects, which formed the subject of cost-benefit analysis, and the establishment of priorities between projects in terms of the strategic reorientation of activities and the cost control objective.

The reorganisation of the activities of the banknote and coin processing network and their transfer to the Currency in Circulation and Provincial Branches department, carried out in 2002, made it possible to harmonise working procedures and boost productivity in the year under review. In addition, the Leuven and Wavre representative agencies closed down in July 2003.

With the aim of increasing the productivity of the activities, process optimisation analyses were launched for the Printing Works and General Statistics departments.

A Financial Stability Committee was set up as part of the close links with the BFIC. The Bank provides the chairman and the secretariat (cf. point 3.1).

The action plans aimed at cutting the Bank's workforce were phased in (cf. point 7.3).

7.2 Management control

The implementation of the new management control instruments is continuing, and mainly concerns the *balanced scorecard*, and *Enterprise Resource Planning* (ERP) projects.

To ensure optimum monitoring of the master plans and the attainment of the strategic goals, workshops were held for the purpose of devising a *corporate balanced scorecard*. Ultimately, both financial and non-financial indicators (customer satisfaction, improvement in operating processes, etc.) should facilitate better control over the implementation of the strategy and the priorities for the Bank as a whole.

The IT project relating to the general accounts is nearing completion (cf. point 7.4).

7.3 Human resources

At the end of 2003, the Bank's permanent staff, expressed as full-time equivalents (FTEs) totalled 2,250, or 70 units fewer than at the end of the previous year. All the same, it is more than ten years since the reduction in the workforce began. At the end of 1992, the Bank still employed 2,864 FTEs. This reduction is due to cuts in the network of establishments and greater use of ITC. These two changes have mainly concerned clerical personnel. On the other hand, managerial and supervisory staff have been recruited in recent years, essentially to perform new duties in the fields of statistics and financial stability.

A number of other NCBs in the ESCB are currently also addressing a staff reduction process. By launching its rationalisation process at a sufficiently early stage, the Bank has succeeded in avoiding staff relations problems,

as the cuts have all been achieved by natural wastage, i.e. staff who leave have not been replaced.

The Bank aims to be among the elite NCBs of the ESCB. That is why master plans have been devised to enhance the quality of the services, improve the brand image,

control costs and establish a more dynamic human resources policy. Taking account of the priorities set for the coming years in the master plans, the Board of Directors decided to continue cutting the workforce down to 2,200 FTEs by the end of 2005.

Obituaries and retirement

The Bank was saddened by the death of Mr Raymond Simonis, honorary secretary, on 2 November 2003. When he retired in 1979, Mr Simonis could look back on a long and productive career lasting 44 years in the service of the Bank. In 1977 he had been appointed Treasurer by the General Council. The Bank remembers him with respect and gratitude for his capable and devoted service.

In 2003, the Bank was also saddened by the death of two members of its staff: Messrs J. Broodcoorens and B. Piret.

They will always be remembered.

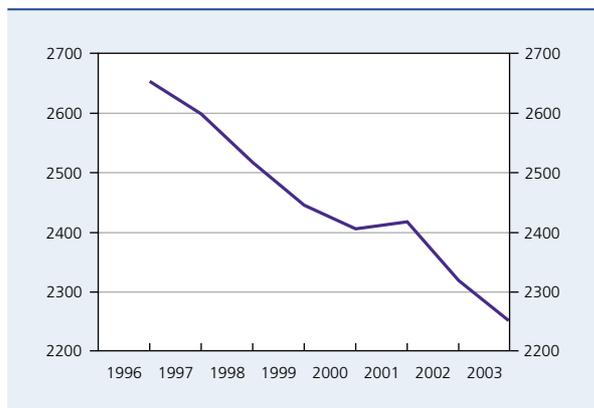
The Bank wishes to express its gratitude to the members of the managerial and supervisory staff who reached the end of their careers last year:

Messrs	J. Leemans	Mr	M. Dombrecht
	P. Tellier	Mrs	É. De Groote
	A. Nyssens	Mr	V. Dons

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

Mrs	D. Borms	Mr	G. Eeckhout	Messrs	G. Rouer
	M. Bortoluzzi	Mrs	A. Engels		F. Ruffo
	M.-J. Bruyn	Miss	L. Erauw		A. Smets
Messrs	J.-C. Caloens	Messrs	T. Fraeys		R. Smout
	J. Calsius		D. Fuchs	Mrs	R. Spiliers
Mrs	L. Caron		G. Ghijsbrecht		V. Stroobants
Mr	A. Coucke	Miss	P. Giet	Messrs	H. Swalus
Mrs	M. Coudenys	Messrs	R. Hagerbaum		F. Valckenier
Messrs	C. Coussement		N. Halleux	Mrs	C. Vallée
	M. Crabbe		J. Hincq	Messrs	H. Van Damme
	J. Defoor	Mrs	M. Jolly		J. Van Den Eynde
	R. De Langhe	Messrs	E. Lamin	Mrs	N. Vanden Hoof
	J. Delannoy		B. Leclercq	Messrs	J.-C. Vander Elst
Mrs	M. Delvaux		P. Leclercq		J. Vandergunst
Messrs	H. Demol		R. Marteleur		W. Van Eyck
	G. De Pestel		L. Mertens		M. Vanhaesendonck
Miss	N. De Roy		N. Mestdagh		P. Van Hoyweghen
Mr	A. De Smet	Mrs	M. Moortgat		A. Van Waeyenberghe
Mrs	M. Devarrewaere	Messrs	F. Muizers	Mrs	M. Vanzieleghem
	R. Devis		R. Pieraert	Messrs	A. Verborgt
	J. De Vos		A. Pieters		E. Verboven
Mr	B. De Vulder		A. Pousseur	Mrs	J. Ydens
Miss	M.-P. Dewolf	Mrs	F. Ré		

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



In order to renew and modernise human resources management, the Bank continued to implement the skills management project, which aims to optimise the matching of individual skills and the corporate objectives and strategy. Skills already play a decisive role in various processes concerning human resources (recruitment, training, internal mobility). The functional interviews have considerably improved communication between higher ranking officials and their staff. At these interviews, a development plan is devised for each employee in order to upgrade the required skills. The performance indicators make it easy to detect the skills for improvement. The development programmes offer the necessary means of actually developing those skills. However, this is only the first stage in a process which is to lead to more modern assessment and promotion systems. The Bank will hold discussions on this subject with the staff representatives.

In 2003, collective labour agreements (CLAs) were concluded. The first, at corporate level, contains numerous provisions relating to working conditions, including the group insurance. In this connection, it is important to mention that the Bank has abolished the distinction between married employees and those living together in a registered partnership. In so doing, it has taken account of changes in society. The second CLA was concluded by the joint commission on public credit institutions. One of its main provisions is a modest increase in purchasing power. In addition, some provisions of the sectoral CLA for 2001 have been repeated. They include the time credit and part-time working, formulas which are clearly popular with the staff. At the end of 2003, almost 30 p.c. of the staff were working part-time. The Bank therefore enables its staff to achieve a good balance between their working life and their private life.

In 2003, an internal mobility charter for managerial and supervisory staff came into effect and a code of ethics was also incorporated in the staff regulations. This code requires adherence to rules of conduct in order to prevent conflicts of interest, the misuse of privileged information and the illicit use of confidential information. The code made it possible to implement the ECB guidelines on the subject.

7.4 Information technology resources

During 2003 the Bank's IT infrastructure underwent some modifications essential to keep up with technological development. Thus, the two *mainframes* in service were replaced by new equipment based on 64-bit processors. A new type of hardware was also used for storing data in the mainframe environment. Development of the distributed open environment continued. In this connection, a study was set up in order to consolidate the existing servers at functional and technical level, to prevent further multiplication of the number of servers and to optimise the management of this part of the infrastructure.

As regards IT applications, the implementation of the projects launched in preceding years continued. The previous annual report had already mentioned that a number of applications enabling the Bank to exchange data with its commercial partners would be realigned with an *E-Business* platform using the Internet technology. This new approach has been implemented at operational level. The new application intended for the positive Central Credit Office was launched in mid-2003 in the production environment. The new version of the application for exchanging messages via the CEC (called "CEC III") is also already available in an operational version; CEC participants will progressively switch from the old to the new data transfer technology. For this new form of communication, security is absolutely vital: the Bank has therefore provided solid protection for this environment by means of a *Public Key Infrastructure* (PKI), a cohesive set of hardware and software intended to ensure the one-to-one, authenticated exchange of data via the allocation of digital keys to the parties concerned.

In 2003, implementation of the ERP software also continued. It comprises several stages: the initial work concerned the functional sphere of the Bank's general accounting system, which structures this integrated software package. This sphere will be operational by mid 2004. After that, work will proceed on other functional spheres for which the preparatory phase has already been launched.

Two other important projects were completed in 2003: the operational implementation of a new interface with the Swift network and the implementation of an IT project management and monitoring package.

To guarantee the continuity of operation of the computer systems, the back-up facilities were tested as they are every year. Also, a study was set up with a view to updating the *Disaster Recovery* centre.

Finally, the Bank continued its efforts to provide its staff with IT facilities outside their normal working environment. For example, the Teleworkers project concerns the IT staff, who are able to maintain remote, continuous monitoring of the proper operation of systems, and managerial and supervisory staff, who can use a portable computer to continue working outside the Bank. Furthermore, the Bank's private PC plan conforms to the federal authorities' desire that staff should be offered access to modern information technologies on advantageous terms.

7.5 Premises

The Bank continued its policy of disposing of buildings which are no longer required owing to the relocation of its activities. Thus, the sale of the former Aalst agency was finalised during the year under review, the private contract procedure having begun in November 2001. An annex of the Antwerp branch, the former representation premises at Verviers and Wavre, and the former agency at Roeselare were also sold in 2003. In accordance with the decision which it took in October 2002, the Bank disposed of these four buildings by public sale following wide publicity. The sale of other buildings will follow.

