



**Belfius**

# **Public Pandbrieven Programme**

Investor Presentation

September 2014

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- 2 Belfius Pandbrieven Programmes
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- 4 The Belgian Local Authorities
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# Introduction

A 2<sup>nd</sup> pandbrieven programme: why?



a locally anchored relationship bank  
with two commercial business lines

Retail and  
Commercial  
Business

Public and  
Wholesale  
Business

> 50 years of experience

150 years of experience

Mortgage Pandbrieven  
Programme

Public Pandbrieven  
Programme



# Introduction

## Market leader in Belgian public sector

- Belfius Bank has always been **the preferred partner of public sector (municipalities, provinces, ...)** and social organisations (hospitals, schools, universities, elderly homes, ..) in Belgium.
- Belfius continues to build on its **150 years of experience** as a partner in the public and social sector.
- Approximately 12,000 clients and 40 dedicated relationship managers
- Belfius provides its clients with a complete and **integrated range of banking & insurance products and services.**
- Our specialized analyses and research papers on the Belgian public sector are the benchmark, available on the Belfius website (see [www.belfius.be](http://www.belfius.be), tab “Public & Social”; available in Dutch and French)
- Servicing EUR 34 billion of loans to public-sector and social profit clients
- By far the largest market share in loans to local authorities
- 100% of municipalities and public hospitals are Belfius’ clients

Belfius is the reference banker  
for public and social banking customers in Belgium

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# Belfius Pandbrieven Programmes

## Comparison of main characteristics



Programme	Mortgage pandbrieven	Public pandbrieven
<b>Main cover asset category</b>	Residential mortgage loans	Public sector exposure
<b>(Expected) Rating</b>	AAA (stb) /AAA (neg) (Fitch/S&P)	(P)Aaa / (P)AAA (neg) (Moody's/S&P)
<b>Programme limit</b>	EUR 10 billion	EUR 10 billion
<b>Specific license obtained from NBB</b>	Yes	Yes
<b>Outstanding pandbrief amount</b>	EUR 4.5 billion	/
<b>Highest required rating agency nominal OC level</b>	23%	[39%] → TBC, function of maturity of inaugural transaction
<b>Main issuer covenants</b>	No commercial mortgage loans, no RMBS, no CMBS, no ABS	No residential mortgage loans, no commercial mortgage loans, no RMBS, no CMBS, no ABS
	The value of the main cover asset ≥ 105% (vs 85% in the law)	
	Upon registration, maximum LTV (current loan to current property value) is 120%	/
	Liquid bonds included to cover all pandbrief interest payments for the next year	Liquid bonds included to cover all pandbrief interest payments for the next 6 months

# Belfius Pandbrieven Programmes

Common characteristics (applicable to each programme individually)

Summary of terms	
<b>Issuance</b>	Belgian Pandbrieven, issued by Belfius Bank
<b>Listing</b>	Pandbrieven may be listed on Euronext Brussels
<b>Minimum denominations</b>	EUR 100,000
<b>Segregation of cover assets</b>	In a special estate, on balance sheet
<b>Regulatory supervision</b>	Special supervision by the NBB and the cover pool monitor (Ernst & Young)
<b>UCITS/CRD compliant</b>	Yes
<b>CRD RW</b>	10%
<b>Reporting</b>	Available on the website of Belfius Bank on a monthly basis
<b>Extension on non payment at maturity date</b>	If issuer fails to redeem a Pandbrieven issue within 5 business days after the maturity date, the redemption will automatically be deferred to the date falling one year after the original maturity date. However notes shall be redeemed on any subsequent monthly interest payment date before the extension payment date if issuer has available funds.
<b>Namensschuldverschreibung (N-bonds; Registered Covered Bonds)</b>	<ul style="list-style-type: none"><li>• Mortgage Pandbrieven: documentation in place</li><li>• Public Pandbrieven: documentation (currently) not available</li></ul>

# Belfius Pandbrieven Programmes

## Rating overview

Senior Ratings Belfius Bank	
Fitch	A- (negative outlook)
Moody's	Baa1 (negative outlook)
S&P	A- (negative outlook)

*Belfius Bank is fully owned by the Belgian State which is currently rated Aa3/AA/AA*

Ratings Belfius Mortgage Pandbrieven	
Fitch	AAA (stable)
S&P	AAA (negative outlook)

*The S&P negative outlook for both programmes reflects the negative outlook on the senior unsecured rating.*

Ratings Belfius Public Pandbrieven	
S&P	(P)AAA (negative outlook)
Moody's	(P)Aaa (stable)





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# Belfius Public Pandbrieven Programme

## Description of the preliminary cover pool

### Main Asset Category

Public sector loans originated by Belfius Bank and granted to Belgian local authorities and related entities

### No Forex Risk

Only EUR denominated assets & liabilities

### No Derivatives

Interest rate risk hedged through natural hedging (mainly fixed rate (until maturity) public sector loans vs fixed rate Public Pandbrieven) and overcollateralisation

### Excluded

- Residential & commercial mortgage loans
- ABS, RMBS, CMBS

### Representative

The cover assets are representative for the entire Belfius public sector portfolio, except that the preliminary cover pool has for the time being no exposure on Regions and Communities

# Belfius Public Pandbrieven Programme

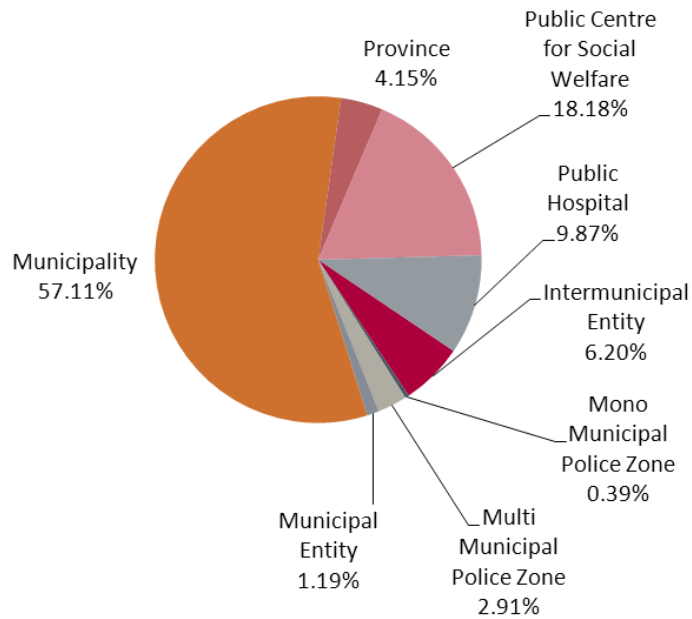
## Description of the preliminary cover pool

- Belfius has selected an eligible pool of public sector loans of EUR 1.65 billion:
  - Number of loans: 31,295
  - Number of borrowers: 956
- The preliminary pool consists of loans granted to the following borrowers:
  - Municipalities
  - Provinces
  - Public Centers for Social Welfare (“PCSW”, or *CPAS / OCMW*)
  - Municipal entities
  - Inter-municipal entities
  - Public hospitals
  - Police zones
- For diversification reasons, the current cover pool does not include loans to the regions and communities but these can be included at a later stage

