Front Office Bulletin

Brussels-Capital Region
Debt Agency

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ask for useful appendices:

S&P update 28/07/2017

Useful links:

Front Office **http://financesbudget.brussels/fo-en**
Bloomberg directory **BRUCAP**
Reuters directory **BRXCP**

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SHORT DESCRITPION AND KEY STRENGHTS OF BRUSSELS

* Regional autonomy since 1989
* Budget back to equilibrium form 2013
* Capital of European Union, Belgium, Flanders and Brussels Region
* European capital with a dominant public sector providing **economic stability**
* Seat of NATO, many European institutions, lobby organisations, large diplomatic centre
* **Prudent** budgetary processes, **consolidated** accountability
* **Predictability** and strong control of the expenditure, regional taxes correlated to strong real estate

* **AA Rating by S&P** since first rating action in 1996! (see Front Office Journal and appendix)

AA Stable* (28/07/2017) + very strong *financial management* + exceptional *liquidity

* 0% risk weighting & ECB eligibility
* MiFID II: category professional LEI: 5299008ZV35QYD8G0992

* The region targets nearly balanced budget for 2017-2022 and, in addition, plans strategic investment (see further).
* **Fourth wealthiest European region** in terms of GDP/capita in 2015 according to Eurostat
  but specific weakness due to Belgian institutional setting eg fiscal impact of commuters
  now offset by the **refinancing packages** under 6th state reform (over 560 Mio in 2018)

More about regional competences on: http://be.brussels
about Budget on: http://finances-budget.brussels/
about regional statistics on: http://bisa.brussels

FRONT OFFICE DIRECT DEBT MANAGEMENT & TOOLS

One of the main tasks of the Front Office is the management of the direct debt of the Brussels-Capital Region.

Team

Serge DUPONT* - Front Director - 322 204 10 54 sdupont@gob.brussels sdupont2@bloomberg.net
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Oliver HENDRICKX - Legal and Compliance Officer - 322 204 16 23 ohendricks@gob.brussels
Maret VEINER - Financial Communication Officer - 322 204 18 84 mveiner@gob.brussels

* Person entitled with ministerial decree for the daily management of the portfolio (decree 10/11/2017)
** Alternate person entitled for daily management of the portfolio in the absence of Serge Dupont.

The main operational phases

1) communication of the funding needs to the market (Bloomberg, website)
2) reverse enquirery approach: propositions analyse by the FO
3) authorization by the Minister of Finance and Budget - Mister Vanhengel
4) market price comparison, negotiation and conclusion by the FO
5) Middle and Back offices follow up

Note that the authorization circuit is short for simple operations.
Complex operations are proposed before the Financial Strategic Commission (FSC)

Control bodies - 4 levels

Intern Chinese wall : Strong division Front-Middle-Back Offices, treasury, budget & accounting
Regional: Minister of Finance, Government & Parliament, special commissions
Federal: Finance inspectorates, Court of Auditors, National Bank of Belgium, CSF norm (deficit path), INR
International organisations: S&P, Eurostat, European Central Bank

Financing tools

Short term : * credit line (called cashier contract) of 1, 5 billion (1,2 billion from 01/04/2018)
* commercial paper (via MTN)

Long term: * banking
* 3 billion MTN program (in form of a light EMTN)
* Schuldschein
* other tailor made private placement documentation

HIGHLIGHTS FOR 2017

* due to strategic investment **small deficit** expected in 2017 while the general policy aims for nearly balanced budget for 2017-2022 (see details further).
* it means limited **future needs mainly to refinance existing debt** (max 250 Mio/year)
* **for 2018 minimum need of funding 204 Mio** (see part Financing needs 2018)
* **Credit line** (cashier contract) up to 1,5 billion (next contract for period 2018-2021 up to 1,2 billion euro concluded).
* our stricto sensu **S&P liquidity ratio will stay over 120%** and we can face liquidity crisis risk for 5 years
* Credit line permits us to largely recreate a short term debt: **mean cost will decline to almost 3%**
* even so portfolio will keep **strong ratios:** about 70% LT fixed rate, long duration (6-8Y), smooth amortisation
* **MTN program:** easy one-day dealer, 3 billion capacity, listing on demand
* because of the above qualities, we expect to benefit from **our premium** around OLO+(10-15 bp)

OTHER STRENGHTS of the PORTFOLIO

* **very strong access to funding** (MTN, SDD, banking)
* high share of vanilla investment in portfolio (97%)
* we will also keep excellent **diversification** in funding format, quality of counterparties, long maturities
* **advanced management of the derivatives**, minimum options overlap risk, strong part of long vanilla swaps
* no speculative derivatives, **perfect matching** between a derivative and its underlying funding
* the volume of direct debt of the region can theoretically be **covered up to 56% by the credit line.**
* our **cashpooling system** covers both regional government and government related enterprises (global total outstanding 1,15 Bio in 2016)

EXTRAORDINARY STRATEGIC INVESTMENT 2016-2019

Brussels government has decided to increase the regional investments in public infrastructure to increase security and improve mobility.

Mio euro

2016	*2017*	*2018*	*2019**	*Total*
19	109	275,5	250	653,5

** the estimation of FO.*

The investments are:

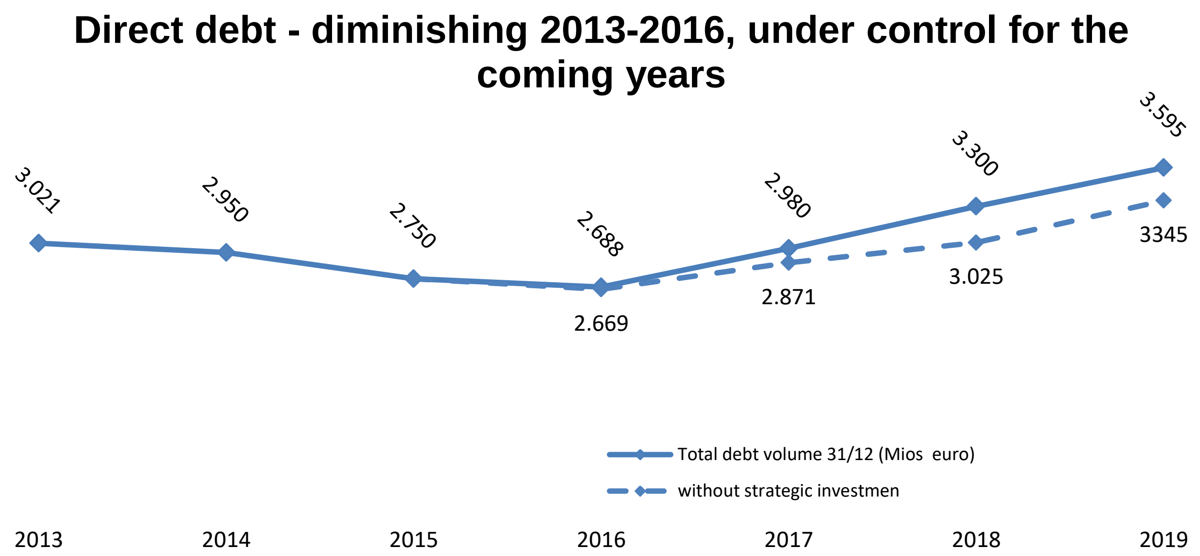
- specific investments in public projects;
- budget neutral;
- targeting the needs of security, public transport, road infrastructure.