In addition, the procedure permitting restoration of the listed building at 57 rue Montagne aux Herbes Potagères in Brussels, which is owned by the Bank, is following its course. On the basis of the preliminary plans and the statement of intent submitted by the Bank, the government of the Brussels-Capital Region passed a decree on 19 July 2003 granting outline approval for the restoration work. An urban planning application will be submitted once the plans have been finalised.

7.6 Continuity of service

The *business recovery* arrangements remain a priority for the Bank, which is working steadily on updating them and conducting periodic operating tests, as well as on the crisis management organisation.

Analyses conducted following the events of 11 September 2001 in the United States clearly demonstrated that the reliability of the central payment and securities settlement systems is crucial to ensure that the financial sector is restored to operation in the event of a disaster.

As the supplier of vital systems such as ELLIPS, the CEC and the securities settlement system, the Bank therefore took the necessary measures to provide a better guarantee of continuity of service.



1. Legal proceedings

In 2003, the Bank was confronted by two applications for interim measures, brought by shareholders before the President of the Brussels Commercial Court. Filed in April, these applications were joined and were dismissed by a joint order dated 23 June 2003.

A group of shareholders, including the Déminor company, sought additional information on the ownership of the official foreign exchange reserves recorded on the Bank's balance sheet.⁽¹⁾ Another group, represented by Mr Modrikamen, wanted to convene a new general meeting of the Bank, to appoint an ad hoc representative with the task of rectifying the annual accounts for the year 2002, and if necessary to convene a general meeting for the purpose of appointing a liquidator to be responsible for liquidating the Bank and sequestering the Bank's official foreign exchange reserves.

The president of the Brussels Commercial Court ruled that all these applications were unfounded.

At the end of 2002 the group of shareholders which included the Déminor company had also lodged an appeal before the Court of Arbitration against the Belgian State, seeking cancellation of Articles 49 §§ 6 and 7 and 141 §§ 2 and 9 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services. That group claimed a conflict of interest which, in its view, would result from the new powers which the Law granted to the Bank in connection with the reform of the supervision of the financial sector,⁽²⁾ and also contested the provisions of the Law concerning the Bank's foreign exchange reserves and its right of issue.⁽³⁾

The Court of Arbitration ruled that this appeal was unfounded in all respects and rejected it by an order passed on 10 December 2003. It thus confirmed all the positions which had always been defended by the Bank.

An action brought against the Bank by the same group of shareholders in July 2002 is still pending before the Brussels Commercial Court. It seeks the distribution of the Bank's reserve funds on the grounds that the Bank has lost its right of issue, owing to the introduction of the euro. In December 2003 the applicants extended this action to include the Belgian State. In the same month, other shareholders, represented by Mr Modrikamen, also brought a new action before the same court against the Bank and the Belgian State. It seeks a judgment ordering the Bank and the Belgian State jointly to pay 5,784 euro per share, on the grounds that the State appropriated substantial capital gains from the sale of gold between 1990 and 2002, to the detriment of the Bank's other shareholders.

(1) In this connection, see the box on foreign exchange reserves (Activities, point 1.4).

(2) In this connection, see the box on prudential supervision (Activities, point 3.1).

(3) In this connection, see the box on the right of issue (Activities, point 2.1).



2. Administration

2.1 Governor

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

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

Mr Guy Quaden has held the office of governor since 1 March 1999. Mr Guy Quaden's term of office was renewed for a further five years by Royal Decree dated 22 December 2003, taking effect on 1 March 2004.

2.2 Board of Directors

2.2.1 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.

2.2.2 Composition

The Board of Directors is composed of the governor and five to seven directors. It includes an equal number of French and Dutch speakers, with the possible exception of the governor. The directors are appointed by the King, on the proposal of the Council of Regency, for a renewable term of six years. The King confers the title of vice-governor on one of the directors.

Mr Luc Coene, master in economics, was appointed director by Royal Decree of 30 July 2003. He was given the title of vice-governor on 4 August 2003, the date on which he took up his duties. He also acts as the secretary.

By Royal Decree of 30 July 2003, Mrs Marcia De Wachter, whose appointment to the post of vice-governor ended on 3 August 2003, was authorised to use the honorary title of vice-governor.

2.3 Council of Regency

2.3.1 Powers

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

It takes cognisance every month of the Bank's situation. It has power to lay down the accounting rules for all aspects of the annual accounts which are not covered by the provisions of the Bank's Organic Law and are not mandatory for the compilation of the consolidated balance sheet of the Eurosystem. It approves the expenditure budget and the annual accounts, and finally determines the distribution of the profits proposed by the Board of Directors (cf. further on the approval given for 2003). It approves the Annual Report on the Bank's operations. It amends the Statutes of the Bank in order to bring them into line with the Organic Law and the international obligations which are binding on Belgium. On a proposal from the Board of Directors, it lays down the internal regulations, containing the basic rules for the operation of the Bank's organs and the organisation of its departments, services and outside offices. It may specially delegate some of these powers to the Board of Directors.

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

2.3.2 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 2003, Messrs Tony Vandeputte, Noël Devisch, Christian Dumolin and Luc Cortebeeck were re-elected by the general meeting. Messrs Vandeputte and Devisch had been proposed by the most representative organisations from industry and commerce, from agriculture and from small and medium-sized enterprises and traders, Mr Dumolin was proposed by the Minister of Finance and Mr Cortebeeck was proposed by the most representative labour organisations.

2.3.3 Activities in 2003

In 2003, the Council of Regency approved the annual report, the annual accounts and the appropriation of the profits for 2002 as well as the expenditure budget for 2004.

It also examined a range of issues concerning economic activity and monetary policy in the euro area.

In addition, it discussed the movement in the real accounts, prices, employment, labour costs, public finances and the financial markets in Belgium. It thus addressed subjects such as the network industries, the trend in health care expenditure, the progress of Belgium's financial integration in the euro area and the importance of education and training for employment.

It also considered a number of economic and financial questions from a global perspective, such as the application of the new Basle II rules to SMEs, the structure and operation of the oil market and the economic importance of information and communication technologies.

Finally, it took note of the latest developments concerning financial stability and the activities of the IMF.

3. 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, internal control is based on the principle whereby each organisational unit carries primary responsibility for its activities and its efficiency in executing the decisions taken by the Board of Directors (cf. also Activities, chapter 7). The implementation of the internal management systems is monitored by the Strategy and Organisation service. 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 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 the prices of quoted financial instruments.

Certain control functions are performed by specific administrative entities (e.g. the management of access to computer systems), while structural conflicts of interest are resolved by segregating the activities concerned (system of Chinese walls): thus, for example, payment systems are managed and 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 Council of Regency and the Board of Censors exercise key supervisory functions.

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

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

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.

Except as regards tasks and operations within the domain of the ESCB, the Government Commissioner supervises the Bank's operations on behalf of the Minister of Finance. He is entitled to monitor those operations and to oppose the execution of any measure which would be contrary to the law, the Statutes or the interests of the State.

Draft decisions concerning the budget and the remuneration of the directors are submitted to the Committee on the budget and directors' remuneration. This is composed of the member of the Board of Directors responsible for the budget, two regents, two censors and the Government Commissioner.

Furthermore, 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.

Finally, 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.

3.1 Government Commissioner

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

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

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

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

3.2 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. They perform specific supervision and certification functions on behalf of the ECB auditors. In addition, they perform a specific supervision and information role in relation to the Works Council.

The general meeting on 25 March 2002 reappointed for a three-year period the auditors KPMG and Deloitte & Touche. In 2003, KPMG was represented by Mr Pierre Berger and Deloitte & Touche was represented by Mrs Danielle Jacobs, and subsequently by Mr Philip Maeyaert.

3.3 Board of Censors

3.3.1 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.

3.3.2 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.

Mr Paul Buysse is the chairman of the Board.

The general meeting of 31 March 2003 renewed the term of office of Messrs Philippe Grulois and Jean-François Hoffelt. Mr Bernard Jurion was elected censor, to succeed Mrs Danielle Janssen.

3.3.3. Activities in 2003

In accordance with the Statutes of the Bank, the censors supervised the implementation of the 2003 budget and the preparation of the 2004 budget, notably on the basis of a report by Mr Coene, 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, the balanced scorecards, skills management, and the coordination of the activities within the domain of the ESCB.

In addition, they addressed a range of macroeconomic subjects, partly on the basis of reports on the economic situation, the federal budget and the housing market.



4. General meeting

4.1 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.