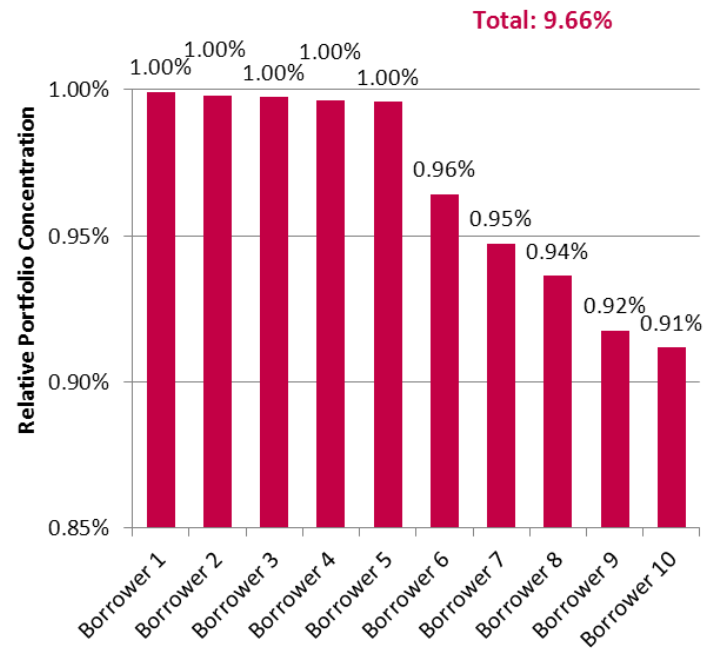
# Belfius Public Pandbrieven Programme

## Stratification tables of the preliminary cover pool

### Borrower Type Distribution



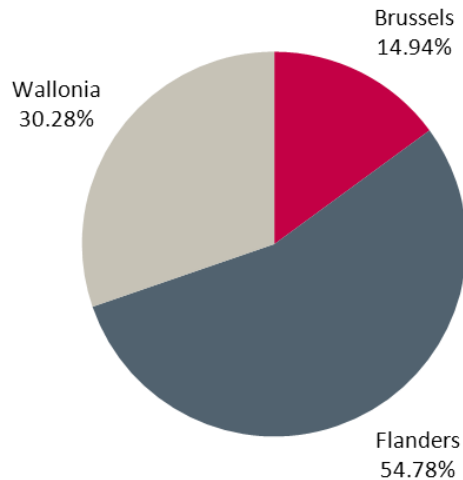
### Top Ten Borrowers



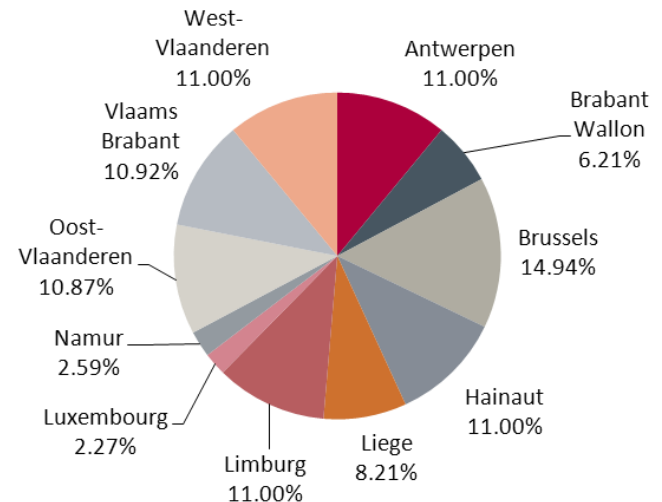
# Belfius Public Pandbrieven Programme

## Stratification tables of the preliminary cover pool

### Geographical Distribution by Region

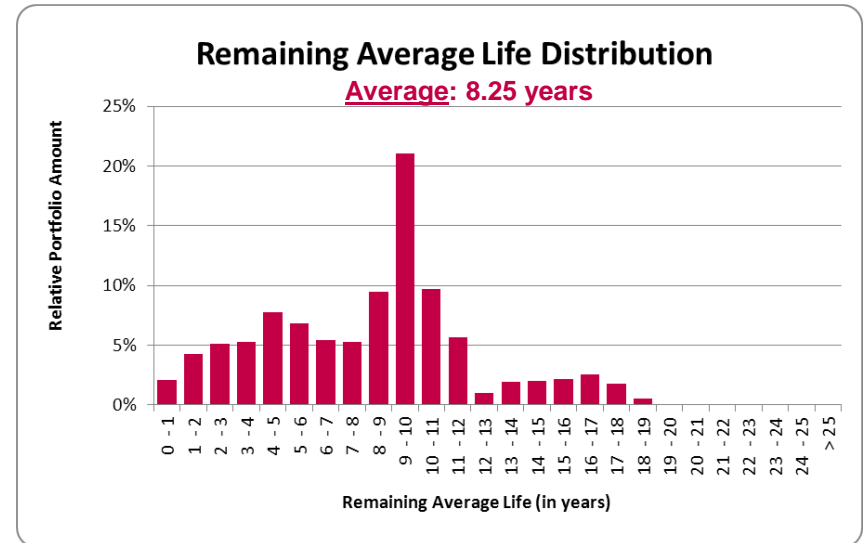
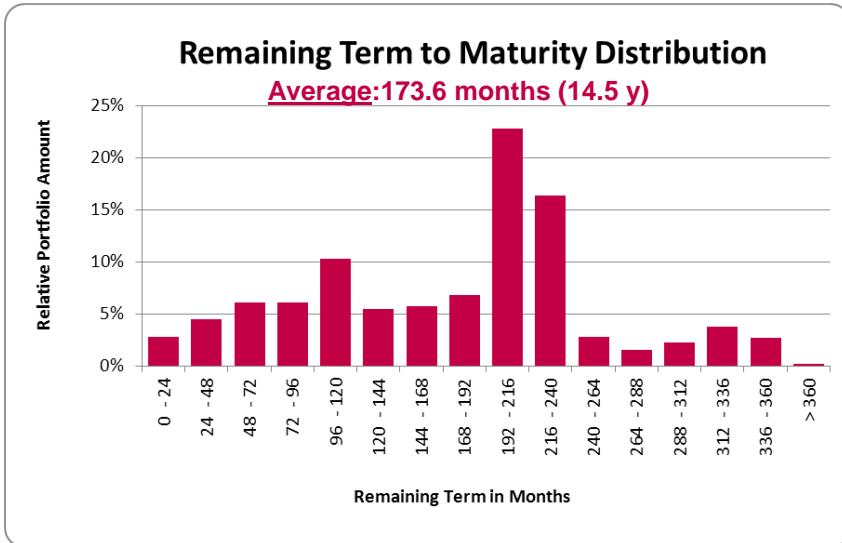
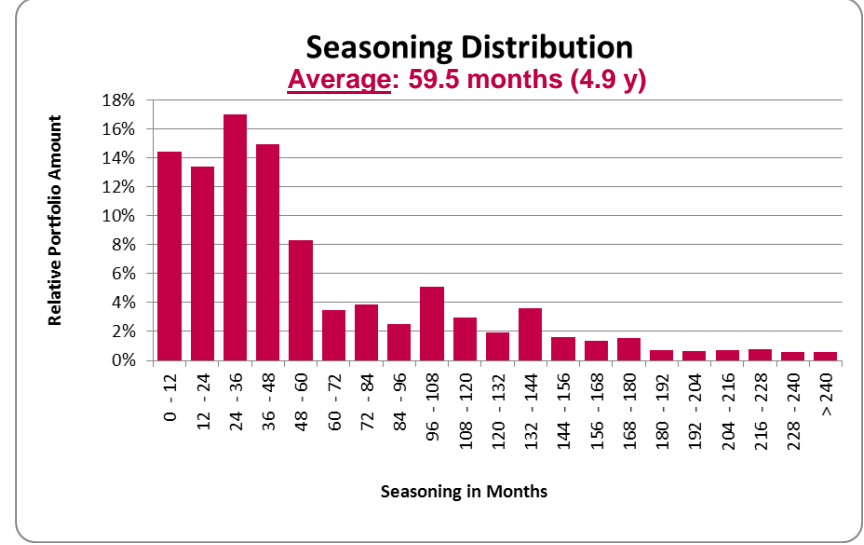
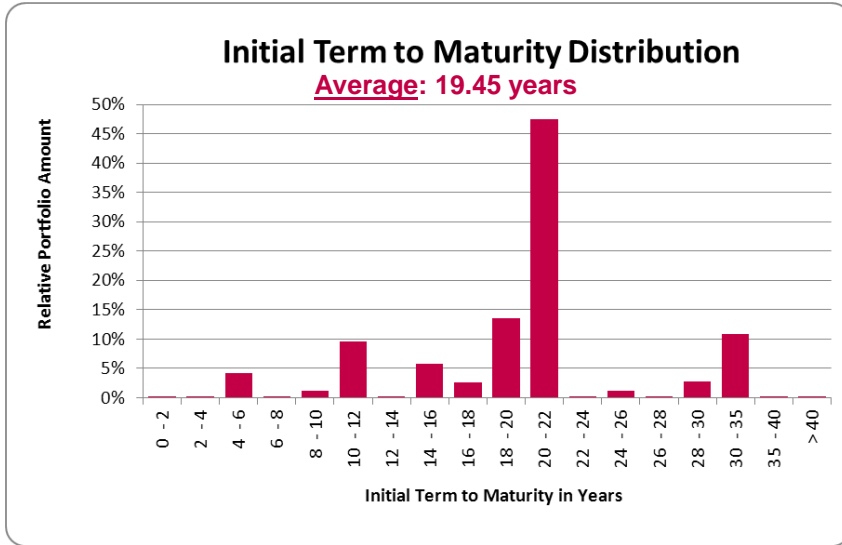