In 2018 the Brussels-Capital Region divides the investment of 275,5 accordingly:

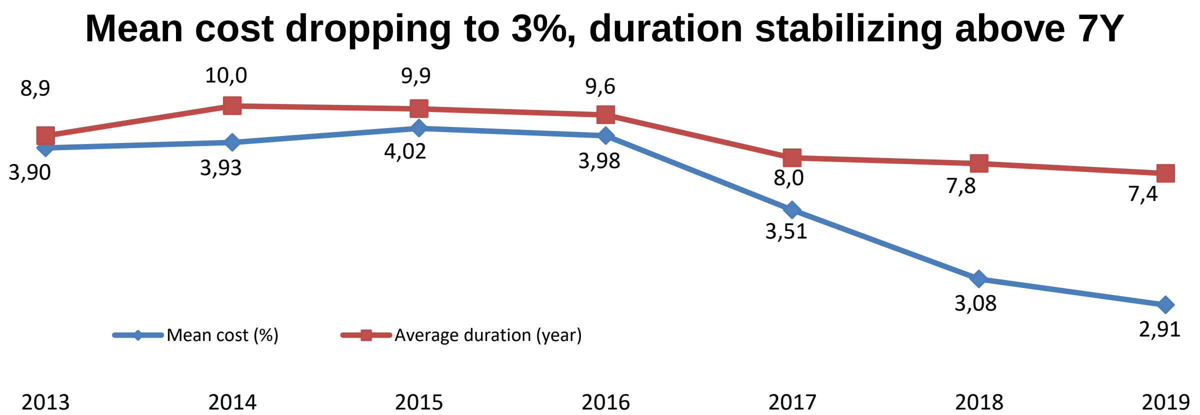
* Investment in security, among other things the construction of the regional crisis center - 53,5 Mio;
* Renovation and expansion of the metro network - 150 Mio;
* Tunnels, bridges and viaducts - 72 Mio.

PORTFOLIO PROFILE : 31/12/2016 & expectations

at 31/12/2016:	Total consolidated debt	€ 4.534	(Mio)
	Direct debt	€ 2.688	(Mio)
	Mean cost	3,98%	
	Part of fixed rate	97,9%	
	Duration (years)	9,6	
	floating debt	€ 119	(Mio)
	short term credit line	€ 1.500	(Mio, new credit line 1,2 Bio 1/4/18)
	credit line free margin	92,0%	
	S&P Liquidity ratio stricto sensu for the coming 12months	303,2%	(positive if higher than 120%)
	consolidated debt/operating revenue by ESA2010	98%	(definitive value for 2016)
	consolidated debt/operating revenue by S&P	91%	(definitive value for 2016)



** The maximum permitted deficit used for 2018 and onwards, historically the Region always performs better.*



** The mean cost for 2018 and onwards is estimated with a stress test following very defensive strategy*

MAIN RATIOS FOR NOVEMBER 2017

Direct debt	€ 2.980	(Mio)
Mean cost	3,51%	
Part of fixed rate	87,2%	
Duration (years)	7,7	
floating debt	€ 573	(Mio)
short term credit line	€ 1.500	(Mio)
credit line free margin	61,8%	

OBJECTIVES and STRATEGY

Strategic framework

The Front Office follows four strategies that are approved by Financial Strategic Commission and the Cabinet of the Minister of Finance and Budget of Brussels Region.

1) Limited consolidation strategy
The Front Office uses long term external financing up to the need for renewal of underlying existing derivatives in the portfolio. Priority will be given to the funding needed for underlying structure for LT derivatives in portfolio (matching rule).

2) Investment strategy of cash surpluses
Based on the cash flow plans, the Front Office maintains solid diversification in order to reduce the counterparty risk and analyses the yields of the different used tools (bank loans, commercial papers and others).

3) Amortization smoothing plan strategy
The Front Office takes actions to smooth the amortization schedule and to lower the volume of some maturities to return to an average amortization of 175 Mio annually.

4) ETO smoothing strategy
If possible, the Front Office spreads the annual risk of early termination to limit the burden possible activation in a given year. This smoothing operation is carried out with the main derivatives partner.

FIRST INDICATIVE FINANCING NEEDS for 2018

At this stage the Front Office is authorized to consolidate at least 204 Mio debt in 2018.
The potential funding needs for future strategic investments will be communicated later in 2018 when the concrete financing needs are fixed and authorized

Combined with the strategies this results the following indicative financing needs in 2018:

Amount	*Start date*	*Rate type*	*Maturity*
68 Mio	end 01-18	Fixed rate	about 20-30Y
25 Mio	21-03-18	Euribor6M	about 7-10Y
75 Mio	14-04-18	Euribor6M	about 7-10Y
36 Mio	30-04-18	Euribor6M	about 7-10Y

Maturity has to be chosen according to the amortisation plan (see data sheet p. 6). To keep the amortisation schedule smooth the end date of financing contract cannot fall in 2029, 2032.

We work with reverse enquirery method. The first proposals can be made from 3 January.

