Belfius Bank SA/NV

Mortgage Pandbrieven

Presale Report

Expected Ratings

Mortgage Pandbrieven	AAA (EXP)/ Stable Outlook

Key Data

	October 2012
Asset type	Residential mortgages
Provisional Cover assets (EURbn)	3.3
Covered bonds (EURbn)	Up to 2.0
'AAA' Breakeven OC (%)	30
Weighted-average asset maturity (years)	10.5
Weighted-average liability maturity (years)	7.6

Rating Rationale

Issuer IDR	A-
D-Cap	4 (Moderate risk)
Rating on a PD basis	AA
Rating on a recovery basis	AAA
Asset segregation	Low
Liquidity gap and systemic risk	Moderate
Systemic alternative management	Low
Cover pool-specific alternative management	Moderate
Privileged derivatives	Very low

Expected Ratings

Expected ratings do not reflect final ratings and are based on information provided by the issuer as of November 2012. These expected ratings are contingent on final documents conforming to information already received. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any **purchase.**

Analysts

Solena Gloaguen
+44 20 3530 1126
solena.gloaguen@fitchratings.com

William Rossiter
+33 1 4429 9147
william.rossiter@fitchratings.com

Key Rating Drivers

Rating Rationale: The expected 'AAA' rating on Belfius Bank SA/NV's mortgage covered bonds is based on Belfius' Long-Term Issuer Default Rating (IDR) of 'A-', a Discontinuity Cap (D-Cap) of 4 (Moderate Risk) and overcollateralisation (OC) of at least 30% based on a liability profile incorporating more than one issuance as communicated by the issuer.

One-Year Liquidity Protection: If Belfius defaults, the pandbrieven benefit from a 12-month maturity extension and a pre-funded reserve covering one year of interest, resulting in a moderate risk of payment interruption. The same moderate risk assessment applies to the cover pool-specific alternative management section of the D-Cap, based on a very capable in-house developed IT system and the difficulty in managing all-sums mortgages and mandates.

Fixed Rate Assets Not Swapped: All loans in the cover pool are fixed rate. Post issuer default, this exposes the portfolio to significant market value loss in a stressed upward interest rate environment. In a 'AAA' scenario, the agency has assumed a 40% haircut in case of liquidation of the cover assets. This is a major driver of the 'AAA' break-even OC of 30%.

Stable Outlook: The Stable Outlook on the covered bond rating mirrors the Stable Outlook on Belfius' LT IDR and the agency's stable expectations for both the cover assets and OC maintenance. Although the Outlook on Belgium's sovereign rating ('AA'/'F1+') is Negative, a one-notch downgrade would not lead to a downgrade of the covered bonds.

Programme Highlights

Maturity Mismatches Hamper OC: Although this programme is expected to start with more than one issue, the weighted-average life (WAL) of the covered bonds of 7.6 years is less than the 10.5 years for the cover assets. Combined with the stressed refinance rate applied to a fixed rate pool, maturity mismatches account for a large part of the 'AAA' breakeven OC.

Low Credit Risk: The provisional cover pool (EUR3.3bn as of September 2012), consists of Belgian housing loans to prime borrowers. The portfolio's WA original mortgage-to-value ratio (OMTV) is 78%, with a WA current indexed LTV of 67.2%. The agency has calculated a 'AAA' cumulative credit loss of 7.9%.

Limited Credit for Mandates: 34% of the loans are partially secured by a mortgage mandate. Fitch has applied low recoveries given default, as no actual security has been put in place initially; rather, a right to register a mortgage exists.

Pari-Passu Recoveries: Under the all sums mortgages, given a default, a loan will share enforcement proceeds with other loans originated before the date of its registration in the pool, except for consumer loans which are subordinated as per the programme documents.

Commitment on Asset Type: Although eligible under Belgian legislation, Belfius has covenanted not to include any tranches of securitisation as part of the cover pool .

Strong Pandbrieven Framework: In Fitch's assessment, asset segregation represents low discontinuity risk, given protection against commingling, set-off and claw back. There is a residual risk of some cover assets being returned to the issuer's insolvency estate, if it can be established with certainty that they will not be needed to repay covered bonds.

No IDR Cushion: The covered bonds can be rated 'AAA', as long as the IDR is at least 'A-'.

Figure 1
Key Information

Issuer	Belfius Bank ('A-'/Stable/'F1')
Originator	Belfius Bank
Account Bank	Belfius Bank
Servicer	Crefius
Cover Pool Monitor	Ernst & Young

Source: Belfius Bank

Background

Under this programme, Belfius can issue covered bonds – mortgage pandbrieven – for up to EUR10bn. The bonds will mainly be secured on a dynamic pool of residential mortgages. The covered bonds rank pari passu among themselves and are direct, unconditional, unsecured and unsubordinated obligations of the issuer. The covered bondholders benefit from a dual recourse consisting of an exclusive right of recourse against the cover assets – the special estate – and an unsecured, unsubordinated recourse against the general estate of Belfius.