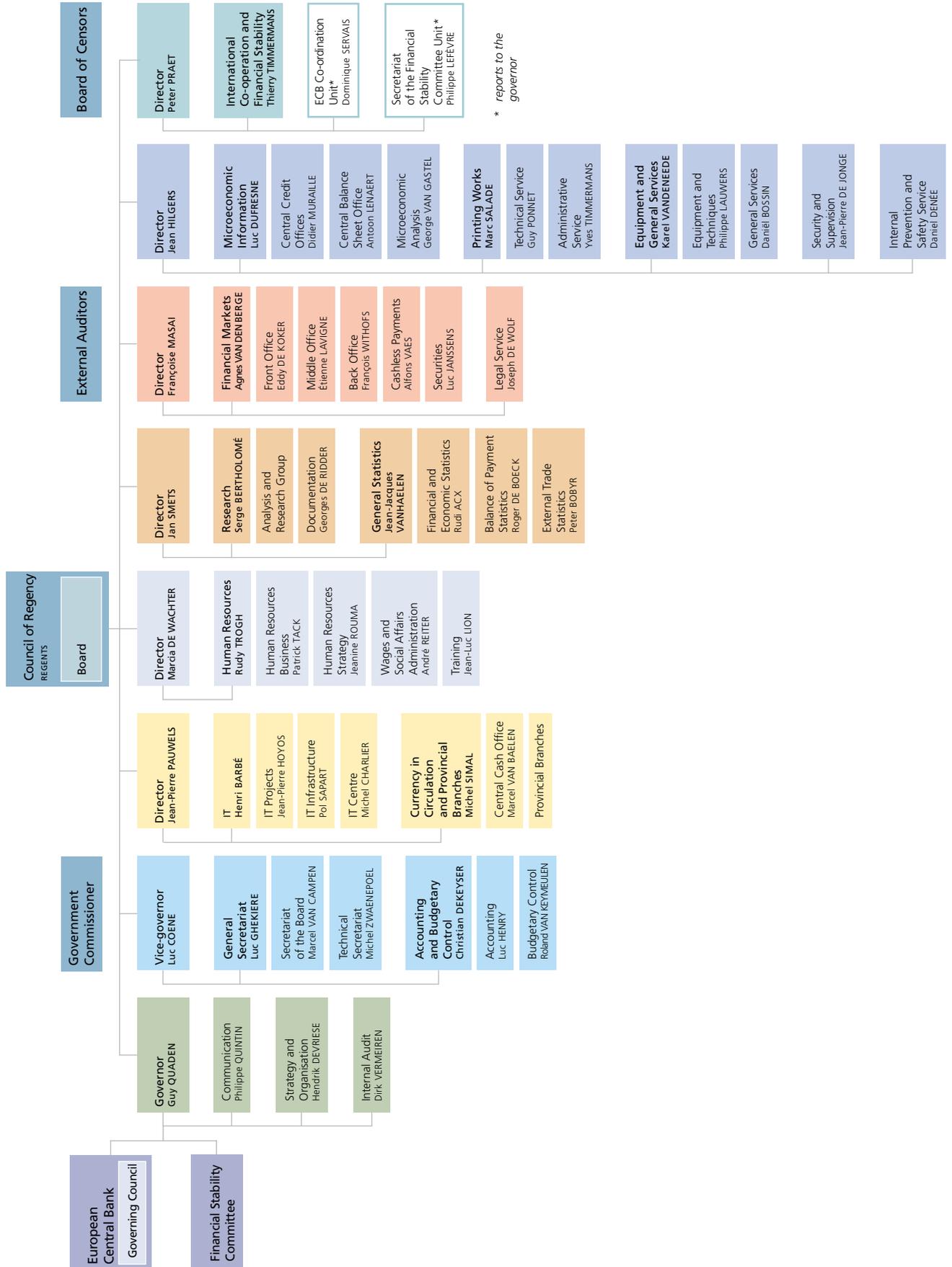
The general meeting deliberates concerning the matters mentioned in the convening notices and concerning those submitted to it by the Council of Regency or by the Board of Censors. It may also deliberate concerning proposals, signed by five members, which have been brought to the attention of the Council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

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.

4.2 General meeting 2003

At the ordinary general meeting held on 31 March 2003, the Governor reported on the operations of the financial year 2002 and read out the report of the Works Council on the annual information. The members of the Board of Directors also answered numerous questions from shareholders. The shareholders present then conducted the necessary elections to fill the offices of regent, censor and auditor which had expired or become vacant.

5. Organisation chart



5.1 Administration and supervision⁽¹⁾

Governor:	Mr	Guy QUADEN
Vice-governor:	Mr	Luc COENE, vice-governor-secretary
Directors:	Mr	Jean-Pierre PAUWELS
	Mrs	Marcia DE WACHTER
	Mr	Jan SMETS
	Mrs	Françoise MASAI
	Messrs	Jean HILGERS, director-treasurer Peter PRAET

Regents:

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

Censors:

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

Government Commissioner: Mr Grégoire BROUHNS

Chief Advisor to the Board: Mr Serge BERTHOLOMÉ

Advisors to the Board of Directors:

Messrs	Henri BARBÉ
	Karel VANDENEDE
	Christian DEKEYSER

Auditors:

KPMG Auditors, represented by Mr Pierre BERGER

Deloitte & Touche Auditors, represented by Mr Philip MAEYAERT

(1) Situation on 31 December 2003.

(2) Elected by the ordinary general meeting on 31 March 2003 to succeed Mrs Danielle Janssen.

5.2 Departments and services

Accounting and Budgetary Control department – Mr Ch. DEKEYSER, Advisor to the Board of Directors

Accounting	
Head	Mr L. HENRY, Inspector General
Head of division	Mr M. HINCK

Budgetary Control	
Head	Mr R. VAN KEYMEULEN, Head of division

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

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

Procedures Control and Coordination Unit	
Advisor	Mr E. COLMAN

Central Cash Office	
Chief Cashier	Mr M. VAN BAELEN, Inspector General
Heads of division	Messrs M. VANVOOREN, G. PIROT

Provincial Branches

Antwerp	
Administrator	Mr L. MUYLAERT, Inspector General
Heads of division	Messrs M. DE GEYTER, F. VAN NIEUWENHOVE

Arlon	
Agent	Mr R. HAENECOUR, Head of division

Ghent	
Agent	Mr Ph. BOGAERT, Head of division

Hasselt	
Agent	Mr A. VERHELST, Inspector General
Head of division	Mr R. MAES

Kortrijk	
Agent	Mr J. VICTOR, Inspector General
Head of division	Mr J. PANNEEL

Liège	
Administrator	Mr Y. LEBLANC, Assistant Director
Head of division	Mr A. BEELE

Mons	
Agent	Mrs J. DE BEER, Inspector General

Namur	
Agent	M. J. MONT, Head of division

Equipment and General Services Department – Mr K. VANDENEDE, Advisor to the Board of Directors

Equipment and Techniques	
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, Head of division

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

Intervention Fund	Mr H. DEBREMAEKER, Department Advisor
Securities Regulation Fund Unit	
Coordinator	Mr H. SMISSAERT, Inspector General
Back Office	
Head	Mr F. WITHOFS, Head of division
Head of division	Mr Ch. STAS
Cashless Payments	
Head	Mr A. VAES, Inspector General
Heads of division	Mr V. DECONINCK, Mrs S. MASKENS, Mr J. VERMEULEN
Front Office	
Head	Mr E. DE KOKER, Inspector General
Advisors	Messrs N. VANDECAN, Y. PIRLET, P. DEMARSIN
Head of division	Mr M. RUBENS
Middle Office	
Head	Mr É. LAVIGNE, Inspector General
Heads of division	Mrs M. HUART, M. J. DHONDT
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
Management Meetings Unit	
Department Advisor	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 Statistics	
Head	Mr R. DE BOECK, Head of division
Heads of division	Messrs M. EECKHOUT, Ph. 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
Heads of division	Messrs J. WIELEMANS, J. LIBENS, Mrs A. MULKAY, O. BIERNAX, Mr P. CREVITS
Economist	Mr D. GOSSET

Human Resources Department – Mr R. TROGH, Inspector General, Head of personnel

Enterprise Resource Planning Unit	
Department Advisor	Mr R. VAN KEYMEULEN
Inspector General	Mr B. GROETEMBRIL
Human Resources Business	
Head	Mr P. TACK, Inspector General
Head of division	Mr M. DRION
Human Resources Strategy	
Head	Mrs J. ROUMA, Inspector General
Heads of division	Messrs G. VAN CAMP, F. MARANNES
Advisor	Mr J. DEVARREWAERE

Training	
Head	Mr J.-L. LION, Inspector General
Advisor	Mrs S. ZONIOS
Head of division	Mr L. LAGAE

Wages and Social Affairs Administration	
Head	Mr A. REITER, Inspector General
Advisor	Mr P. VAN GYSEGEM

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

Department Advisor	Mr D. OOMS
Advisors	Mrs G. BIRON, Mr J. PISSENS
Heads of division	Mr B. BOURTEMBOURG, Mrs J. MITCHELL

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

IT Planning Unit	
Systems Engineer	Mr G. DUMAY
Advisor	Mrs C. SWARTENBROEKX
Head of division	Mrs M. LIEVENS

IT Procurement and Finance Unit	
Advisor	Mr P. MOUS

Data Security Management	
Inspector General	Mr A. HUET
Advisor	Mr L. DELAISSE

Electronic Centre	
Head	Mr M. CHARLIER, Head of division
Systems Engineer	Mr L. ESPAGNET
Senior Analyst	Mrs A. VANDERBUSSE

IT Project 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, Mr DUCHATEAU, Mrs J. MERTENS
Systems Engineer	Mr P. MARÉCHAL

IT Systems Infrastructure	
Head	Mr P. SAPART, Inspector General
Inspectors General	Messrs G. VANGHELUWE, U. MOMMEN
Systems Engineers	Messrs S. PIERLOT, R. LEYBAERT
Advisor	Mr P. DEHOORNE

Microeconomic Information Department – Mr L. DUFRESNE, Inspector General

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

Printing Works Department - Mr M. SALADE, Assistant Director

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

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

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

Services reporting directly to a member of the Board of Directors

ECB Coordination Unit	
Inspector General	Mr D. SERVAIS
Head of division	Mrs D. CAPPUYNS
Financial Stability Committee Secretariat Unit	
Secretary	Mr Ph. LEFÈVRE, Department Advisor

Communication		
Head		Mr Ph. QUINTIN, Inspector General
Heads of division		Mrs K. BOSMAN, Mr Y. RANDAXHE
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Head		Mr D. VERMEIREN, Inspector General
Inspectors		Mrs J. SIMAR, Messrs F. PIRSOUL, D. CASIER
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Internal Prevention and Safety Service		
Head		Mr D. DENÉE, Inspector General
Head of Medical Supervision		Mr A. DE LANDTSHEER
Doctor		Mr Ch. VAN LAETHEM
Legal Service		
Head		Mr J. DE WOLF, Inspector General
Advisor		Mr C. RUBENS
Security and Supervision		
Head		Mr J.-P. DE JONGE, Inspector General
Strategy and Organisation		
Head		Mr H. DEVRIESE, Inspector General
Advisor		Mr R. VANDEN EYNDE
Senior Analysts		Mrs A.-M. LEJEUNE, Mr É. CHARTIER