### Geographical Distribution by Province



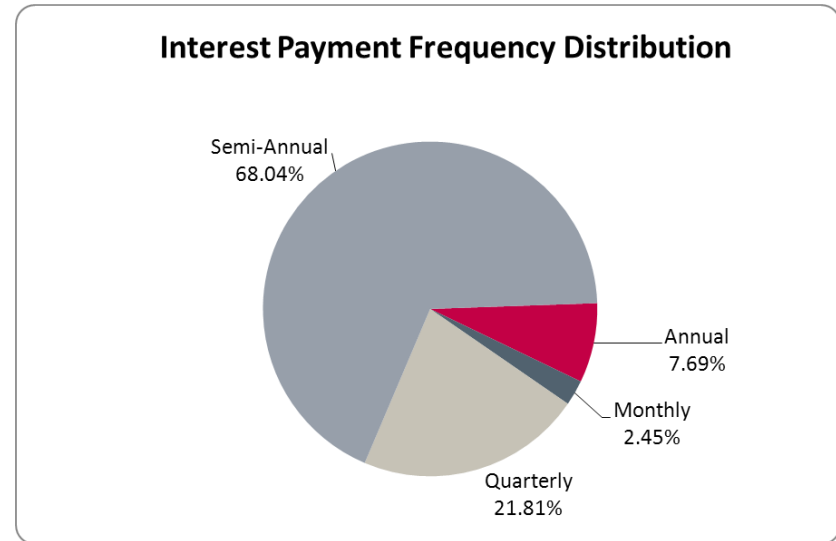
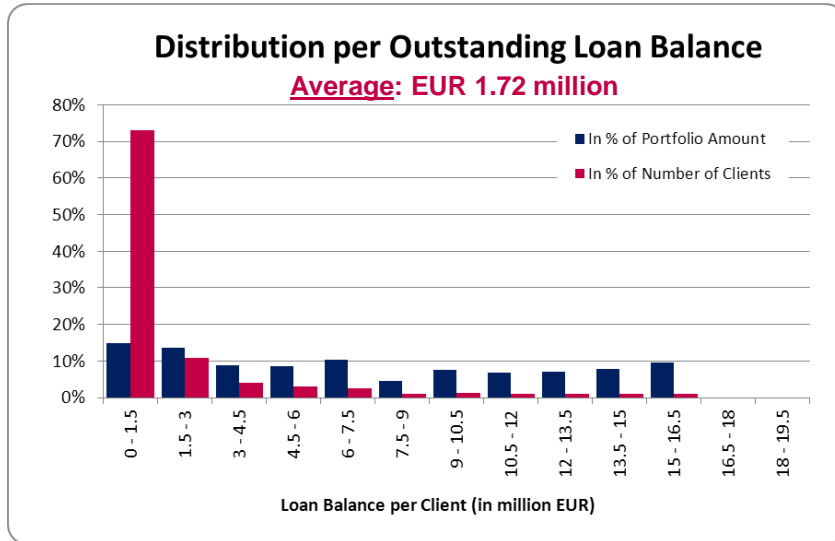
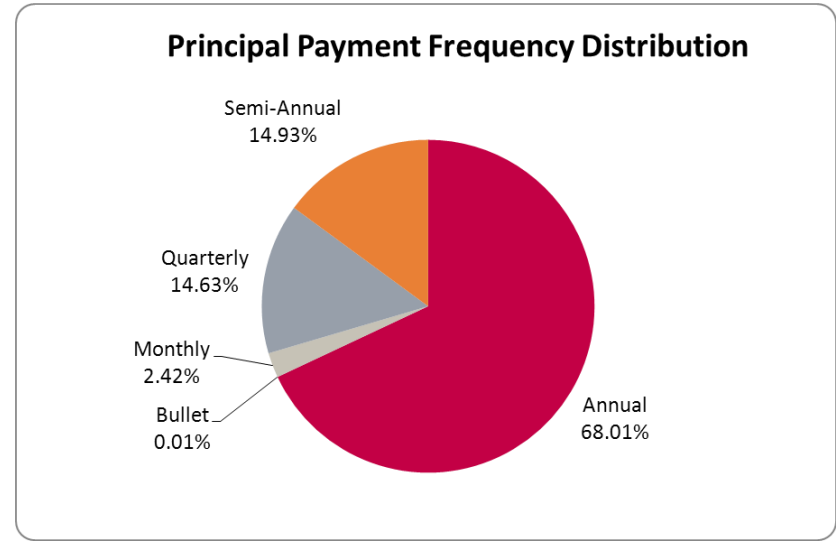
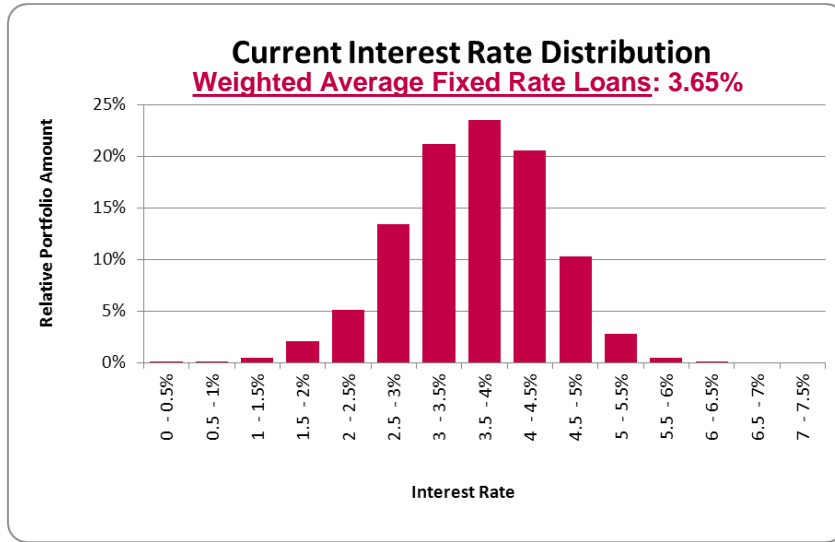
# Belfius Public Pandbrieven Programme

## Stratification tables of the preliminary cover pool



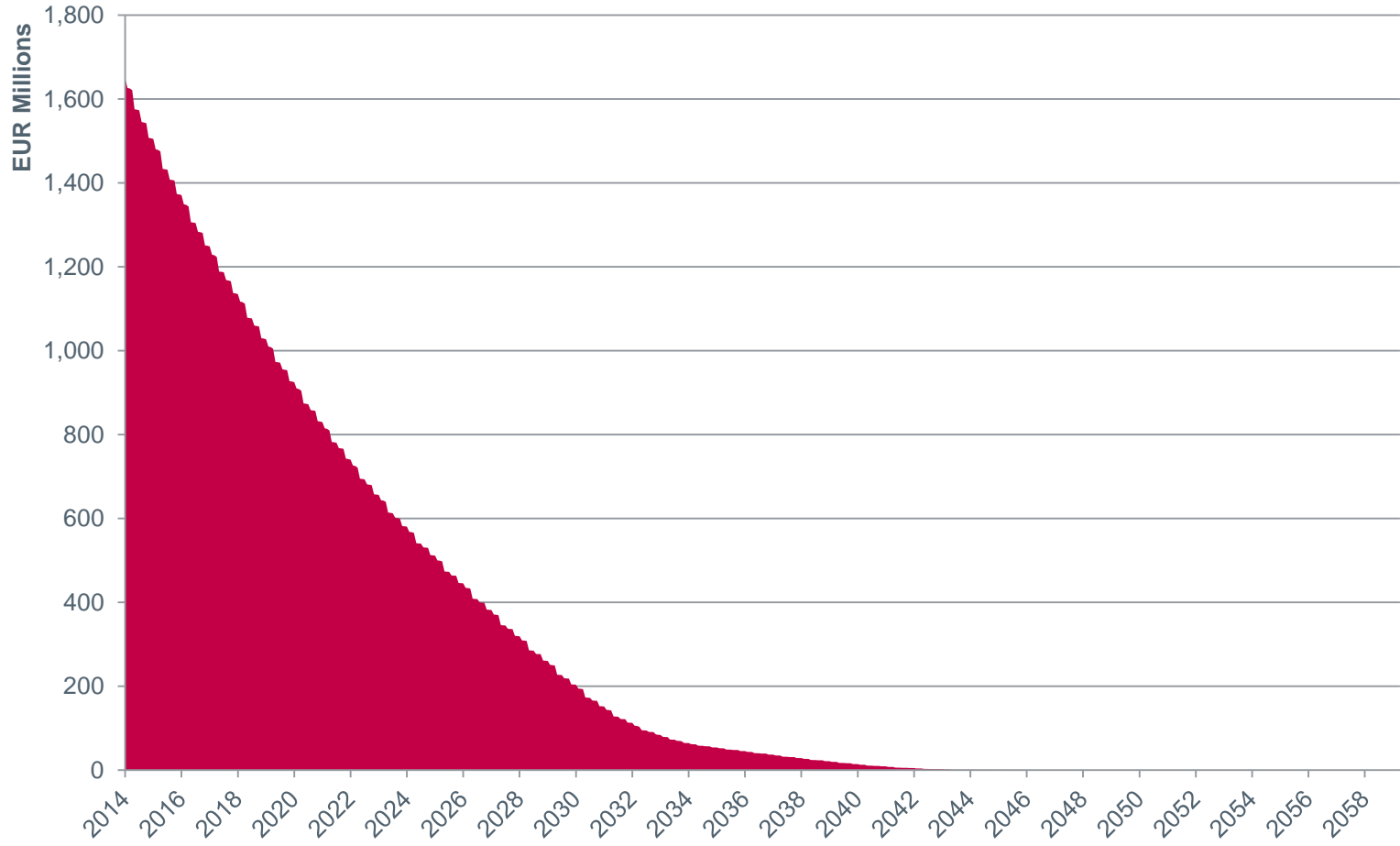
# Belfius Public Pandbrieven Programme

## Stratification tables of the preliminary cover pool



# Belfius Public Pandbrieven Programme

## Amortisation profile of preliminary cover assets





# Belfius Public Pandbrieven Programme

Performance of the Belfius public sector portfolio

The Belfius public sector loan portfolio, eligible for inclusion in the Public Pandbrieven programme, is of excellent quality

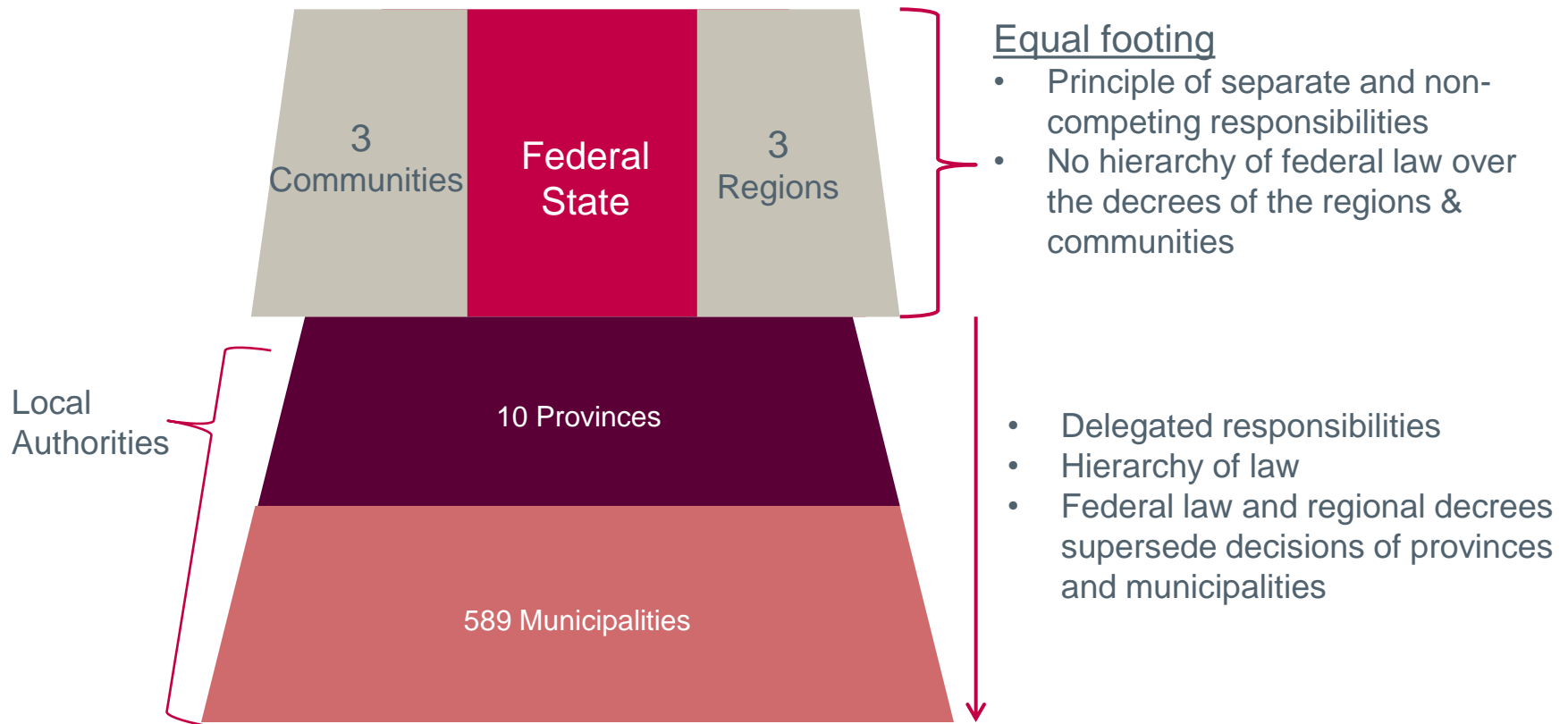
- No default has ever occurred
  - on the Belgian regions & communities portfolio; or
  - on the Belgian local authorities portfolio
- There are very few delinquencies on this portfolio:
  - direct debit servicing system in place
- All borrowers have accounts at Belfius
- There is often a pledge on revenues or other guarantee schemes in place