The Issuer

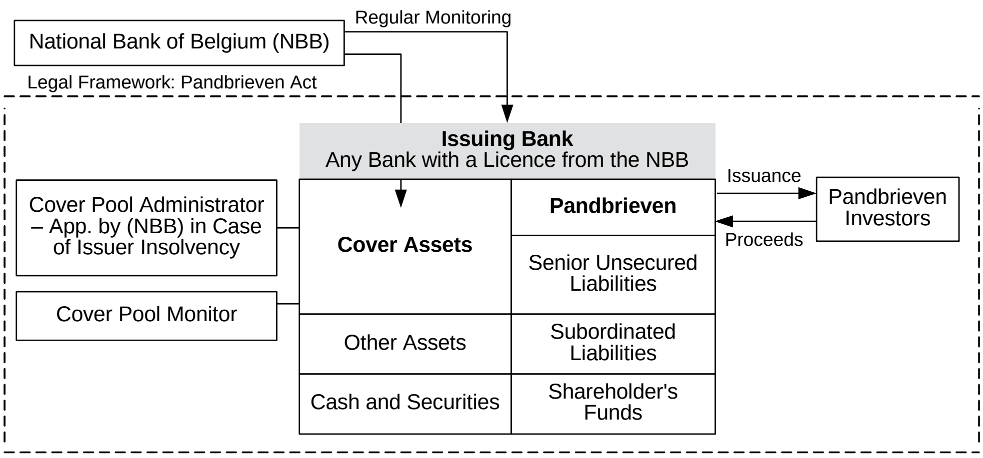
The Belgian State acquired Dexia Bank Belgium SA/NV from Dexia SA/NV in October 2011 and changed the bank's legal name to Belfius Bank SA/NV on 11 June 2012, making a clear distinction from the Dexia group, whose name had been tainted following severe problems in 2011.

Belfius Bank acts first and foremost as a domestic bank, carrying out related activities for the Belgian market, including the collection of savings deposits and investments via its sales networks and the issuance of loans to individuals, self-employed, SMEs, as well as to corporates, public and social institutions. The bank's commercial activities are structured around three segments: retail and commercial banking, public and wholesale banking and insurance. It holds EUR 61.5bn of deposits and is the third largest retail bank in Belgium.

Belfius Bank has the second largest branch network in Belgium, with 804 branches across the country. It has an equally strong market presence in Flanders, Brussels and Wallonia.

Issuance Diagram

Figure 2
Belfius — Diagram of a Belgian Pandbrieven Issuance



Source: Fitch

Related Criteria

Covered Bonds Rating Criteria (September 2012)

Covered Bonds Counterparty Criteria (July 2012)

EMEA Residential Mortgage Loss Criteria (July 2012)

EMEA Criteria Addendum - Belgium - Mortgage Loss and Cash Flow Assumptions (July 2012)

Continuity Analysis

Fitch has assessed the discontinuity risk components for the programme, summarised in Figure 3. Overall, the programme has been assigned a D-Cap of 4 (moderate discontinuity risk). This means that the covered bonds can be rated up to four notches above Belfius' IDR on a probability of default basis, with a further two-notches achievable, based on stressed recoveries given default on the pandbrieven. Given Belfius' IDR of 'A-', the covered bonds can be rated up to 'AAA', provided the OC can sustain the corresponding stresses (see Cash Flow Analysis below). The covered bonds 'AAA' rating is vulnerable to a downgrade if the IDR was downgraded by one notch or if the D-Cap worsened by at least one category, to D-Cap 3 (moderate-high discontinuity risk). For further information on how the agency assesses each of the components in the D-Cap, please see the criteria report entitled *Covered Bonds Rating Criteria*.

Figure 3

Summary of Assessment of D-Cap Components

Asset Segregation	Low
Liquidity Gap and Systemic Risk	Moderate
Systemic Alternative Management	Low
Cover Pool-Specific Alterative Management	Moderate
Privileged Derivatives	Very Low

Source: Fitch

Asset Segregation

Fitch has classified the risk level under asset segregation as low, based on its review of the Belgian covered bond legislation. The agency believes the legal features in place provide a strong setting for covered bondholders and privileged creditors to gain full first priority access to the cover assets.

Belfius' covered bond programme is issued under the integrated template, whereby cover assets are registered within a special estate, rather than transferred to a special purpose entity. The legal effect of the registration is to segregate the assets over which the covered bondholders will have a special creditor privilege in the event of the issuer's winding-up. The privilege is such that no other creditor of the bank will be able to claim any rights over the special estate until all amounts due to covered bondholders and other privileged creditors have been repaid in full.

Under the legislation, a remote risk exists whereby, upon the initiation of an insolvency procedure against the issuer, the liquidator of the bank is entitled, after consultation with the National Bank of Belgium (NBB), to require that the assets, that will be with certainty not needed to repay the covered bonds, are retransferred to the general estate of the issuer subject to NBB's approval. This concept of certainty is not clearly defined in the legislation. However, in order to provide for evidence of "certainty", the liquidator of the general estate will not need to wait until after full and final redemption of the covered bonds. As a consequence, Fitch's view is that a residual risk exists that the cover assets deemed with certainty not needed to repay the covered bondholders could be returned to the general estate of the issuer.

