Public Debt

Annual Report 2010

French Community of Belgium

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SECRÉTARIAT GÉNÉRAL
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[Foreword]

The year 2010 has been a year full of lessons for our Community in several regards:

- Budgetary viewpoint:

The macroeconomic fundamentals improved in such way that both the 2010 adjustment and the initial budget for 2011 could be realized, supported by revenues in significant progression.
The initial budget for 2011 shows an improved result of € 190 million compared to the Cooperation Agreement of February 2010, which lays down the 2011-2012 objectives between the Federal Government, Communities and Regions.

- Financial viewpoint:

€ 870 million were borrowed by the French Community in 2010 to finance all of its needs, i.e. re-borrowing of the debt amortisations and 2010 budget imbalance.
We noted a good sustainability of the financing margins with regards to the linear bonds issued by the Belgian State (OLO), as well as diversification of the counterparties participating to the Community financing. Four new counterparties have provided financing in 2010 (bringing the number of active counterparties to fourteen) with maturities going from two to fifty years (weighted average maturity of eleven years) and amounts varying between 10 and 100 million euro.

The financial communication using appropriate tools, which is seen as a major focus of the management strategy, played a leading role in achieving this.

The development and distribution of this report contribute greatly to this approach.

This report will inform the reader on the institutional framework of the French Community, on the administrative and technical framework of management of the debt and the treasury, and on the principal Community financial measures.

For any additional information, the site www.budget-finances.cfwb.be of the Directorate General for Budget and Finance is a valuable resource.

The Vice-President of the Government of the French Community,
Minister of the Budget, Finance and Sports.

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The key figures of the French Community of Belgium

Amounts in € million as of 31 December	2009	2010
Stock of debt of the Community		
Total community consolidated debt	**3,236.2**	**4,046.7**
Long-term community debt	3,364.3	4,104.5
- Direct debt	3,187.6	3,930.3
- University debt	176.7	174.2
Short-term community debt	-47.0	23.9
Community debt held by the Fonds Ecureuil	81.0	81.7
Amortisations	450.3	127.4
Re-borrowing of amortisations	450.3	127.4
New borrowings	476.2	740.3
Debt instruments used		
EMTN Financing programme	1,700.0	2,247.0
Private loans	500.8	498.3
Schuldschein	238.5	346.5
OLCo, MTN, Lobo, ...	340.0	215.0
Commercial paper	585.0	797.7
Characteristics of the debt of the French Community		
Rating awarded by rating agency Moody's		
Long-term	Aa1	Aa1
Outlook	Stable	Stable
Currency	Aa1	Aa1
Short-term	P-1	P-1
Distribution according to the rate (in %)		
Fixed rate	89.25	90.57
Floating rate	10.75	9.43
Residual maturity in terms of liquidity (in years)	7.21	7.73
Residual maturity in terms of rate (in years)	6.45	6.72
Duration (in years)	5.66	5.73
Implied rate (in %)	3.77	3.28
Internal rate of return (in %)	4.23	3.76
Debt/revenue ratio (in %)	40.08	50.64 [1]
Debt service/revenue ratio (in %)	1.58	1.71[2]
Short-term debt /total consolidated debt ratio (in %)	2.48	12.59

1. *Revenues 2010 estimated without fonds C*
2. *Revenues 2010 estimated without fonds C*
3. *Short-term debt time t= short-term debt stricto senso as of 31/12/tt + Amortisations (t+1)*

Chapter I : Institutional framework of the French Community

A BELGIUM: A FEDERAL STATE

In 1993, Belgium officially became a Federal State composed of two types of federated bodies: the Regions and the Communities (Belgian Constitution – Article 1). At present, the country includes three Regions (the Walloon Region, the Flemish Region and the Brussels-Capital Region) as well as three Communities (the French Community, Flemish Community and German-speaking Community). With the exception of Flanders, which merged its regional and community constituents into a single unit, each federated body exerts its powers and responsibilities sovereignly through its own parliamentary and governmental institutions.

B EXPLANATION OF THE CONCEPT OF COMMUNITY

The Communities group people together according to criteria of language and culture. The field of action of each Community is defined with respect to four linguistic regions: the “French-language region”, the “Dutch-language region”, the “bilingual Brussels-Capital region” and the “German-language region” (Constitution – Art. 4). The linguistic regions are simple territorial subdivisions having no political or administrative body and should not, consequently, be confused with the three large Walloon, Brussels and Flemish Regions (Constitution – Art. 3). Given the bilingual nature (French/Dutch) of the Brussels-Capital linguistic region, the two large Communities of the country (French and Flemish) are authorised to exercise their powers there within the limit of their competences. However, the absence of an official linguistic census, making it impossible to differentiate people in this respect, the competence of the two Communities has been limited there to institutions having opted for one of the two linguistic adherences. This special feature implies that the Communities are human entities and not territorial entities in the standard sense of the term. As for the Regions, they are full-fledged territorial entities and exercise their responsibility in matters completely distinct from those of the Communities.

This two-level federalism results from the historical development of the reformation of the Belgian State.

C THE FRENCH COMMUNITY: "GEOGRAPHICAL" ORGANISATION, INSTITUTIONS, ADDITIONAL DESIGNATION, RESPONSIBILITIES AND FINANCING

C 1 "GEOGRAPHICAL" ORGANISATION

The French Community is a federated body of the Belgian Federal State. Its legal existence is ensured by Articles 1 and 2 of the Constitution.

Its responsibilities are exercised with regard to persons living in the territory of the "French-language region" (Wallonia, with the exception of the inhabitants of the German-speaking Community) and the monolingual Francophone institutions of the "bilingual Brussels-Capital Region".

C 2 INSTITUTIONS

The institutional organisation of the federal bodies is defined by the special law on institutional reforms (LSRI) of 8 August 1980, as modified in 1988 and 1993.

The Parliament[1] of the French Community is a monocameral assembly composed of 94 indirectly elected members: the 75 Walloon regional representatives and 19 Brussels Francophone regional representatives. It exerts legislative power through decrees and in particular votes on the budget and the adoption of accounts.

The Government of the French Community presently includes seven members[2] and represents, since the regional and European elections of 7 June 2009, a coalition of the Socialist Party, Ecolo and the Humanist Democratic Centre, who together make up 74% of the seats in the Parliament of the French Community. Charged with the exercise of executive power, the Government ensures, among other things, the execution of the decrees voted by Parliament through orders. The Government is politically accountable to the Parliament.

1 *Designation definitively accepted by the revision of the Constitution of 25 February 2005 on modification of the terminology of the Constitution (entered into effect on 21 March 2005). Previously, the official designation was "Council of the French Community".*

2 *Several Community Ministers are also Regional Ministers (four in the present governments, including the Minister of the Budget and Finance); along these same lines, the Walloon Minister-President is also Minister-President of the Government of the French Community. In this regard, see the decree of the Government of the French Community of 17 July 2009 establishing the distribution of jurisdictions between the Ministers (Official Gazette [Moniteur Belge, M.B.] 07/08/2009) and the decree of the Walloon Government of 17 July 2009 establishing the distribution of jurisdictions between the Ministers (M.B., 05/08/2009).*

Parliament and Government share legislative power, the latter also has a power of legislative initiative.

It should be noted that the result of federal elections has no direct impact on the political landscape of the community and therefore on community parliamentary and governmental representation. Thus, the Government of the French Community may involve a coalition different from that of the Federal Government, or even the regional Governments. Nevertheless, the present Walloon and French Community Governments both represent the same coalition, which is also present in the Government of the Brussels-Capital Region (a Brussels Regional Minister is also a member of the Government of the French Community).

C 3 ADDITIONAL DESIGNATION: THE WALLONIA-BRUSSELS COMMUNITY

In its general policy declaration of May 1999, the Community Government decided that the French Community of Belgium would also be called the "Wallonia-Brussels Community". This designation aims to further highlight the linking role played by the community institutions between the Francophones of Wallonia and of Brussels. However, to avoid any confusion on the part of the reader of the present report, it should be stated that only the designation "French Community" appears in the constitutional text.

C 4 RESPONSIBILITIES

The powers and responsibilities of the French Community are determined by the Belgian Constitution as well as by the LSRI of 8 August 1980, as modified. The issues which are part of its sphere of responsibility can be divided into four aggregates:

- culture (fine arts, theatre arts, audiovisual and sport);
- education (from nursery school to higher education);
- social issues (youth assistance, early childhood, health promotion, social assistance to prisoners);
- use of languages (in administrative and social matters)[1].

The French Community's sphere of responsibility also includes national

1 *For further details, see the chapter "Economic and financial report" of the 2010 General Report (pp. 95-102), available on the budget site of the Ministry of the French Community at the following address: http://www.budget-finances.cfwb.be.*

and international cooperation, as well as scientific research.

In 1993[1], the French Community transferred the exercise of certain of its responsibilities to the Walloon Region and the French Community Commission of the Brussels-Capital Region. This transfer concerned in particular school buildings, sport infrastructures, tourism, professional training, and continuing education as well as health and social assistance policies.

C 5 FINANCING

Financing for the federated bodies (Communities and Regions) is governed by the special law of 16 January 1989 on financing the Communities and Regions (LSF), as modified in 1993 and 2001.

This law provides, in its Article 1, that financing for the Communities is ensured through:

- non-tax revenue;
- allocated portions of taxes;
- a compensatory allocation from the Radio and Television Licence Fee (RRTV);
- loans.

The non-tax revenue consists of various receipts coming, for example, from enrolment fees in establishments for artistic education, diploma equivalence fees, various registration fees, etc.
The allocated portions of taxes are made up of allocations historically called VAT (Value Added Tax) and IPP (Personal income tax, *Impôt des Personnes Physiques*). These are amounts allocated by the Federal State, as listed in the LSF, independently of the actual collection of these taxes and levies.
The RRTV compensatory allocation, calculated as a fixed amount and indexed to the general consumer price index, has replaced the RRTV resource, which has become a regional tax, since the 2002 financial year.

The year 2001 was marked by a significant reform in the method of financing the French Community.
The special law of 13 July 2001 on refinancing the Communities and

1 *See in particular Decree II of 19 July 1993 granting the exercise of certain competences of the French Community to the Walloon Region and to the French Community Commission (entered into effect on 1 January 1994).*

extending the fiscal jurisdiction of the Regions modified the LSF of 16 January 1989. Since 2007, the allocation coming from the VAT, which was already indexed to inflation, has been linked to economic growth[1].

D RULES GOVERNING INDEBTEDNESS OF FEDERATED BODIES

D 1 JUDICIAL BASIS

By virtue of Article 49, §1 of the LSF of 16 January 1989, the Communities and the Regions can contract loans. They do not benefit directly from the guarantee of the Federal State in application of Article 15 of the LSRI of 8 August 1980.

