STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Presale:

Belfius Bank, Belgian Mortgage Pandbrieven Covered Bond Program

Primary Credit Analyst:
Florent Stiel, Paris (33) 1-4420-6690; florent_stiel@standardandpoors.com

Secondary Contact:
Nicolas Malaterre, Paris (33) 1-4420-7324; nicolas_malaterre@standardandpoors.com

Table Of Contents

Up to €2.0 Billion Issuance Of Belgian Pandbrieven (€10 Billion Program)

Program Summary

Rationale

Outlook

Legal Framework

Covered Bond Program Structure

Maintenance Of The Portfolio

Macroeconomic Factors

Cover Pool Description

Credit Analysis

Cash Flow Analysis

Standard & Poor's Five-Step Covered Bond Rating Process

Table Of Contents (cont.)

Scenario And Sensitivity Analysis

Ongoing Surveillance

Appendix

Related Criteria And Research

Presale:

Belfius Bank, Belgian Mortgage Pandbrieven Covered Bond Program

Up to €2.0 Billion Issuance Of Belgian Pandbrieven (€10 Billion Program)

This presale report is based on information as of Nov. 9, 2012. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Table 1

Description of the covered bonds	Credit rating*	Amount of covered bonds (bil. €)	Expected Redemption Date
Belgian Mortgage Pandbrieven	AAA/Negative	Up to 2.0	Nov-2017 extendable by one year
*Standard & Poor's ratings addresses timely payment of interest and ultimate payment of principal on the final extended maturity date.			

Table 2

Standard & Poor's Five-Step Covered Bond Rating Process	
Step 1: Calculation and classification of the asset-liability mismatch*	0% = Low
Step 2: Program categorization	Category 2
Step 3: The maximum potential covered bond rating	
Maximum potential rating uplift (based on ALMM criteria)	6 notches
Deduction of notches for counterparty risk	None
Maximum potential rating uplift (including counterparty risk)	6 notches
Distance between ICR and maximum potential rating	6 notches
Step 4: Cash flow And market value analysis	
Target credit enhancement (%)	20.8
Available credit enhancement (%)	35
Step 5: The covered bond rating	
Rating	AAA
Outlook	Negative

ICR--Issuer credit rating.

Table 3

Program Participants	
Issuer	Belfius Bank (A-/Negative/A-2)
Originator and seller	Belfius Bank (A-/Negative/A-2)
Servicer	Belfius Bank (A-/Negative/A-2)
Interest rate swap provider and covered bond swap provider for various series	None at closing
Cover pool monitor	Ernst & Young

Table 3

Program Participants (cont.)	
Bank account provider	Belfius Bank (A-/Negative/A-2)

Table 4

Key Features Of The Cover Pool As Of Aug. 31, 2012	
Collateral description	**A pool of prime Belgian residential mortgages**
Country of origin	Belgium (100%)
Current balance of residential mortgage loans in the cover pool (bil. €)	3.33
Number of loans	50,665
Average loan size (€)	65,692
WA current LTV	63.90%
WA debt to income	53.10%
WA seasoning of mortgage loans (years)	29.9
WA term to maturity of residential mortgages (years)	18.1
Current arrears (%)	0.00%
Interest rate type	Fixed (84.7%), variable (15.3%)
Owner-occupied loans (%)	96.4

WA--Weighted-average. LTV--Loan-to-value.

Table 5

Key Features Of The Cover Bond Structure	
Overcollateralization levels	Available credit enhancement of 35% as at Aug. 31, 2012
Soft bullet covered bonds	All of the outstanding covered bonds are soft bullet covered bonds and feature a one year extendible maturity
Program tests	See maintenance of the portfolio section

Program Summary

Standard & Poor's Ratings Services has assigned its preliminary 'AAA' credit ratings to the covered bond program and inaugural issuance of "Belgische pandbrieven/lettres de gage belges" ["mortgage pandbrieven"]) issued by Belfius Bank (A-/Negative/A-2). The mortgage pandbrieven issuance will be the first under Belfius Bank's €10 billion program. The outlook is negative, reflecting that on Belfius Bank.

The issuer, Belfius Bank (formerly Dexia Bank Belgium), is a retail bank fully focused on the Belgian market with more than four million customers. It legally renamed itself Belfius Bank on June 11, 2012. The Belgian State is the bank's sole shareholder, which has a stable and relevant Belgian retail market position, with a 15% share. Although focused domestically, in our view, Belfius Bank has good business diversification between banking and insurance services, and retail and local authority clients.

The Belgian pandbrieven constitute unsubordinated senior secured obligations and will rank pari passu among themselves. This covered bond program is a funding tool for Belfius Bank's assets, liabilities, and liquidity management complementing the more traditional, existing unsecured note issuance and securitization transactions.

The inaugural issuance, and any further issuances under the program will be backed by a portfolio of prime Belgian

residential mortgage loans, eligible under Belgian covered bond law.