In assessing the effectiveness of the segregation of cover pool assets, Fitch's analysis has notably focused on the allocation of payments for recoveries on defaulted loans, a particularity of the Belgian legal framework.

In Belgium, most mortgage receivables relate to loans or advances under a credit facility secured by a mortgage that is also used to secure all other amounts – including consumer loans – that the borrower owes or in the future may owe to the lender, so-called "all-sums" mortgages (for more information on this subject, please refer to *Appendix 3*). Under the Belgian covered bond law, unless agreed otherwise, any future loans granted under all-sums mortgages will rank as subordinated to those included in the special estate, and all loans granted prior to the registration date will rank pro-rata to the loans in the special estate, including any consumer loans. While such priority of payments has been confirmed by Belfius under the programme documentation, it has in addition been stipulated that any loans not granted for residential purposes (such as consumer loans) will in any case be contractually subordinated to those residential loans included in the special estate. To ensure that the subordination clauses are effective and valid, Belfius commits not to include in the special estate any residential mortgage loans granted to a borrower secured by a same all-sums mortgage if another loan of the same borrower already forms part of a securitised pool.

The Belgian covered bond legislation excludes commingling of cash collections from the cover assets following the opening of the insolvency proceedings, as they are automatically allocated to the special estate. Regarding cash held before insolvency by the issuer on behalf of the special estate, commingling risk is reduced as the legislation enables the alternative manager to access unencumbered assets of the bank's general estate upon request (right of revindication). Fitch is of opinion that such a mechanism is stronger than in many other legislative frameworks, although not as strong as a contractual obligation to perform a daily transfer to a suitably-rated external account bank. The agency will therefore model 100% of expected cash flows as long as the issuer is rated in the investment-grade category, but following a downgrade of the issuer to speculative grade, deduct from its cash flow analysis cash amounts which are not held in an outside 'A' and 'F1' rated credit institution. This is because the amount and quality of the unencumbered assets may then become uncertain.

By law, once a loan has been registered in the special estate, the underlying borrower will not be able to invoke set-off, irrespective of notification or acknowledgement of the registration of the loan, even if the mutual claims are considered as closely connected, if the conditions for set-off are only satisfied as a consequence of the insolvency of the issuer. The only case in which set-off could be exercised is for amounts due prior to insolvency of the bank, typically for instalments in arrears. However, Fitch draws comfort from the Belgian covered bond legislation, which adjusts the nominal value of delinquent loans by 50% and 0% respectively for loans more than 30 and 90 days in arrears in the calculation of the regulatory OC ratio. Also, Belgium has a deposit guarantee scheme that covers deposits up to EUR100,000 per depositor and per bank.

The Belgian legislation further clarifies that a borrower will not be entitled to claim other legal defences – such as the Exceptio Non Adimpleti Contractus (ENAC) Defence – against the issuer post-insolvency of the bank. This concept has been raised following the crisis in 2008, whereby borrowers who had deposits outstanding with a bankrupt lender sought to suspend loan repayments until their deposits were returned.

The registration of assets in the cover register can only be challenged in case of fraud and claw-back provisions of the Belgian bankruptcy law no longer apply to the registration of assets in the special estate after the issuer's insolvency.

Finally, time subordination of recoveries from the cover assets, between the covered bondholders, is also addressed under the Belgian covered bond law. In a scenario of winding-up and liquidation of the issuer, the covered bondholders may opt for: (i) the acceleration of the outstanding covered bonds, which must be approved at a meeting at which a majority of the two-thirds of the covered bondholders then outstanding are represented and vote for a special estate liquidation; or (ii) following consultation with the bondholders' representative and subject to consent of the NBB, the cover pool administrator determines that the cover assets of the special estate are insufficient to ensure the full payments of the pandbrieven.

In its discontinuity analysis, Fitch disregards the first acceleration event as it is at the option of the covered bondholders. In this case, the risk of an interruption of payment on the covered bonds is directly reflected in the IDR of Belfius, with recoveries from the cover pool liquidation allocated post such a default. The second clause ensures that, in a scenario where continuity of payments on the covered bonds is not jeopardised immediately upon an issuer insolvency, but is rather due to insufficient assets, proceeds from the cover pool are then shared pro-rata between all remaining outstanding covered bonds, even the later maturing ones, therefore preventing time subordination between the covered bondholders.

Liquidity Gaps and Systemic Risk

Fitch has classified liquidity gaps and systemic risk in Belfius programme as moderate; this is driven by the time given under the twelve month maturity extension period on the covered bonds to finance the repayment of the covered bonds upon issuer default. Given that the cover assets are originated in a country with a 'AA' rated sovereign, systemic risk does not constrain the covered bonds rating.

Fitch assesses the assets in the cover pool — composed of prime conforming Belgian mortgage loans — and has assumed that they could be liquidated within nine months in a stressed environment following an issuer default.

All issuances under the programme will be soft bullet bonds. In the event of the issuer's failure to pay all amounts due by the expected maturity date, the legal maturity of the covered bonds will be automatically extended, on a monthly basis, up to 12 months. This allows additional time for the alternative manager to raise liquidity by selling parts of the cover assets or to refinance. However, extending the maturity does not cause a mandatory sale of assets, as seen mostly in contractual programmes, and this may cause some delays in the sale process. Fitch is less comfortable with such extensions, as they do not trigger an immediate start of the sale process.