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 Ph. VIGNERON, Inspector General

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



1. Presentation of Annual Accounts as at 31 December 2003

1.1 Balance Sheet

(before distribution of profit)

Assets

(thousands of euros)

	31-12-2003	31-12-2002
1. Gold and gold receivables	2,739,197	2,710,680
2. Claims on non-euro area residents denominated in foreign currency	8,704,377	11,304,447
2.1 Receivables from the IMF	3,026,021	3,169,845
2.2 Balances with banks and security investments, external loans and other external assets	5,678,356	8,134,602
3. Claims on euro area residents denominated in foreign currency	321,230	297,976
4. Claims on non-euro area residents denominated in euro	244,817	3,656
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	16,748,708	10,876,706
5.1 Main refinancing operations	16,748,708	10,876,706
5.2 Longer-term refinancing operations	–	–
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	359	357
7. Securities of euro area residents denominated in euro	4,109,447	3,663,289
8. Intra-Eurosystem claims	12,654,164	6,367,013
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	11,077,974	4,790,823
8.4 Other claims within the Eurosystem (net) ⁽¹⁾	–	–
9. Other assets	2,465,913	2,345,715
9.1 Coins of euro area	9,018	10,315
9.2 Tangible fixed assets	385,313	370,526
9.3 Other financial assets	1,617,015	1,528,380
9.4 Off-balance-sheet instruments revaluation differences	113,334	117,700
9.5 Accruals and prepaid expenditure	193,692	217,117
9.6 Sundry	147,541	101,677
Total assets	47,988,212	37,569,839

(1) From the financial year 2003 onwards, the other claims and liabilities within the Eurosystem are shown for their net value. As a consequence the figures of 2002 were adjusted to ensure the comparability of the annual accounts (see also item 9.3 of the liabilities).

Liabilities

(thousands of euros)

	31-12-2003	31-12-2002
1. Banknotes in circulation	14,199,612	11,964,293
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	8,324,897	4,481,622
2.1 Current accounts (covering the minimum reserve system)	8,324,897	4,481,622
2.2 Deposit facility	–	–
2.3 Fixed-term deposits	–	–
2.4 Fine-tuning reverse operations	–	–
2.5 Deposits related to margin calls	–	–
3. Other liabilities to euro area credit institutions denominated in euro	–	–
4. Liabilities to other euro area residents denominated in euro	180,920	123,637
4.1 General government	151,852	115,411
4.2 Other liabilities	29,068	8,226
5. Liabilities to non-euro area residents denominated in euro	270,829	233,479
6. Liabilities to euro area residents denominated in foreign currency	52,398	–
7. Liabilities to non-euro area residents denominated in foreign currency	1,032,172	854,184
8. Counterpart of special drawing rights allocated by the IMF	571,620	629,023
9. Intra-Eurosystem liabilities	17,835,886	12,879,052
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)	17,835,886	12,879,052
10. Other liabilities	291,427	459,045
10.1 Off-balance-sheet instruments revaluation differences	–	–
10.2 Accruals and income collected in advance	4,660	6,426
10.3 Sundry	286,767	452,619
11. Provisions	1,035,768	1,387,068
11.1 For future exchange losses	508,219	925,519
11.2 For new premises	–	–
11.3 For contingencies	527,549	461,549
12. Revaluation accounts	2,428,584	2,902,378
13. Capital and reserve fund	1,636,364	1,549,232
13.1 Capital	10,000	10,000
13.2 Reserve fund :		
Statutory reserve	104,627	100,780
Extraordinary reserve	1,150,492	1,082,180
Amortisation accounts in respect of tangible fixed assets	371,245	356,272
14. Profit for the year	127,735	106,826
Total liabilities	47,988,212	37,569,839

1.2 Profit and Loss Account

(thousands of euros)

	2003	2002
I. Proceeds of net interest-bearing assets	520,410	658,465
1. Interest income	785,040	839,836
2. Interest expenses (-)	-426,387	-446,909
3. Capital gains (-losses (-)) on securities	129,434	176,572
4. Allocation of monetary income from the Eurosystem	10,582	15,955
5. Income from the ECB	21,741	73,011
II. Foreign exchange difference results	-98,742	94,206
1. Foreign exchange difference results	-516,042	263,606
2. Write-back of provision for future exchange losses (appropriation (-))	417,300	-169,400
III. Commission	1,933	1,181
1. Commission received	4,675	3,244
2. Commission paid (-)	-2,742	-2,063
IV. Amounts recovered from third parties	59,848	54,123
V. Proceeds from statutory investments	113,139	101,091
VI. Other proceeds	3,332	1,371
VII. State share (-)	-135,715	-307,555
1. Proceeds from net interest-bearing assets (art. 29)	-347,160	-293,817
2. Proceeds fully assigned to the State	-28,382	-33,209
3. Foreign exchange difference results	239,827	19,471
VIII. Transfer to the unavailable reserve of capital gains on gold (-)	-	-
IX. General expenses (-)	-235,470	-235,097
1. Remuneration and social costs	-185,764	-187,524
2. Other expenses	-49,706	-47,573
X. Exceptional costs (-)	-	-4,827
XI. Depreciation of tangible fixed assets (-)	-19,898	-20,774
XII. Provisions	-66,000	-36,563
1. Write-back of provisions for new premises (appropriation (-))	-	7,060
2. Write-back of provisions for contingencies (appropriation (-))	-66,000	-43,623
XIII. Taxes and dues (-)	-14,790	-198,547
XIV. Transfer to the tax-free reserves (-)	-312	-248
Net profit for the financial year	127,735	106,826

1.3 Off-balance-sheet Items

(thousands of euros)

	31-12-2003	31-12-2002
Forward transactions in foreign currencies and in euro		
Forward claims	2,676,731	3,322,676
Forward liabilities	2,556,899	3,192,478
Forward transactions on interest rate and fixed-income securities	111,401	14,303
Liabilities which could lead to a credit risk		
Commitments towards international institutions	412,300	453,704
Commitments towards other institutions	41,741	10,229
Valuables and claims entrusted to the Institution		
For encashment	103	318
Assets managed on behalf of the Treasury	68,632	94,436
Assets managed on behalf of the ECB	1,340,489	1,491,095
Custody deposits	350,124,749	319,751,472
Capital to be paid up on shares of the BIS	135,675	106,612

1.4 Allocation of Profit

(thousands of euros)

	2003	2002
Profit for the year	127,735	106,826
The profit is distributed as follows :		
Allocation to the extraordinary reserve in accordance with Article 45 of the statutes :	–	68,000
Allocation of the balance in accordance with Article 49 of the statutes :		
1. To the shareholders a first dividend of 6 %	600	600
2. Of the amount in excess of this :		
a) 10 % to the statutory reserve	12,714	3,823
b) 8 % to the staff	10,171	3,058
3. Of the amount in excess of this :		
a) to the State, one fifth	20,850	6,269
b) to the shareholders, a second dividend	25,532	25,052
c) the balance to the statutory reserve	57,868	24

In accordance with the decision of the general meeting of 26 March 2001, the dividend will be payable from the second bankworking day following the general meeting namely 31 March 2004, on presentation of coupon No. 202 :

	Gross amount	Withholding tax	Net amount
Dividend per share in euro	65.33	16.33	49.00

1.5 Social balance sheet

1. Statement of persons employed

A. Workers entered on the staff register

1. In the financial year and the previous year	1. Full-time	2. Part-time	2003		2002	
			3. Total (T) or total in full-time equivalents (FTE)		4. Total (T) or total in full-time equivalents (FTE)	
Average number of workers	1,881.08	721.25	2,439.56 (FTE)		2,652.32 (FTE)	
Actual number of hours worked	2,792,761	827,213	3,619,974 (T)		3,921,925 (T)	
Staff costs (in thousands of euros)	142,599	36,525	179,124 (T)		183,719 (T)	
Value of benefits granted in addition to wages (in thousands of euros)	–	–	2,227 (T)		2,034 (T)	
<hr/>						
2. At the end of the financial year	1. Full-time	2. Part-time	3. Total (T) in full-time equivalents			
<hr/>						
a. Number of workers entered in the staff register	1,819	723	2,381.21			
b. By type of contract of employment						
Permanent contract	1,743	722	2,304.41			
Fixed-term contract	76	1	76.80			
Contract for the execution of a clearly defined project	–	–	–			
Substitution contract	–	–	–			
c. By gender						
Male	1,387	209	1,564.75			
Female	432	514	816.46			
d. By occupational category						
Management personnel	15	0	15.00			
Non-manual workers	1,804	723	2,366.21			
Manual workers	–	–	–			
Other	–	–	–			

B. Temporary staff and persons made available to the enterprise

During the year	2003	
	1. Temporary staff	2. Persons made available to the enterprise
Average number of persons employed	9.84	39.67
Actual number of hours worked	15,689	63,274
Costs to the enterprise (in thousands of euros)	354	4,664

2. Table of staff movements during the year

A. Staff entering service

	2003		
	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of workers entered in the staff register during the year	438	3	440
b. By type of contract of employment			
Permanent contract	22	0	22
Fixed-term contract	416	3	418
Contract for the execution of a clearly defined project	0	0	0
Substitute contract	0	0	0
c. By gender and standard of education			
Male: Primary	0	0	0
Secondary	145	0	145
Higher non-university	21	0	21
University	26	0	26
Female: Primary	2	1	2.60
Secondary	189	2	190.40
Higher non-university	41	0	41
University	14	0	14

B. Staff leaving

	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of workers whose contract termination date was recorded in the staff register during the year	523	23	538.10
b. By type of contract of employment			
Permanent contract	78	21	92.10
Fixed-term contract	445	2	446
Contract for the execution of a clearly defined project	0	0	0
Substitution contract	0	0	0
c. By gender and standard of education			
Male: Primary	8	2	9.55
Secondary	184	5	186.80
Higher non-university	16	0	16
University	22	2	23.45
Female: Primary	7	2	8.30
Secondary	221	11	228.10
Higher non-university	46	1	46.90
University	19	0	19
d. Reason for termination of contract			
Retirement	62	15	71.65
Early retirement	–	–	–
Dismissal	8	3	10.20
Other reasons	453	5	456.25
of which: number of persons continuing to perform services for the enterprise on a self-employed basis, at least 50 p.c. of normal hours	–	–	–

3. Statement of the use of employment promotion measures during the year

Employment promotion measures

	2003		
	Number of workers concerned		
	1. Number	2. In full-time equivalents	3. Amount of the financial advantage (In thousands of euros)
1. Measures comprising a financial advantage ⁽¹⁾			
1.11. "First job" agreement	21	7.96	35
2. Other measures			
2.2. Successive fixed-term contracts of employment	24	24.00	
Number of workers concerned by one or more employment promotion measures:			
– total for the year	45	31.96	
– total for the previous year	295	195.66	

(1) Financial advantage for the employer concerning the job-holder or his replacement.