We note however that Article 54 of the LSF specifies in its §2 that the Community has the right – if the Federal State pays the allocations that it is bound to transfer to the federated bodies in application of the LSF late or partially – to contract a loan benefiting by rights from the guarantee of the State, with the financial service entirely and directly the responsibility of the State.

By means of certain provisions of the LSF, the federal authorities have ensured supervision of the borrowing capacity of the federated bodies. Two objectives are pursued in this: on the one hand, protection of the economic union and the monetary unit (at the European as well as internal level); on the other hand, prevention of structural deterioration of financing needs (Article 49, §6). To this end, a section “Financing requirements of the public authorities” was created within the High Council of Finance (CSF). This agency is made up of representatives of the federal and federated bodies. It is charged with issuing advice on their financing needs and the manner in which they have, in the past, implemented the previous debt standard or, since 2003, observed the cooperation agreements concluded between the different regional and community bodies of the federal State; these cooperation agreements specify the respective budgetary objectives. This section can also submit advice to the [federal] Minister of Finance aiming to limit the bor-

1 *Originally, the growth indicator was the gross national product (GNP). The authorities very quickly replaced the GNP by the gross national income (GNI), before favouring in 2005 – at the explicit request of the Walloon and French Community Governments – the gross domestic product (GDP), given notably its lower relative volatility and its greater predictability. Moreover, the GDP is the macro-economic aggregate currently most used by statisticians and economists as an indicator of economic trends.*

rowing capacity of a federated body. The adoption of such a provision must nevertheless observe strict rules of consultation between the parties concerned. It should be noted that the advice and recommendations issued annually by the CSF have acquired a great influence on the debt policy of the federated bodies. Advice on the initiative of or at the request of the [federal] Minister of Finance is of course possible. Since 1 September 2006 the CSF has been made up of two permanent sections ("Financing requirements of the public authorities" section and "Fiscal concerns and parafiscality" section) and a Study Committee on Ageing.

D 2 TYPES OF LOANS

The special law of 13 July 2001 on refinancing the Communities and Regions also substantially modified the modalities for recourse to loans for these bodies. Article 49 of the LSF stipulates henceforth as follows:
"§1 The Communities and Regions can contract loans in euro or foreign currencies."
"§2 The planning of public loans [in the strict sense][1] is set by the [federal] Council of Ministers after consultation with the governments [community and regional]. The terms and issue timetable for any public loan are submitted for approval to the [federal] Minister of Finance. In the event that approval is denied by the [federal] Minister of Finance, the government [community or regional] concerned can demand that the matter be brought before the [federal] Council of Ministers for a decision."
"§3 The Communities and Regions can issue private loans as well as short-term securities after having informed the [federal] Minister of Finance. [...]."

The entry into effect of these provisions was set for 1 January 2002. This means that since this date, only a procedure of informing the federal Minister must be observed before recourse to a loan. The methods of communication and the content of this information (notably, amount and duration of the loan, financial terms, and co-contracting party) were the subject of an agreement[2] between the [federal] Minister of Finance and the community and regional Governments.
Only loans which are to be carried out with private parties are subject to approval from the federal Minister of Finance; all other loans require

1 That is, loans addressed to private parties.

2 Agreement of 29 April 1991 on Article 49 of the LSF.

only that he be informed. The French Community has never to the present day had recourse to financing from private parties.

It should also be noted that the repeal of the former §4 of Article 49 of the LSF caused any allusion to the limitation of the borrowing field of the French Community to either the former Belgian franc zone or the present euro zone to disappear.

Chapter II: Administrative and technical framework for management of the debt and the community treasury

A ADMINISTRATIVE FRAMEWORK

The finances of the French Community are managed by the community Minister having Budget and Finance under his responsibilities.

By virtue of Article 3 of the decree containing the Ways and Means Budget of the Community, the Minister is authorised to subscribe loans authorised by the Parliament and to conclude any financial management transaction dictated by the general interest of the Treasury. This authorisation is however renewed each year and is also subject to observance of the procedures decreed by the Government.

Ministerial orders relating to management of the debt and the treasury are carried out within the Administration by the Debt Directorate; it is however charged with day-to-day aspects of this management[1].

The activities of the Debt Directorate are divided into two distinct units: the *Front* and the *Back/Middle Office*. While the first is responsible for concluding financial transactions in the money markets and financial markets, the second provides administrative, budgetary and accounting follow-up. In this matter, the Debt Directorate is assisted by a consultancy office which shall, upon request, issue advice with regards to the transactions carried out as well as to the financial strategy to be followed.
The management activities of the Debt Directorate are subject to various controls, internal as well as external to the Administration. There are essentially three of these: the Finance Inspectorate, the Court of Accounts and the prudential supervision carried out by a statutory auditor accredited by the Banking, Finance and Insurance Commission.

In order to optimise the management of regional and community finances, organisational synergies have been set up between the Walloon Region and the French Community, notably by the creation of a Joint Treasury Council[2] within which the strategic orientations of management of the debt and the treasury, the coordination of community and regional finance policies,

1 *See on this subject the decree of the Government of the French Community of 19 January 2009 on delegation of powers and of signature to general public officials and to certain agents of the Services of the Government of the French Community – Ministry of the French Community – General Finance Service – Debt Service.*

2 *Cooperation agreement of 10 December 2004 instituting a Joint Treasury Council for the Walloon Region and the French Community.*

the determination of joint principles of financial risk management and the intensification of synergies in the light of institutional frameworks are discussed. This consulting body is chaired by a representative chosen by joint agreement by the community and regional Ministers responsible for Budget and Finance, and is made up of representatives of the regional and community Minister-Presidents, Vice-Presidents and Administrations; the Finance Inspectorate, the Court of Accounts, the statutory auditors and external experts also take part in the meetings of the Council. The Joint Council contains a Community Treasury Council[1] and a Regional Treasury Council[2] charged with assisting their respective Governments in day-to-day management of the debt and the treasury and ensuring the implementation of strategic decisions proposed by the Joint Council and decided upon by the Minister concerned.

B TECHNICAL FRAMEWORK

The Debt Directorate has available efficient computer tools for carrying out its tasks. Thus, the Front Office is equipped among other things with software allowing it to re-evaluate at any moment and in real time the financial instruments to which the French Community holds title or for which it is issuer. As for the *Back/Middle Office*, it has available various computer platforms and software intended for back-up of all transactions concluded and production of semi-automated reports. A public contract initiated at the end of 2009 allowed the Debt Directorate to have new integrated equipment available during 2010.

A comparative study completed in May 2008 by the PricewaterhouseCoopers[3], company shows that the organisational and administrative procedures set up for management of the debt and the treasury within the Debt Directorate (49 items selected and classed into seven categories: governance, management and performance, *Front Office*, *Back Office*, *Middle Office*, computer systems, reporting) are in line with good practices identified in bod-

1 *See also the decree of the Government of the French Community of 21 January 2005 repealing the decree of the Government of the French Community of 7 December 1998 instituting the Treasury Council.*

2 *See also the decree of the Walloon Government of 23 December 2004 repealing the decree of the Walloon Government of 10 July 1997 instituting a regional Treasury Commission (CORET).*

3 *Following a joint state contract for analysis of the financial management procedures in place at the Ministry of the Walloon Region and the Ministry of the French Community compared to an international benchmark representing the standard procedures followed at the international level by similar bodies.*

ies carrying out similar activities at the international level, even ahead by comparison with public sector bodies. By way of illustration, the competitive call practices, verification of market data and independent validation of products is in line with the best market practices; the financing products and hedging instruments utilised represent a diversified mix of products in line with benchmarked good practices; the processes for handing confirmations and labelling transactions are in line with the best practices of treasury management; the processes in place observe the principle of segregation of duties; the physical access security is in line with the best market practices; etc.

As for the statutory auditors in charge of prudential supervision, they note in their report of December 2010 that "the tools and procedures put in place by the Debt Directorate are such as to allow evaluation and management of the risks[1] inherent in management of the treasury and of the debt of the Community. These tools and procedures lead to publication of reports that faithfully reflect the actions in question as well as the situation of the treasury and the debt of the Community".

1 *The four essential risks identified by the auditors in their report of May 2004 being:*
- *the interest rate risk and in particular the interest rate yield curve risk;*
- *the operational risk;*
- *the liquidity risk;*
- *the counterparty risk.*

[Chapter III : Treasury and community indebtness]

A GENERAL PRESENTATION

A 1 COMPONENTS OF THE COMMUNITY DEBT AS OF 31 DECEMBER: VARIATION FROM 2006 TO 2010 (IN MILLION €) [1]

The various components of the community debt drawn up as of 31 December for the years 2006 to 2010 have developed as follows:

Amounts in millions of €	2006	2007	2008	2009	2010
Direct debt [1]	2,704.8	2,707.0	2,709.0	3,187.6	3,930.3
University debt [2]	183.6	181.3	179.0	176.7	174.2
Long-term community debt [3] = [1] + [2]	**2,888.5**	**2,888.4**	**2,888.0**	**3,364.3**	**4,104.5**
Outstanding treasury commercial paper [4]	0.0	29.8	88.2	0.0	0.0
Current account debit [5]	46.4	23.1	0.0	0.0	23.9
Current account credit [6]	0.0	0.0	17.3	47.0	0.0
Short-term community debt [7] = [4] + [5] − [6]	**46.4**	**52.9**	**70.9**	**– 47.0**	**23.9**
Community debt held by the *Fonds Ecureuil* [8]	72.8	75.7	79.2	81.0	81.7
Total community consolidated debt [9] = [3] + [7] − [8]	**2,862.0**	**2,865.6**	**2,879.7**	**3,236.2**	**4,046.7**

The total consolidated community debt [9] was stabilised in 2007 compared to 2006[2]: a slight increase of € 3.6 million (or a rise of 0.13%) is noted, due exclusively to a slight increase in the short-term indebtedness measured as of 31/12/2007 by comparison with that measured the preceding year. Despite the decision of the Government of the French Community to proceed with payment in December 2008 of the December 2008 wages[3] (payment of which was initially planned for the first days of January 2009), the process of stabilisation of the consolidated community debt was sustained in 2008 compared to 2007: a modest rise of 0.49% (or € 14.1 million) was measured, also due to an increase of € 18.0 million in short-term indebtedness.
It should be noted that the short-term debt [7] compared to the total consolidated debt [9] oscillates between 0.0% and 2.5% for the last five years and is very decisively less than 1% when compared to revenues. If

1 *The figures listed in the present report are in general expressed in millions of € ; the underlying calculations being most often carried out to the cent, a difference due to automatic roundoffs can appear between a total and the sum of its constituent parts.*

2 *For memory, the year 2006 showed an increase of € 10.5 million compared to 2005. See Annual Report 2009 (p. 16), available at: http://www.budget-finances.cfwb.be/finances/*

3 *See point B.3.3 of the present Report on the rate of collection of revenues and disbursement of expenses.*

we incorporate the amortisations of the year (t + 1) to the short-term debt in the strict sense as of 31/12/tt, the ratio short-term debt / total consolidated debt may be presented as follows: 2.6% in 2006; 10.8% in 2007, 18.1% in 2008, 2.5% in 2009 and 12.6% in 2010.