Rate guidance: OLO + [10 to 15] bp
Preference for MTN or bilateral format

For further information look at Bloomberg "**BRUCAP**"!
The update of funding needs is posted on the website of FO (http://financesbudget.brussels/fo-en)

You can also refer the website for :
* NYC and compliance documentation
* MTN documentation

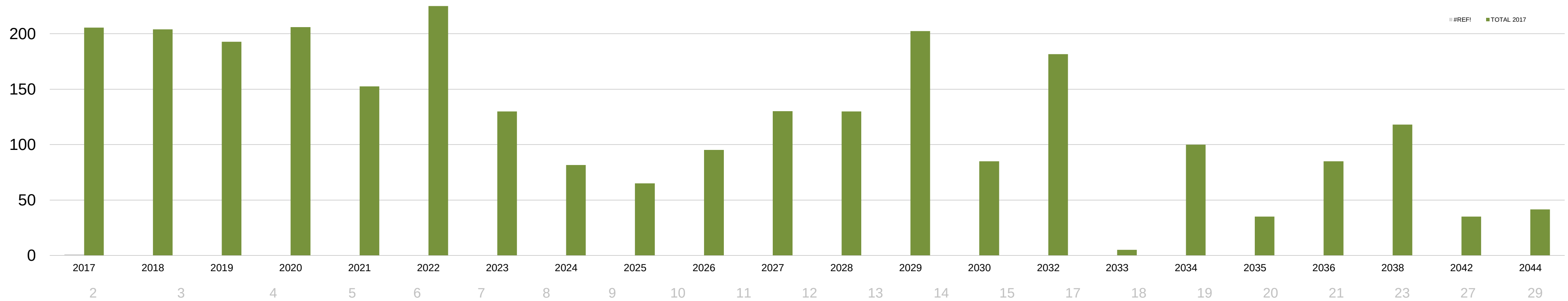
SMOOTHING QUALITY OF THE AMORTIZATION (Mios)

Conclusion 25Mios MTM start April 2017 and 25Mios start December 2017

Amortizing plan now:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2032	2033	2034	2035	2036	2038	2042	2044
acquir	0	0	0	0	0	0	0	0	0	0	50	0	0	0	0	0	0	0	0	0	0	0
renego	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTA	**205,5**	**204,0**	**192,8**	**206,0**	**152,5**	**225,0**	**130,0**	**81,5**	**65,0**	**95,0**	**130,0**	**130,0**	**202,5**	**85,0**	**181,5**	**5,0**	**100,0**	**35,0**	**85,0**	**118,0**	**35,0**	**41,5**

Amortizing plan no **2.705,8** **of which new funding** **50,0** **and of which optional funding** **93**



LIQUIDITY RISK INDICATORS:

A) smoothing quality of am. plan:

Period	2016	2023		2025
observations		8		10
Tot am. of the period		1.315,75		1.462,25
repayment ratio		**0,49**		**0,54**
Mean		**164,47**		**146,23**
Standard deviation		33,92		58,64
in %			**20,62%**	**40,10%**

B) Maximum refinancing risk coming up:

max annual amortization	**225,0**
fonction of:	
a) mean MRBC debt volume for 2013	**3.059,4**
b) initial expenditure budget	**3.562,7**

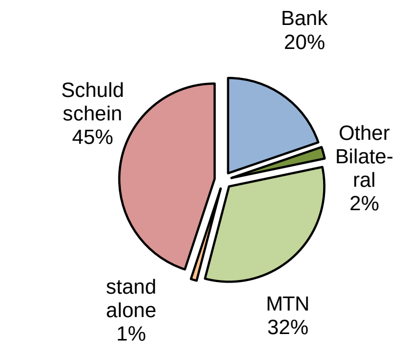
C) Maximum refinancing risk coming up:

5 years	**35,5%**
10 years	**62,4%**

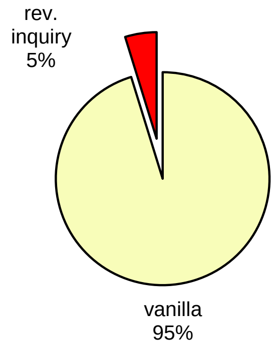
LT FUNDING PORTFOLIO

Diversification, formats, maturity and counterparty risk (Mios€)
takes into account all the active commitment even forward starting

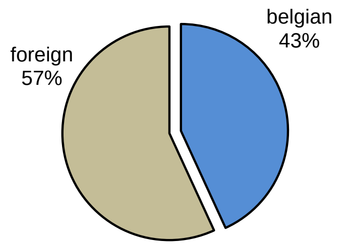
Formats



Vanilla vs Structured



Geo. Origin



A) Format distribution: / **B) Maturity:**

format	qt	tot volume	share	maturity
Bank	11	498,0	*20%*	9,45
Other Bilateral	1	50,0	*2%*	4,54
MTN	31	815,3	*32%*	4,21
stand alone	1	25,0	*1%*	3,86
Schuldschein	32	1.133,5	*45%*	9,53
TOTAL	**76**	**2.521,8**	*100%*	7,60

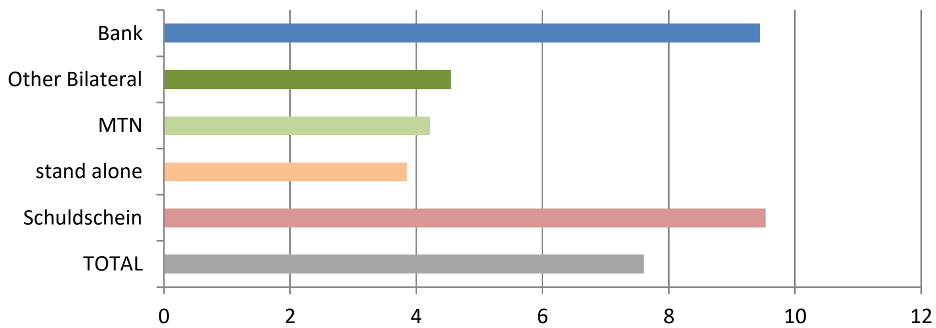
C) Part of structured funding:

type	qt	volume	share
vanilla	71	2.401,8	*95%*
rev. inqu	5	120,0	*5%*
	76	**2.521,8**	*100%*

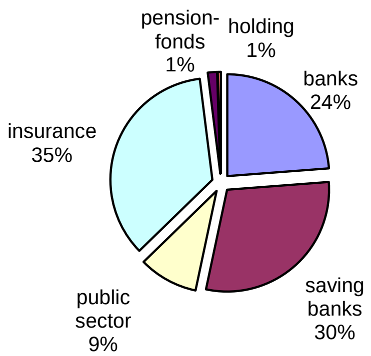
D) Geographic origin:

					tot volume	share
belgian	33	1.088,3	*43,2%*	*from which MTN*	580,3	*71,2%*
foreign	41	1.433,5	*56,8%*	*from which SSD*	815,3	*100%*
	74	**2.521,8**	*100%*			