A reserve fund, amounting to one year's interest payments on the covered bonds, has been put in place to ensure interest due on the covered bonds can be paid in the aftermath of an issuer default. The reserve will be held by the special estate and will contain liquid bonds rated at least 'AA-' and eligible as collateral for market operations with the European Central Bank. Those bonds cannot comprise debt issued by Belfius or be securitised assets.

Systemic Alternative Management

Fitch has assessed the level of risk under systemic alternative management section of the D-Cap as moderate; this is mainly driven by the provisions in place under the Belgian covered bond legislation. Before an insolvency, a cover pool monitor, which will be an audit firm different from the issuer's statutory auditors and appointed by the issuer after consultation with the NBB, will check at least on a monthly basis that Belfius complies with the regulatory requirements and the cover and liquidity tests. In case of a breach, s/he will have to report to the NBB. Before setting up the covered bond programme, the cover pool monitor will check (i) the nature of the cover assets, (ii) the OC level, (iii) the results of the tests that have to be performed under the legislation, (iv) the accuracy of the register. This will then be checked at least on an annual basis and will be reported to the NBB once a year.

On a quarterly basis, Belfius will have to provide the NBB with data on the different cover asset types, and their valuation. It will also have to report on the cover asset quality, yield, maturity and on the compliance with the liquidity test and interest rate and currency risk coverage. At year end, the issuer will also have to confirm that the reporting is in line with the special estate register to the NBB and cover pool monitor.

In case of insolvency of an issuer, the NBB's regulations specify that the cover pool will be managed autonomously by an alternative manager which will, in practice, most likely be another credit institution issuing covered bonds.

As defined under the royal decree, the alternative manager is different from the liquidator of the bank. The alternative manager has to possess adequate resources and expertise in the management of assets similar to those that are part of the special estate. However, the alternative manager can ask the liquidator of the general estate to use the existing staff and systems of the defaulted credit institution. Also, the alternative manager has full authority to sell part of the cover pool to ensure full and timely payment of pandbrieven and can take any other action to improve the liquidity of the special estate. In case such actions would breach the tests required under the law, the alternative manager has to get prior approval from the NBB and from the covered bondholders' representative.

Overall, Fitch views positively the clear guidelines provided under the Belgian covered bond legislation regarding the appointment of a separate administrator and its actions. Judging from the tests imposed under the regulations and the ongoing monitoring by NBB, the agency expects oversight of pandbrieven to positively influence continuity of payments in the event of default of the issuer.

Alternative Management – Cover Pool

Fitch has assessed the level of risk under cover pool specific alternative management section of the D-Cap as moderate, reflecting the quality of Belfius' systems and processes.

In practice, a smooth transition to an alternative manager is also dependent on the quality of the issuer's systems and the complexity of the asset type in the cover pool. To manage its covered bonds business, Belfius uses an internally developed IT system; benefiting from its past experience in RMBS in order to segregate the assets forming part of the special estate. Fitch believes Belfius can properly identify cover assets from its other assets, the securities for such assets, the daily cash collections received from the underlying borrowers and the outstanding pandbrieven. Also, the IT systems have been designed to perform all regulatory tests and allow the daily extraction of the cover asset register and reporting to the NBB.

Fitch deems mortgage mandates to be more difficult to handle than loans with a registered mortgage and all-sums mortgages could be a source of friction especially when the same borrower and security is shared between loans belonging to different parties. However, the agency expects other players in the Belgian mortgage market to be familiar with this issue. In the case of Belfius' covered bonds programme, the selection criteria ensure that residential loans secured by the same all-sums mortgage than a loan already securitised is not allocated to the special estate.

Privileged Derivatives

Fitch has assessed the level of discontinuity risk stemming from privileged derivatives as very low, as no hedging agreements are currently in place in the covered bond programme.

Provisional Cover Pool

As at September 2012, the provisional cover pool analysed by Fitch consisted of 50,665 home loans granted to 36,069 borrowers of Belfius Bank, for an aggregate outstanding amount of EUR3,328m. The pool has a weighted average seasoning of 2.5 years. All loans are performing and are secured either by a first-ranking mortgage or partially, by both a first ranking mortgage and a mortgage mandate (see *Belgian Market Specificities* section).

The weighted average OMTV (see *Belgian Market Specificities* section) stands at 76% and the weighted average debt-to-income (DTI) ratio is equal to 44.4%.

The agency calculated the pool's weighted average cumulative frequency of foreclosure (WAFF) under a 'AAA' scenario, based, among others, on the original LTVs and DTI.

Collateral Credit Analysis

Fitch analysed the collateral portfolio using its applicable mortgage loss criteria for Belgium, entitled *EMEA Criteria Addendum Belgium*).