Following the very serious banking and financial crisis, 2009 was marked by a substantial, though controlled, rise in the nominal consolidated community debt of € 356.5 million by comparison with 31/12/2008 (by € 384.7 million compared to 2005).

The impact of the banking and financial, later economic crisis, having prolonged in 2010, the Community indebtness has increased again, reaching € 4,046.7 million, representing an increase of € 810.5 million compared to 31/12/2009 (by € 1,195.2 million compared to 2005).

The variation of the indebtedness over recent years can also be understood by analysis of the consolidated nominal debt stock for 2005-2010 in constant 2005 euro. It represents the variation of commitments toward external parties, where, in the interest of comparison, all the figures are presented in terms of 2005 value, based on inflation rates.

Amounts in millions of €	2005	2006	2007	2008	2009	2010
Debt stock in current €	2,851.5	2,862.0	2,865.6	2,879.7	3,236.2	4,046.7
Change in debt compared to that of the previous year		10.5	3.6	14.1	356.5	810.5
Change in debt compared to that of 2005		10.5	14.1	28.2	384.7	1,195.2
Inflation rate	2.78%	1.79%	1.82%	4.49%	– 0.05%	2.19%
Debt in constant 2005 €		2,811.7	2,764.8	2,659.1	2,989.8	3,658.4
Change in debt compared to that of the previous year		– 39.8	– 46.8	– 105.8	330.7	668.6
Change in debt compared to that of 2005		– 39.8	– 86.6	– 192.4	138.3	806.9

Compared to that of 2005, the “real” community debt has consistently decreased each year up to end 2008. However, due to the banking and financial crisis, the community debt came rapidly back up again to reach at the end of 2009 and 2010 levels significantly above the 2005 level.

The treasury of the French Community is comprised of financial accounts opened with its cashier[1]. All of these accounts are pooled. The debit or credit balance of this merger is listed in the first table of this section under headings [5] or [6].

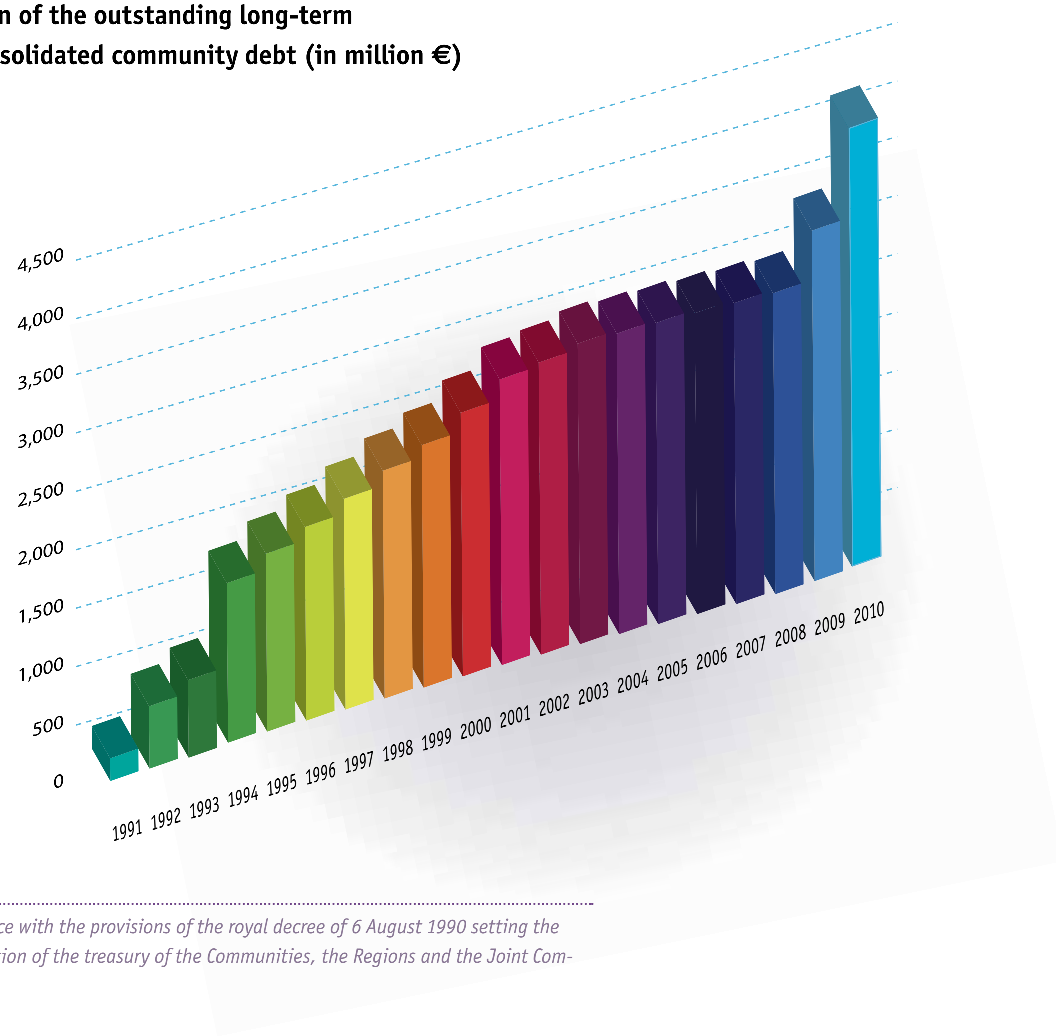
The accounts with the cashier "outside merger" are presented separately as they are not included in the merger of scale of the accounts.

Amounts in million € adopted as of 31 December	2005	2006	2007	2008	2009	2010
Accounts outside merger of Community schools	43.3	39.5	40.1	40.9	40.3	35.4
Foreign currency provision accounts	0.1	0.1	0.1	0.1	0.1	0.1

A | 2 | EVOLUTION AND DISTRIBUTION OF THE LONG-TERM NON-CONSOLIDATED COMMUNITY DEBT

The variation from 1991 to 2010 of the total long-term community debt (heading [3] of the 1st table on point A.1.) looks as follows:

FIGURE 1 **Variation of the outstanding long-term non-consolidated community debt (in million €)**



1 *Designated in compliance with the provisions of the royal decree of 6 August 1990 setting the modalities for organisation of the treasury of the Communities, the Regions and the Joint Community Commission.*

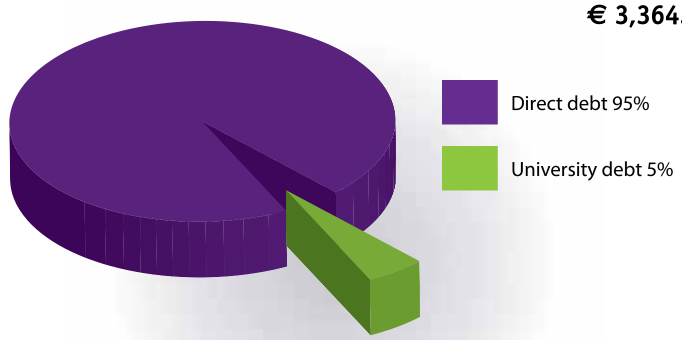
While the long-term community debt had been stabilised in nominal terms for the 2003-2008 period, in 2010 (similarly to 2009) it showed a rise primarily related to the net balance to be financed for the financial year. Its relative variation is shown in the table below:

Variation of the non-consolidated long-term community debt

Year	Amount in million €	Variation in million €	Variation in %
1991	218.1		
1992	559.1	341.0	156.32
1993	744.9	185.8	33.23
1994	1,531.7	786.8	105.61
1995	1,707.2	175.5	11.46
1996	1,858.6	151.4	8.87
1997	2,022.9	164.3	8.84
1998	2,187.3	164.3	8.12
1999	2,328.5	141.2	6.46
2000	2,530.7	202.2	8.68
2001	2,741.5	210.8	8.33
2002	2,803.5	62.0	2.26
2003	2,884.6	81.1	2.89
2004	2,884.6	0.0	0.00
2005	2,890.0	5.4	0.19
2006	2,888.5	− 1.6	− 0.05
2007	2,888.4	− 0.1[1]	− 0.00
2008	2,888.0	− 0.4	− 0.01
2009	3,364.3	476.2	16.49
2010	4,104.5	730.3	22.00

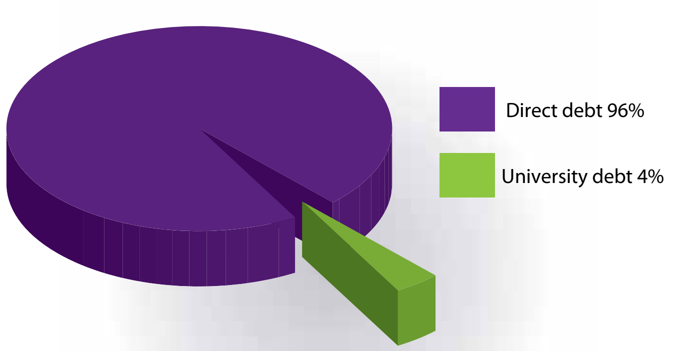
The distribution in 2009 and 2010 of the various components of the total long-term debt is as follows:

FIGURE 2 **Distribution of the outstanding amount of € 3,364.25 million as of 31/12/2009**



1. In reality, and as an aside, a reduction of the order of 0.09 million was measured, representing a relative decrease of 0.003%.

FIGURE 3 **Distribution of the outstanding amount of € 4,104.52 million as of 31/12/2010**



The relative share of the indirect debt thus continues to decrease, as shown in the table below: the paracommunity debt is already totally extinguished (since the beginning of 2004); the university debt continues to decrease and will be completely amortised on 1 December 2037, if no early repayment is made in the meantime.