Under this law, the pandbrieven holders will benefit from a ringfenced estate called the segregated estate. The cover assets constituting the segregated estate are available to meet the obligations under the covered bonds, and are excluded from the issuer's bankrupt estate. If the issuer becomes insolvent, pandbrieven holders will have dual recourse to cover assets constituting the segregated estate, and to the issuer's general estate (in respect of which they will be treated as the issuer's unsecured creditors).

The ratings assigned to this issuance reflect our level of confidence in the Belgian legal framework for the issuance of covered bonds and the credit quality of the underlying assets and their cash flows.

Rationale

The covered bond rating process employed primarily follows the methodology and assumptions outlined in "Covered Bond Ratings Framework: Methodology And Assumptions," published June 26, 2012, on RatingsDirect on the Global Credit Portal. We assess legal risks using our "European Legal Criteria For Structured Finance Transactions," published on Aug. 28, 2008.

As part of our analysis, we conducted a review of Belfius Bank's mortgage operations. The review encompassed loan origination, underwriting policies and procedures, and servicing practices. We believe satisfactory procedures are in place to support the preliminary ratings on the covered bonds. Specifically, we believe the bank applies sufficiently prudent underwriting practices, and that procedures are in place to effectively service the portfolio. We also considered the risk of replacement of the servicer through our credit analysis and stressed servicing fees.

We have reviewed the asset information provided as of Aug. 31, 2012, and have performed a cash flow analysis based on the current liability profile of the covered bond program as of the same date. We have applied our five-step approach for rating covered bonds outlined in our asset-liability mismatch (ALMM) criteria. According to these criteria, the covered bond program category of '2' and asset liability mismatch of "low" result in a maximum ratings uplift of six notches from the long-term issuer credit rating (ICR) on Belfius Bank. Given the bank's current long-term ICR of 'A-', the six notches of uplift are needed to achieve the maximum 'AAA' ratings on the covered bonds. Based on our cash flow and market value risk analysis, we believe the target credit enhancement commensurate with the maximum achievable ratings on the covered bonds is below the available credit enhancement for the program supporting our assigning of the 'AAA' ratings on the covered bonds.

We consider country risk as set out in our criteria article "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011. This transaction has low country risk under these criteria. The maximum amount of uplift from the sovereign rating is six notches for an investment-grade rated sovereign. All of the underlying mortgages in the cover pool are based in Belgium (AA/Negative/A-1+; unsolicited ratings), and therefore country risk is not a constraining factor for the ratings on the covered bonds.

Outlook

According to our five-step approach for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009), there are no unused notches of ratings uplift to cover the risk of possible movements in the ALMM classification and ICR. As a consequence, the outlook on the covered bond program is linked to that on the issuer. The negative outlook therefore reflects the current outlook on Belfius Bank.

Legal Framework

Belgian covered bond law provides the legal framework for the issuance of covered bonds in Belgium. On the basis of our review of the legal framework and opinions provided by legal experts, we consider that the legislation provides an appropriate framework. As a result, we believe that insolvency of the issuer would not lead to cash flow interruption for investors.

Our rating approach for covered bonds links our ratings on the covered bonds to the ICR if we see mismatches between the assets and liabilities' cash flows. Once the issuer has become insolvent, the covered bond holders have to rely on the cover pool's cash flows to receive timely payment of interest and ultimate payment on the maturity date as per the final terms and conditions of the covered bonds. To assess whether the legal framework supports this, we considered the following features:

- The isolation of, and priority to, the assets in the cover pool if the issuer becomes insolvent;
- A lack of acceleration or forced debt restructuring if the issuer becomes insolvent;
- The manager's ability to generate liquidity to mitigate any maturity mismatch risk between the assets and the liabilities; and
- The issuer's ability to provide and maintain overcollateralization over and above the regulatory minimum requirements if the issuer becomes insolvent.

Belgian covered bonds are issued by credit institutions on their balance sheet and do not entail a transfer of credit claims to a special purpose vehicle.

Under Belgian covered bond law, the pandbrieven holders will benefit from a ringfenced estate, the segregated estate. The segregated estate consists of a pool of cover assets (registered in the cover assets register) and all security interests attached. If the issuer becomes insolvent, the insolvency proceedings will be limited to the credit institution's general estate and the segregated estates will not form part of the bankrupt estate.

Belgian covered bonds do not automatically accelerate if the issuer becomes insolvent.

It is also important to note that the Royal Decree provides a general limitation on the aggregate level of covered bonds that may be issued. The value of the cover assets may not exceed 8% of the issuing credit institution's aggregate assets.

Covered Bond Program Structure

Belfius Bank established a new covered bond program using the Belgian covered bond legislation.

According to Belgian covered bond law, the type of assets that qualify to be part of the cover assets are:

- Mortgage loans;
- Public sector exposure (or senior securitization positions thereof);
- Credit institutions exposure; and
- Hedging instruments.

Belfius Bank's cover pool initially comprised exclusively prime Belgian residential mortgage loans for a preliminary amount of €3.3 billion, of which €2.7 will be segregated in the special estate.

Belfius Bank's pandbrieven program aims to issue soft bullet covered bonds allowing the final maturity date of the relevant series to be extended. This means that if the pandbrieven program fails to pay the final redemption amount on the final maturity date, then payment of the unpaid amount shall be automatically deferred for a maximum duration of 12 months.