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# The Belgian Local Authorities

## Hierarchy of Levels of Government



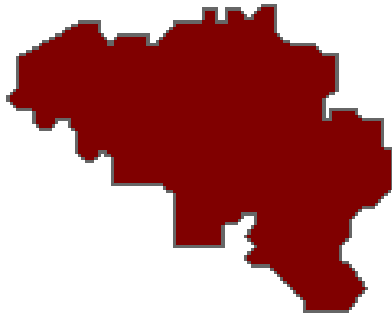
The initial cover pool will only be composed of local authorities (including local government-related institutions and local public enterprises)

# The Belgian Local Authorities

## Three Regions and Three Communities

### Federal State

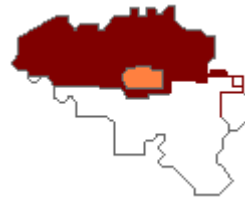
Kingdom of Belgium



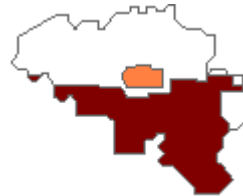
- 11.15 million inhabitants
- Surface 30,528 km<sup>2</sup>

### The Communities

Flemish Community



French Community

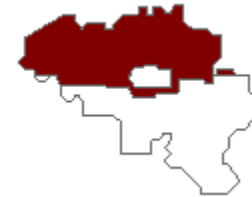


German-speaking Community



### The Regions

Flemish Region



Brussels Capital Region



Walloon Region



Two levels of decentralisation: Communities and Regions

# The Belgian Local Authorities

## Principle of Separate and Non-Competing Responsibilities

### Federal State

- Defense
- Foreign policy
- Social Security
- Interior Affairs
- Justice
- Tax Collection

### The Communities

#### Responsibilities that can be linked to an individual

- Education
- Culture
- Sports
- Hospital infrastructure
- Nursing Homes

### The Regions

#### Responsibilities that can be linked to a territory

- Economy
- Infrastructure
- Local Transport
- Social Housing
- Labour affairs
- **Supervision of local authorities !!!**

Supervision of local authorities: exercised by the Regions

# The Belgian Local Authorities

## Internal Stability Pact (“ISP”)

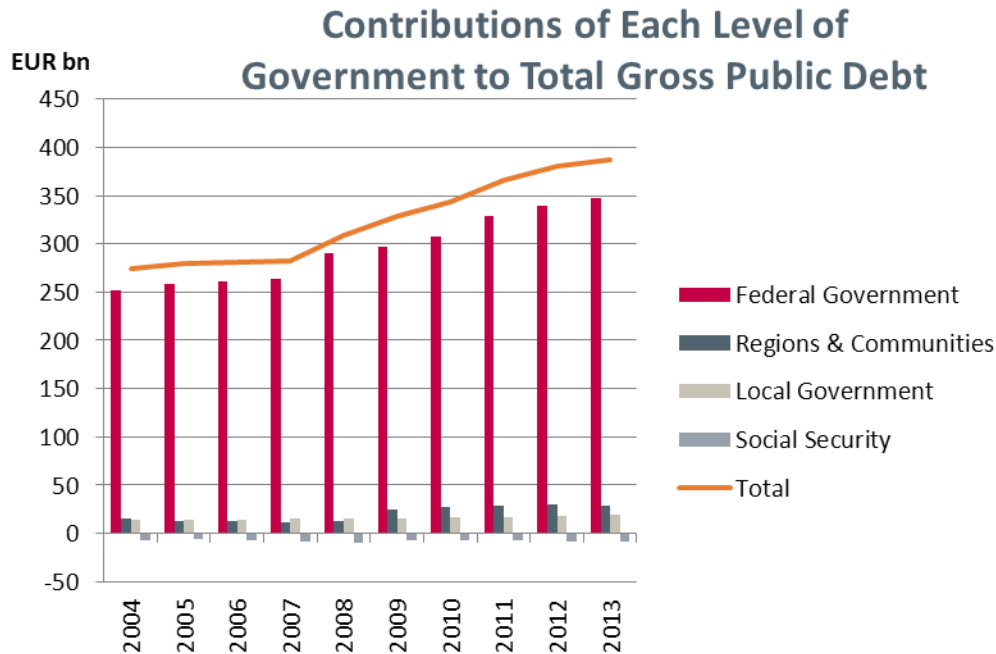
- Implements Belgium’s commitment in the European Stability Pact (ESP): deficit and debt limits
- Europe takes a consolidated approach (sum of all levels of government to be included under ESA 2010)
- Therefore, fiscal coordination between different levels of government is important in a highly-decentralised country
- This coordination includes
  - Agreement on the repartition of fiscal targets
  - Reporting and checking execution by High Council for Finance
  - Each level of government executes the agreement according to its individual fiscal targets
  - Regions have an aggregate target which includes their own fiscal results and those of the local authorities under their supervision

Deficit targets under current ISP (% of GDP)	2013	2014	2015	2016	2017
Federal government (incl. Social Security)	-2.5	-2.2	-1.5	-0.4	0.6
Regions (incl. <b>Local Authorities</b> ) and Communities	-0.1	0.1	0.1	0.0	0.0
<b>Total (= Deficit target under current ESP)</b>	<b>-2.6</b>	<b>-2.1</b>	<b>-1.4</b>	<b>-0.4</b>	<b>0.6</b>

Coordination ensures effective implementation of European Stability Pact

# The Belgian Local Authorities

Local Governments have Small Share in Total Gross Public Debt



- Netting for both debt on same level of government and on other level of government



- Netting for debt held on other local governments
- But no netting for debt held on other levels of government (i.e. Federal state, Regions & Communities and Social Security)

Source: NBB

# The Belgian Local Authorities

## The Regions: Credit Profile

	Flanders	Wallonia	Brussels	Source
Population ('000s)	6 411	3 576	1 163	NBB: 2013 data
GDP per Capita (% of National Average)	100%	73.1%	182.7%	NBB: 2012 data
Rating (Moody's/S&P)	Aa2 / AA	A1 / -	- / AA	Most recent rating
Gross Debt (EUR Million)	5 883	12 565	3 895	NBB: 2013 data

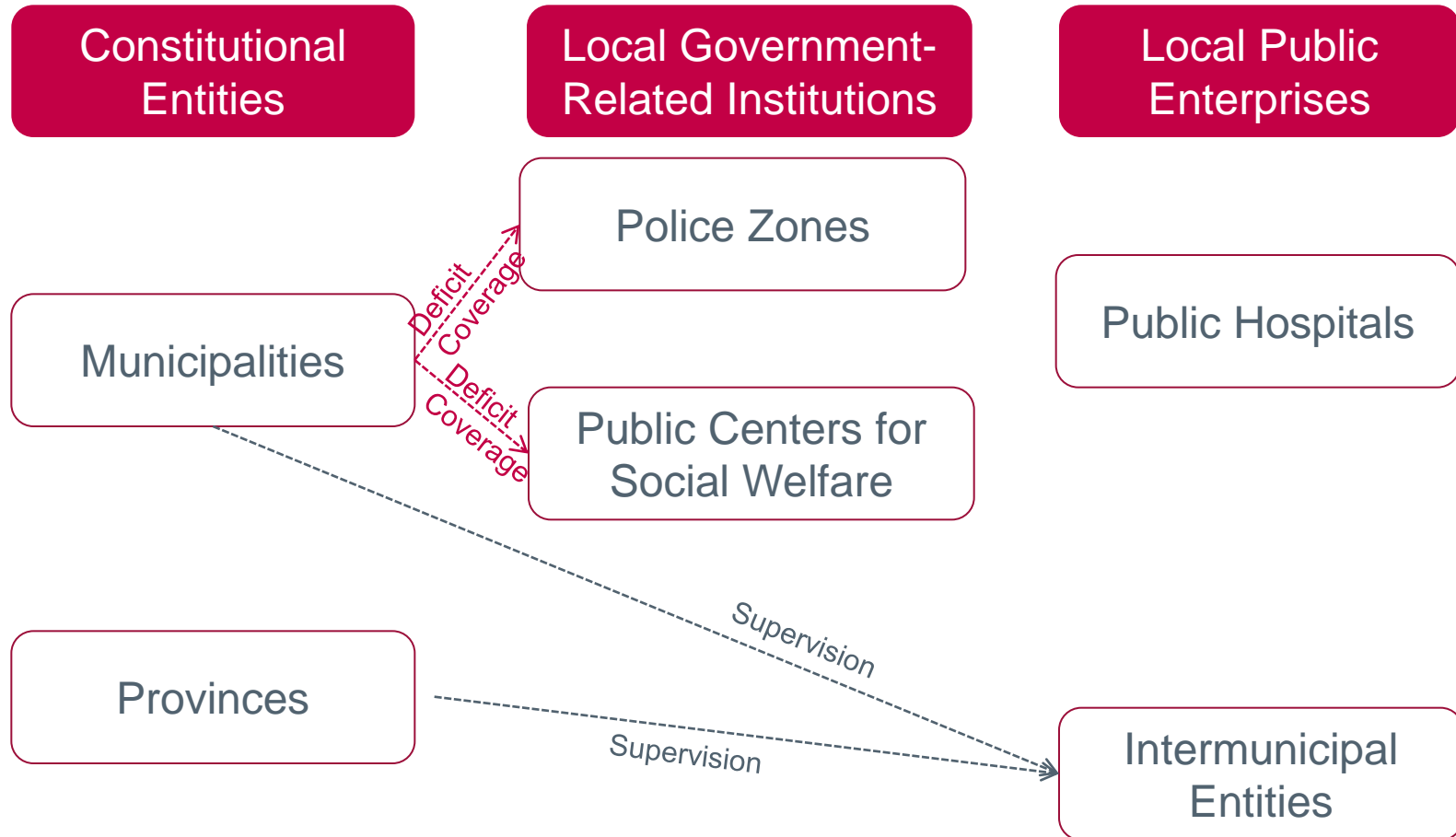
- All the regions' and federal ratings have a stable outlook
- At S&P, the ratings of the regions are capped at the level of the Belgian federal government (AA)