Distribution of the long-term outstanding amounts as of 31 December

Year	Total debt in million €	Indirect debt in million €	Direct debt in million €	Direct debt in % of the total debt
1991	218.1	0.0	218.1	100.00
1992	559.1	0.0	559.1	100.00
1993	744.9	0.0	744.9	100.00
1994	1,531.7	591.9	939.8	61.35
1995	1,707.2	574.6	1,132.6	66.34
1996	1,858.6	564.9	1,293.8	69.61
1997	2,022.9	558.0	1,464.9	72.42
1998	2,187.3	563.4	1,623.9	74.24
1999	2,328.5	555.7	1,722.8	76.13
2000	2,530.7	547.9	1,982.8	78.35
2001	2,741.5	466.1	2,275.4	83.00
2002	2,803.5	441.7	2,361.8	84.25
2003	2,884.6	432.4	2,452.2	85.01
2004	2,884.6	286.5	2,598.1	90.07
2005	2,890.0	259.5	2,630.5	91.02
2006	2,888.5	183.6	2,704.8	93.64
2007	2,888.4	181.3	2,707.0	93.72
2008	2,888.0	179.0	2,709.0	93.80
2009	3,364.3	176.7	3,187.6	94.75
2010	4,104.5	174.2	3,930.3	95.76

A 3 FINANCING BALANCES AND COOPERATION AGREEMENTS

It should be noted that starting in 2003, the methodology used to determine the financing balance of public bodies and stated in the budgetary objectives set in the Cooperation Agreements between the federal body and the federated bodies was changed substantially in application of the prescriptions of SEC95. The result is an expansion of the scope of community consolidation. Thus, since 2003, a series of corrections have been integrated into the calculation of the financing balance, to achieve better alignment of the calculation of the Community budgetary result with the accounting guidelines of the European Commission. This has necessitated an adjustment of budgetary policy.
The table below illustrates that the French Community has more than met the objectives assigned to it (by joint agreement) with regard to the financing balance in recent years:

Financing balances achieved compared to objectives[1]

Year	Objective in € million	Financing balance achieved	
2001	− 79.0	− 57.1	Financing balance better than objective by € 21.9 million
2002	− 99.0	− 88.9	Financing balance better than objective by € 10.1 million
2003	− 28.7	− 28.9	Near-attainment of objective: financing balance below objective by € 0.2 million
2004	− 40.5	− 11.5	Financing balance better than objective by € 29.0 million
2005	− 6.5	− 6.6	Near-attainment of objective: financing balance below objective by € 0.1 million
2006	1.0	7.3	Financing capacity exceeding objective by € 6.3 million
2007[2]	− 40.2[3]	− 32.6	Financing balance better than objective by € 7.6 million
2008[4]	8.4	58.6	Financing capacity exceeding objective by € 50.2 million
2009	− 266.5[4]	− 265.2[5]	Financing balance better than objective by € 1.3 million

1 High Council of Finance – Section "Financing requirements of the public authorities", Evaluation of the implementation of the stability programme in 2006 and prospects for 2007-2011, July 2007, pp. 95ff. The document is available on the site of the High Council of Finance at the following address: http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/rapport2007.pdf.

2 High Council of Finance – Section "Financing requirements of the public authorities: Supplement to the Recommendation of September 2009: Short- and mid-term budgetary trajectories relative to the adjusted 2009-2012 stability programme". October 2009.
The document is available on the site of the High Council of Finance at the following address: http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/CSF_fin_avis_200909_complément_200910

3 Including a standard transfer from the Walloon Region of € 38.5 million.

4 High Council of Finance – Section "Financing requirements of the public authorities": "Evaluation of 2008-2009 and budgetary trajectories in preparation for the next stability programme". January 2010, p. 90. The document is available on the site of the High Council of Finance at the following address: http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/ltfr2010_01.pdf.

5 See Court of Audit of Belgium; Provisional results of the French-speaking Community's budgetary implementation for 2009, Report adopted on 31 May 2010, (p 22). The document is available on the site of the Court of Audit at the following address: http://www.courdescomptes.be/EN/Publications-FrenchCommunity.htm

As indicated in the section "Financing requirements of the public authorities" from the High Council of Finance in its report of July 2007 (p. 103), "the French Community closed its accounts each of the years 2003-2006 by observing its annual objectives. (...) The positive accrued margin compared to the objectives reached 35.0 million euro."
At the end of June 2008, the aforementioned section of the CSF published a recommendation on "Evaluation of the 2007 and 2008 budgets and of the new 2008-2011 Stability Programme[1] in which the results are expressed in % of the GDP and are not quoted for each individual body, but in aggregate. This was also the case in the reports published in March 2009 and September 2009. The individual data in absolute and relative figures were first published in October 2009 by the CSF in its "Supplement to the Recommendation of September 2009: Short- and mid-term budgetary trajectories relative to the adjusted 2009-2012 Stability Programme". The CSF published a second report in January 2010 entitled "Evaluation of 2008-2009 and budgetary trajectories in preparation for the next stability programme"[2] in which individual results for the federated bodies are also specified. To date (February 2011), no other document has been published by the section "Financing requirements of the public authorities» from the High Council of Finance.

In 2007, in the context of intra-Francophone cooperation, the Walloon Region carried out a "transfer of objective of € 38.5 million" to the French Community. Concretely, the Region revised its objective by the abovementioned sum so that the global Region & Community objective was achieved.

In 2008, the initial budget showed a financing balance which attained the objective set at € 8.4 million. Following a request from the Federal State in February 2008, the French Community and the Walloon Region agreed, based on a "best effort", to a joint supplementary contribution of € 90.0

1 *High Council of Finance – Section "Financing requirements of the public authorities", Evaluation of the 2007 and 2008 budgets and of the new 2008-2011 Stability Programme, 115 p. The document is available at the following address: http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/ltfr2008_06.pdf.*

2 *Documents available and can be downloaded at the following addresses of the High Council of Finance:*
http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/ltfr2009_03;
http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/CSF_fin_avis_200909;
http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/CSF_fin_avis_200909_complément_200910;
http://www.docufin.be/websedsdd/intersalgfr/hrfcsf/adviezen/PDF/ltfr2010_01.pdf.

million to the Stability Pact. During the 1st budgetary adjustment of the French Community, measures were taken to bring the projected financing balance to slightly more than € 71.6 million (the CSF assessed this balance in January 2010 at € 58.6 million), or more than € 63.0 million above the objective of the cooperation agreement which remained set at € 8.4 million

Following the economic and financial crisis, the full effects of which made themselves felt starting in 2009, a new cooperation agreement was concluded on 15 December 2009 between the federal authority and the federated bodies, aiming to reach a balanced budget in 2015 and a deficit of 3% GDP, maximum, in 2012. In this context, the following objectives have been assigned to the French Community: a net financing balance of € – 266.5 million in 2009 and € – 727.1 million in 2010. For the years 2011 and 2012, the objectives assigned to the Community were coming from the agreement of 3 February 2010 and amounted respectively to € - 548.0 million (2011) and € - 438.1 million (2012).

B BREAKDOWN OF THE COMPONENTS OF THE DEBT

The present Report deals only with the debt managed by the Debt Directorate of the French Community, that is, the so-called “direct” and “indirect” debts. Thus, the secured debt, as well as the debt intended to finance construction of cultural infrastructures, etc., are excluded.

B 1 DIRECT DEBT

Originally, the direct debt of the French Community consisted solely of loans contracted to satisfy its own needs. But since the mid-nineties, refinancing of amortisation of the indirect debt has been integrated into the direct debt. Consequently, the current variation of the outstanding amount of the direct debt includes re-borrowing of direct debt amortisations, but also of indirect debt amortisations.

According to the standards of public accounting, re-borrowing debt amortisations does not constitute an increase in its outstanding amount, insofar as this refinancing corresponds to the repayment of an equivalent amount.

In 2005, the outstanding amount of the direct debt increased by € 32.4 million, € 27.0 million of which relates to the amortisation of the university debt and € 5.4 million of which represents the consolidation of a portion of the short-term debt into long-term debt.

In 2006, the outstanding amount of the direct debt increased by € 74.3 million: this results from a partial transfer of the university debt amortised in 2006 to direct debt for an amount of € 75.9 million; the difference of € 1.6 million represents reduction of the long-term community indebtedness.

The total amount in loans falling due in 2007 and capital repayments made during this same year comes to € 27.1 million, € 24.8 million of which relates to direct debt and € 2.3 million to university debt. A total amount of € 27.0 million was re-borrowed at the end of the 1st trimester of 2007 and classified as direct debt, causing an increase of the latter by € 2.2 million to reach € 2,707.0 million as of 31 December 2007: as for the long-term nominal community debt, it was reduced by a marginal amount of € 0.1 million compared to 31 December 2006.

In 2008, the total amount in amortisations was evaluated at € 255.4 million[1], € 255.0 million of which was refinanced into direct debt from the beginning of the year, bringing its outstanding amount to € 2,709.0 million as of 31/12/2008, thus reducing the total amount of the long-term nominal debt by € 0.4 million compared to that of the preceding year.

The total amount in loans repayable in 2009 was € 450.3 million[2] which was totally refinanced as of the 1st half of the year. The total outstanding amount as of 31/12/2009 was brought to € 3,187.6 million by means of six issues at the beginning of December 2009 in EMTN format and another in Schuldschein format several days later, and via an issue of commercial paper at three months[3] carried out in November 2009.

The total amount in loans falling due in 2010 was evaluated at € 127.4 million[4] and was refinanced in direct debt as from January 2010. The re-borrow of amortisations combined with the net balance to be financed, brought the stock of direct debt to € 3,930.3 million as of 31/12/2010 by means of twelve issues made in EMTN format, four issues made in Schuld-

1 € 2.3 million in capital repayments of university loans and € 253.0 million in loans falling due and listed as direct debt.

2 Including € 2.4 million related to the university debt.

3 Considered to be long-term debt, as subject to a long-term hedge structure.

4 Of which € 125,0 million relate to direct debt and € 2,4 million represent capital repayments of university debt.

schein format and finally four issues of commercial paper at six months renewable each semester.

The variation of the outstanding amount of the direct debt (in million €) as of 31 December for the years 1991 to 2010 is shown below:

Year	Loans	Amortisations	Re-borrowed from amortisations	Outstanding
1991	218.1	0.0	0.0	218.1
1992	345.8	4.8	0.0	559.1
1993	224.3	38.5	0.0	744.9
1994	179.2	57.8	73.5	939.8
1995	175.5	67.1	84.4	1,132.6
1996	151.4	70.2	79.9	1,293.8
1997	164.3	57.6	64.5	1,464.9
1998	151.8	46.6	53.7	1,623.9
1999	141.3	585.8	593.4	1,772.8
2000	202.1	433.5	441.4	1,982.8
2001	210.8	411.7	493.5	2,275.4
2002	62.0	189.6	214.0	2,361.8
2003	81.1	421.5	430.6	2,452.2
2004	0.0	518.1	664.0	2,598.1
2005	5.4	417.3	444.3	2,630.5
2006	0.0	120.7	195.0	2,704.8
2007	0.0	24.8	27.0	2,707.0
2008	0.0	253.0	255.0	2,709.0
2009	476.2	447.9	450.3	3,187.6
2010	740.3	125.0	127.4	3,930.3

B 1 1 STANDARD AND STRUCTURED PRIVATE LOANS

The French Community has contracted standard private loans since 1991 and structured private loans since 1995. These are concluded with financial institutions, the range of which has considerably expanded over time.

The structures backing the loans can be extremely varied (swaption, series of swaptions, caps, floors, options with activation or deactivation barriers, etc.). They are developed by the French Community itself or proposed by a counterpart together with an underlying loan. The decisions to proceed in the matter result essentially from evaluation of the impact produced by the structured product with regard to financing cost, risk and duration objective.