Given that almost all loans that form part of the cover assets will pay a fixed rate interest rate and the series of covered bonds will also pay a fixed interest rate coupon, there will be no hedging mechanism implemented at closing. Furthermore, the cover assets and the covered bonds are denominated in euros. Therefore, there is no currency risk at closing.

Belfius Bank must appoint a cover pool monitor approved by the National Bank of Belgium (NBB). The cover pool monitor will issue periodic reports to the NBB on the issuing credit institution's compliance with the legal and regulatory framework applicable to Belgian pandbrieven (see "Maintenance Of The Portfolio"). At closing, the cover pool monitor will be Ernst & Young.

The credit issuing institution must hold a register of cover assets. From the moment that the assets are included in the segregated estate's cover assets, they are registered. The cover assets forming the segregated estate are exclusively allocated to satisfy the issuer's obligations and liabilities toward the covered bond holders.

Insolvency of Belfius Bank

Any insolvency proceedings (or whenever the NBB deems it is necessary in the interest of the noteholders) brought against Belfius Bank will be limited to the bank's general estate, and will have no bearing on the segregated estate. As a consequence, the segregated estate will not be part of Belfius Bank's bankrupt estate. This also implies that the insolvency or the liquidation of Belfius Bank would not trigger an automatic acceleration of the covered bonds.

Once potential insolvency procedures commence, the NBB will appoint a cover pool administrator who will take over the cover pool's management. Under certain circumstances, it may sell or liquidate the segregated estates and accelerate the covered bonds, on approval from the NBB and consultation by the noteholders' representative. We have assumed that liquidation (and acceleration of the covered bonds) will not take place unless the noteholders and the NBB give their consent.

Liquidity risk

For as long as any covered bond remains outstanding, the cover assets must generate sufficient liquidity or include sufficiently liquid assets to enable the issuing credit institution to make all unconditional payments on the covered bonds due in the six months after closing. These include principal, interest, and other costs relating to the special estate's management and administration.

Moreover, Belfius Bank will add a bond to the special estate that will serve as liquidity for all interest payments due on the covered bonds for one year (with the principal payments being covered through the one-year maturity extension of the soft-bullet covered bonds).

The bond will be eligible to the European Central Bank (ECB) and be rated at least 'AA-' (standard ECB market value haircuts will apply to calculate the bond's value)

Commingling risk

In the program documentation, there is no bank account downgrade relating to where the assets forming part of the segregated estate are deposited. However, the covered bond legislation contains provisions that limit commingling risk between the issuer's two separate estates.

If the bank becomes insolvent, collections received from the cover assets and not reinvested in new loans could be commingled with the funds of the general insolvency estate, although these amounts are excluded by law from the insolvent general estate. As a consequence, based on monthly reporting, we have assumed one month of risk where cash could be accumulated and one month of notification period after insolvency.

These collections are, however, part of the segregated estate and legally protected through the revindication mechanism.

The revindication mechanism ensures that if any amount of cash that is part of the segregated estate cannot be identified in the general estate then it will have access to unencumbered assets in the general estate. Belfius Bank has defined these assets in the covered bond program documentation. As these assets are not strictly equivalent to cash in the sense that they bear a market value risk, Belfius Bank has defined market value haircuts to apply to the value of these assets so that the segregated estate receives an equivalent amount of cash.

Any potential delay in accessing these assets is covered through the bond added by Belfius Bank to the segregated estate (see "Liquidity risk" above).

We have not assumed commingling loss in our cash flow analysis on the basis that the level of unencumbered assets appears to be sufficient to cover our commingling risk assumption. We will continue to monitor the level of unencumbered assets through the revindication right and if this appears insufficient, we would model commingling risk in our cash flows.

Set-off risk

The Mobilisation Act limits the possibility for netting transferred receivables. According to the Law on Mobilisation we understand that both legal and contractual set-off risk between the credit institution and the receivables debtor will no longer be permitted. Moreover, although the law does not explicitly exclude judicial set-off, we have received sufficient

legal comfort to mitigate this risk. We have therefore assumed no set-off risk in the program structure.

Maintenance Of The Portfolio

The specific controller will test four different aspects of the cover pool on a monthly basis.

Cover assets valuation methodology (asset type testing): The cover pool must be composed by one of the three following categories: residential mortgage loans, commercial mortgage loans, or public sector debt.The value of one such category must at least be equal to 85% of the outstanding covered bonds.

Overcollateralization test: The value of the assets must be equal to or higher than 105% of the outstanding amount of covered bonds.

Amortization test: The total revenue stream derived from the cover assets has to exceed the sum of the principal, interest, and costs related to the covered bonds.

Liquidity test The cover pool has to contain sufficient liquid assets or generate sufficient liquidity over a six-month period to enable the issuing credit institution to carry out the payments under the covered bonds and charges related to the program. If necessary, the issuing credit institution may enter into a liquidity line with an independent credit institution, the proceeds of which form part of the segregated estate.