Regions are not explicitly guaranteed by the federal government



# The Belgian Local Authorities

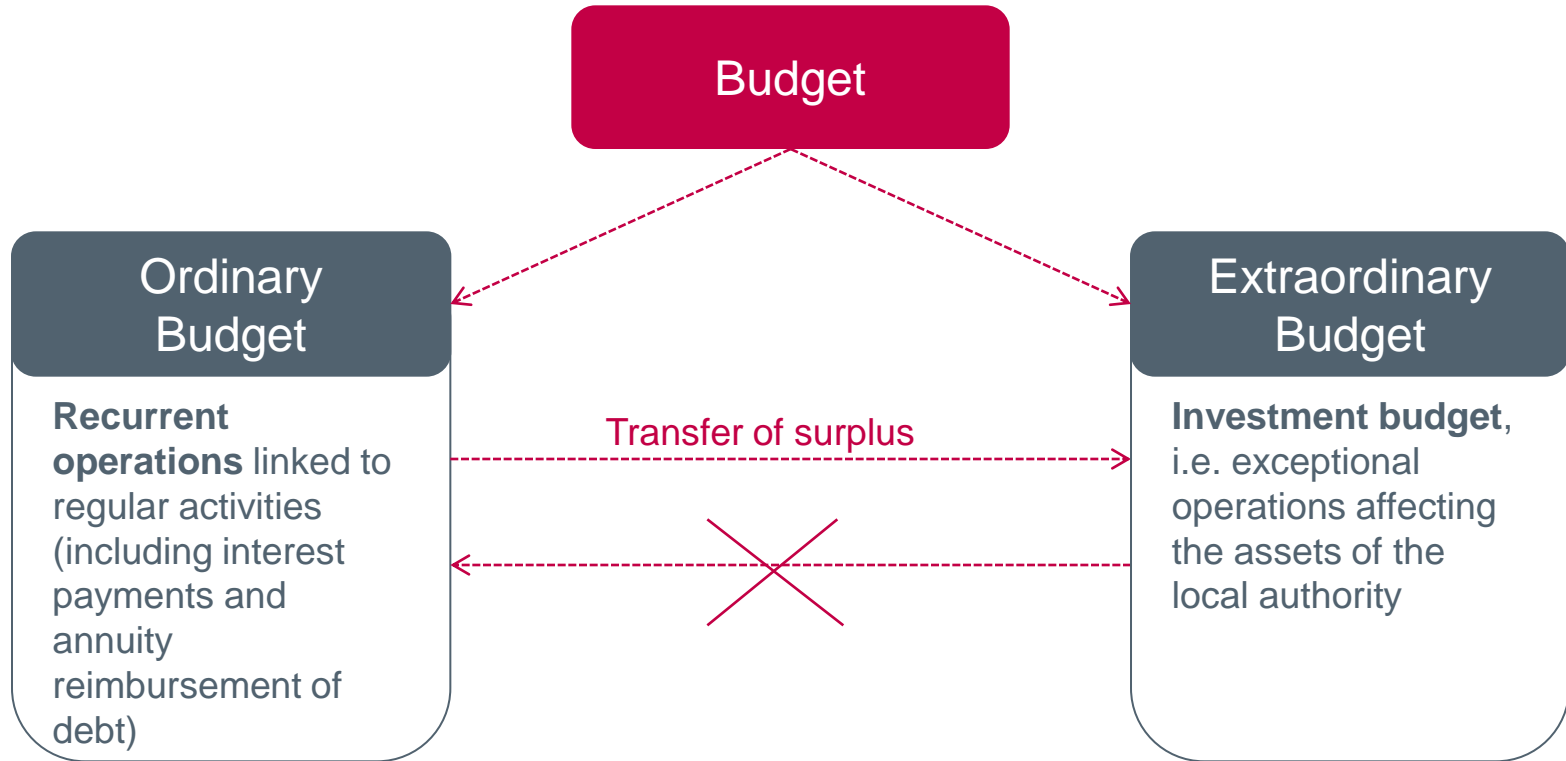
## Categories Included in Initial Cover Pool



Initial cover pool restricted to these six borrower types

# The Belgian Local Authorities

## General Budget Principle for Local Authorities



### The two budgets must remain in balance!

- Ordinary expenditures can only be covered by ordinary income. No borrowing allowed in ordinary budget.
- Proceeds from borrowing can only be used to finance investments in extraordinary budget.

# The Belgian Local Authorities

What happens if budget guidelines are not respected?

- Budget is not approved by the region
  - Budget not executed => fall back on system of provisional 1/12ths, meaning in each month 1/12<sup>th</sup> of the approved budget of the previous year may be spent
  - Dialogue to amend the budget and return to balance
  - Imposed reforms: Cut in discretionary expenditures (rare in practice)
- Extraordinary aid from the region
  - Remediation loans (with or without regional guarantee)
  - Imposition of multi-annual trajectory towards equilibrium (until aid is fully repaid)
  - Respect of guidance on staff numbers, investments,...
  - Consolidated approach (municipality + local government-related institutions)
- Special commissioner sent
  - Representative of the region replaces municipal authorities
  - Extreme measure, has not been implemented yet

Strong and efficient supervision by the region

# The Belgian Local Authorities

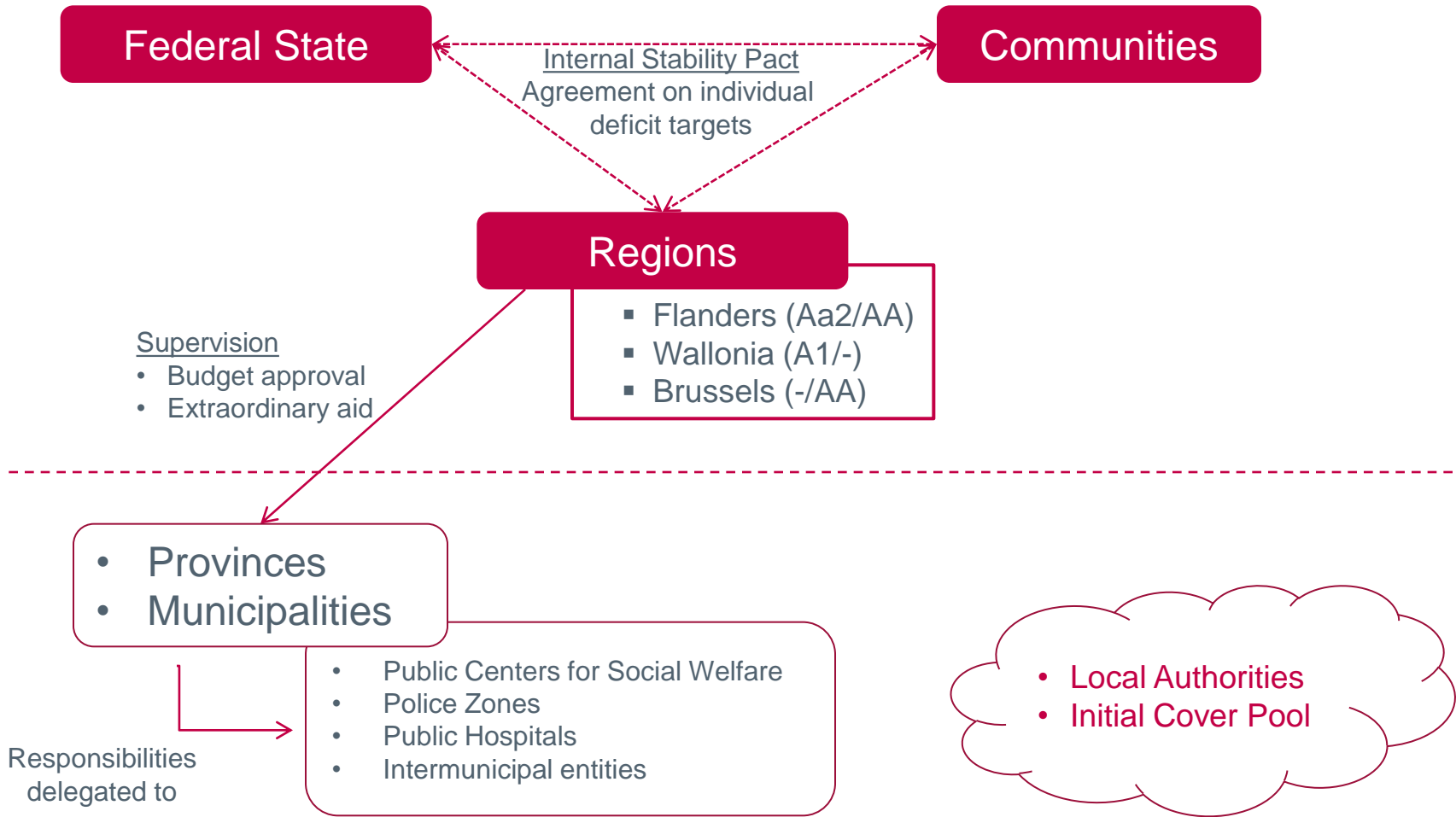
## The Supervision of the Regions on the Budget of Local Authorities

- There is no explicit guarantee from the higher authorities (the Federal State, the Regions or the Communities) on the debt of the local authorities.
- However, the regions have a strong impact as supervisors of the finances of the local authorities.