4. Information on training for workers during the year

	1. Number of workers concerned	2. Number of hours' training attended	3. Cost to the enterprise (In thousands of euros)
Total worker training initiatives paid for by the enterprise			
– Male	1,205	40,950	5,909
– Female	603	20,223	2,918

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, 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 accounts for the financial year under review have been drawn up in accordance with the above-mentioned provision and the accounting rules approved by the Council of Regency on 8 January 2003.

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 "Banknotes in circulation" below).

Banknotes in circulation

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

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that 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: net claims/liabilities related to the allocation of euro banknotes within the Eurosystem".

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

The Governing Council of the ECB has decided that the seigniorage income of the ECB arising from the 8% share in euro banknotes allocated to it shall be distributed separately to the NCBs in the form of an interim distribution of profit⁽⁴⁾. That profit is distributed in full unless the ECB's net profit for the financial year in question is less than its income on banknotes in circulation and subject to any decision by the Governing Council to reduce that income in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. The interim distributions are made at the end of each quarter and are disclosed in the Profit and Loss Account under "Income from the ECB".

Off-balance-sheet instruments

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

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

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

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

(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

	31-12-2003	31-12-2002
in ounces of fine gold	8,291,451.0	8,293,854.2
in kg of fine gold ⁽¹⁾	257,893.0	257,967.7
at market price (millions of euros)	2,739.2	2,710.7

(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 74.7 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 2003, 0.71% 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 2003.

This price, notified by the ECB, amounts to € 330.364 per fine ounce of gold (€ 10,621.45 per kilogram of fine gold), against € 326.830 per fine ounce (€ 10,507.83 per fine kilogram) as at 31 December 2002.

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

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

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

This item is broken down into two sub-items:

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

2.1 Receivables from the IMF

This sub-item is broken down as follows:

(millions)

	31-12-2003		31-12-2002	
	Holdings (SDR)	Market value (euros)	Holdings (SDR)	Market value (euros)
Special drawing rights	434.1	511.4	407.9	528.7
Participation in the IMF	1,812.3	2,134.9	1,759.4	2,280.7
Loans to the IMF	–	–	–	–
Loans to the PRGF Trust	242.4	285.5	198.0	256.7
PRGF deposits	80.0	94.2	80.0	103.7
	2,568.8	3,026.0	2,445.3	3,169.8

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 2003. On the balance sheet date this rate was € 1 = SDR 0.8489 (€ 1 = SDR 0.7714 SDR at the end of 2002).

Special drawing rights (SDR)

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 434.1 million on 31 December 2003, against SDR 407.9 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 51.1 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 1,812.3 million, against SDR 1,759.4 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 2003, 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 2003 to SDR 242.4 million, as against the previous year's figure of SDR 198 million.

Deposits with the IMF under the PGRF

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 2003, 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

(millions of euros)

	31-12-2003	31-12-2002
Sight deposits	243.9	361.2
Time deposits	175.0	456.8
Securities	4,297.4	6,467.0
Reverse repurchase agreements	962.1	849.6
	5,678.4	8,134.6

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 2003. On the balance sheet closing date, the value of the securities at their market price was € 9.3 million more than their average cost value.

Breakdown by currency of foreign currency assets with non-residents

(millions)

	31-12-2003		31-12-2002	
	Holdings (in foreign currency terms)	Market value (euros)	Holdings (in foreign currency terms)	Market value (euros)
USD	6,708.1	5,311.2	7,839.6	7,475.5
JPY	49,206.7	364.4	76,820.1	617.6
CHF	1.0	0.6	57.9	39.9
Other		2.2		1.6
		5,678.4		8,134.6

The net foreign currency position resulting from the balance sheet items and the off-balance-sheet items denominated in foreign currencies, taken as a whole (spot and forward claims and liabilities) changed as follows in 2003 :

Net foreign currency position

(expressed at market price in billions of euros)

	31-12-2003	31-12-2002	Variation
	USD	2.9	4.8
JPY	-	-	-
CHF	-	-	-
	2.9	4.8	-1.9

During the year just ended, the net dollar position expressed in euro declined by € 1.9 billion. This decrease is due to the following reasons :

- sale of dollars against euro and SDR	-1.5
- negative revaluation differences some of which were imputed to the balance of the revaluation account and the rest were charged to the profit and loss account	-0.7
- encashment of investment income and gains on securities	+0.3

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

(millions)

	31-12-2003		31-12-2002	
	Holdings (in foreign currency terms)	Market value (euros)	Holdings (in foreign currency terms)	Market value (euros)
USD	405.7	321.2	312.5	298.0

On the balance sheet closing date, the value of the securities at their market price, namely € 49.6 million, was € 0.2 million more than their average cost value.

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.

Breakdown of euro assets by type of investment

(millions of euros)

	31-12-2003	31-12-2002
Sight deposits	58.5	3.7
Securities	186.3	–
	244.8	3.7

On the balance sheet closing date, the value of the securities at their market price was € 0.1 million more than their average cost value.

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

This heading records credit granted 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 2002, 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 2003, interest in these operations declined still further, and the average amount outstanding was down to just € 2 million, against € 62 million in 2002.

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.

No such operations took place during the year just ended.

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, bonds issued by certain German credit institutions and backed by first-rate claims ("Pfandbriefe"), and bonds issued by international or national public organisations. On the balance sheet closing date, the value of the securities at their market price was € 32.9 million more than their average cost value.

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, which has remained unchanged since 1999, corresponds to Belgium's average share in the GDP and the population of the European Union.

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 Eurosystem

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 “Banknotes in circulation”).

8.4 Other claims within the Eurosystem (net)

This sub-item is used to record the Bank’s net claim, if any, on the European Central Bank resulting from 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).

9. Other assets

9.1 Coins of euro area

This sub-item is used to record the Bank’s holding of euro coins. The coins are put into circulation by the Bank on behalf of the Treasury, and credited to the latter’s account. In accordance with the ECB decision of 23 October 2003, amending the decision of 19 December 2002, on the approval of the volume of coin issuance in 2003, the maximum amount of the euro coins to issue is € 246.9 million for Belgium, the authorised amount therefore totalling € 787.5 million.

9.2 Tangible fixed assets

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

In 2003, the Bank’s investment in tangible fixed assets totalled € 20.2 million, including ancillary costs. Apart from land, they are written off entirely within the year in which they are acquired. In addition, an amount corresponding to the book value of assets disposed of or taken out of use has been deducted from the “Tangible fixed assets” account.

9.3 Other financial assets

This sub-item records the securities, which the Bank holds as the counterpart to its capital, reserves and amortisation accounts in respect of tangible fixed assets. Under Article 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 receivable 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 sub-item also records trade, tax and other receivables, stocks and work in progress in the Printing Works (excluding stocks of banknote paper for its own use).

LIABILITIES

1. Banknotes in circulation

This item records the Bank's share in the circulation of euro banknotes issued by the twelve central banks of the Eurosystem in proportion to its paid-up participation in the capital of the ECB, namely € 14,199.6 million (see the accounting principles and valuation rules relating to the item "Banknotes in circulation").

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

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

2.1 Current accounts (covering the minimum reserve system)

Accounts denominated in euro of the financial institutions, which mainly serve to meet minimum reserve requirements. These requirements have to be respected 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. This was the case at the end of May when the ECB, via a rapid call for tenders, tightened liquidity by attracting deposits for 3 days at a fixed rate. For the Bank, this amounted to € 0.5 billion.

2.4 Fine-tuning reverse operations

Other monetary policy operations aimed at tightening liquidity.

No such operations took place during the year just ended.

2.5 Deposits related to margin calls

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

No such operations took place during the year just ended.

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

Liabilities to credit institutions, which are not related to monetary policy operations. These are mainly repurchase agreements relating to the management of the securities portfolio in euro recorded in asset item 7.

No such operations took place during the year just ended.

4. Liabilities to other euro area residents denominated in euro

4.1 General government

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

4.2 Other liabilities

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

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

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

6. Liabilities to euro area residents denominated in foreign currency

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

(millions)

	31-12-2003		31-12-2002	
	Liabilities (in foreign currency)	Market value (euros)	Liabilities (in foreign currency)	Market value (euros)
USD	66.2	52.4	–	–

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

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

(millions)

	31-12-2003		31-12-2002	
	Liabilities (in foreign currency)	Market value (euros)	Liabilities (in foreign currency)	Market value (euros)
USD	1,303.6	1,032.2	895.8	854.2

8. Counterpart of special drawing rights allocated by the IMF

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

9. Intra-Eurosystem liabilities

9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates

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

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

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

9.3 Other liabilities within the Eurosystem (net)

This sub-item 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 is remunerated 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.