Macroeconomic Factors

Like many other developed countries, Belgium experienced a house price boom in the two decades leading up to the onset of the financial crisis in 2008. Unlike many of these countries, though, the ensuing price correction was little more than a blip. Home prices fell by just 1.2% in the first two quarters of 2009, before increasing, albeit at a more moderate pace. While Belgium's sustained rise in house prices wasn't as steep as that of other European countries, prices nevertheless multiplied by 2.8x in real terms between the first quarter of 1985 and the fourth quarter of 2008, and by 1.8x since the first quarter of 1997.

We consider that a mix of factors will mitigate a depression in Belgium's housing market over the coming quarters. Not least of these are that prices and household debt are still moderate, compared with other European countries, and housing affordability, although on the decline, remains high. While house prices have nearly doubled since 1997, our calculations show that prices in absolute terms still appear affordable. But inelastic supply and growing demand should continue to broadly underpin Belgium's housing market in the long term.

Cover Pool Description

The collateral pool comprises loans secured on first-ranking (or first- and sequentially lower-ranking) mortgages over residential properties in Belgium, and has a mandate to create mortgages.

The preliminary €3.3 billion pool (of which 2.7 billion will be taken up in the special estate) comprises 50,665 loans. The loans in the pool were originated after Jan. 1, 1995. The maximum original maturity of the loans cannot exceed 30 years (see charts 1 and 2). Of the pool, 3.6% consists of buy-to-let loans.

Chart 1

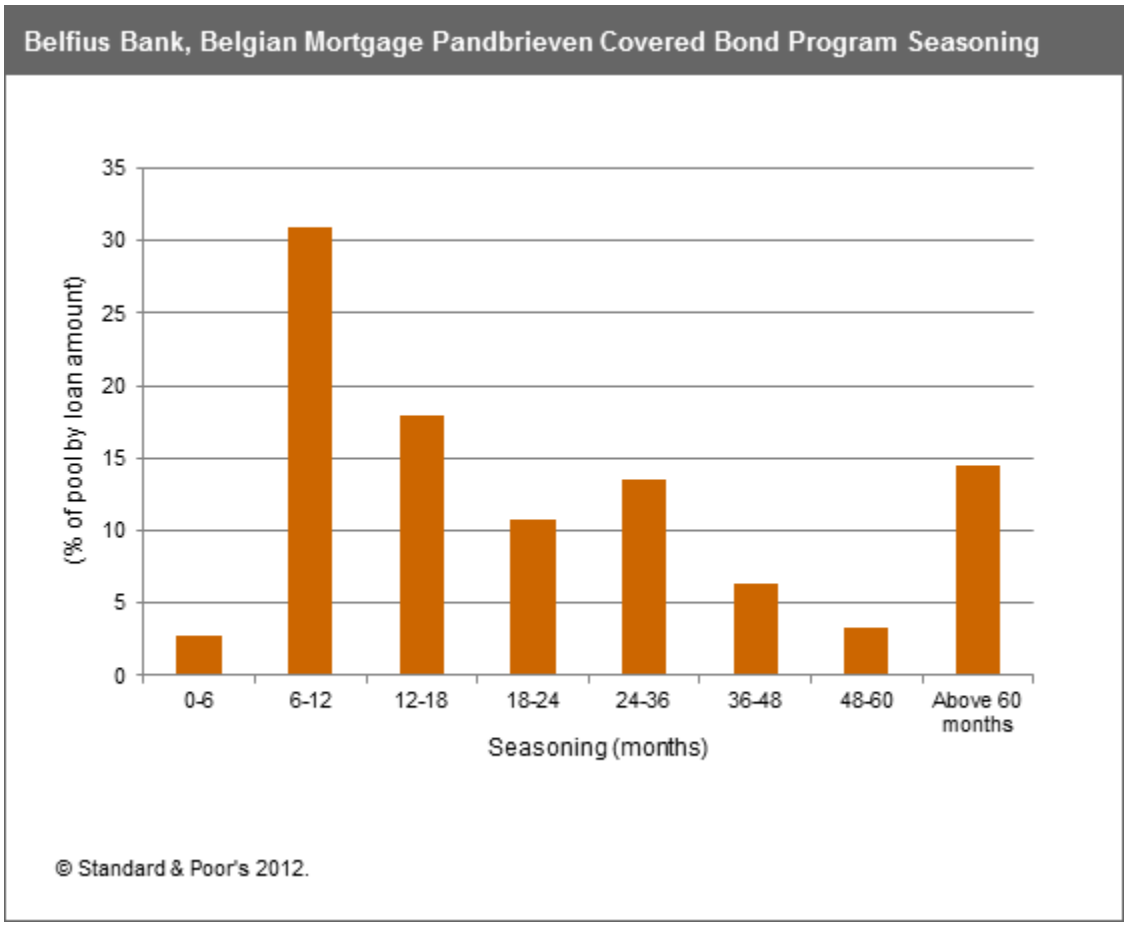
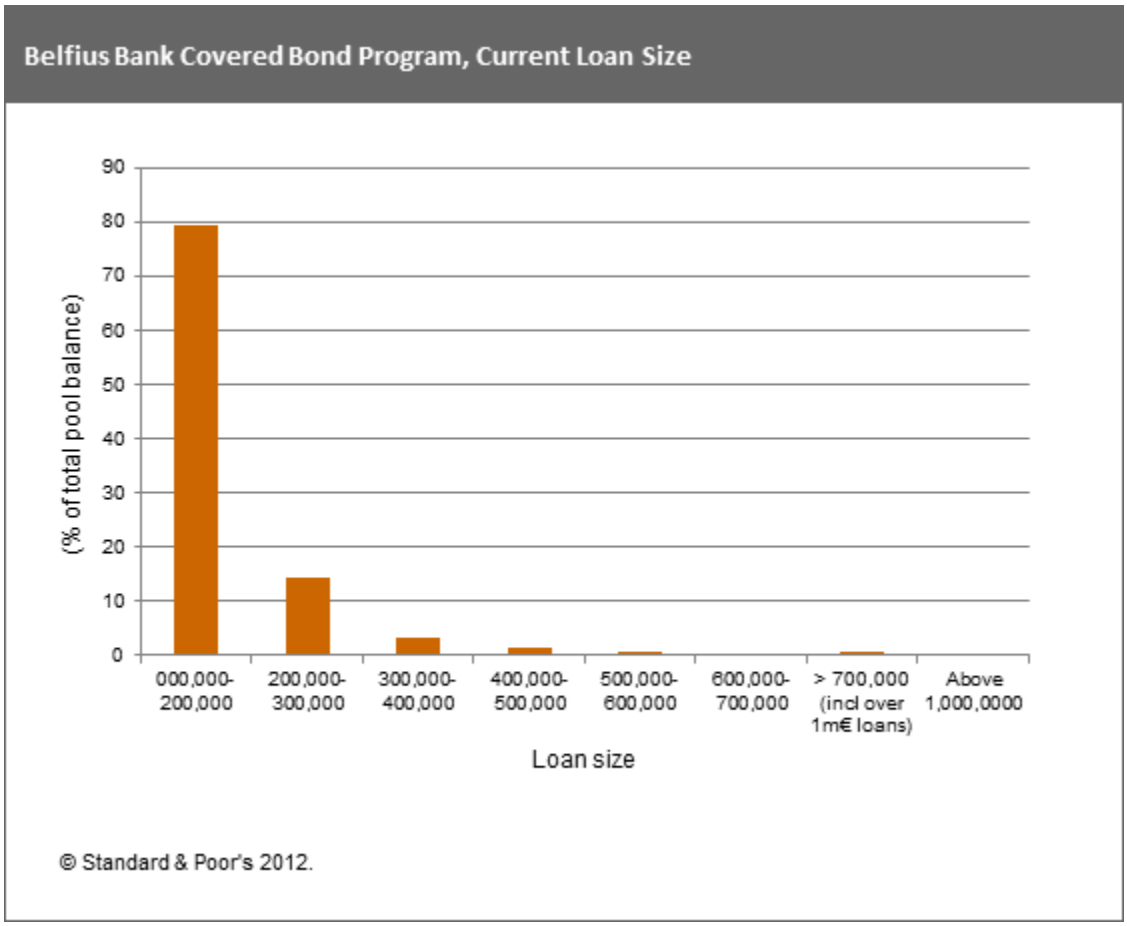