Figure 4

Fitch Default Model Output (%)

Rating level	WAFF	WARR	WA MVD	EL
AAA	16.5	52.3	52.9	7.9

WAFF - Weighted average frequency of foreclosure
WARR - Weighted average recovery rate
WA MVD - Weighted average market value decline
EL - Expected loss
Source: Fitch

Figure 5

Cash Flow Model Output

Break-even ‘AAA’ OC (%)	30.0
OC supporting ‘AA’ PD (%) (recoveries supporting two-notch uplift to ‘AAA’)	30.0

Source: Fitch

Fitch considers Belfius’s origination and servicing procedures and staff qualifications to be in line with other Belgian prime lenders (for more details, see *Appendix 1*)

Belfius provided Fitch with line-by-line data pertaining to each of the underlying loans in the portfolio and information regarding the properties backing such loans. Belfius was unable to provide DTI information for approximately 17.5% of the underlying pool; Fitch therefore applied a class 4 DTI assumption for such loans, in line with the average DTI for the pool and slightly above the market average DTI assumption for Belgium (class 3 DTI).

For 34% of the underlying pool, the security provided for the loans takes the form of both a mortgage registration and a mortgage mandate (see *Appendix 2* for more details). In its recovery analysis calculations, Fitch gave partial credit to mortgage mandates, following the agency's analysis of historical mandate conversion data. Fitch did not, however, give any credit to mandates for self-employed borrowers, as following the insolvency of such borrowers, the mandates could no longer be exercised.

The lender also provided Fitch with details of its valuation procedures for construction and renovation loans (respectively 13.4% and 10.1% of the cover pool). Fitch was comfortable that the haircuts applied by Belfius in its valuation process adequately cover any potential valuation risk, so no further haircuts were therefore applied by Fitch to such loans. It is of note that all construction loans are fully disbursed at the time they are included in the cover pool.

Cash Flow Analysis

According to its programme documents, Belfius may issue further covered bonds secured on the cover pool, subject to compliance with the 105% regulatory collateralisation ratio. In assigning a rating to covered bonds, Fitch compares the cash flows deriving from the cover pool with the cash flows due on the covered bonds, following an issuer event of default. In this analysis, Fitch assumes that no new assets will enter the cover pool to replace maturing or non-performing assets and that there is no further issuance of covered bonds. The agency tests various issuer default timing. In addition to the cover pool stressed credit risk, the agency applies high and low prepayments assumptions, and models the impact of high, low and base interest rate assumptions on the breakeven OC for a given rating scenario. Fitch also takes into account that the amounts due to privileged creditors, including the covered bondholder’s representative and the cover pool administrator will all rank pari passu.

Fitch has checked whether the level of OC it deems reliable under the programme sustains a ‘AA’ stressed scenario. In addition, it has tested whether this level of OC provides more than 91% stressed recoveries on defaulted covered bonds in a ‘AAA’ scenario. Given that recoveries from the cover pool in the event of a covered bond default would be shared pro-rata between all covered bonds, this justifies a ‘AAA’ rating on the covered bonds. Since the issuer is rated above ‘F2’, Fitch will rely in its analysis on the lowest level of OC in the last 12 months starting from the inception of the programme.

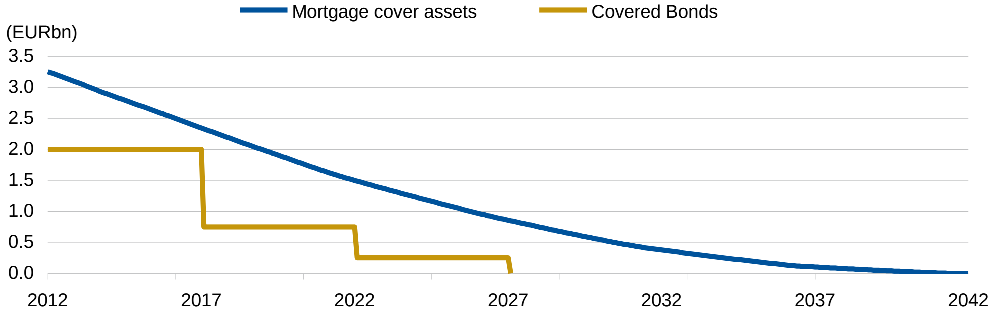
Maturity Mismatches

The cover assets are amortising, with an average remaining maturity of around 10.5 years, while the initial covered bonds are expected to have a maturity of 7.6 years (based on a liability profile incorporating more than one issuance as communicated by the issuer). As a result, temporary liquidity surpluses or shortfalls may arise, putting strain on available resources.

If there is a liquidity shortfall, Fitch assumes that an alternative manager would be able to realise part of the mortgage portfolio within the twelve month extended maturity period of the covered bonds. The ability to find a buyer will depend on a number of factors, including buyer appetite — in light of the economic environment — and the proportion of the portfolio required to be realised.

Figure 6

Amortisation Profile



Source: Belfius

To determine the stressed price at which such asset sales would occur, Fitch has assumed a refinancing cost to the potential purchaser. In light of the lack of a precedent in Belgium, there is no guarantee that a portfolio could be realised in any prevailing economic environment.