This item records other intra-Eurosystem net liabilities, such as the reimbursement, at the start of 2004, of the seigniorage income attributed to the Bank by the ECB in 2003 (€ 18.9 million) – see also item I.5 in the profit and loss account. The claim on the ECB resulting from the pooling and distribution of monetary income within the Eurosystem (€ 10.6 million) was deducted from this liability.

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

This sub-item records the amount of banknotes in Belgian francs still in circulation at year-end (€ 237.4 million), less the sum of € 223.1 million paid to the Treasury pursuant to the Agreement of 22 February 2002 between the Bank and the State in the implementation of Article 9 of the Law of 24 August 1939 on the National Bank of Belgium, 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.

11. Provisions

11.1 Provision for future exchange losses

The Belgian State's official foreign exchange reserves are held and managed by the Bank. Under the agreement of 8 July 1998 between the State and the Bank, the State leaves the gains realised on foreign exchange at the disposal of the Bank, on condition that the Bank allocates them to a provision to cover any future foreign exchange losses.

This provision is added to the positive revaluation differences on foreign currencies to form a reserve fund to cover any foreign exchange losses realised or expressed but not realised.

(millions of euros)

Balance as at 31 December 2002	925.5
Write-back	-417.3
Appropriation	-
Balance as at 31 December 2003	508.2

A sum of € 182.3 million was written back with a view to covering dollar exchange losses.

On account of the substantial reduction of the net position in foreign currencies, the Council of Regency has moreover decided, on the basis of the models for assessing the risks, applied at the Bank, to adjust the provision, as from the accounting year 2003, to the best real estimate of the exchange rate risk to be covered. This adjustment aims at avoiding the formation of excessive provisions and thus at ensuring the provision is used for its actual purpose. In accordance with what precedes, it has been decided to write back an amount of € 235 million for the accounting year 2003.

11.2 Provision for new premises

Provision has become irrelevant.

11.3 Provision for contingencies

This sub-item includes the contingency fund created at the end of 1957 because of the risks inherent in the Bank's activity and the fluctuations, which affect its results.

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

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.

	(millions of euros)
Balance as at 31 December 2002	461.5
Write-back	–
Appropriation	66.0
Balance as at 31 December 2003	527.5

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 average cost value.

	Balance as at 31-12-2003	Balance as at 31-12-2002
Positive foreign exchange revaluation differences on :		
– gold	2,379.8	2,351.1
– spot and forward positions in foreign currencies	0.1	345.1
– the net position in SDR	–	–
Positive price revaluation differences on :		
– futures on interest rates and fixed-income securities	0.2	–
– securities in foreign currencies	12.3	107.2
– securities in euro (with the exception of statutory investments)	36.2	99.0
	2,428.6	2,902.4

13. Capital and reserve fund

13.1 Capital

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

13.2 Reserve fund

The Reserve Fund, provided for in Article 46 of the Bank's Statutes, consists of the Statutory Reserve, the Extraordinary Reserve and the 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 € 15 million, corresponding to the amount of investments made in 2003, less an amount equivalent to the book value of assets sold or no longer used.

The Extraordinary Reserve increased by € 68.3 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 (€ 68 million), by way of priority, and the transfer in 2003 of the tax-exempt gains realised on the sale of tangible fixed assets (€ 0.3 million).

The tax-exempt part of the Extraordinary Reserve amounts to € 15.4 million.

14. Profit for the year

The profit for the year amounted to € 127.7 million, against € 106.8 million in 2002.

2.4 Notes to the profit and loss account

I. PROCEEDS OF NET INTEREST-BEARING ASSETS

The net interest-bearing assets comprise the total of the assets and liabilities in foreign currencies and in euro, of which the net income, after deducting the expenses of remunerated liabilities, 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 income 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)		
	31-12-2003	31-12-2002	Differences
Interest proceeds of assets in euro	572.3	501.8	70.5
Interest proceeds of external assets	212.7	338.0	-125.3
Total	785.0	839.8	-54.8

1.1 Interest income of assets in euro

This mainly comes from:

- credit transactions relating to monetary policy;
- the securities portfolio in euro;
- the claim on the ECB resulting from the transfer of external reserve holdings;
- the intra-Eurosystem 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 € 23.2 million, owing to the fall in the average rate of the main refinancing operations which was greater than the increase in the average volume of credit allocations.

1.1.2 Securities portfolio in euro

The interest income on securities in euro is down by € 10.9 million, following the fall in average interest rates, the impact of which was partly offset by the effect of the increase in the average amount outstanding on the securities portfolio.

1.1.3 Claim on the ECB arising from the transfer of external reserve holdings

The Bank's claim on the ECB in respect of the external reserve holdings transferred is remunerated at 85% of the marginal rate on the main refinancing operations. As a consequence of the fall in the average marginal interest rate, that remuneration was down by € 11.8 million.

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

This concerns interest income totalling € 173.7 million for the year 2003, relating to the net intra-Eurosystem claims corresponding to the monthly adjustments made on the banknotes in circulation (see accounting principles and valuation rules relating to the item "Banknotes in circulation").

1.2 Interest income of external assets

This comes from:

- claims related to international cooperation transactions;
- investments in foreign currencies.

1.2.1 Claims related to international cooperation transactions

The interest income on claims relating to international cooperation, more particularly in connection with the IMF, was down by € 15.4 million in 2003 following a fall in the rate of interest payable on these claims and depreciation of the SDR against the euro. The increase in the average volume of these claims offset those effects to a minor extent.

1.2.2 Investments in foreign currencies

The interest income on investments in foreign currencies was down by € 109.9 million, mainly because of a fall in the interest rate on dollar investments. Furthermore, the depreciation of the dollar against the euro and the reduction in the average volume of these investments following sales of the dollar against the euro and SDR have also contributed to the fall in interest income.

2. Interest expenses

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

(millions of euros)

	31-12-2003	31-12-2002	Differences
Interest expenses on liabilities in euro	417.3	430.6	-13.3
Interest expenses on external liabilities	9.1	16.3	-7.2
	426.4	446.9	-20.5

2.1 Interest expenses on liabilities in euro

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

The interest expense is down by € 73.4 million, because of a fall in the marginal interest rate on the main refinancing operations which provides the basis for remuneration of these accounts.

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

There were no such liabilities in 2003.

2.1.3 Net liabilities to the ECB related to Target

The € 65.7 million increase in interest charges on net debts relating to TARGET is due to the sharp increase in the average amount outstanding, the effect of which was greater than the fall in the marginal interest rate on the main refinancing operations.

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 (€ 5.7 million) owing to a reduction in the average interest rate applied to them and a depreciation of the dollar against the euro, partially offset by an increase in the average volume of these transactions.

2.2.2 Net use of the assets in SDR

The interest expense on the net liability in SDR was down by € 1.5 million in 2003, as a result of a decline in the average level of the net use of the assets in SDR, the average interest rate on this net use and the depreciation of the SDR against the euro.

3. Capital gains and losses on securities

During the accounting period under review, net capital gains amounting to € 135.4 million were realised on the sale of securities, against € 176.6 million in 2002. Moreover, the unrealised capital losses of € 6 million were included in the result, whereas non-realised gains on securities (€ 48.5 million) were recorded in revaluation accounts on the liabilities side.

4. Allocation of monetary income from the Eurosystem

As of 2003, the amount of monetary income of each NCB in the Eurosystem was determined by calculating the effective annual income resulting from the earmarkable assets held in counterpart to the liabilities items which serve as the basis for calculation. This basis comprises the following items:

- banknotes in circulation;
- liabilities to credit institutions in the euro area related to monetary policy operations and denominated in euro;
- net intra-Eurosystem liabilities resulting from TARGET transactions;
- net intra-Eurosystem liabilities relating to the allocation of euro banknotes in the Eurosystem.

Any interest paid on liabilities included in the basis for calculation will be deducted from the monetary income pooled by each NCB.

The earmarkable assets consist of the following items:

- lending to euro area credit institutions related to monetary policy operations in euro;
- intra-Eurosystem claims in respect of the transfer of external reserve holdings to the ECB;
- net intra-Eurosystem claims resulting from TARGET transactions;
- net intra-Eurosystem claims relating to the allocation of euro banknotes in the Eurosystem;
- a limited amount of each NCB's gold holdings, in proportion to each NCB's subscribed capital key.

Gold is considered to generate no income.

Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its basis for calculation, the difference shall be offset by applying to the value of this difference the average rate of return on the earmarkable assets of all NCBs taken together.

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

Calculation of net monetary income allocated to the Bank for the financial year 2003:

	(millions of euros)
– monetary income pooled by the Bank in the Eurosystem	–264.0
– monetary income allocated to the Bank by the Eurosystem	274.6
Net monetary income allocated	10.6

5. Income from the ECB

In 2003, the Bank collected a dividend of € 21.7 million on its participation in the capital of the ECB for the 2002 financial year, against € 51.6 million the previous year.

This item also records the proceeds from the distribution of the revenue, which the ECB withdraws from its share in the issue of euro banknotes. However, whereas in 2002 the Bank received € 21.4 million in this respect, for the financial year 2003, the Governing Council decided, in light of the forecast results from the ECB, to withhold this income.

II. FOREIGN EXCHANGE DIFFERENCE RESULTS

1. Foreign exchange difference results

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

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

The amount of the sub-item consists mainly of the foreign exchange gains realised on the sale of dollars (€ 167.8 million), non-realised foreign exchange losses on dollars (€ 443.3 million), foreign exchange losses on SDR transactions (€ 240.5 million) and the capital gains on sales of gold to the Belgian Royal Mint (€ 0.6 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.