Belfius Bank, Belgian Mortgage Pandbrieven Covered Bond Program Seasoning
(% of pool by loan amount)
35
30
25
20
15
10
5
0
0-6
6-12
12-18
18-24
24-36
36-48
48-60
Above 60 months
Seasoning (months)
© Standard & Poor's 2012.

Chart 2



Mortgage mandates

In Belgium, when taking out a mortgage, the borrower must pay a registration fee based on a percentage of the mortgage loan. To reduce this fee, it is market practice for the lender to grant a mortgage loan partly secured by a mortgage inscription on the property and by a mortgage mandate. The registration fee is only payable on the mortgage inscription. A mandate is not a security for the loan. A mortgage mandate is solely the irrevocable option of the lender (or a third-party assignee) to unilaterally create a mortgage. Only when the mortgage mandate has been converted into a mortgage is the portion of the original loan represented by the mortgage mandate supported by a security interest on the relevant property.

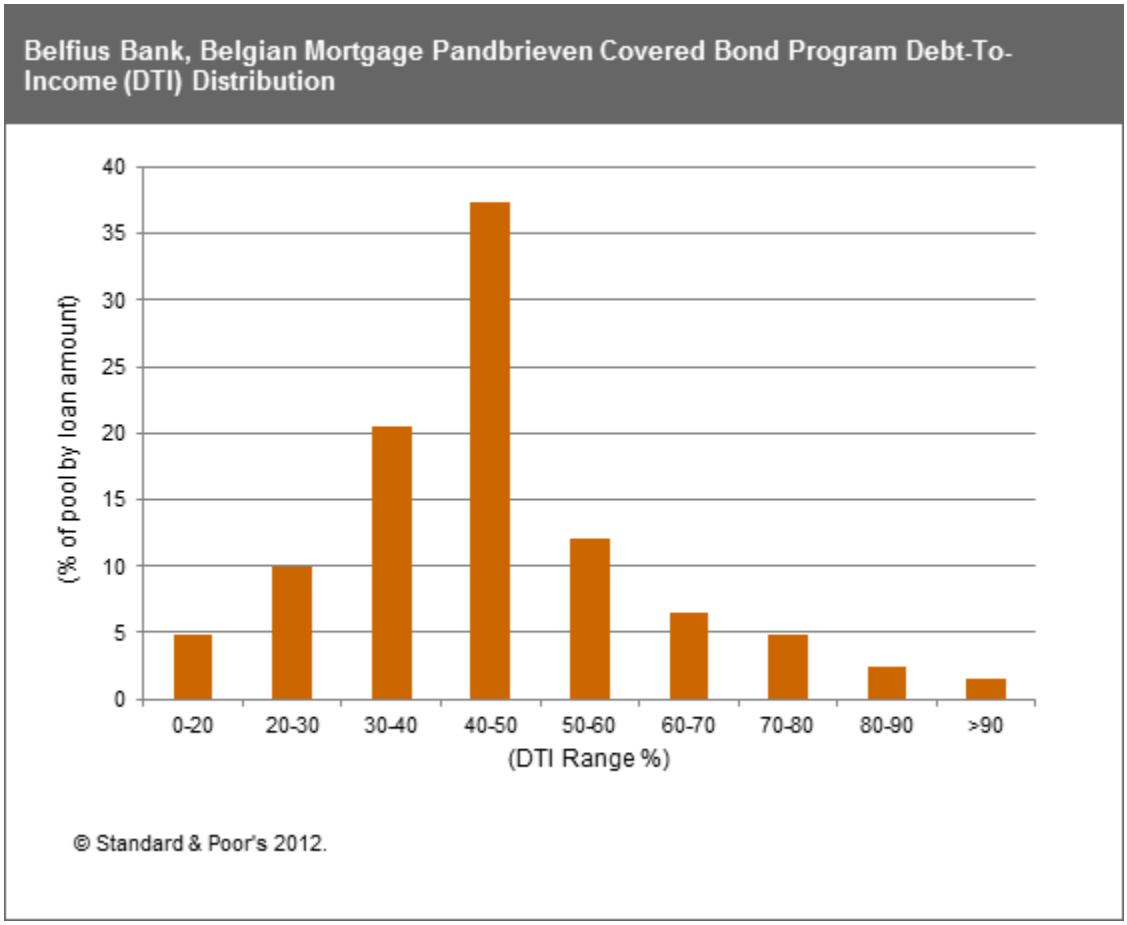
There exists the risk that another creditor would also benefit from the mortgage mandate over the property. In this circumstance, the creditor that first registered the mortgage has priority. Consequently, we have factored into our credit analysis the greater loss severity associated with mortgage mandates, by giving no credit to the value of mortgage mandates in the pool.

Affordability measures

The level of borrower indebtedness measured through the debt-to-income (DTI) ratio generally varies between 25% and 45%. However, in the preliminary pool, we observed relatively high DTI ratios, with a weighted-average DTI ratio

observed equal to 53.1% (see chart 3),. Although we understand that the DTI ratio provided to us does not include certain revenues, which tend to increase the actual level of DTI used in the underwriting process, we have factored into our credit analysis the greater foreclosure frequency associated with the level of DTI provided to us.

Chart 3



Credit Analysis

For Standard & Poor's to be able to assign ratings to the covered bonds above the ICR on the issuing bank, the covered bond program must be strong enough to withstand 'AAA' credit losses in the cover pool.

Our credit analysis of the residential mortgage loans involves assessing the individual credit quality of the cover pool by estimating the credit risk associated with each mortgage loan. We then calculate the aggregated risk to assess the overall credit quality of the cover pool. We quantify the credit risk associated with each mortgage loan in the pool by estimating each loan's probability of default leading to a portfolio-wide weighted-average foreclosure frequency (WAFF) and its corresponding weighted-average loss severity (WALS), which is expected to be realized if foreclosure occurs.

The potential loss associated with a loan can be calculated by multiplying the WAFF with the WALS. To quantify the

potential losses associated with the entire cover pool, each mortgage loan's foreclosure frequency and loss severity is weighted by its percentage of the total cover pool. For the particular case of Belfius Bank, we base this loan-level analysis on our French residential mortgage-backed securities (RMBS) methodology and assumptions, with further assumptions in order to address the Belgian mortgage market's particularities (see "Related Criteria And Research"). This is based on our understanding of Belfius Bank's specific underwriting criteria, which is oriented on borrower solvability, in line with our French RMBS methodology.

The closing WAFF and WALS results as of Sept. 30, 2012, were:

- WAFF: 23.8%;
- WALS: 31.2%; and
- Assumed net credit loss (WAFF x WALS): 7.4%.

These metrics are commensurate with 'AAA' ratings.