B 1 2 DOMESTIC COMMERCIAL PAPER PROGRAMMES SHORT, MEDIUM AND LONG TERM

From 1994 and until the end of 2003, the French Community had two domestic financing programmes available with Dexia Bank: one short term, for a sum of € 1.1 billion, one long-term, for € 1.4 billion. Since then, these two programmes have been combined into one. This allows the Community to issue commercial paper having a maturity of one day to thirty years for a total amount of € 2.5 billion. This local programme was updated on 8 July 2010 (technical update).

Since its establishment at the end of 1994, the French Community has used its short-term commercial paper programme both for management of its treasury (see item B.3) and of its consolidated debt, whether for the floating portion of this latter (successive rollovers), or, for the fixed portion, underlying a derivative product.

Moreover, based on its former MTN (Medium Term Note) programme, the French Community has since December 1995 issued OLCos (community linear bonds).

In addition, it has had available since 2000 a short-, medium- and long-term financing programme with Fortis Bank (since 2009, this has become BNP Paribas Fortis) for an amount of € 750.0 million. The total outstanding amount of the OLCOs as of 31/12/2010 is € 40.0 million (an issue of € 25.0 million starting on 19 March 2002 and another one of € 15.0 million with a start date on 21 February 2003), the weighted average yield is 5.2% for an initial weighted average maturity of 11.9 years and a weighted residual term of 3.4 years.

We emphasise that in the context of diversification of its types and sources of financing, the French Community has had the opportunity to use dematerialized issues similar to the German Schuldschein, and in doing so, has been able to take advantage of an advantageous financing cost compared to other proposals received.

B | 1 | 3 EMTN FINANCING PROGRAMME

The Aa1/P1 rating granted by Moody's Investor Services agency to the French Community, confirmed year after year[1], as well as the changes made in the special financing law regarding certain loan conditions for the federated bodies[2], have allowed the community to pursue new diversification in its financing sources, by among other things the establishment of an EMTN (Euro Medium Term Notes) programme on 15 December 2003.

Following a market consultation, the French Community charged Deutsche Bank and Dexia with setting up this programme. The dealers are, besides the two banking institutions cited above, CBC Banque – KBC Bank, Deutsche Pfandbriefbank, BNP Paribas Fortis, HSBC, Crédit Agricole CIB.

This programme allows the Community to issue short-, medium- and long-term paper (from 30 days to 50 years) for a maximum amount of € 4,000.0 million (since its update dating of 8 July 2010); however, the Community has not, until now, used the said programme for short-term issues. The issues can be public as well as private, using notably the reverse inquiry process.

The EMTN programme was activated in the amount of € 535.0 million in 2004 (four issues, with a weighted average maturity of 10.0 years and a weighted average rate on a possible covered basis of 4.005%) and for € 425.0 million in 2005 (seven issues, with a weighted average maturity of 19.7 years and a weighted average rate on a possible covered basis of 4.144%). In 2006, the aforementioned programme was activated four times for a total amount of € 195.0 million: the weighted average maturity of the issues was 15.1 years for a net weighted average rate of 3.714%. In 2007, as indicated above, a sum of € 27.0 million was issued by way of re-borrowing on amortisations; in this latter case also, the EMTN programme was used via an issue of 15.0 years maturity at a net rate after IRS of 4.318%. Only 11.8% of the amounts to be financed in 2008 were financed in the framework of the above programme, via an

1 *See on this topic the press releases, Analysis and Credit Opinions published regularly since 17 April 2003. The last updated Credit Opinion was published on 15 December 2010.*

2 *As a reminder, the most important change is that the federated bodies can from now on finance themselves on the international capital markets without special authorisation from the federal authority. Article 49, §3 of the LSF specifies however an obligation to inform the [federal] Minister of Finance.*

issue at 15.0 years for an amount of € 30.0 million and at a net rate after coverage of 3.811%. In 2009, there were nine issues in this framework for a total amount of € 488.0 million and a weighted average maturity of 7.4 years at an initial weighted average rate of 3.268% – given that that three loans are indexed to the Euribor and were not swapped at a fixed rate.

In 2010, twelve issues were realized for a total amount of € 547.0 million and a weighted average maturity of 11.4 years at a weighted average rate of 3.245%. As of 31/12/2010, the programme has thus been activated for a total amount of € 2.247 million - or 56% of the maximum total volume - the residual maturity in terms of liquidity being 8.5 years and the net weighted average rate being 3.643% (taking the net rate of the first period for issues not swapped for a fixed rate). The programme has thus been activated 38 times, the average amount per issue being € 59.1 million.

STOCK OF EMTN AS OF 31/12/2010

Amount in €	Issue date	Maturity date	Net rate after coverage
300,000,000.00	18/03/2004	18/03/2014	4.08000
50,000,000.00	17/05/2004	17/05/2013	3.41800
72,500,000.00	17/05/2004	17/05/2013	4.35050
112,500,000.00	26/05/2004	26/05/2015	3.84125
200,000,000.00	30/03/2005	30/03/2025	4.19975
20,000,000,00	30/03/2005	30/03/2055	4.37200
75,000,000.00	6/04/2005	6/04/2020	4.06300
10,000,000.00	7/04/2005	7/04/2020	4.01000
100,000,000.00	7/04/2005	7/04/2023	4.14300
10,000,000.00	14/04/2005	14/04/2023	4.14500
10,000,000.00	26/10/2005	26/10/2015	3.30420
50,000,000.00	11/01/2006	11/01/2021	3.51000
20,000,000.00	13/02/2006	13/02/2026	3.54400
100,000,000.00	15/02/2006	15/09/2021	3.79100
25,000,000.00	22/09/2006	22/09/2016	3.95000
27,000,000.00	28/03/2007	28/03/2022	4.31800
30,000,000.00	18/02/2008	20/02/2023	2.42000
100,000,000.00	1/07/2009	1/07/2016	E6M + 120.0bp
67,000,000.00	3/07/2009	4/07/2016	4.45000
48,000,000.00	3/07/2009	3/07/2017	4.61200
50,000,000.00	4/12/2009	4/12/2015	3.33200

40,000,000.00	4/12/2009	4/12/2016	3.55700
50,000,000.00	4/12/2009	4/12/2017	3.75000
45,000,000.00	4/12/2009	4/12/2019	4.02500
8,000,000.00	4/12/2009	4/12/2015	E6M + 45.0bp
80,000,000.00	4/12/2009	4/12/2016	E6M + 50.0bp
27,000,000.00	15/01/2010	16/01/2012	1.77400
25,000,000.00	25/01/2010	27/01/2020	3.91100
100,000,000.00	29/01/2010	29/01/2020	2.99000
75,000,000.00	4/02/2010	4/02/2020	3.57500
20,000,000.00	5/02/2010	5/02/2020	3.86600
80,000,000.00	19/02/2010	19/02/2020	3.82500
30,000,000.00	11/06/2010	11/06/2060	4.12000
15,000,000.00	14/06/2010	14/06/2019	3.12500
50,000,000.00	31/08/2010	31/08/2017	2.52000
50,000,000.00	1/09/2010	1/09/2022	3.13300
40,000,000.00	28/09/2010	28/09/2018	2.99350
35,000,000.00	22/10/2010	22/10/2018	3.03600

Total amount activated in € : 2,247,000,000.00
Weighted average maturity: 12.2 years
Weighted residual term: 8.5 years
Weighted average yield after coverage if applicable: 3.64%

Through the establishment of this financing programme, along with the achievement and confirmation from year to year of an Aa1/P-1 rating, the French Community is seeking to ensure better visibility on the financial markets, which should allow it to further facilitate its access to financing and to optimise its financing costs.

During the revision of the programme finalised on 8 July 2010, it was decided in particular to make use of the clause for increasing the maximum volume of the programme, to bring it to € 4,000.0 million as opposed to € 2,500.0 million on 26 May 2009. This demonstrates the desire for increased use of a programme which has proven itself with regard to robustness and flexibility of use. The available balance that can be activated as of 31/12/2010 is thus € 1,753.0 million.

In a concern for reducing liquidity and refinancing risk, lines of credit which can be drawn upon at any time, without reservation or non-utilisation fee, have moreover been opened since 1994.

The financing capacity of the Community is thus ensured in both the short and long term under conditions determined in advance (compared to precise references) for a total amount of € 650.0 million as of 31 December 2010.

The following graphs specify, for the total debt, the proportion of the outstanding amount in different types of loans as of 31 December 2009 and as of 31 December 2010.

FIGURE 4 **Different types of total debt loans as of 31/12/2009**

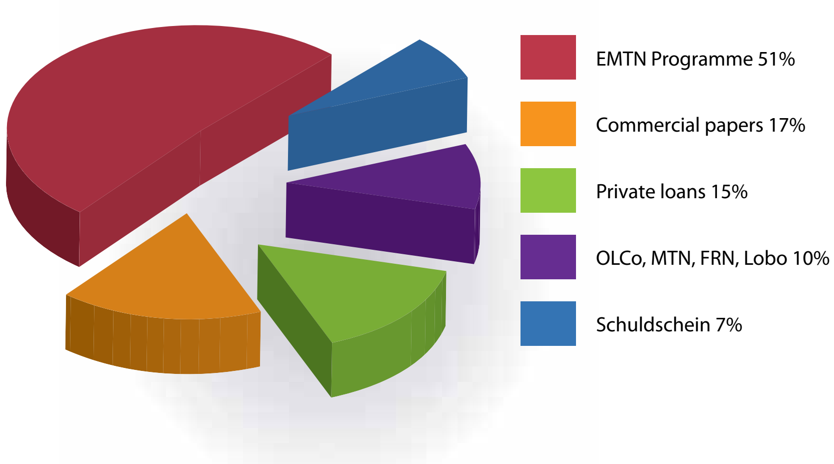
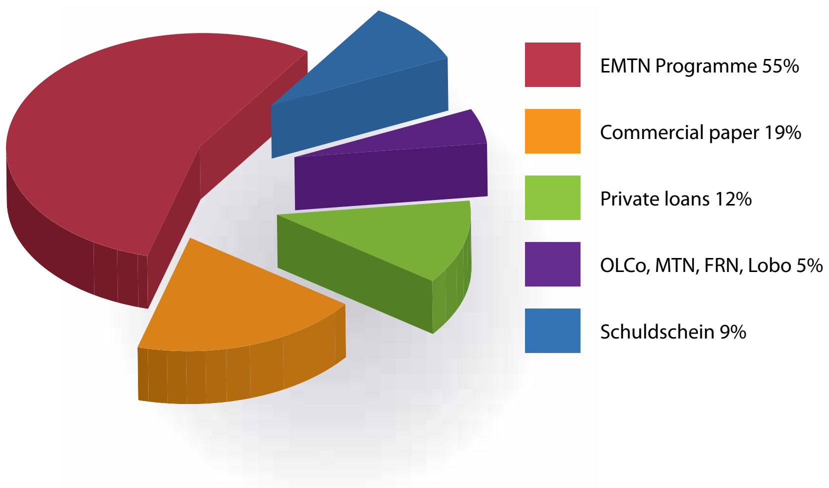


FIGURE 5 **Different types of total debt loans as of 31/12/2010**



B 2 INDIRECT DEBT – UNIVERSITY DEBT

The community debt includes indirect debt. Out of concern for consistency and rational management, this is administered with the direct debt in the portion of the budget relating to public debt.