Based on the assumed liabilities profile, the level of breakeven OC for a 'AAA' rating stands at 30%, and corresponds to a worst case scenario of:

- Low prepayments of 2% per annum, which reduce the collections during the extension period and maximise the amount of loans which need to be sold to meet a covered bonds upcoming maturity;
- High interest rate environment rising to 10% in year 4, which reduces the net present value of the assets to be sold. In the analysis, Fitch has assumed that in case of a sale of the cover assets, a 40% haircut will be applied to the nominal value of the loans.
- Fitch has tested an issuer default timing up to year three rather than upon the expected maturity date of the first bond in year five, giving credit to the fact that the programme is expected to develop a better matching liability curve over time.

Figure 7

Sensitivity Analysis – Impact of Mismatches on OC

WA Life of Assets	Scenarios	WA Life of Covered bonds	OC level (%)
10.5 years	one covered bond, maturing in 5 years	5.0 years	47
10.5 years	three covered bonds, maturing in 5, 10 and 15 years	7.6 years	30
10.5 years	ten covered bonds, maturing each year	10.0 years	33

Source: Fitch

Hedging

No privileged hedging is registered in the special estate. Both the cover assets and the covered bonds are denominated in Euros and yielding a fixed rate of interest. As detailed above, as the worst case scenario will occur considering a high interest rate environment, Fitch has modelled that the 15% loans with interest reset dates would reset at their maximum rate (2% above their initial rate) in an upwards interest rate environment.

The breakeven OC for a given rating will be affected, amongst other things, by the profile of the assets relative to the outstanding covered bonds, which can change over time, even in the absence of new issuances, and should not be assumed to remain constant.

The Stable Outlook on the covered bond rating mirrors the Stable Outlook on Belfius' LT IDR and the agency's stable expectations for both the cover assets and OC maintenance. Although the Outlook on Belgium's sovereign rating ('AA'/'F1+') is Negative, a one-notch downgrade would not lead to a downgrade of the covered bonds.

On-going Programme Review

The agency will periodically review the credit quality of the cover pool and perform a cash flow analysis to assess whether the OC taken into account by the agency provides protection against identified risks, commensurate with the rating of the covered bonds issued by Belfius under this programme. Cover pool and covered bonds information will be displayed on Fitch's covered bond surveillance tool (available at www.fitchratings.com) and updated regularly.

Appendix 1: Origination and Servicing

Origination

Loans are originated by CREFIUS, a 100% subsidiary of Belfius. CREFIUS is responsible for granting, managing and validating Belgian mortgage loans for Belfius branches. The company is based in two offices: Roeselare (Dutch loan applications) and Wépion (French loan applications), both providing origination services (granting loans) and servicing (managing and archiving).

All loans are granted through Belfius local branches (i.e. no brokers). The borrowers provide Belfius with specific information which is entered into the bank's internal IT system and results in one of the following decisions.

- Positive: the loan can be granted through Belfius' local branch without any validation by the centralised origination desk.
- Analysis CREFIUS: further analysis required by an analyst and/or a credit committee at CREFIUS (approximately 72 full-time employees in charge of loan originations). This is a "centralised" decision.
- Negative: the loan is refused at the decentralised level and cannot be accepted, even by the origination desk.
- No advice possible: when data is not entered correctly, or when there has been a breach of the underwriting criteria.

System feedback is based on the following parameters: the level of LTV, level of DTI, the repayment capacity of the borrower and the internal risk indicator/traditional credit scoring of the client.

To determine such parameters, detailed information is required concerning the borrower, including: age, nationality, existing debts (including an automatic check on the positive register of the NBB which records all existing debts of a borrower), current income, the valuation of the property, the type of guarantee, information on credit history (involving another automatic mandatory check of the negative register of the NBB, which records all missed payments of a borrower. Borrowers who have a file in such register are automatically rejected).

Information and Documentation Required

The borrower must provide information on their identity, on their income (e.g. salary slips, rental income, subsidies), their guarantee (if any), the property they wish to purchase (e.g. location, valuation) and on any existing loans.

The properties are usually valued at their purchase price. However, in some cases, the valuation can be performed by an external appraiser (i.e. a sworn appraiser), with such external valuations representing around 10% of all loan applications.

Servicing

Monitoring and servicing takes place from the time a loan becomes delinquent. The first step consists of contacting the borrower to normalise the situation as soon as possible (through the local branches). If this procedure does not resolve the situation, the following steps will be taken:

- First reminder letter: automatically sent as of the 15th day of the month to borrowers (and guarantors).
- Second reminder letter: automatically sent as of the 45th day. Before sending this letter, a check will be performed to avoid sending letters to borrowers with whom CREFIUS has made an arrangement. The letters are sent to the borrowers, the guarantors, the branch, and the desk in charge of arrears management (the latter is also archived electronically).