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

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 centres;
- the securities settlement system;
- the payment systems: TARGET, ELLIPS, CEC and the Clearing House;
- the central processing of commercial bills;
- the activities performed by the Printing Works;
- the services rendered by the General Statistics Department.

V. PROCEEDS FROM STATUTORY INVESTMENTS

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

The 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 capital markets.

VI. OTHER PROCEEDS

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

VII. STATE SHARE

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

By virtue of Article 29 of the Law of 22 February 1998 establishing the Organic Statute of the Bank, the net financial proceeds in excess of 3% of the difference between the average amount, calculated on an annual basis, of the Bank's profit-earning assets – except for bills and securities acquired in representation of the capital, reserves and amortisation accounts, the proceeds of which are at the Bank's disposal – and the Bank's remunerated liabilities shall be assigned 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 banknotes 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.

In order to calculate the State's share, account was taken, relating to the proceeds from financial management transactions, of the sum of € 235 million written back from the provision for future exchange losses.

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 express approval, are guaranteed by the State. The foreign exchange gains and losses realised on these operations accrue entirely to the State. In 2003, transactions in SDR gave rise to net foreign exchange losses totalling € 240.5 million.

The capital gain of € 0.6 million realised on the sale of gold to the Belgian Royal Mint (Article 37 of the above-mentioned law) also accrues to the State.

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

In this item is recorded the amount, if any, of the capital gains obtained on gold during arbitrage operations of gold assets against other external reserve elements, in accordance with Article 30 of the above-mentioned law.

IX. GENERAL EXPENSES

1. Remuneration and social costs

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

2. Other expenses

This 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

None.

XI. DEPRECIATION OF TANGIBLE FIXED ASSETS

The depreciation applied as at 31 December 2003 covers the following investments:

	(millions of euros)
– new premises and technical installations	0.1
– renovation of premises	3.2
– software and hardware	9.2
– equipment for the Printing Works	2.3
– other equipment and furniture	5.1
Total	19.9

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 on operating expenses and regional, provincial and municipal taxes.

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

For the financial year 2003, the Bank declares a recoverable fiscal loss of € 261.2 million, on final taxable profits. The deferred fiscal benefit, calculated at the rate of corporation tax, is evaluated at € 88.8 million.

XIV. TRANSFER TO THE TAX-FREE RESERVES

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

2.5 Notes to the off-balance-sheet items

Forward transactions in foreign currencies and in euro

As at 31 December 2003, the forward position consists of swap transactions; the breakdown is as follows:

	(millions)	
	in foreign currency	euros
forward claims		
– in euro		2,241.3
– in USD	549.9	435.4
forward liabilities		
– in euro		85.6
– in USD	2,663.0	2,108.5
– in JPY	49,000.0	362.8

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

Forward transactions on interest rate and fixed-income securities

At the end of the financial year, the Bank holds a long position in futures in US government securities and 3-month euro-dollar rate futures. These contracts were revalued at market price. As at 31 December 2003, their net value is € 111.4 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	412.3

This item records the undertaking entered into by the Bank to lend SDR 350 million (€ 412.3 million) to the PRGF Trust. The amount of the drawings remaining open is SDR 107.6 million (€ 126.8 million). This loan is guaranteed by the Belgian State.

	(millions of euros)
Commitments towards other institutions	41.7

Valuables and claims entrusted to the institution

(millions of euros)

For encashment	0.1
Assets managed on behalf of the Treasury	68.6
Assets managed on behalf of the ECB	1,340.5

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	350,124.7
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This item consists mainly of the nominal amount of securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills, certificates of deposit and certain classical loans) recorded under the securities settlement system and held on behalf of third parties.

Capital to be paid up on shares of the BIS

The BIS shares held by the Bank are paid up to the extent of 25%. The amount shown under this item is that of uncalled capital, totalling SDR 115.2 million, converted at the SDR exchange rate as at 31 December 2003, namely € 135.7 million.

2.6 Post-balance-sheet events

In accordance with Article 29.3 of the ESCB statute the NCBs' capital key for subscription to the ECB's capital shall be adjusted every five years. The first change took effect on 1 January 2004. On 1 May 2004 a second change will follow as a result of the accession of ten new Member States. In accordance with the Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the ECB, the NCBs' shares were adjusted as follows:

	Key for subscription of the ECB's capital	
	from 1 January 1999 to 31 December 2003	from 1 January 2004 to 30 April 2004
National Bank of Belgium	2.8658	2.8297
Deutsche Bundesbank	24.4935	23.4040
Bank of Greece	2.0564	2.1614
Banco de España	8.8935	8.7801
Banque de France	16.8337	16.5175
Central Bank and Financial Services Authority of Ireland	0.8496	1.0254
Banca d'Italia	14.8950	14.5726
Banque centrale du Luxembourg	0.1492	0.1708
De Nederlandsche Bank	4.2780	4.4323
Österreichische Nationalbank	2.3594	2.3019
Banco de Portugal	1.9232	2.0129
Suomen Pankki – Finlands Bank	1.3970	1.4298
<i>Subtotal Eurosystem</i>	<i>80.9943</i>	<i>79.6384</i>
Danmarks Nationalbank	1.6709	1.7216
Sveriges Riksbank	2.6537	2.6636
Bank of England	14.6811	15.9764
<i>Subtotal non-euro area NCBs</i>	<i>19.0057</i>	<i>20.3616</i>
Total	100.0000	100.0000

On 1 January 2004, the National Bank of Belgium's share in the subscribed capital of the ECB decreased by 0.0361% to 2.8297%. Consequently, asset item 8.1 "Participating interest in the ECB" decreased by € 1.8 million, to € 141.5 million as a result of the repayment of part of the participating interest.

The adjustment to the capital key for subscription to the ECB's capital results not only in adjustments to the participating interest of euro area NCBs in the ECB's subscribed capital, but also adjustments to the ECB's claims in favour of euro area NCBs as a result of the transfer by NCBs of foreign reserve assets to the ECB. Thus, the claim of the National Bank of Belgium with respect to the foreign reserve assets transferred to the ECB (asset item 8.2) was reduced by € 18.1 million to € 1,414.8 million on 1 January 2004.

Brussels, 18 February 2004



3. Comparison over five years

3.1 Balance Sheet

Assets

(thousands of euros)

	2003	2002	2001	2000	1999
1. Gold and gold receivables	2,739,197	2,710,680	2,613,494	2,431,485	2,402,507
2. Claims on non-euro area residents denominated in foreign currency	8,704,377	11,304,447	12,780,672	10,740,780	10,885,054
2.1 Receivables from the IMF	3,026,021	3,169,845	3,255,684	2,615,983	2,807,152
2.2 Balances with banks and security investments, external loans and other external assets	5,678,356	8,134,602	9,524,988	8,124,797	8,077,902
3. Claims on euro area residents denominated in foreign currency	321,230	297,976	799,055	459,103	138,167
4. Claims on non-euro area residents denominated in euro	244,817	3,656	7,610	9,456	9,071
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	16,748,708	10,876,706	7,570,189	15,441,034	20,456,952
5.1 Main refinancing operations	16,748,708	10,876,706	7,500,000	14,811,034	5,436,956
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
5.6 Credits related to margin calls	–	–	–	–	–
6. Other claims on euro area credit institutions denominated in euro	359	357	220	313	1,288
7. Securities of euro area residents denominated in euro	4,109,447	3,663,289	3,621,955	3,629,307	3,683,056
8. Intra-Eurosystem claims	12,654,164	6,367,013	1,576,190	1,576,190	1,576,190
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	1,432,900
8.3 Net claims related to the allocation of euro banknotes within the Eurosystem	11,077,974	4,790,823	–	–	–
8.4 Other claims within the Eurosystem (net)	–	–	–	–	–
9. Other assets	2,465,913	2,345,715	2,233,336	2,226,502	2,159,269
9.1 Coins of euro area	9,018	10,315	26,408	6,795	9,966
9.2 Tangible fixed assets	385,313	370,526	352,518	326,607	320,235
9.3 Other financial assets	1,617,015	1,528,380	1,438,009	1,359,671	1,325,696
9.4 Off-balance-sheet instruments revaluation differences	113,334	117,700	–	996	–
9.5 Accruals and prepaid expenditure	193,692	217,117	242,864	309,114	308,924
9.6 Sundry	147,541	101,677	173,537	223,319	194,448
Total assets	47,988,212	37,569,839	31,202,721	36,514,170	41,311,554

Liabilities

(thousands of euros)

	2003	2002	2001	2000	1999
1. Banknotes in circulation	14,199,612	11,964,293	8,627,226	12,905,356	12,947,255
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	8,324,897	4,481,622	5,945,181	7,129,800	3,509,187
2.1 Current accounts (covering the minimum reserve system)	8,324,897	4,481,622	5,922,368	7,129,800	3,458,846
2.2 Deposit facility	–	–	22,813	–	50,341
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	180,920	123,637	127,485	83,479	95,880
4.1 General government	151,852	115,411	118,528	62,176	64,270
4.2 Other liabilities	29,068	8,226	8,957	21,303	31,610
5. Liabilities to non-euro area residents denominated in euro	270,829	233,479	80,691	179,736	337,368
6. Liabilities to euro area residents denominated in foreign currency	52,398	–	–	–	–
7. Liabilities to non-euro area residents denominated in foreign currency	1,032,172	854,184	1,869,018	982,736	569,854
8. Counterpart of special drawing rights allocated by the IMF	571,620	629,023	691,238	679,386	662,349
9. Intra-Eurosystem liabilities	17,835,886	12,879,052	5,168,719	6,535,792	16,275,775
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)	17,835,886	12,879,052	5,168,719	6,535,792	16,275,775
10. Other liabilities	291,427	459,045	1,652,207	1,481,878	1,046,929
10.1 Off-balance-sheet instruments revaluation differences	–	–	8,159	–	10,049
10.2 Accruals and income collected in advance	4,660	6,426	7,702	14,279	8,523
10.3 Sundry	286,767	452,619	1,636,346	1,467,599	1,028,357
11. Provisions	1,035,768	1,387,068	1,181,106	988,156	798,141
11.1 For future exchange losses	508,219	925,519	756,120	614,320	441,120
11.2 For new premises	–	–	7,060	10,540	19,040
11.3 For contingencies	527,549	461,549	417,926	363,296	330,003
11.4 For loss from the ECB	–	–	–	–	7,978
12. Revaluation accounts	2,428,584	2,902,378	4,294,569	4,080,642	3,674,206
13. Capital and reserve fund	1,636,364	1,549,232	1,459,707	1,368,499	1,337,721
13.1 Capital	10,000	10,000	9,916	9,916	9,916
13.2 Reserve fund:					
Statutory reserve	104,627	100,780	96,975	93,287	89,580
Extraordinary reserve	1,150,492	1,082,180	1,014,616	953,116	932,616
Amortisation accounts in respect of tangible fixed assets	371,245	356,272	338,200	312,180	305,609
14. Profit for the year	127,735	106,826	105,574	98,710	56,889
Total liabilities	47,988,212	37,569,839	31,202,721	36,514,170	41,311,554