The indirect debt corresponds to loans issued by third-party organisations to the French Community, for which the Community is, in whole or in part, liable.

The principal characteristic of the indirect debt is that it is in the process of being eliminated. There are three reasons for this. First, this debt results from loans contracted in the past. Second, financial solicitation of this type no longer occurs currently. Finally, as the amortisations are being refinanced via the direct debt, a shift in the outstanding amount is occurring between the two types of debt.

Moreover, until 2004, the indirect debt of the French Community was split into two parts according to the original issuer. These included the universities and certain community organisations of public interest[1]. The last tranche of the debt connected to the latter has been repaid on 29 January 2004, and is not considered in further detail here[2].

The university debt has been contracted by the universities to finance their real estate investments.

Two types of investments should be distinguished:
- the "academic" investments aimed essentially at construction of buildings intended for teaching (auditoria, etc.);
- the "social" investments aimed at construction of buildings intended to accommodate students outside courses (student homes, university restaurants, etc.).

1 *Only the loans taken out in 1992 and in 1993 by the four public interest institutions concerned (ONE, RTBF, CGRI and the AIDS Prevention Agency) of the French Community were involved in the outstanding amount of the so-called paracommunity debt; this therefore did not include all of the loans issued by the four aforementioned organisations. The Community budget supported all of the charges relating to these 1992 and 1993 loans in return for a decrease in the allocations paid to these institutions. Starting from 1 January 1996, this outstanding amount has been directly managed by the Debt Directorate and its charges recorded in the part of the community budget devoted to the public debt.*

2 *The reader interested in the history of the paracommunity debt may find it useful to consult the previous Annual Reports available on the budget site of the French Community: http://www.budget-finances.cfwb.be.*

The financial charges (interest and amortisation) for the "academic loans" are entirely assumed by the budget of the Community. On the other hand, only the part of the interest above 1.25% for the "social loans" is assumed by the Community. The balance of the interest as well as the amortisation of these loans is drawn from the budget of the universities themselves.

Following this distinction, only the academic debt of universities is considered an integral part of the debt of the French Community.

Evolution of the outstanding amount on the academic university debt,

Year	Outstanding as of 01/01	Amortisation as of 31/12	Outstanding as of 31/12
1994	543.4	12.7	530.7
1995	530.7	14.4	516.3
1996	516.3	6.7	509.6
1997	509.6	3.8	505.9
1998	505.9	4.0	514.5[1]
1999	514.5	4.3	510.1
2000	510.1	4.5	505.7
2001	505.7	78.3	427.4
2002	427.4	5.1	422.3
2003	422.3	5.4	416.9
2004	416.9	130.4	286.5
2005	286.5	27.0	259.5
2006	259.5	75.9	183.6
2007	183.6	2.3	181.3
2008	181.3	2.3	179.0
2009	179.0	2.4	176.6
2010	176.7	2.4	174.2

B | 3 | TREASURY

B | 3 | 1 | OVERALL TREASURY BALANCE

The treasury of the French Community groups together all the financial accounts through which the revenues and expenses of the institution are handled. In this respect, the treasury flows reflect budgetary and extra-budgetary actions, such as third-party transactions and especially consolidated debt capital transactions (amortisations and re-borrowing).

1 *The outstanding amount as of 31/12/1998 underwent a technical correction in order to take account of a university-type loan (debt relating to acquisition of the grounds of the Plaine des Manœuvres in Etterbeek) which had not been integrated into the outstanding amount of the indirect debt.*

All the accounts opened by the French Community with its cashier (currently, Dexia) have their consolidated balance examined daily in order to determine an overall treasury balance.

B | 3 | 2 DESCRIPTION OF REVENUES AND EXPENSES

REVENUES

The revenue budget (ways and means) of the French Community is principally supplied by three types of resources.

The first two are, in decreasing order of importance, the portions of the VAT and IPP which are paid by the Federal State to the Community in strict application of the provisions of the LSF. The allocation paid by the federal authorities to finance foreign university students enrolled in the educational establishments of the French Community is added to these two transferred sources of revenue. These amounts are paid to the Community in the form of twelfths on the 1st working day of each month of the year.

The French Community had fiscal resources available through the RRTV. Beginning in 2002, after the revision of the previously cited financing law, the RRTV became a regional tax and was replaced by a compensatory allocation calculated as a fixed amount and indexed to the general consumer price index. It should be noted that in SEC 95, loans carried out are only subject to registration in accounts involved after calculation of the financing balance; they therefore have no impact on the realisation, or non-realisation, of the budgetary objectives assigned by the Cooperation Agreements.

FIGURE 6 **2010 Revenues excluding allocated revenues (Collections)**

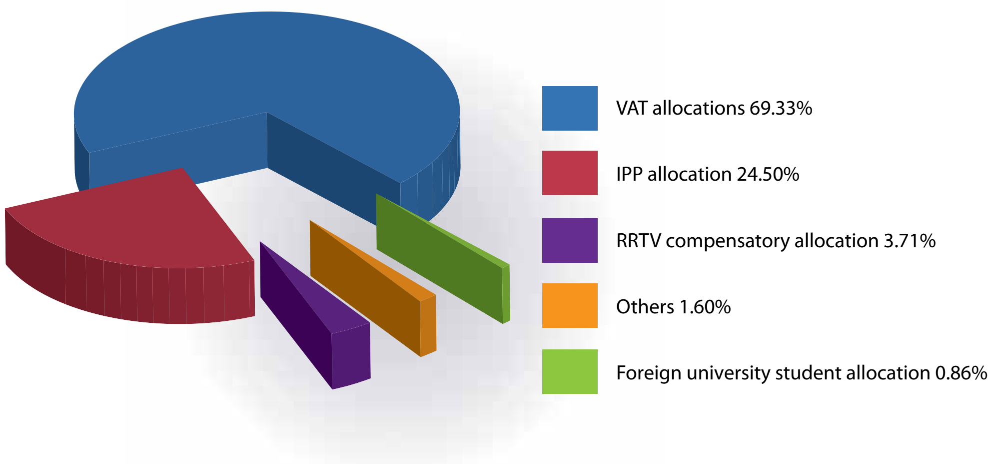


Figure 6 shows the distribution in relative value of the revenue of the French Community for 2010.

The substitution of a fixed-sum allocation for the RRTV community tax means that, since 2002, more than 98% of the resources of the French Community constitute allocations paid by the Federal State. This situation contributes to reinforcing the low volatility of the revenues of the French Community.

EXPENDITURES

A rough distribution of the expenditures of the French Community looks as follows:

- the Education, Research and Training sector represents slightly more than three quarters of the general expense budget of the French Community. For the Education area (from nursery school to the higher education level), a very significant part of the expenses is devoted to payment of teachers' salaries;

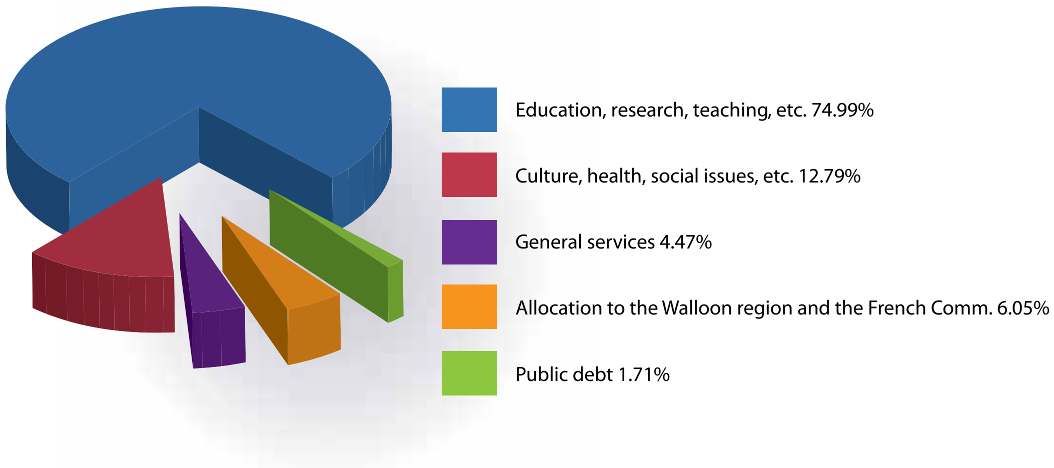
- the expenses of the second sector in order of significance (Health, Social Affairs, Culture, etc.) consist essentially of allocations or subsidies paid to the various agencies charged with implementation of these matters (RTBF, ONE, WBI, etc.);

- the allocations paid annually by the French Community to the Walloon Region and the French Community Commission of the Brussels-Capital Region correspond to the amounts due by the Community in exchange for the transfer of the exercise of certain of its powers to these two bodies;

- as for the General Services sector, it covers expenses relating essentially to the operation of the institutions of the French Community.

- the expenditures for the Public Debt include all the charges connected with the debt (studies, fees, functioning, etc.) as well as interest charges.