- Between the second and third reminder letter: contact with the client, aimed at determining the cause of the arrears and finding a resolution. CREFIUS will determine the appropriate action by scheduling a face-to-face meeting with the client. A further analysis of the borrower will be performed (for example on their current financial situation, details of the current employer, check of the addresses of the borrower and guarantors). The goal is to bring the loan current over a reasonable timeframe.
- If the above meeting does not take place, a letter will be sent as of the 75th day to the borrower, the guarantors, the branch and the servicing desk in charge of arrears management.
- In the third letter — the pre-cancellation letter — the borrower is informed of:
  - the total amount due, including late payment penalties;
  - the fact that the bank has the right to take all necessary steps to foreclose, as of 90 days delinquency; and
  - whenever CREFIUS deems it necessary, at any time, it will take all necessary action for:
    — assignment of salary (not available at the issuer level);
    — conversion of a mandate into a mortgage (it should be noted that in securitisation transactions, such conversion will not benefit the issuer).
- As of 90 days delinquent, the Credit Risk Register will be notified unless:
  - the borrower has agreed to a new amortisation scheme; or
  - CREFIUS has received a sale/purchase deed stating a sufficiently high property price.

After sending the third letter, and before cancellation of the loan, the desk “contentieux” will again attempt to settle the borrower’s arrears and normalise their status. However, if after 15 days following the third letter the borrower does not act upon any of the letters, telephone calls, or any other means of contact, the loan will be cancelled.

The next step consists of the reconciliation procedure (legal reconciliation).

- The borrower is required to appear before a court:
  - possible outcome 1 — a conciliation is found and accepted by all parties. In such case, the borrower has a certain time to clear its arrears; and
  - possible outcome 2 — a conciliation is not possible and the bank may proceed with enforcement (the loan is due and payable).
- If no conciliation is made, or if the borrower fails to comply with the payment arrangements made, a payment command is sent; if the borrower does not clear all of its arrears after 15 days, the loan becomes immediately due and payable and the repossession procedure begins.

Appendix 2: Cover Pool Statistics and Outstanding Liabilities

Figure 8

Provisional Cover Pool

Cover pool characteristics as of September 2012

General		**Loan type (%)**	
Current principal balance (EUR)	3,328,000,000	Fixed	85.6
Average current loan per borrower (EUR)		Fixed with resets	14.4
Number of loans	50,665	Variable	0.0
WA seasoning (months)	29.6		
WA interest rate	4.1	Loan purpose (%)	
WA original LTV/LTM	78.0	Purchase	55.1
WA current LTV	68.6	Remortgage	20.3
WA indexed current LTV	67.2	Renovation	10.1
WA DTI	44.4	Construction	13.4
WA MCR (a)	114.7	Unknown	1.1
Security type (%)		**Geographical breakdown (%)**	
Mortgage only	66.0	Flanders	52.7
Mandate only	0.0	Wallonia	37.2
Mortgage + mandate	34.0	Brussels	9.2
Amortisation type (%)		**Borrower profile (%)**	
Annuity	89.2	Full-time employee	62.7
Linear	2.6	Self-employed	9.2
Bullet	3.6	Unemployed	1.8
Progressive annuity	4.7	Unknown	12.5
		Civil servants	11.1
		Students	2.1
		Retired	0.6

Source: Fitch/Belfius

(a) MCR: Mortgage Cover Ratio (Mortgage Inscription / Total current loan balance)

Figure 9

Distribution of mandates in the cover pool

As a percentage of the outstanding loans balance (%)	**Original Portion of Mandates**	**Current Portion of Mandates**
0% - 10%	2.9	24.7
11% - 20%	5.2	5.7
21% - 30%	8.9	9.5
31% - 40%	14.7	14.7
41% - 50%	29.5	22.6
51% - 60%	12.4	7.9
61% - 70%	10.5	5.1
71% - 80%	7.3	3.2
81% - 90%	5.1	4.3
91% - 100%	3.4	2.3

Source: Fitch

Figure 10

List of Assumed Initial Covered Bonds

Series	**Rating**	**Currency**	**Size**	**Interest rate (%)**	**Payment frequency**	**Maturity**	**ISIN**
1	AAA	EUR	1,200,000,000	1.5	Annual	Nov 17	NA
2	AAA	EUR	500,000,000	2.8	Annual	Nov 22	NA
3	AAA	EUR	250,000000	3.2	Annual	Nov 27	NA

Source: Fitch/Belfius

Appendix 3: Belgian Market Specifics

The following characteristics are specific to the Belgian mortgage market.

Credit Facilities

Mortgage receivables generally constitute term advances under a revolving credit facility. For the avoidance of doubt, any further advance granted under the revolving credit facility must be approved by the lender, is subject to a new underwriting process and is only granted with a view to financing the acquisition or maintenance of real-estate assets of a primarily residential nature.

All-Sums Mortgages

In Belgium, most mortgage receivables relate to loans or advances under a credit facility secured by a mortgage that is also used to secure all other amounts that the borrower owes or in the future may owe to the lender– so-called “all-sums” mortgages. This allows a lender to secure not only real estate-related debt, but also other credit that it may extend in future to a borrower. All loans which are secured by the all-sums mortgage normally rank pari-passu and recovery proceeds are split pro rata.

Under the Belgian Pandbrief law, any future loans issued under an all-sums mortgage will rank as subordinated to those included in the cover pool, unless otherwise specified in the programme documentation.

Mortgage Mandates

Mandates are a practice unique to the Belgian market, driven by the high cost of a mortgage registration, equal to 1% of the mortgaged amount. They are not an actual mortgage or security interest, but rather an agreement between the borrower and a third party (the proxy, usually an employee of the lender or entity affiliated with the lender) that incorporates a commitment from the borrower not to create any other mortgages or liens over the property; this gives the proxy the right unilaterally to create a mortgage for the benefit of the lender over a certain property as security for a specified amount.