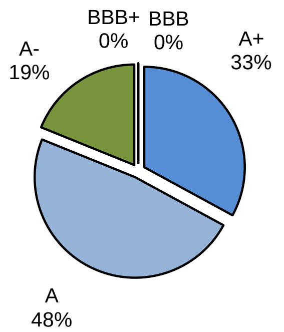
Mean maturity



MTN investor types



Rating of banking counterparties



E) Repartition by MTN investor type:

banks	tot vol	share tot	share MTN
banks	193,9	*8%*	*24%*
saving banks	240,7	*10%*	*30%*
public sector	76,6	*3%*	*9%*
insurance	287,9	*11%*	*35%*
pensionfonds	12,0	*0,5%*	*1%*
holding	4,1	*0,2%*	*1%*
	815,3	*32%*	*100%*

Assuming buy & hold investors

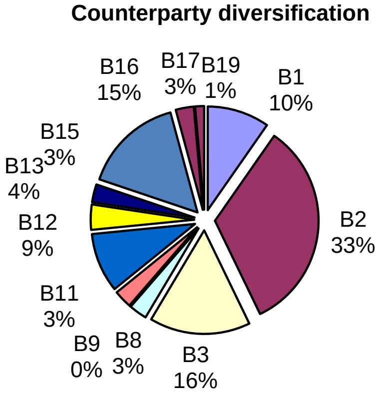
F) Rating of bilateral bank counterparties:

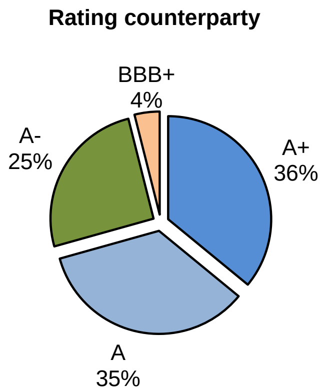
bank	qt	tot vol	share tot	hare Ban	S&P
B1	2	94,0	*4%*	*19%*	A-
B2	5	164,0	*7%*	*33%*	A+
B4	1	75,0	*3%*	*15%*	A
B5	0	0,0	*0%*	*0%*	A-
B12	1	65,0	*3%*	*13%*	A
B17	2	100,0	*4%*	*20%*	A
B18	0	0,0	*0%*	*0%*	
	11	498,0	*20%*	*100%*	A+

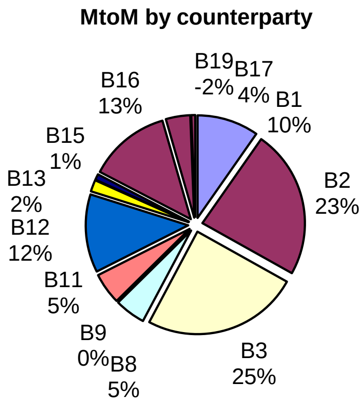
Total capacity of the MTN program	**3Bions**
degree of LT use	***27%***

DERIVATIVES PORTFOLIO

Diversification, types, maturity and counterparty risk (Mios€)
takes into account all the active commitment even forward starting



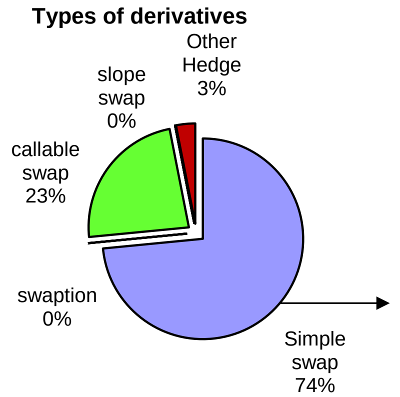




A) Derivatives repartition by bank:				B) Rating	c) MtoM		rating
banks	*qt*	*volume*	*share*	*weighted vol*	*MtoM*	*share*	*weight. by*
B1	4	172,5	*10%*	A-	-61,4	*10%*	
B2	15	590,0	*33%*	A+	-147,9	*24%*	
B3	5	280,0	*16%*	A-	-155,9	*25%*	
B8	1	50,0	*3%*	A+	-30,5	*5%*	
B9	0	0,0	*0%*	A+	0,0	*0%*	
B11	1	50,0	*3%*	A	-31,3	*5%*	
B12	3	165,0	*9%*	A	-77,8	*12%*	
B13	2	70,0	*4%*	BBB+	-11,6	*2%*	
B15	1	50,0	*3%*	A	-5,8	*1%*	
B16	10	278,0	*16%*	A	-81,5	*13%*	
B17	1	50,0	*3%*	A	-24,3	*4%*	
B19	1	25,0	*1%*	A	3,9	*-1%*	
	44	**1.780,5**	*100%*	**A**	**-624,2**	*100%*	**A**

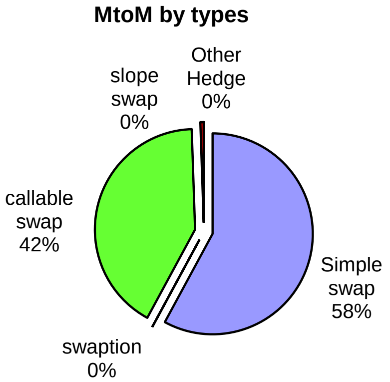
MtoM depreciation: -35%
compared to total port derivatives volume

DELTA: Porfolio sensitivity to 1BP
approx. -3,2 Mios, or 1% of MtoM



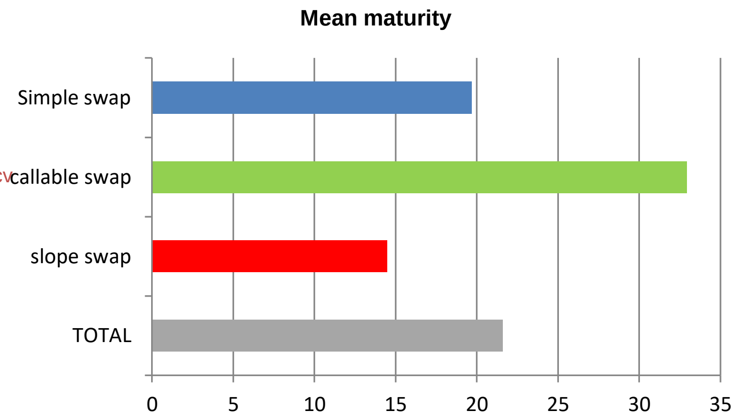
Part of very long vanilla swaps in % of the total portfolio:

maturity	*qt*	*vol tot*	*share*
>25Y	9	350	20%
>45Y	0	0	0%



Note neutralizing effect of SWAPfv and SWAPcv

D) Derivatives repartition by type:				E) Maturity:	F) MtoM:	
type	*qt*	*tot vol*	*share*	*maturity*	*MtoM*	*share*
Simple swap	***34***	***1.308,0***	***73%***	***19,7***	***-354,1***	***57%***
SWAPvf	17	870,0	*49%*	24,2	-367,3	*59%*
SWAPfv	8	175,0	*10%*	7,1	21,6	*-3%*
SWAPvv	1	50,0	*3%*	5,1	0,1	*0%*
SWAPcv	5	120,0	*7%*	11,2	-8,6	*1%*
SWAPcf	3	93,0	*5%*	0,0	Included in SWAPcv	
Conditionned swa	***10***	***472,5***	***27%***	***30,8***	***-270,5***	***43%***
swaption	*0*	*0,0*	*0%*	*0,0*	*0,0*	*0%*
callable swap	*8*	*417,5*	*23%*	***32,9***	*-254,1*	*41%*
CALLvf	5	311,5	*17%*	36,3	-184,5	*30%*
CALLff	1	36,0	*2%*	20,4	-16,4	*3%*
CALL INVff	2	70,0	*4%*	24,4	-53,2	*9%*
slope swap	*2*	*55,0*	*3%*	***14,5***	*-16,4*	*3%*
CMSff	1	30,0	*2%*	23,3	-3,3	*1%*
LIN CMSvf	1	25,0	*1%*	3,9	-13,1	*2%*
Other Hedge	***0***	***0***	***0%***	***0,0***	***0,0***	***0%***
TOTAL	**44**	**1.780,5**	*100%*	21,6	**-624,6**	*100%*



G) Share of non capped derivatives: LIN CMSvf 25,0 *1%* of the total derivative porfolio

2017 FUNDING RESULT

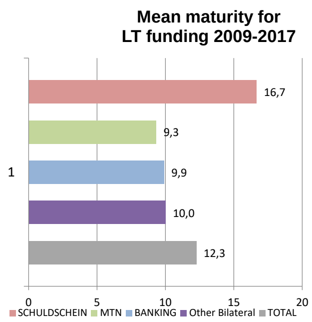
Margin at issue price, doesn't include fees and embedded options (dealer fees can be approx from less than 1 to 1,5BP depending maturity, how long how cheap)

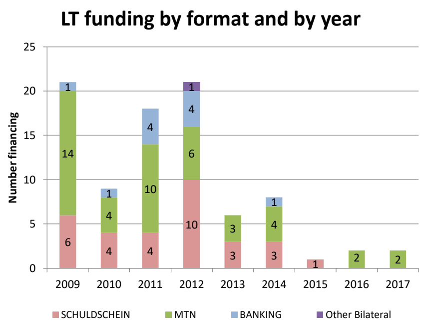
name	format	conclusion date	start date	end date	Issue price	All in rate	equivalent fixed rate ALL IN (%)	volume (Mios€)	weighting coeff.	maturity (year)	margin to rate curve: gross margin (BP)	adjusted margin to EUR6M (BP)	margin to OLO: negociated objective	IRS (%)	OLO (%)	margin to OLO (BP)
ST funding:																
2017_04_14_CP	CP	12-04-17	18-04-17	16-10-17		Eur 6M	-0,32%	75		0,5	-7,8	-7,8				
2017_10_14_CP	CP	12-10-17	16-10-17	16-04-18		Eur 6M	-0,34%	40		0,5	-6,6	-6,6				
MT funding:																
	0							0	0,00%	0,0		0,0				
LT funding:																
2017_04_13_MTN_01	MTN	05-04-17	14-04-17	14-04-27	100,00%	Eur 6M	0,980%	25	50,00%	10,0	25,00	25	OLO+28BP	0,73%	0,76%	22,0
2017_12_15_MTN_01	MTN	15-11-17	15-12-17	15-12-27	105,24%	Eur 6M	1,151%	25	50,00%	10,0	30,00	-23,8	OLO+9BP	0,85%	0,63%	-1,8
									0,00%							
	2						0,490%	50	100,00%	10,0		0,6				11,0
			Total MT+LT funding :					50	100,00%	10,0		0,6	Mean margin non banking			10,1

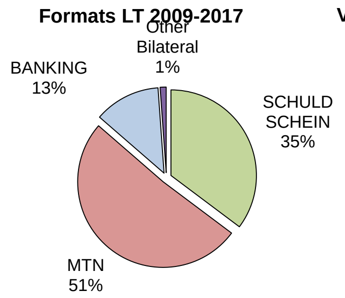
2009-2017 Historical Funding LT

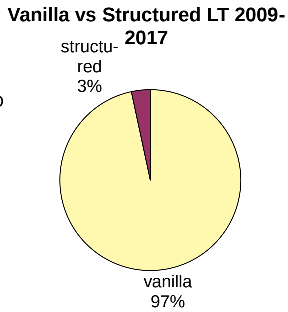
Margin at issue price, doesn't include fees (dealer fees can be approx from less than 1 to 1,5BP depending maturity, how long how cheap)