- New trend: enhanced supervision of budgets of local authorities
  - In Flanders: Multi-Annual Accounting
  - In Wallonia and Brussels: New instructions: timely reporting, quarterly reporting, ...

# The Belgian Local Authorities

## Summary



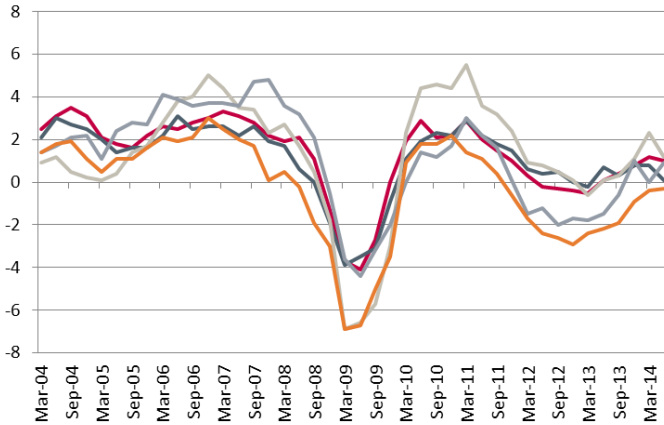
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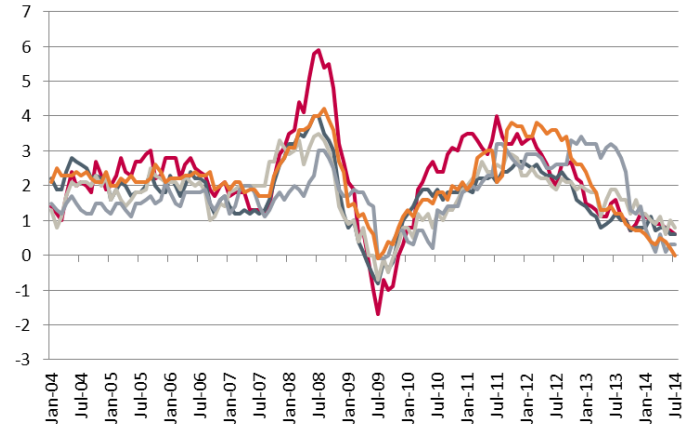
# The Belgian Economy

## Factsheet

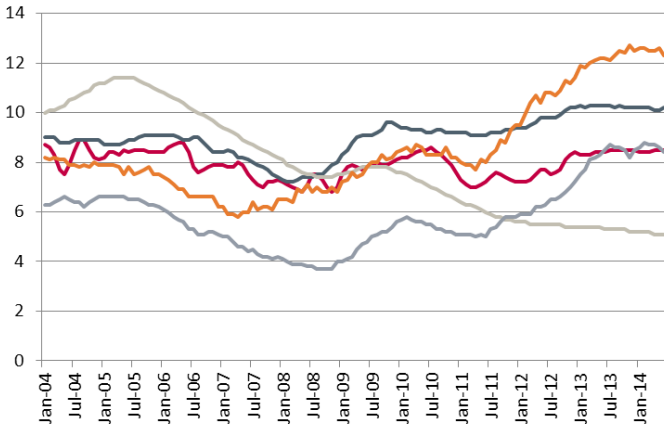
### Real GDP Growth (%yoy)



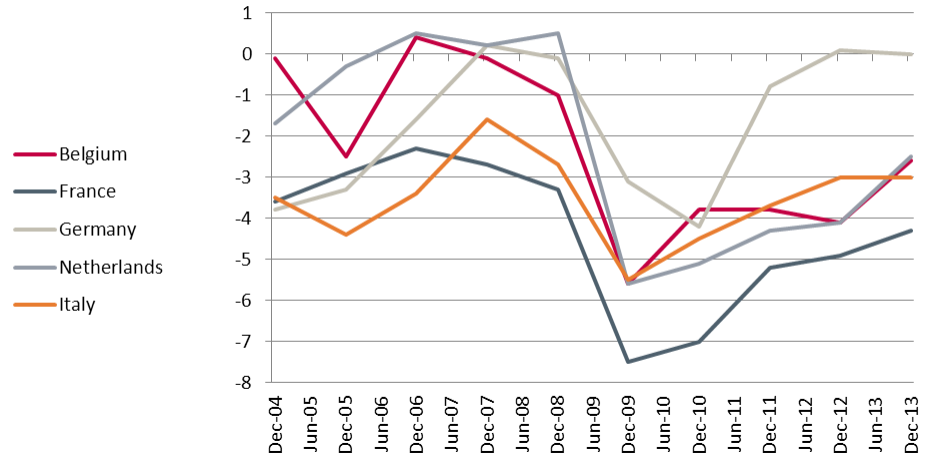
### Inflation (HICP, %yoy)



### Unemployment Rate (%)



### Budget Deficit (% of GDP)



# The Belgian Economy

## Economic Projections

	2013	2014e	2015e	2016e
Real GDP (percentage change)	0.2	1.3	1.6	1.7
Domestic employment (average annual change, in persons)	-9,700	11,900	21,500	31,000
Unemployment rate (percentage change)	8.5	8.6	8.5	8.2
Inflation (percentage change)	1.2	0.9	1.3	1.6
Overall balance of general government (percentage change)	-2.6	-2.6	-2.8	-2.9
Public debt (EDP definition, % of GDP)	101.2	101.7	101.9	101.5
Current account balance (% of GDP)	-1.6	-0.8	-0.6	-0.5

Source: National Bank of Belgium 6 June 2014



# The Belgian Economy

Belgium maintains strong ratings

## Ratings of Belgium as at 1 September 2014

	Long-term rating	Outlook	Short-term rating
Fitch	AA	Stable	F1+
Moody's	Aa3	Stable	Prime-1
Standard & Poor's	AA	Stable	A-1+

“Our ratings on Belgium reflect our view of its economy's high level of prosperity, its strong net external asset position, and its relatively strong institutional effectiveness, despite sporadic political stalemates.”

Source: S&P 25 July 2014

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# Conclusion

## High quality secured instrument

Expected rating of Aaa by Moody's and AAA by S&P

## Dual Recourse

- Covered by Belgian public sector loans
- Full recourse against Belfius

## Strong Legislation

- Strong oversight by the NBB and the cover pool monitor
- Framework of cover tests, liquidity tests and prudent valuation rules
- Enhanced by issuer covenants

## High Credit Quality of Cover Assets

- No defaults have occurred
- Strict supervision and budget controls
- 100% Belgian public-sector
- Low indebtedness of local authorities

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# Belgian Pandbrieven Legislation

## Main Characteristics of Belgian Pandbrieven

### Pandbrieven / Lettres de gage

- Legally protected term to indicate Belgian covered bonds that are UCITS and CRD compliant

### On-Balance Sheet Structure

- Issued directly by the licensed Belgian credit institution
- No SPV
- No specialized credit institution

### Dual Recourse

- The pandbrieven holders have recourse against both
  - the general estate
  - the special estate: exclusively for the pandbrieven holders

### Bankruptcy Remoteness

- Registration has the same effect as a true sale in insolvency proceedings
- The special estate is not part of the bankruptcy estate
- Proceedings do not cause the acceleration of the Belgian pandbrieven

# Belgian Pandbrieven Legislation

## Additional Safeguard Mechanisms

### Commingling Risk

- Collections received from the cover assets are by law part of the special estate
- Such collections held by the issuer for the account of the special estate are moreover protected via the 'revindication' right: the ownership rights of the special estate as regards cash that cannot be identified in the general estate will be extended to unencumbered assets in the general estate.
- After issuer bankruptcy: collections received from cover assets are excluded from the general estate