Figure 11

Conditions for the conversion of a Mandate into a Registered Mortgage

Conversion costs	Notary fee + registration right (the client bears the costs)
Frequency of mandate conversion	On average 2 to 2.5 per month for the total portfolio of the bank (EUR21bn)
Time needed for conversion	One to three weeks

Source: Fitch

Under Belgian law, such mortgage mandates are legally transferrable to the special estate, as well as to a securitisation SPV.

Original Mortgage-to-Value (OMTV)

The OMTV is an estimation of the OLTV calculation, specifically applied to the Belgium market. Due to the different types of security or mortgage products (such as all-sum mortgages and mortgage mandates) — the normal OLTV calculation may be adjusted to an OMTV calculation, in order to obtain figures compatible with Fitch’s applicable probability of default matrix.

The OMTV takes into account the following elements.

- The same borrower may have been granted several loans (due to credit facilities) at several points in times, therefore the amount of the first loan having been granted, as factored in traditional OLTV calculation, will not reflect a borrower's willingness to pay for the property.
- In the vast majority of cases, residential loans are fully backed by a mortgage or another security arrangement (consisting of a mortgage and/or a mandate). This means that the

residential loan amount used in the analysis can be assumed to be equal to the security registered amount – or, in the case of mandates, the potentially registered amounts – for such residential property.

Fitch therefore approximates the standard OLTV calculation by dividing the amount secured by mortgage and other security arrangement by the value of the property to which the mortgage or other security arrangement relates.

Appendix 4: Belfius Mortgage Covered Bonds - Specific Eligibility Criteria

- The issuer covenants to comply at all times with the obligations imposed on it under the covered bonds regulation.
- The cover pool will not include any commercial mortgage loans.
- The cover pool will not include any mortgage backed securities.
- The value of the residential mortgage loans included in the cover pool will represent, at all times, at least 105% of the nominal outstanding amount of the pandbrieven.
- The cover pool will only include residential mortgage loans which have been fully disbursed.
- The maximum current loan-to-value (CLTV) of the residential mortgage loans in the cover pool will be 120%.
- The cover pool will at all times include liquid bonds covering one year of interest on the mortgage pandbrieven:
  - with a credit quality step 1 (rated at least ‘AA-’);
  - ECB eligible;
  - with a remaining maturity of more than one year and
  - which are not debt issued by the issuer.
- The issuer will provide monthly investor reports as of Q313 and quarterly as from the inaugural issuance.

Appendix 5

Figure 12

Pool Credit Risk Comparisons

Transaction/Programme	Penates Funding 4	Belfius covered bonds
Closing date	19 Dec 11	Dec 12
Type	Static	Revolving
Total pool outstanding amount (EUR)	9,425,259,780	3,328,000,000[b]
Number of loans	153,975	50,665[b]
Number of borrowers	96,630	36,069[b]
Average Balance of loans (EUR)	61,213	65,692
Largest loan at origination (EUR)	1,400,000	2,300,000
WA seasoning (months)	43.9	29.6
WA current remaining term (years)	17.4	18.2
WA interest rate (%)	4.4	4.1
Fixed rate loans in pool (%)	72.0	85.6
Fixed rate loans with resets in pool (%)	28.0	14.4
Variable rate loans in pool (%)	0.0	0.0
Annuity (%)	95.5	89.2
Linear (%)	2.9	2.6
Bullet (%)	1.6	3.6
Progressive annuity (%)	-	4.7
Mortgage (%)	64.9	66.0
Mandate (%)	0.0	0.0
Mortgage + Mandate (%)	35.1	34.0
WA original LTV/WA original MTV (%)	78.9	84.2
WA current LTV (%)	67.3	68.6
WA indexed current LTV (%)	66.4	67.2
WA DTI (%)	43.1	44.4
WA MCR (%)	120.1	114.7
Full-time employee (%)	65.7	62.7
Self-employed (%)	8.2	9.2
Unemployed (%)	1.1	1.8
Borrower profile unknown (%)	12.4	12.5
Student (%)	1.0	2.1
Civil servant (%)	11.2	11.1
Retired (%)	0.4	0.6
Employee of the originator (%)	5.8	0.0
Purchase (%)	37.7	55.1
Investment properties (%)	0.0	0.0
Remortgage (%)	15.5	20.3
Second home (%)	20.2	17.7
Renovation (%)	9.1	10.1
Construction (%)	16.1	13.4
Loan purpose unknown (%)	1.4	1.1
Currently in construction (%)	0.0	0.0
Flanders	53.5	52.7
Wallonia	33.6	37.2
Brussels	12.9	9.2
WAFF 'AAA'	17.2	16.5
WARR 'AAA'	56.6	52. 3
WAFF 'B'	3.4	3.2
WARR 'B'	68.5	66.9

Source: Fitch

The ratings above were solicited by, or on behalf of, the issuer, and therefore,
Fitch has been compensated for the provision of the ratings.