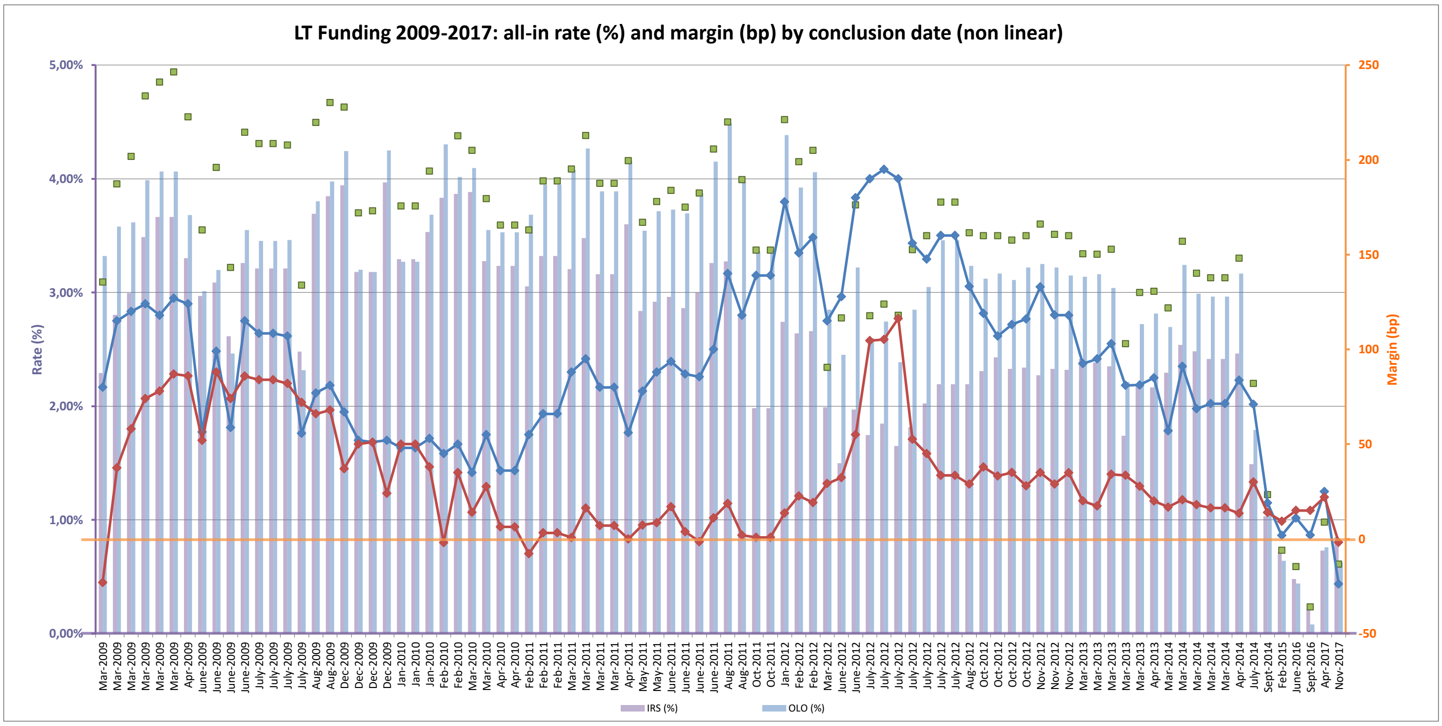
Analysis by format for LT funding: (All numbers are computed at conclusion date)		equivalent fixed rate ALL	volume (Mios€)	weighting coeff.	maturity (year)	adjusted margin to EUR6M	margin to OLO (BP)
SCHULDSCHEIN	31	4,047%	1090,5	38,61%	16,7	83	31,9
MTN	45	3,568%	1216,3	43,06%	9,3	86	34,0
BANKING	11	3,678%	467,5	16,55%	9,9	111	46,2
Other Bilateral	1	3,770%	50,0	1,77%	10,0	180	55,0
TOTAL	88	3,780%	2824,3		12,3	91	35,9









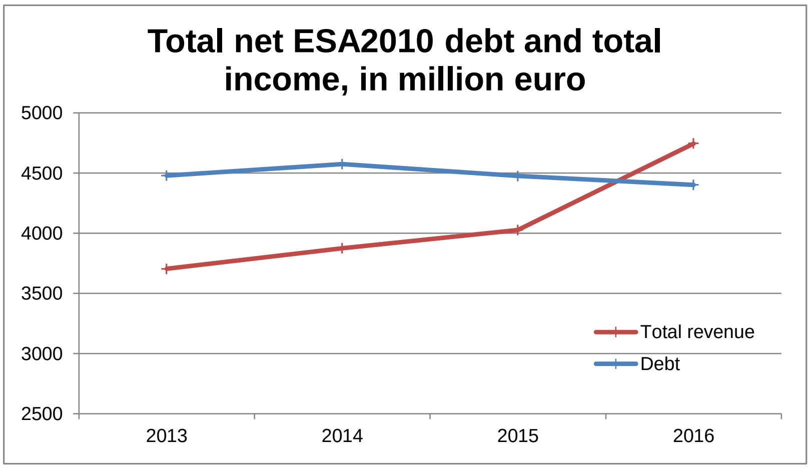


DEBT and REGIONAL BUDGET of BRUSSELS

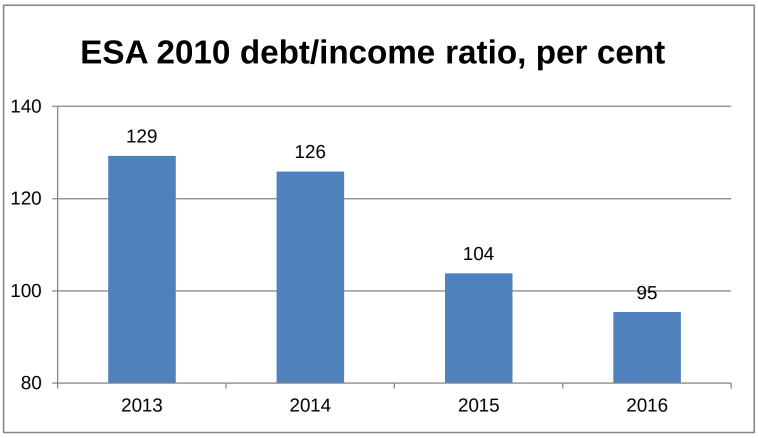
Following Belgian stability pact Brussels Region has aimed for the balanced budget. In 2016 the personal tax income and the introduction of toll on heavy vehicles generated a budget surplus.

However, in 2017 the Brussels Region's budget will most likely record a deficit. The expenditures of the Brussels-Capital Region will increase significantly more than in 2016, while revenue will most likely decline. The fiscal reform of the region will affect both income and expenditures.

Brussels will continue to invest in safety (after the attacks of 22 March 2016), public transport, road infrastructure and its municipalities in 2017.



The pursued equilibrium budget strategy transforms in the declining debt/income ratio. The FO has followed very limited consolidation path. Only amortization, that is necessary to match the derivatives portfolio as underlying asset, is consolidated.

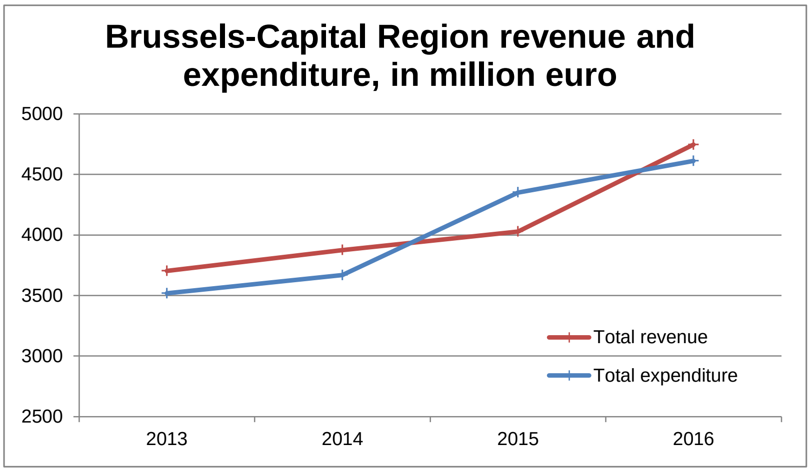


ESA2010 and CONSOLIDATION of REGIONAL INSTITUTIONS

The ESA2010 norm consolidates all the assets and obligations in the balance of regional institutions belonging to the public administrations sector (s.1312) with the government's services (the Brussels' Regional Public Service). This consolidation is purely an accounting one, the resulted debt is often called "Maastricht debt".