3.2 Profit and Loss Account

(thousands of euros)

	2003	2002	2001	2000	1999
I. Proceeds of net interest-bearing assets	520,410	658,465	968,528	792,153	349,234
1. Interest income	785,040	839,836	1,257,070	1,286,299	900,427
2. Interest expenses (-)	-426,387	-446,909	-567,480	-480,303	-321,109
3. Capital gains (-losses (-)) on securities	129,434	176,572	220,895	-14,271	-222,278
4. Allocation of monetary income from the Eurosystem	10,582	15,955	243	428	172
5. Income from the ECB	21,741	73,011	57,800		
6. Appropriation to the provision for covering losses from the ECB (-)			-	-	-7,978
II. Foreign exchange difference results	-98,742	94,206	139,957	200,223	260,956
1. Foreign exchange difference results	-516,042	263,606	281,757	373,423	374,856
2. Write-back of provision for future exchange losses (appropriation (-))	417,300	-169,400	-141,800	-173,200	-113,900
III. Commission	1,933	1,181	2,591	3,531	2,576
1. Commission received	4,675	3,244	4,320	5,041	3,251
2. Commission paid (-)	-2,742	-2,063	-1,729	-1,510	-675
IV. Amounts recovered from third parties	59,848	54,123	61,714	53,426	50,553
V. Proceeds from statutory investments	113,139	101,091	98,409	95,004	95,857
VI. Other proceeds	3,332	1,371	4,822	2,555	404
VII. State share (-)	-135,715	-307,555	-648,656	-495,640	-123,526
1. Proceeds from net interest-bearing assets (art. 29)	-347,160	-293,817	-558,351	-369,752	-86,121
2. Proceeds fully assigned to the State	-28,382	-33,209	-45,548	-41,931	-29,981
3. Foreign exchange difference results	239,827	19,471	-44,757	-83,957	-7,424
VIII. Transfer to the unavailable reserve of capital gains on gold (-)	-	-	-	-	-177,115
IX. General expenses (-)	-235,470	-235,097	-237,067	-233,022	-213,580
1. Remuneration and social costs	-185,764	-187,524	-191,118	-185,791	-175,277
2. Other expenses	-49,706	-47,573	-45,949	-47,231	-38,303
X. Exceptional costs (-)	-	-4,827	-11,327	-12,508	-28,192
XI. Depreciation of tangible fixed assets (-)	-19,898	-20,774	-28,499	-29,415	-30,456
XII. Provisions	-66,000	-36,563	-51,150	-24,793	411
1. Write-back of provisions for new premises (appropriation (-))	-	7,060	3,480	8,500	15,590
2. Write-back of provisions for contingencies (appropriation (-))	-66,000	-43,623	-54,630	-33,293	-15,179
XIII. Taxes and dues (-)	-14,790	-198,547	-193,748	-252,804	-130,233
XIV. Transfer to the tax-free reserves (-)	-312	-248			
Net profit for the financial year	127,735	106,826	105,574	98,710	56,889

3.3 Dividend

	2003	2002	2001	2000	1999
Net dividend allocated per share	49.00	48.10	47.25	46.10	44.90
Withholding tax deducted per share	16.33	16.03	15.75	15.37	14.97
Gross dividend allocated per share	65.33	64.13	63.00	61.47	59.87

Auditor's report

Annual accounts for the year ended December 31, 2003

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, 2003 with a balance sheet total of Euro 47,988,212 (000) and a profit for the year of Euro 127,735 (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 Réviseurs d'Entreprises-Instituut der Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to the annual accounts of the National Bank of Belgium.

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

In our opinion, taking into account the prevailing legal and regulatory requirements, the financial statements present fairly the National Bank of Belgium's net worth and financial position as of December 31, 2003 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 11, 2004

The Joint Auditors

Klynveld Peat Marwick Goerdeler
Bedrijfsrevisoren
represented by Pierre P. Berger

Deloitte & Touche
Bedrijfsrevisoren
represented by Philip Maeyaert

Approval by the Council of Regency

The Council of Regency examined the annual accounts drawn up at 31 December 2003, 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 2003.

On 18 February 2004, the Council approved the annual report on the company's operations and the annual accounts for the financial year 2003. It also gave the administration a discharge and finally determined the distribution of profits for the financial year.

The Council of Regency

Messrs	Guy QUADEN, Governor
	Luc COENE, Vice-governor
	Jean-Pierre PAUWELS, Director
Mrs	Marcia DE WACHTER, Director
Mr	Jan SMETS, Director
Mrs	Françoise MASAI, Director
Messrs	Jean HILGERS, Director
	Peter PRAET, Director
	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



Annex 1

Shareholder structure as at 31 December 2003

(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.

Annex 2

Opening hours and addresses

SERVICES	ESTABLISHMENTS OFFERING THE SERVICES	OPENING HOURS
Banknotes and coins Central Balance Sheet Office Central Office for Credits to Individuals	Brussels, Antwerp, Hasselt, Kortrijk, Liège and Mons	9.00 to 15.30 hrs
	Arlon, Ghent, and Namur ⁽¹⁾	9.00 to 13.00 and 14.00 to 15.30 hrs
State Cashier	Brussels, Antwerp, Hasselt, Kortrijk, Liège and Mons	9.00 to 15.30 hrs
Scientific Library	Brussels	9.00 to 16 hrs
Museum	Brussels	10.00 to 18.00 hrs (daily except Mondays)

Requests for information : secretariat@nbb.be
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Press officer : Kristin Bosman, Communication Service
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Fax +32 2 221 31 60
kristin.bosman@nbb.be

**Contact person for the financial
service for the Bank's shares :** Luc Janssens, Securities Service
Tel. +32 2 221 45 90
Fax +32 2 221 32 05
securities@nbb.be

Website : www.nbb.be

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

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Departments and services: cf. Organisation, point 5.2 and website.

Annex 3

Abbreviations

BFC	Banking and Finance Commission
BFIC	Banking, Finance and Insurance Commission
BIS	Bank for International Settlements
CEC	Centre for Exchange and Clearing
CLS	Continuous Linked Settlement
CPSS	Committee on Payment and Settlement Systems
ECB	European Central Bank
ELLIPS	Electronic Large-value Interbank Payment System
ERP	Enterprise Resource Planning
ESA	European System of Accounts
ESAF	Enhanced Structural Adjustment Facility
ESCB	European System of Central Banks
EU	European Union
FSC	Financial Stability Committee
G10	Group of Ten
GDP	Gross Domestic Product
ICT	Information and Communication Technologies
IMF	International Monetary Fund
NAI	National Accounts Institute
NCB	National Central Bank
OECD	Organisation for Economic Cooperation and Development
OLO	Linear bonds
PRGF	Poverty Reduction and Growth Facility
PSSC	Payment and Settlement Systems Committee
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



Annex 4

List of boxes, tables and charts

BOXES

The Bank and the Eurosystem	11
The Bank and the National Accounts Institute	12
The “bank of banks” function	14
The foreign exchange reserves	15
The right of issue	17
ELLIPS	21
TARGET	22
An information platform for the financial markets	23
The Centre for Exchange and Clearing	24
The securities settlement system	25
The centralised processing of commercial bills	26
The Bank and prudential supervision	27
The Financial Stability Committee	28
The oversight by the Bank of payment and securities settlement systems	29
The Core Principles for Systemically Important Payment Systems	30
Securities settlement systems operated by the private sector	31
The bond centre	35
The role of State Cashier	35
The Securities Regulation Fund	35
The Central Balance Sheet Office	38
The Central Office for Credits to Enterprises	39
The Central Office for Credits to Individuals	39
The use of microeconomic data	40
<i>History of Money</i> : a permanent exhibition	41
Obituaries and retirement	44
The Bank, an atypical public limited liability company	49
Operating control mechanisms	59

TABLES

1. Euro banknotes placed in circulation by the Eurosystem	18
2. Euro coins placed in circulation by the Eurosystem	19
3. Belgian franc banknotes not returned	20
4. Number of transactions processed by the TARGET system and the Belgian interbank payment systems	22
5. Amounts processed by the TARGET system and the Belgian interbank payment systems	23

CHARTS

1. Euro banknotes placed in circulation by the Eurosystem	18
2. Euro coins placed in circulation by the Eurosystem	19
3. Euro banknotes withdrawals and payments at the Bank	20
4. Interbank exchange of cheques and giro cheques	24
5. Secondary market transactions settled by the securities settlement system	25
6. Activities of the Centralised Processing of Commercial Bills system	26
7. Payment credits granted to residents by credit institutions established in Belgium	39
8. Activities of the Central Office for Credits to Individuals	40
9. Visits to the website	41
10. Permanent staff	45

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