### Set-off and Claw-back Risk

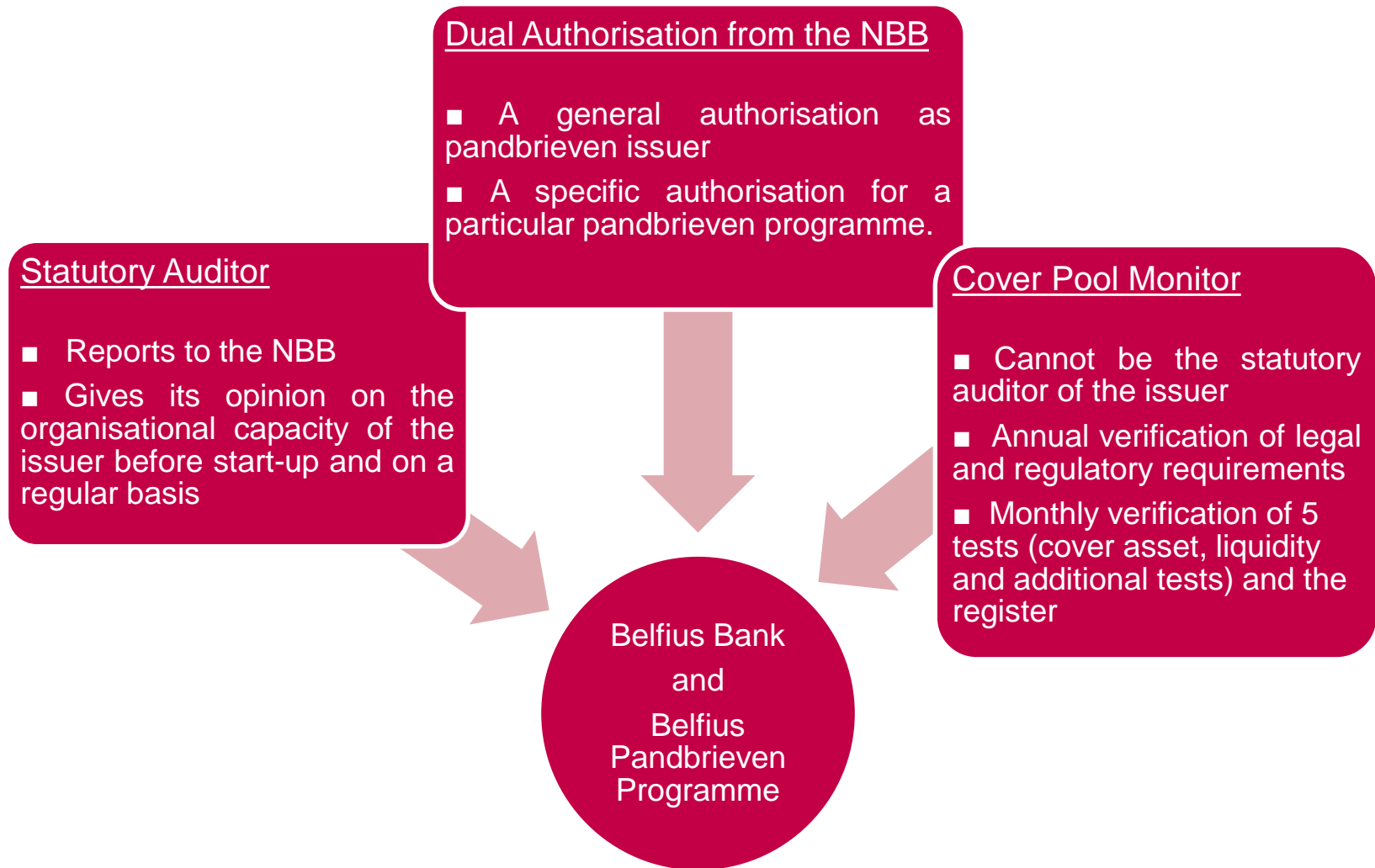
- Legal and contractual set-off prohibited after transfer (including registration in the cover assets register) of receivables
- Claw-back rules limited to fraud

### Cap on Issuance

- A credit institution can no longer issue new Belgian pandbrieven if the amount of cover assets exceeds 8% of the credit institution's total non-consolidated assets.

# Belgian Pandbrieven Legislation

## Pandbrieven Issuer Supervision



# Belgian Pandbrieven Legislation

## Special Estate - Composition

**The cover pool must be mainly composed of one of these three types of assets\***

- **Residential mortgage loans** (or senior RMBS), having a first lien mortgage
- **Commercial mortgage loans** (or senior CMBS), having a first lien mortgage
- **Public sector exposure** (or senior public sector ABS), exposure on or guaranteed/secured by a public sector entity

**The remaining part of the cover pool may be composed of**

- Assets from another category above
- Receivables on credit institutions
- Hedging instruments, only to the extent effectively used to hedge interest rate or FX risk within the special estate

\* See next slide – 85% test



# Belgian Pandbrieven Legislation

## A Strong Framework of Legal Tests

### 85% test

- The value of cover assets from one of the 3 categories must represent at least 85% of the nominal amount of the outstanding pandbrieven
  - Prevention of mixed asset cover bond programmes

### 105% test

- The value of cover assets must represent at least 105% of the nominal amount of the outstanding pandbrieven

### Amortisation test

- The sum of revenues stemming from the cover assets must be equal to or greater than the amount of interest, principal and costs related to the outstanding pandbrieven and their management

### 6 Months Liquidity test

- The cover assets must generate sufficient liquidity or contain sufficient liquid assets to meet all unconditional payments over a 6 month horizon.

### Additional stress tests of interest rate and currency hedges

- The cover asset tests and liquidity test must be met also in the case of sudden and unexpected movements in interest rates and exchange rates (internal stress tests or the option to simulate an immediate increase or decrease of interest rates with 2% and of exchange rates with 8%)

# Belgian Pandbrieven Legislation

## Special Estate – Valuation of cover assets (85% and 105% tests)

### Valuation of Residential Mortgages

Minimum of

- The outstanding loan amount
- 80% of the market value of the real estate
- The amount of the mortgage (inscription+mandate)
- The amount of the mortgage inscription divided by 0.6

### Valuation of Public Sector Exposure

Book value

### Valuation of Exposure to Credit Institutions

Book value  
for 105%  
test only if

- Counterparty qualifies for CRD credit quality step 1
- Counterparty qualifies for CRD credit quality step 2 and maturity  $\leq 100$  days at the time of registration in the Cover pool

No value for  
85% test

# Belgian Pandbrieven Legislation

Special Estate – Valuation of cover assets (85% and 105% tests)

- Hedging instruments:

No Value

- For the 85% test
- For the 105% test

- Haircuts
  - Value of 30+ days delinquent loans reduced by 50%
  - Defaulted loans (i.e. 90+ days delinquent loans) have no value

# Belgian Pandbrieven Legislation

## Special Estate – The Register

### The Special Estate

- The assets registered as cover assets
- The collateral received for hedging instruments registered as cover assets
- Security rights, guarantees and insurances granted in relation to cover assets
- Recoveries received in respect of cover assets or above mentioned accessories
- NBB reserves linked to the special estate

### The Register

- Information about the characteristics of the pandbrieven
- Information about the characteristics of the cover assets
- Updated on a daily basis

# Belgian Pandbrieven Legislation

## Special Estate – Cover Pool Administrator

### Cover Pool Administrator

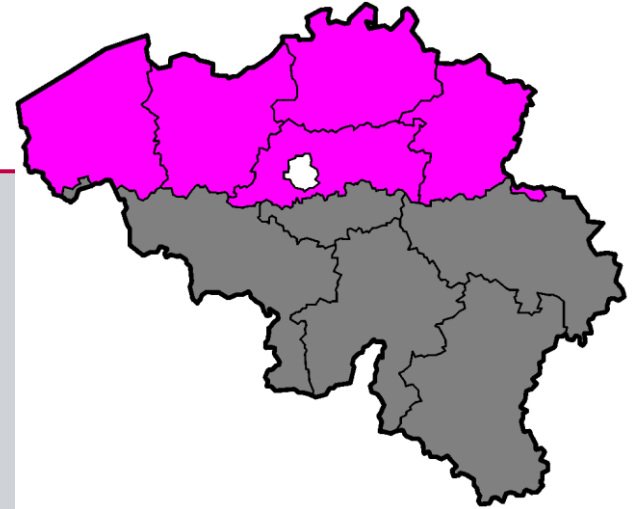
- Appointed by the NBB
- To manage the special estate in certain circumstances:
  - Adoption of a reorganisation measure against the issuer that may negatively affect the pandbrieven holders
  - Initiation of bankruptcy proceedings against the issuer
  - Removal of the issuer from the list of pandbrieven issuers
  - Where the situation of the issuer is such that the NBB deems that it may seriously adversely affect the interests of the pandbrieven holders
- Legally entrusted with the necessary powers to manage the special estate
- Manages the special estate in the interest of pandbrieven holders

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# Description of Local Authorities

## Provinces - Factsheet



### Structure

- 5 Flemish and 5 Walloon provinces
- Brussels is not part of a province

### Responsibilities

- Provincial interests
- Complementary and not in competition with regions or municipalities
- Delegated responsibilities from higher authorities

### Supervision

- Exercised by the Flemish, the Walloon Region respectively

### Ruling Organs

- Provincial Council: Directly elected; proportional representation
- Permanent Deputation: Composed from members of Provincial Council; executive powers
- Governor: Nominated by the regional government

# Description of Local Authorities

## Provinces - Budget Overview

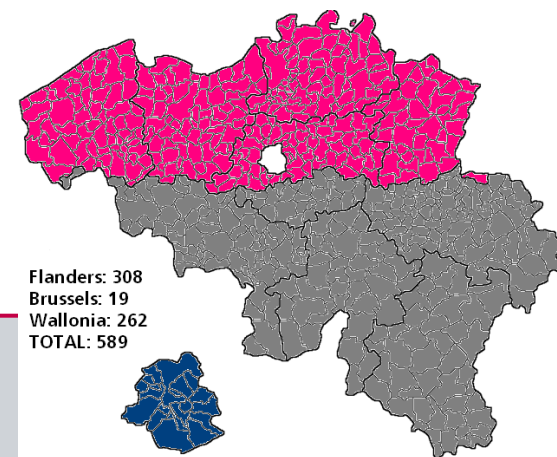
### Main Budget Items

- Revenues
  - Tax revenues: 71% (FL); 56% (WA)
  - Funds
  - Contribution linked to specific activities
  - Receipts from services delivered
- Expenditure: Broad Range of Activities
  - Culture
  - Education (30% of expenditure for Walloon provinces; negligible for Flemish provinces)
  - Road infrastructure
  - Economy
  - ...