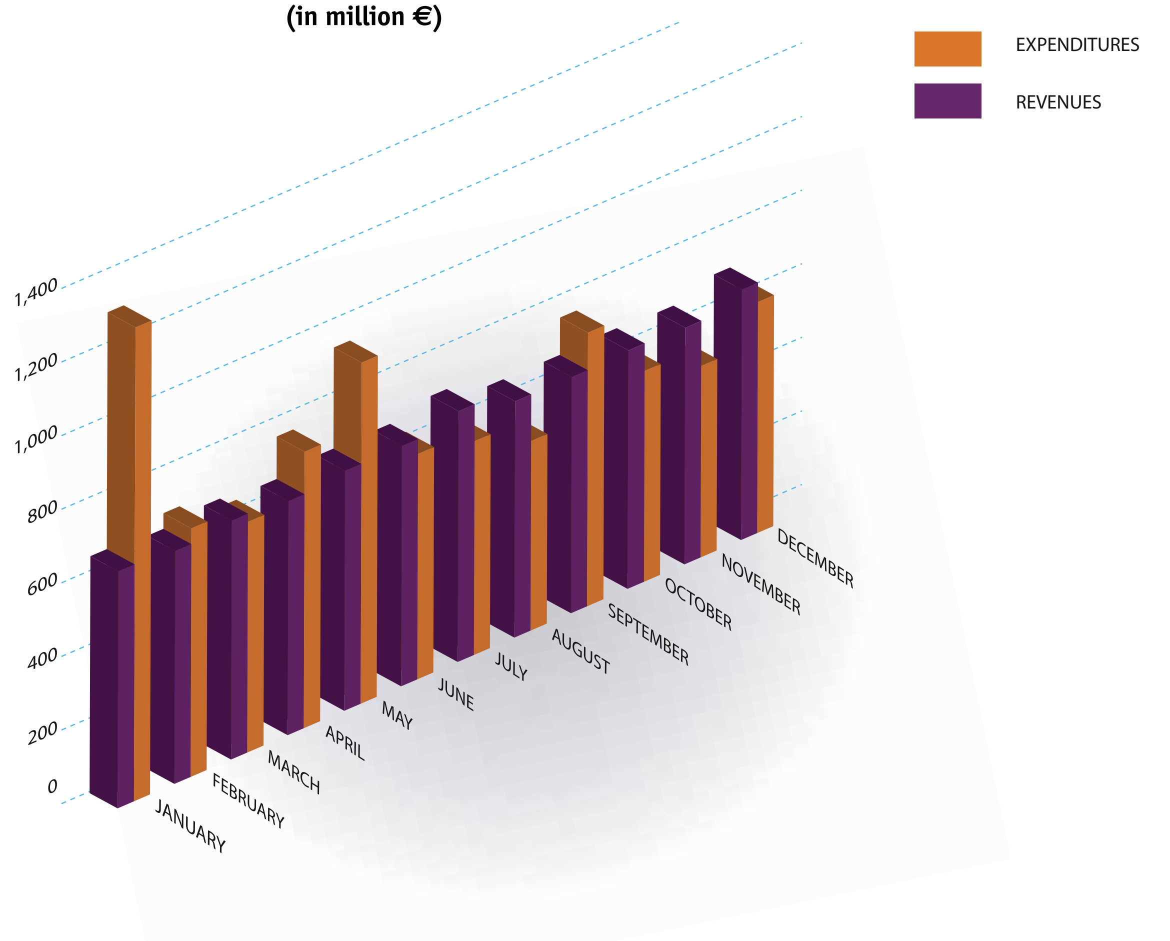
FIGURE 7 **2010 Expenditures excluding debt amortisations (Disbursed)**



B 3 3 RATE OF REVENUE COLLECTION AND DISBURSEMENT OF EXPENDITURES

The cycle of revenue collection and disbursement of expenditures of the French Community over the course of 2010 is illustrated by the following graph:

FIGURE 8 **Cycle of 2010 revenues and expenditures (in million €)**



The graph above shows that the French Community collects its revenues and pays its expenses at a relatively regular rate. Two factors explain this phenomenon:

- first, most of the revenues (a portion of the IPP and the VAT, the RRTV compensatory allocation and the allocation for foreign students) are paid to the Community by twelfths at the beginning of each month (the 1st working day of each month);
- second, a significant proportion of the expenses of the French Community is devoted to payment of salaries, distribution of which also occurs regularly throughout the year at the end of the month (the last working day of each month). There is also the fact that the allocations paid to the Walloon Region and to the French Community Commission (see above) by the Community occur by transfer of twelfths on the 2nd working day of each month.

However, for a number of years, the disbursement of salary expenditures took place in an atypical way at the beginning and end of the year. This was due to the deferral, from 1984 to 2007, of payment processing from December to the beginning of the following year. Until 1999, the end-of-year bonus was also subject to the same deferment.

In 2008, the Government of the French Community decided to end the procedure which delayed the payment of salary due for the month of December by several days for some 130,000 teachers, officials, and agents of the State. On 29 December 2008, the teachers and administrative personnel of the French Community received their salary for December 2008. The French Community thus paid 13 months of salaries in the course of 2008, and took the budgetary[1] and financial measures needed to provide this payment. The debt stock of the Community as of 31 December 2008, presented in item A.1. of Chapter III of this report, translates the 2008 budgetary result into financial terms, including the payment in December of the December salaries. Since then, the twelve months of salary are paid systematically during the last days of the month, thus smoothing out a little bit better the expenditure cycle.

1 *On this subject, see the recommendation given by the National Accounts Institute on 2 December 2008 at the following address: http://inr-icn.fgov.be/pdf/Advices/Enregistrement_remunerations_decembre.pdf.*

C PRINCIPLES OF DEBT MANAGEMENT

C 1 REMINDER OF THE PRINCIPLES OF DEBT MANAGEMENT

Five principles are consistently observed in managing the debt of the French Community. These principles are the following:

1. **Harmonisation of financing and debt management procedures.**

All procedures relating to debt management, direct as well as indirect, are carried out by the Debt Directorate of the French Community. The other operational departments of the Administration do not intervene in any way in this matter. In addition, all the charges relating to these two types of debt are assembled in the Chapter entitled Public Debt of the French Community of the general expense budget.

2. **Optimal distribution of the fixed rate and floating rate portions of the debt as a function of variation of the yield curve.**

The yield curve is one of the principal items taken into consideration in managing the debt of the French Community. This indicator aids in determining a ratio for distribution of the outstanding debt between a fixed rate portion and a floating rate portion. The objective is to achieve an optimal risk/return ratio. For this reason, a significant change in the slope of the yield curve usually leads to repositioning the fixed rate/floating rate ratio independently of the maturity of the loan. Thus, in the case of a steeply sloped positive curve, the positioning of the debt ratio will be oriented more towards the floating rate. A highly arched yield curve makes use of financial instruments – loans or derivative hedge products – listed as short term less expensive. On the other hand, in the case of a relatively flat yield curve, the return is relatively close for all maturities. In the case of this type of curve, the search for the best risk/return ratio would involve increasing the fixed rate portion of the ratio.

Before 2000, the fixed rate/floating rate distribution ratio was revised for any significant shift in the yield curve. Later, this principle has been slightly modified, as it was no longer a matter of attaining, as at 30 June and 31 December, a precise ratio, but rather of staying within fixed limits. This capacity for rapid adaptation of the “fixed/floating” ratio to any shift in the yield curve allowed to obtain at any time the risk/return ratio that was most appropriate to the debt.

During this period, a rule that consisted in classifying automatically in variable rate all loans maturing within two years regardless of the nature of their reference rate had been established. Thus a single measurement instrument covered interest rate risk and refinancing risk.

The limits set for the range of variation were fixed at minimum 65% and maximum 75% of fixed rate, to observe the fixed rate and floating rate portion of the debt, or a margin equal to 10% of the total outstanding community debt.

This “fixed/floating” ratio was thus a key tool of debt management for implementing an adequate balance between debt costs and risks linked to interest rate volatility.

Today, the risk linked to changes in the level of interest rates and the risk linked to financing needs are captured using two different instruments:

- the fixed / floating ratio for the evolution of the risk of rising rates on the portion of the debt for which the coupon is floating;
- the 5-year cumulative amortisation to stock of debt ratio for the evolution of the refinancing risk, i.e. the risk linked to rising rates on the re-borrow of amortisations.

From now on, the part of the debt for which the coupon varies with the interest rate movements must be each year less than 15%.

In addition, the cumulative amount of amortisations for the next 5 years cannot exceed 50% of the stock of debt, knowing that from one year to another, the amount of amortisations cannot exceed 15% of the stock of debt.

3. Active use of the most suitable financial instruments.

The French Community uses the financial instruments best suited to management of its debt. In this regard, speculation is systematically excluded and each derivative product selected is, or will be during whole its life, attached to a component of the community debt.

Interest rate swaps are the product of choice in managing the yield rate, allowing easy transfer of a portion of the debt from fixed rate to floating rate, and vice versa. In 2002 and 2003, the French Community managed its debt in a way comparable to that of the preceding years. With a view toward keeping the minimum duration of 4.0 years and taking account of the behaviour of the interest rate curve, it has issued long-term loans, in the form of issues of OLCos (at fixed rates), FRNs and fixed-rate swapped commercial paper. In addition, a series of basis swaps were concluded or renewed.

Starting from 2004, the French Community has opted for intensive use, almost exclusive in 2005 and exclusive in 2006 and 2007, of its EMTN programme, sometimes accompanied by coverage making them ultimately equivalent to long-term fixed-rate issues (given in particular the historically low rate level). The upper limit of 75% for the fixed-rate portion was thus temporarily exceeded between 2004 and 2008, in line with market reality. As of 31/12/2006, the fixed rate ratio was evaluated at 84.5%. It should be noted that following the recommendation given by the [community] Treasury Council at its meeting of 30 April 2004, in order to take into account the rate risk on re-borrowing amortisations, it was decided to include it in the floating rate portion of any loan with a maturity less than two years, regardless of its structure. This means notably that automatically, over time, the said ratio had to decrease strongly, given the relatively significant amounts in loans[1] coming due in 2009 (€ 450.3 million) and 2011 (€ 485.4 million), without prejudice to the subsequent net balances to be financed.

Thus, as of 1 January 2007, the fixed-rate portion went to 69.9%. During its meeting of 7 May 2007, the Community Treasury Council proposed to the Minister of Budget and Finance that, given a flat yield curve and taking account of reasonable assurance as to liquidity, especially in view of the Aa1 rating level of the Community, the fixed rate/floating rate ratio

1 *As a reminder, most are fixed-rate since their origin or following a derivative transaction(s).*

be repositioned by increasing the fixed-rate portion by approximately 15% to bring it to around 85%. To do this, the Community Treasury Council recommended the use of three deferred start swaps of € 100.0 million each Euribor floating rate receivers and IRS 20 year fixed-rate payers, each having a maturity of 20 years; and a structured coverage beginning in 2008, fixing a maximum rate close to the market level and having a maturity of 10 years: € 100.0 million for 10 years starting from 20 February 2008 (structured coverage); € 100.0 million for 20 years starting from 17 March 2008 (deferred start swap); € 100.0 million for 20 years starting from 19 February 2009 (deferred start swap); and € 100.0 million for 20 years starting from 12 March 2009 (deferred start swap). After appropriate competitive calls with a significant number of financial institutions, the aforementioned transactions were finally concluded with four different banks, one of them "national". By this means in particular, the fixed rate part of the debt was maintained at the relatively high rate of 83.76% as at 31/12/2007.

Following the changes in the shape and levels of the yield curve, the Community Treasury Council proposed to the Minister of Budget and Finance positioning of the refinancing transactions decided upon at the beginning of 2008 at the lowest possible point of the curve. Thus, even if the issues were concluded for maturities from 10 to 15 years when they were issued at a variable rate, with a swap against IRS 2 years, except for an issue of € 100.0 million at 10 years kept as underlying for the anticipated structured contract cited above and concluded in 2007. The other deferred start swap against the rate rise also concluded in 2007 and beginning on 17 March 2008, having fulfilled its purpose role, was settled in two stages after competitive calls from several banks: the notional was first brought to € 75.0 million on 21 February 2008[1] to align it with the amount of the balance to be borrowed at that time, before being fully settled on 6 March 2008[2] , the concluding date of the last issue, carried out at fixed rate. The fixed-rate portion of the community debt thus reduced to 77.67% as at 31/12/2008.