For the Brussels-Capital Region, the ESA2010 meant the consolidation of additional financial results and debts from forty institutions. On January 2017 there are 25 institutions in the consolidation perimeter:
ACTIRIS
GAN
ATRIUM
BRUGEL (BRUssels Gas ELectricity)
BRUSOC
ESABTHG (Economic and Social Council for the Brussels-Capital Region)
CIBG (IT Centre for the Brussels Region)
FFWB (Fund for the Financing of Water Management)
BWF (Brussels Guarantee Fund)

Housing Fund for the Brussels-Capital Region
BGHGT (Brussels Regional Fund for the Refinancing of the Municipal Treasuries)
Environment Brussels
Impulse
Innoviris
Iristeam
Parking.brussels (Brussels Regional Parking Agency)
Port of Brussels
DBDMH
BGHM (Brussels Regional Housing Association)
MIVB (Society for Intercommunal Transport in Brussels)
Visit.brussels
Brussels Prevention and Safety
BRUPART
Brussels Planning Office
Brussels Decommissioning



MONTHLY JOURNAL

January 2017

- 6/1/17: technical review by Standard & Poor’s

The Agency provided S&P comprehensive updates on financial data as at 31/12/16 for a synthetic review. This micro-review aims to provide basis also for the regular biannual reviews of the EU.

- 26/1/17: first full review of S&P

February 2017

- 24/2/17: S&P issues a press release based on financial information provided earlier in the year.

> Belgian Region of Brussels-Capital 'AA' Rating Affirmed; Outlook Remains Stable
>
> Overview
>
> - In our opinion, the Belgian Region of Brussels-Capital has very strong financial management and exceptional liquidity.
> - We are affirming our 'AA' long-term rating on Brussels-Capital.

The strongest points among eight key rating factors are:
- very strong financial management (sophisticated and prudent management of the debt)
- exceptional liquidity (access to liquidity and diversified financing).

Important comments of S&P:
- Guarantee management system is now considered to be "well defined" and "active".
- The establishment of the Budget Monitoring Committee which will strengthen the management of income and expenditure and will control the execution during the year.
- The baseline scenario is kept despite increased investment and annual deficit.
- The new consolidated liquidity ratio exceeds the level of 120% set by S & P.
- S&P is still confident about the moderate impact of the 6th state reform, the consolidation of government-related entities and the "tax shift "on the outlook of the region.

March 2017

- 7/3/17 & 21/3/17: modification of the swap of 25 Mio 2012_09_21_SWCA01 concluded with GSI in 2010 with the aim of to freeze it for one year. It serves the strategic objective to consolidate of 25 Mio in 2017. This "freezing" operation took the following form: a) exit from the existing swap without last coupon payment; b) entered into a new swap with the same terms and issuance date 21/3/2018 and maturity date 21/3/2032 (instead of 21/9/2032) and an improvement of the coupon from -0.205% to -0.25%. The operation spared 20.000 EUR in 2017, a positive outcome of approximately 10.000 EUR.

- 25/3/17: Presentation and validation in of the strategies for 2017 FSC. The minimum consolidation proposed, 45 Mio for 2017.

April 2017

- 4/4/17: completion of Flemish Community Commission's (VGC) public tender for a volume of nearly 10 Mio, where the Front Office consulted and provided expertise in valuation of the offers. The VGC reached to an excellent result. The call of 2017 included 3 competitive offers. The level of IRS + 36bp was obtained. That is four times lower than the margins negotiated before the intervention of the Front Office.

- 4/4/17: financing of 25 Mio for 10 years with Eur6M acting as the underlying instrument of the derivative 2011*1-4 S and with starting date 18/4/17. The price of transaction reached IRS + 25bp according to the expectations of the investor, ie around OLO + 22bp. A delay in granting the authorization and the growing gap between OLO and IRS did not permit to reach the desired margin 15-20bp. French elections caused a concentration of investor interest to France and increased their expected rate of return putting the government bond market under pressure. However, the offer has all the expected qualities: solid offer, MTN format, perfect matching, no listing fees, ideal maturity of 10 years to smooth the depreciation schedule, reliable counterparty etc.

- 11/4/17: conclusion of commercial paper issuance of 75Mio at 6 months placed by Belfius with a very attractive level of -32bp, EUR6M -8.5bp. This BT serves as the underlying asset for the swap of the same volume 2010_10_14_SWCA01 / 02, in order to respect the matching rule. This operation allows the Front Office to take further decision in September/October if it is necessary to renew the loan until 2018 or (partially or fully) consolidate depending on the possible increase of floating debt during 2017.

July 2017

- 6/7/17: Second complete review of S&P and.

- 29/7/17: Publication of rating press release.

Belgian Region of Brussels-Capital 'AA' Ratings Affirmed; Outlook Remains Stable

Overview

- In our opinion, the Belgian Region of Brussels-Capital has highly efficient financial management and a very favorable liquidity position.
- We also expect the region will continue to post high budgetary metrics.
- We are affirming our 'AA' long-term rating on Brussels-Capital.
- The stable outlook reflects our expectation that Brussels-Capital will continue to post strong budgetary performance in 2017-2019, with limited deficits after capital accounts.

Again, the two strongest points of the RBC (on the 8 criteria) are:
- very strong financial management (sophisticated and prudent management of the debt)
- exceptional liquidity (access to liquidity and diversified financing)

The main comments:
- The basic scenario remained unchanged as well as its trajectory, certain estimated indicators are readjusted more favorably based on updates provided by RBC;
- The budget dimension is significantly more underlined than before, both in terms of expected future performances but also for the precise follow-up expected thanks to the monitoring;
- The very high liquidity provided by the current 1.5 billion credit line is more nuanced because S&P applies its liquidity ratio to the entire consolidated debt service and no longer just to the portfolio of direct debt. Consolidated entities do not generally benefit from or have little liquidity from the larger debt service. A stable above 120% liquidity ratio is expected;
- S&P is confident about the moderate impact of the 6th state reform, the consolidation of government-related entities and the "tax shift "on the outlook of the region.