Cash Flow Analysis

We evaluate a pool of covered bonds on a cash flow basis to determine whether, under conditions of severe economic stress, the cash flow generated by the assets would be sufficient to meet the debt service payments due on the liabilities in a timely manner. The aim of the cash flow analysis is to assess the cover pools for:

- Credit risk as described above;
- Market risk in the form of interest rate and currency risk;
- Asset-liability mismatch as a result of cash flow mismatches between assets and liabilities in terms of maturity (ALMM), and market value risk in case the program has to liquidate assets;
- Prepayment risks and servicing costs; and
- An appropriate stress-testing of these risks using the Covered Bond Monitor (CBM).

Our cash flow analysis is based on the assumption of a static pool; that is, no active pool management or new issues other than servicing the liabilities as they come due. This assumption stems in turn, from our central rating assumption, where the issuer is insolvent and the pool is managed until it has fully amortized.

The cover pool does not include registered derivatives; it relies instead on natural hedges. The cash flow analysis determines, among other things, the target credit enhancement level commensurate with the program's maximum potential rating in a five-step process.

Table 6

Main Cash Flow Inputs (%)	
Probability of default (WAFF) (%)	23.8
Loss severity (WALS) (%)	31.2
Time to recovery (months)	18
Prepayment assumptions	Low 0.5%
	High 24%
Servicing costs (%)	0.5
Spread shock (bps)	425

Standard & Poor's Five-Step Covered Bond Rating Process

Step 1: Calculation and classification of the asset-liability maturity mismatch

To determine the maximum potential rating uplift for a covered bond program above the issuing bank's ICR, we first need to calculate the ALMM.

Here, we consider mismatches in the timing of the asset and liability cash flows, where mismatches that occur far in the future are multiplied by a scaling factor that decreases over time. In our opinion, programs that are exposed to large funding needs within the next 12 months are typically riskier than those with mismatches throughout the tenor of the covered bonds. We apply our standard interest rate and default stresses and we assume a constant prepayment rate of 5% on the mortgage assets when calculating the ALMM.

Following this calculation, we categorize ALMM risk according to table 7.

Table 7

ALMM Classifications And Maximum Potential Uplift Ranges

ALMM risk	ALMM percentage (%)	Maximum potential number of notches uplift
Zero	N/A	Unrestricted
Low	0–15	5–7
Moderate	15–30	4–6
High	>30	3–5

N/A--Not applicable.

Belfius Bank's covered bonds currently have an ALMM percentage of 0%, which translates into a "low" ALMM classification. Based on the current cover pool and liability profile, we expect the ALMM to remain in the "low" classification over the next 12 months.

Step 2: Program categorization

In this step, we categorize programs based on their ability to obtain third-party liquidity or to sell assets to fund any mismatch if the issuing bank fails.

We categorize Belfius Bank's covered bond program in category '2'. The categorization follows a review of the Belgian covered bond legislation and the Royal Decree implementing the new legal framework for Belgian covered bonds. It follows as well, a review of the range of funding options and strength of funding sources in Belgium. We believe that the legislation, which provided legal certainty to Belgian covered bond programs, coupled with our view of the appraised systemic importance of covered bonds in Belgium, and the availability and strength of the refinance funding sources is commensurate with a category 2 program categorization.

Step 3: The maximum potential covered bond rating

We assess the maximum potential covered bond rating by combining the ALMM risk classification and the program categorization (see table 8).

Table 8

Maximum Potential Ratings Uplift From The Issuer's ICR

By number of notches

ALMM risk	**Category**		
	1	2	3
Zero	Unrestricted	Unrestricted	Unrestricted
Low	7	6	5
Moderate	6	5	4
High	5	4	3

The ratings on Belfius Bank's covered bonds are elevated from the ICR on Belfius Bank. Combining the ALMM classification of "low" and the program category of '2', the maximum uplift that we can assign to the bank covered bonds is six notches above the ICR based on our ALMM criteria. The maximum achievable rating is dependent on the program having sufficient collateral to address all risks, including our assessment of the market value risk (see step 4).

Step 4: Cash flow and market value analysis

In step 4, we calculate the target credit enhancement by analyzing the cash flows, taking into account credit risks, ALMM risk, and structural risks specific to the program (see "Covered Bond Program Structure").

We apply these stresses to Belfius Bank's covered bonds using Standard & Poor's CBM. We model the market value risk in terms of a "spread shock." We calculate the net present value of the projected cash flows of the assets needing to be monetized using a discount rate, which we base on the pool-specific asset spreads over the relevant funding rates. In our analysis, the spread shock we used when discounting Belfius Bank's cover pool was 425 basis points (bps), and reflects our view of the market value risk on exposures to Belgium residential mortgage loans in the cover pool.

Based on these assumptions, we are of the opinion that the target credit enhancement level sufficient to achieve the highest potential uplift is 20.8%.

Step 5: The covered bond program rating

By applying these stresses to Belfius Bank's covered bonds through our cash flow analysis, we believe that a target credit enhancement of 20.8% is sufficient to achieve the highest potential uplift above the ICR. The available credit enhancement of 35% exceeds the target credit enhancement. We have therefore assigned our maximum rating of 'AAA' to the covered bonds. This represents six notches of uplift from the 'A-/Negative/A-2' ICR on Belfius Bank.