# Description of Local Authorities

## Municipalities - Factsheet



### Responsibilities

- Local interests
- Delegated responsibilities from higher authorities
- Some duties are exercised by the local government-related institutions

### Supervision

- Exercised by the Regions

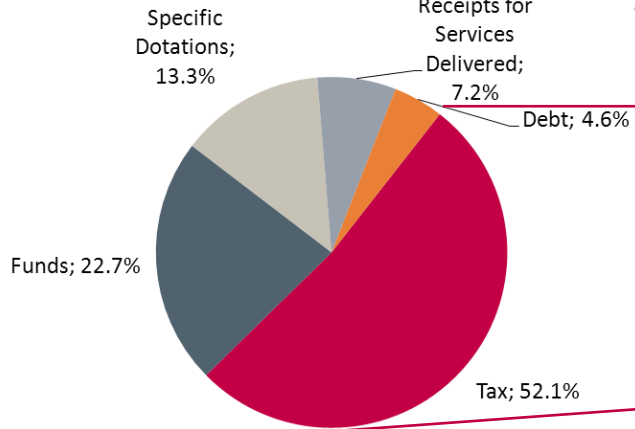
### Ruling Organs

- Municipal Council: Directly elected; proportional representation
- College of the Mayor and the Executive Council: Elected by the Local Council
- Mayor: Elected by Local Council

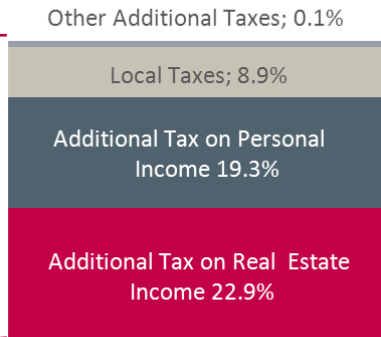
# Description of Local Authorities

## Municipalities – Ordinary Budget

**Ordinary Revenues - 2012**



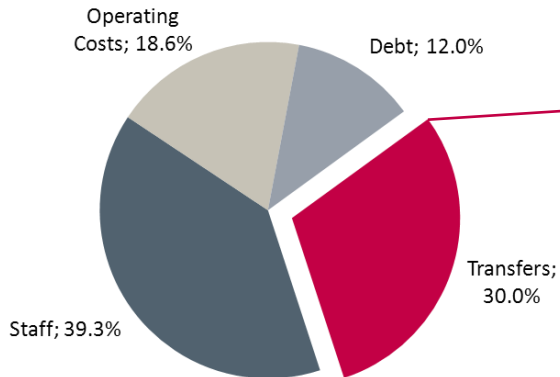
**Tax Revenue Breakdown**



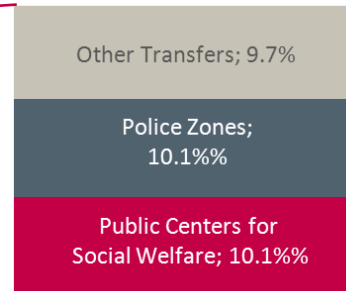
Does the Municipality decide on the different tax parameters (Y/N)?

	Additional Taxes	Local Taxes
Tax Base	N	Y
Tax Rate	Y	Y
Tax Collection	N	Y

**Ordinary Expenditure - 2012**



**Transfers Breakdown by Destnary**



# Description of Local Authorities

## Investment Budget

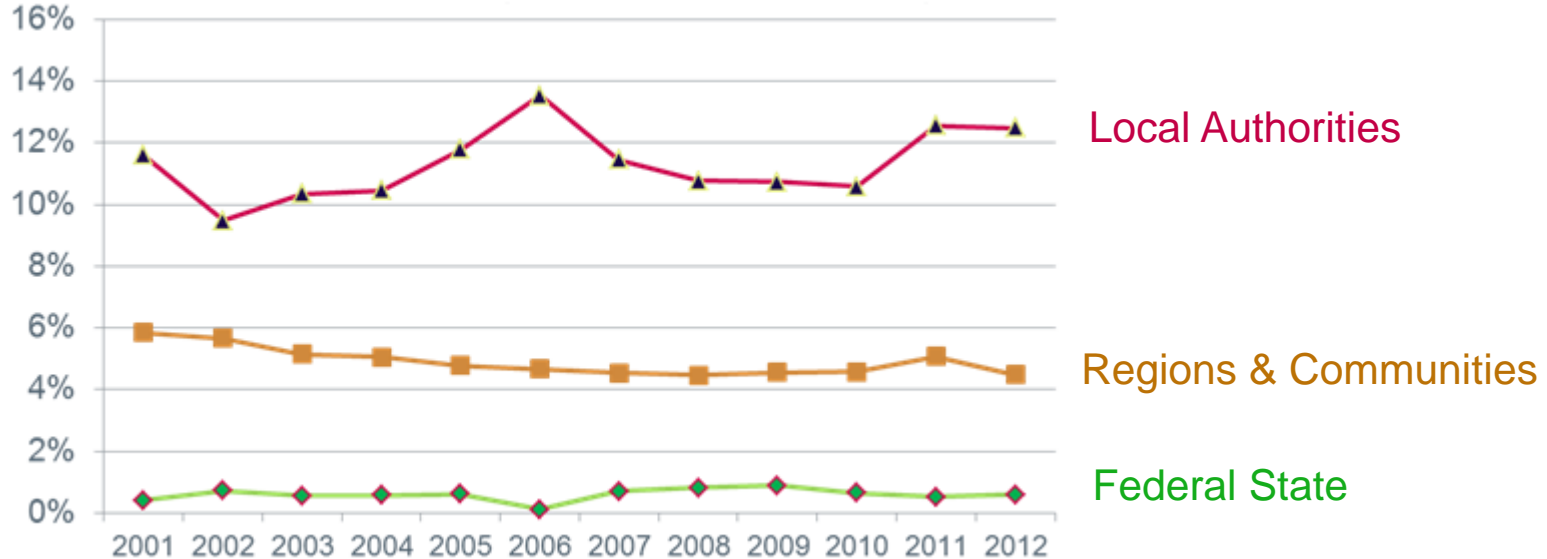
### ■ Investment volume by local authorities

- Approx. EUR 2.8 billion
- Approx. 1% of GDP
- Approx. 50% of public investments

### ■ Municipal investments are financed by

- Auto-financing: 25%
- Borrowing: 48%
- Subsidies: 22%
- Sale of assets: 5%

Share of investments in the total expenditures



# Description of Local Authorities

## Public Centers for Social Welfare and Police Zones

### Some Common Characteristics

#### Legal framework

- Local government-related institutions, under federal law
- Specific mission: Social aid or Security, respectively
- Indirect elections (appointed by the municipal councils)
- Under general supervision of the regions, but norms set at the federal level

#### Fiscal framework

- Autonomous budget management (e.g. treasury, loans and financial director)
- Budget distinct from the municipalities
- Federal State intervenes in the financing
- Municipalities are obliged to cover operating deficits
- No tax powers

# Description of Local Authorities

## Public Centers for Social Welfare (“PCSW”)

### Legal framework

- One PCSW for each municipality
- Separate legal status

### Mission Statement

Organise social assistance so that everybody can have a dignified human life

- Welfare assistance and urgent social aid (homeless, refugees,...)
- Social and professional reintegration
- Domestic aid services (meals, cleaning,...)
- Retirement homes and residential services
- Accompanying negotiations on debt rescheduling

### Main Financing Sources

- Cost sharing with the federal government
- Transfers from municipality
- Other: Transfers from regions and own resources

# Description of Local Authorities

## Police Zones

### 2 Kind of Police Zones

- Mono-municipal police zones (48): no separate legal status
- Multi-municipal police zones (147): separate legal status

### Organs

- Police College (represented by all mayors)
- Council (composed of selected municipal councilors)

### Mission Statement

- Local policing
- Certain missions with federal characteristics

### Financing Sources

- 60% transfers from the municipalities
- 40% transfers from the federal government

# Description of Local Authorities

## Intermunicipal Entities

### Description

- Association of municipalities, working in the field of municipal interest
- Legal personality: limited company (*société anonyme*), cooperative, or non-profit organisation
- Same accounting rules as “normal” company

### Main Fields of Activity

- Energy (distribution and financing)
- Water distribution
- Cable network
- Waste
- Economic expansion
- Health

### Financing

- Financing sources are highly dependent on field of activity
  - Own revenues
  - Subsidies
  - Debt

# Description of Local Authorities

## Public Hospitals

### Sector

- 33 general hospitals
- 3 university hospitals

### Shared Responsibility

- Federal State
  - Organic law
  - Planning
  - Exploitation budget
- Communities and Regions
  - Investment subsidies
  - Norms

### Financing

- Exploitation budget
  - General transfers from Social Security ( $\pm 50\%$ )
  - Payments by Social Security for services delivered ( $\pm 40\%$ )
- Investment budget
  - Investment subsidies from the regions
  - General transfers from Social Security



# Contacts

## **Long Term Funding**

Ellen Van Steen: [ellen.vansteen@belfius.be](mailto:ellen.vansteen@belfius.be)

Christine Lepage: [christine.lepage@belfius.be](mailto:christine.lepage@belfius.be)

## **Asset Based Solutions**

Bart Verwaest: [bart.verwaest@belfius.be](mailto:bart.verwaest@belfius.be)

Carol Wandels: [carol.wandels@belfius.be](mailto:carol.wandels@belfius.be)

Dries Janssens: [dries.dj.janssens@belfius.be](mailto:dries.dj.janssens@belfius.be)

Info: [financialcommunication@belfius.be](mailto:financialcommunication@belfius.be)

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