In summary:

Our rating on Brussels-Capital primarily reflects our view of the region's tight financial management, with high sophistication and optimization in terms of debt, liquidity, and guarantee management. We believe the quality of management will enable the region to maintain high investments over 2017-2019, while limiting debt accumulation and keeping its very favorable liquidity. We also think that the region will continue to benefit from a supportive institutional framework and a solid economy.

- July 2017: The Front Office entered a series of proposals to archive better balance of the interest rate component of the portfolio while maintaining the overall historical balance and potentially allow more loan consolidations than those planned for 2017 (120Mio comparing to previously planned 45Mio) and secure the authorized budgetary limits for the guarantee component.

- July 2017: The Front Office supported the extension of the 750Mio guarantee on the CP/MTN program of FRBRTC. The documentation of the program and its annexes were updated according to the principles our regional program to meet flexibility

October 2017

- 12/10/17: prolongation of the 11/4/17 BT of 75 Mio for consecutive 6 months to serve as the underlying asset of the long term derivative 2010_10_14_SWCA01 to meet the matching strategy. In the environment of negative rates Belfius was able to place the paper with the same investor at an improved price of -34bp (ie for a recipe of around € 127,000).

This prolongation of BT was carried out by default. The Front Office proposal in September to consolidate the debt with long them portfolio has not been decided.

- October / November 2017: offers and negotiations of new cashier contract. The selected partner is Belfius who proposed a credit line of 1.2 billion (original tender was for 800Mios at least). It starts in April 2018 for a period of 4.5 years. The line has no commission of booking and progressive lines of credit for every 400Mio tranche. This is in line with the previously defined needs.

November 2017

- 7/11/17: Conclusion of an MTN financing of 20Mios for 10 years in Eur6M (serving as underlying asset of the swaps 2016_06_17_SWAP01 in 2009 * 4-1SSS) with start on 19/12/17. The bond was issued above par (105.24%) reflecting the explicit floor and enjoying a superb margin under OLO + 9bp.

This very attractive operation was concluded with a new German partner (LBBW - Landers Bank) who did not charge any operational fees (ie savings around 3-4bp per year)! With this operation the minimum needs set for 2017 are met.

2016 RESULTS

Treasury management

From the beginning of 2016 The RBC has had a positive and growing cash position. The maximum was reached in September up to +110Mio. Then the rich cash situation gradually declined in the last quarter with the appearance of small floating debt in December.

By 31/12, the floating debt widened to -119Mio and deleveraging reached to 62Mio over the year. Total cumulated deleverage including the three previous years (70, 125 and 199.5 Mio) reaches to 457.5 Mio.

Adjustment operations

In order to increase the share of floating debt in portfolio, the Front Office has limited the possible consolidation of expiring debts as much as possible. For that purpose the Front Office carried out 4 operations of 90Mio in 2016 while keeping the matching rule.
These operations took various forms but above all enabled the Front Office to use existing instruments as the underlying debt: adjustment of a swap, renegotiating multitranche and structured financing.

Financing 2016

Taking into account the above and following minimum consolidation strategy the financing in 2016 was limited to 3 transactions for a total of 56Mio. Two financing operations, 20 and 30 Mio were conducted within the MTN program for maturities of 9 and 10 years in EUR6M to serve as the underlying asset for a derivative already in the portfolio.

These transactions were completed at a time the yield curves were historically low. In terms of margins, the RBC did not experience a significant increase in its cost of credit (unlike many public issuers who saw an increase over 10bp in their margin in 2016). The financing costs of RBC reached the level of OLO + 15bp in 2016 (to compare with OLO + 9bp in 2015 and OLO + 15bp in 2014). This level of spread is also particularly low taking into account the amount of requirements that the Front Office demands in its transactions (variable rate, MTN format, perfect respect for matching, choice of maturities, etc.).

Investment partners

Given the rich cash position of the RBC during the most of 2016, the Front Office followed an investment strategy concentrating on BT issued by public counterparties in Belgium and enjoying the advantage of being exempt from withholding tax for most of these operations.

In its portfolio management, the Front Office takes into account the issuer/margin risk ratio and diversifies between the types of counterparties. The operations were carried out by different dealer banks.

The Front Office engages also in direct lending to the consolidated entities of the RBC. In 2016 we issued a new exceptional loan of 3 months for the benefit of the municipality Anderlecht. As a part of these operations the risk profile of the recipient is determined to define the fees in addition to the regular funding cost.

New strategies and risk management of ETO

During 2016 the Front Office proposed to the FSC and the Cabinet of the Minister of Finance several new strategies. One of them had already been implemented: it concerns the hedging of risks related to contractual clauses of derivatives (ETO or break clause) which could give rise to accelerated repayments in the future. These risks are driven by new regulations of the banking sector and historically low market rates.

To hedge against this potential risk in the coming years, the Front Office conducted annual risk smoothing with its main derivatives partner at no additional cost to the RBC.

Overall performance of the portfolio

The proactive strategy has trimmed significantly the amortization plan since 2014. The refinancing strategy lowered the debt service in the future and therefore improved long-term liquidity ratios.

The amortization plan remains smooth and well distributed (1/3 repayments less than 5 years, 1/3 between 5 and 10 years and 1/3 to more than 10 years).

The main financing sources remain banking, MTN and schuldschein (SSD) while the share of banking sector is gradually declining because of its lower duration and less appealing conditions since 2012. In 2016 MTN was chosen in favour of SSD for better portfolio balance.

The portfolio remains essentially vanilla, with only 4% of structured instruments. Almost half of de investors are from Belgium. The average maturity of all current financings is almost 10 years. The duration of the entire portfolio (loans and derivatives) is 9.65 years with a total cost of little less than 4%. The latter is also maximum cost level because almost all the portfolio is bound to fixed rate. The duration of funding (long-term liquidity risk) is almost 8 years and the duration of rate (risk on rate) almost 13 years.

The rating of banking partners providing financing and derivatives remains essentially A or A+, with an average of A which is a very good level since the crisis.

Out of 2 billion derivatives, about 70% are very long simple cover swaps of which 575 million have maturity over 15 and 250 million over 45 years. Despite the high mark to market value these operations remain very interesting in the long run, because of the difficulties to conclude presently very long derivatives. Note that the mark to market value of derivatives dipped to just over 1 billion in August 2016 to improve to 750Mio in 31/12/16.

5-year simulation that creates 700 Mio floating debt and keeps budget in equilibrium indicates positive outcome. The portfolio will remain defensive despite the modest consolidation strategy: about 70% of portfolio will be fixed rate financing, the duration of portfolio reaches to 8 years with average cost slightly over 3% and a liquidity ratio significantly above 120%.