Scenario And Sensitivity Analysis

Various factors could trigger downgrades of covered bond transactions, such as movement in ALMM classification, as well as downgrades of the ICR.

As part of our sensitivity analysis, we have projected the ALMM for the next six to 12 months considering the current asset and liability profile of the covered bonds. The ALMM is expected to remain "low" for the next six to 12 months.

Additionally, we have conducted our cash flow analysis projecting the cash flows six months forward. All else being

equal, based on the current asset and liability profile of this program, we expect the target credit enhancement commensurate with the current ratings on the covered bonds to remain stable. Material changes in the asset or liability profile of the program may affect the target credit enhancement that we view to be commensurate with the current ratings on the covered bonds.

Factors that could affect the ratings on the covered bonds are:

- Changes to the rating on the issuer: As the ALMM classification under step 1 of our ALMM criteria will be "Low", the covered bond rating can be six notches above the ICR, all else being equal. Currently the issuer is rated 'A-', therefore six notches of uplift are needed to reach a 'AAA' rating. A downgrade of the ICR by one notch would potentially result in a downgrade of the covered bonds.
- Change in the ALMM category: As we are categorizing the program in category '2' under step 2 of our ALMM criteria, the covered bond ratings can benefit from an uplift of up to six notches. According to the proposed terms of the first issuance, the ALMM classification will be "low", allowing an uplift of six notches above the ICR. As the issuer is currently rated 'A-', there is no ALMM cushion. If the ALMM classification were to increase to"medium", without further enhancement from the issuer, the covered bond rating could be lowered. As stated above, forward-looking ALMM runs do not show a change in category.

Ongoing Surveillance

We will maintain regular surveillance on Belfius Bank's covered bonds until the bonds mature or are otherwise retired. Within our surveillance analysis, we assess the following:

- The cover pool's composition, which may change as a result of asset substitutions;
- Overcollateralization levels;
- Supporting ratings on the transaction parties; and
- Compliance with the amortization test while the covered bonds remain outstanding.

Issuer reports include the following:

- Loan-by-loan cover pool data, which include details such as loan amounts, maturities, borrower characteristics, property valuations, and other relevant data;
- Stratified data from the issuer summarizing loan-level information; and
- Liability information through investor reports and issuance documentation.

Appendix

Asset-liability mismatch (ALMM)

The asset-liability mismatch, as described in paragraphs 23–32 of "Revised Methodology and Assumptions for Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009.

Standard & Poor's Covered Bond Monitor (CBM)

CBM is a Monte Carlo model, which simulates approximately 100,000 different economic scenarios, or more if required, to establish an accurate default distribution. Each scenario produces a different path for interest rates and exchange rates for each currency included in the issuer's cover pool. Using these input parameters, we compute a

corresponding set of cash flows to determine whether, under these stressed assumptions, the pool exhibits sufficient strength to pass the target rating eligibility test. The average maturity of outstanding covered bonds defines the target rating default probability against which the cash flows are benchmarked. If the respective cover pool cash flows exhibit fewer defaults than accepted under the threshold, the cover pool passes the rating eligibility test from a quantitative point of view.

Target asset spread

The methodologies and assumptions we use to calculate the target asset spread is described in "Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads," published April 24, 2012.

Target credit enhancement and actual credit enhancement

The methodologies and assumptions we use to calculate the target credit enhancement and actual credit enhancement are described in paragraphs 69–72 of our "Revised Methodology And Assumptions for Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009.

Weighted-average foreclosure frequency (WAFF)

Weighted-average foreclosure frequency (WAFF) is the measure of a loan's probability of default leading to foreclosure. The estimated foreclosure frequency is a function of borrower and loan characteristics, as well as the economic stress scenario commensurate with a certain rating level.

Weighted-average loss severity (WALS)

Weighted-average loss severity (WALS) quantifies the loss realized as a result of foreclosure. The expected loss is predicated on assumptions about the potential decline in the market value of collateral that secure the asset, as well as expenses incurred in foreclosing on and reselling of the property, considering an economic stress scenario commensurate typically with a certain rating level.

WAFF x WALS

The potential loss associated with an entire pool can be calculated by multiplying the WAFF with the WALS at the 'AAA' rating level (see paragraph 70 of "Revised Methodology And Assumptions for Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009). Note that the product of WAFF and WALS does not equal the asset default risk referred to in paragraph 73 of our ALMM criteria.

Weighted-average maturity (WAM)

The weighted-average maturity (WAM) of the assets/liabilities takes into account the weighted-average of final maturities.

Related Criteria And Research

- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Counterparty Risk Framework Methodology And Assumptions, May 31, 2012
- Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target

Asset Spreads, April 24, 2012
- Request For Comment: Methodology For Assessing Operational Risk In Structured Finance Transactions, Oct. 4, 2011
- General Criteria: Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Methodology And Assumptions: Update To The Criteria For Rating French Residential Mortgage-Backed Securities, Jan. 6, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- Covered Bond Monitor: Technical Note, Feb. 14, 2006
- Criteria for Rating French Residential Mortgage-Backed Securities, July 16, 2003

Additional Contact:

Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com