1 *Following the decision of the Minister on 20 February 2008, following in this the advice of the Community Treasury Council of 19 February 2008.8.*

2 *In accordance with the decision of the Minister of 5 March 2008, in response to the aforementioned advice of the Community Treasury Council and a memorandum from the Administration of 3 March 2008.*

As at 31 December 2009, the fixed-rate ratio was calculated as 70.25%, essentially due to:

- the increase in the nominal stock of the long-term community debt, which went from € 2,888.0 million to € 3,364.3 million;
- the decision not to swap for IRS three new issues for a total amount of € 288.0 million indexed to the Euribor;
- the rule that consisted in classifying automatically loans due within two years (including the 2011 amortisations amounting to over € 485 million) as variable rate regardless of the nature of their reference rates.

As of 31 December 2010, the fixed rate / floating rate ratio (calculated on the basis of the new principles outlined above) amounts to 90.57% / 9.43%[1]. The slope, shape and level of the yield curve in 2010 has prompted the French Community to swap directly to fixed rate, among the 18 realised financing operations, the 11 that were proposed by the investor at variable rate. Some of these swaps are long or very long-term, but cancellable by the counterparty, with the caveat that the first possible cancellation date corresponds to the maturity of the underlying debt. The weighted average maturity for 2010 financings is 10.8 years and the weighted average rate after coverage amounts to 2.98%.

In addition, two 50-year swaps, fixed rate payer and Euribor 6 months receiver, with a notional amount of 50 million € each and starting in February 2011, have been realized in order to early fix the rate of a part of the 2011 financing needs at historically low levels.

It should be noted that the natural reference for the French Community loans is the OLO, with which the spread is much less volatile than with the IRS.

Finally, as of 31 December 2010, the 5-year cumulative amortisation to stock of debt ratio amounts to about 40%.

4. "Investor-oriented" strategy

The financing programmes – such as the EMTN – available to the French Community allow it to continuously fund its treasury and its consolidated debt. Use of these programmes offers the advantages of a reduction

1 *Against 89.25%/10.75% as of 31/12/2009 (ratio recalculated using the new methodology)*

in the financing cost compared with standard average short and (very) long term conditions and the possibility of rapid reaction to certain opportunities on the capital markets (the standard consultation procedures being slower). In addition, it allows an expansion of the investor base, strengthened, moreover, by a proactive communications approach intended to make the Belgian federal system better known to foreign investors, and in particular the effect of the LSF which ensures the bulk of Community revenues are predictable and guaranteed.

Implementation of the "investor-oriented" strategy is based on communication[1] and transparency, responsiveness to financing proposals and flexibility in management, thanks to appropriate instruments and procedures.

5. Synergy in the financing and investment transactions of the French Community and public bodies integrated into the SEC.

Since 7 February 1995[2], the French Community[3] has been exempt from advance levy when it invests its treasury surpluses in dematerialised securities from public administrations (sector S13) listed in the consolidation of national accounts by the European authorities in application of the Maastricht treaty.

Investment policy has thus been significantly changed, insofar as the Community has since then exclusively acquired securities issued by the State federal and the federated bodies.

6. Management of the repayment schedule

The French Community ensures that overall duration of its debt is always greater than 4 years, in order to avoid having to deal with a significant amount of refinancing over a short period in the near future. In this way, it ensures that its debt is staggered over an adequate period. Nevertheless, it also ensures that the due dates of its debt are diversified in order to avoid – insofar as possible – peaks and troughs in refinancing, and

1 *A special brochure entitled "Investing in the French Community" has been drafted and has been available since March 2010, including an English-language version, on the site of the Directorate General for Budget and Finance of the Community: http://www.budget-finances.cfwb.be*

2 *Royal decree of 23 January 1995 modifying the royal decree of 26 May 1994 on collection and rebate of the advance levy in compliance with Chapter I of the law of 6 August 1993 regarding transactions on certain securities (went into effect upon publication of the Official Gazette, 7 February1995).*

3 *This provision holds for all the public bodies consolidated in the SEC.*

thus to be in the market for relatively similar amounts each year.

The limitation of the 5-year cumulative amortisation to stock of debt ratio to maximum 50% (for memory, it is 40% as of 31 December 2010) also contributes to this objective.

7. Principles of caution, competitive tendering and efficiency of decision-making operations

As a reminder, debt management and treasury transactions are part of the exclusions in Appendix 2 of the law of 24 December 1993 relating to public contracts and certain contracts for works, supplies and services. Nevertheless, prices, rates, margins, etc. are systematically obtained after competitive tendering in a form adapted to the type of product and after having been – in the great majority of cases and insofar as possible – assessed internally. Competitive tendering allows the best price to be obtained, but it also tests understanding of the product concerned. A significant discrepancy in price from counterparty can in fact originate from poor understanding of the transaction underway and be corrected before closure, thus avoiding subsequent difficulties.

C 2 APPLICATION OF MANAGEMENT PRINCIPLES

C 2 1 DEBT

The total amount to be financed for the year 2005 came to € 444.3 million. An amount of € 24.7 million having already been borrowed in the form of a direct credit taking effect on 15 January 2005, the French Community consulted the market on 1 March 2005 for a total amount limited to € 420.0 million in the legal framework of its EMTN programme. Firm offers for a total amount exceeding € 3,000.0 million were proposed by 16 banks from all quarters. Six issues for a total amount of € 415.0 million and an average weighted maturity of close to 20.0 years were carried out at once. Generally speaking, the French Community was offered a funding cost below the level of the IRS of equivalent maturity. At the end of October 2005, a final particularly attractive issue was carried out for an amount of € 10.0 million via the reverse inquiry procedure of the aforementioned programme.

The total amount in loans falling due in 2006 was evaluated at 196.6 million. Very attractive spontaneous offers, again by means of reverse inquiries, allowed the Community to raise almost all its financing needs (in terms of re-borrowing of amortisations) from 15/02/2006; the programme was activated a last time in September 2006 to attain a total annual amount of € 195.0 million with an average weighted maturity of 15.2 years. These issues sometimes had complex structures which were not retained by the Community thanks to the use of mirror swaps ultimately leading to a rate under Euribor; a standard Euribor flat receiver and fixed rate payer swap was systematically attached in view of the shape and level of the yield curve.

Still in this context, at the end of the 1st quarter of 2007 an issue of € 27.0 million with a maturity of 15.0 years and a structure indexed to the Belgian health price index was carried out – this was again offset by a mirror swap generating a payer rate well under Euribor; here also, a standard Euribor flat receiver and fixed rate payer swap was attached.

In 2008, re-borrowing of debt amortisations were set as € 255.0 million[1] and completely finalised from 6 March 2008. After spontaneous offers from various banks, the Community carried out the following transactions:

Amount in €	Start	Contractual rate	Duration
75,000,000.00	17/03/2008	3.62%	5.0 years extendable until 2058
100,000,000.00	20/02/2008	Euribor 1 month – 7 bp	10.0 years
30,000,000.00	18/02/2008	Euribor 6 month – 7bp	15.0 years
50,000,000.00	01/02/2008	Euribor 1 month – 7bp	10.0 years

1 *Which represents a reduction in the long-term nominal indebtedness of the order of € 0.4 million.*

The transaction of € 75.0 million – so-called Lobo (Lender's Option Borrower's Option)[1] – of duration between 5.0 and 50.0 years (at the choice of the Community) was carried out based on specific documentation and after competitive calls to several banks, despite the specificity of the product. The investor has the option of revising the rate once after 5 years, 7 years and every year thereafter; the Community has the option of accepting continuation or not of this transaction at the revised rate.
The two transactions at 10 years (€ 50.0 million and € 100.0 million) were carried out in the framework of a local commercial paper programme. This involved rollover issues placed in the market, but for which the bank committed itself to buying the paper with a minimum margin of (– 4 bp) for 10.0 years. In practice, during 2008, the issues were all acquired by investors with a margin more advantageous for the Community than that guaranteed by the bank.
As a reminder, the transaction of € 50.0 million at 10.0 years was subject to a fixed rate margin for the first two years and the transaction of €100.0 million at 10.0 years constitutes the underlying instrument for one of the anticipated hedges concluded in 2007.

The transaction of € 30.0 million at 15.0 years is a structured issue on the EMTN programme, to which is attached a mirror swap to the Euribor. It was also subject to a fixed rate margin for the first two years.

The amount in loans coming due in 2009 was calculated at € 450.3 million; the 2010 amortisations have been evaluated at € 127.4 million: without prejudice to the net balance to be financed, close to € 600.0 million falls due during the 2009-2010 period. Starting from January 2009, an initial transaction of € 100 million at 4 years was concluded in the framework of a local commercial paper programme by means of monthly rollovers for which the bank is committed to buying the paper with a minimum margin of (– 4bp). It was also subject to fixed-rate coverage for 4 years.

During June 2009 a market consultation comprising three components was organised for an amount of the order of € 500.0 million. These three components were: a public issue in the framework of the EMTN programme and/or one, or several private issue(s) preferably under EMTN, and/or one, or several standard bank loan(s) with the following essential characteristics: mandatory underwriting regardless of the component

1 The Federal State, notably, carried out an analogous issue. For further details, see the 2007 Annual Report on the debt of the Federal State (page 33). The document is available on the site of the [federal] Debt Agency at the following address: http://www.debtagency.be/Pdf/rpt2007fr.pdf.

chosen, minimum maturity of 3 years, minimum amount of € 10.0 million per tranche, validity of offers from 6 to 22 June 2009. At the end of this consultation, four financing transactions were concluded in the following format:

- an issue at 10 years linked to IRS rates was carried out in the Schuldschein format for an amount of € 138.5 million (starting date 26 June 2009);
- an issue of € 100.0 million indexed to the Euribor was carried out for 7 years in the legal framework of the EMTN programme (starting date 1 July 2009);
- the aforementioned EMTN programme was activated by means of two new issues starting on 3 July 2009: the 1st for € 67.0 million at 7 years and the 2nd for € 48.0 million at 8 years, both linked to IRS rates.

It should be noted that while the traditional banks have remained present in Community financing, the diversification of financing sources and geographical diversification of the counterparties noted during the first part of 2009 is noteworthy and desirable. Thus, among the offers originating from thirteen different counterparties (sometimes involving three components) in the context of the consultation, some were accepted and finalised with two new counterparties who had never previously had the opportunity to actively participate in community financing.

The 2010 Community financing started very early in the year through a series of loans under the EMTN format: a first 2-year issue was concluded for an amount of € 27.0 million with a start date on 15 January; between the last week of January and the first half of February the EMTN programme has been activated five times for a total amount of € 300.0 million at 10 years with a maximum margin of 45.0 bp with regards to Euribor 6 months or MidSwap.

Given the obtained underwriting facility (without commission for reservation or non use), the Community financing was already secured. This allowed the Community to proceed exclusively via reverse inquiries fairly aggressive in terms of prices during the remainder of the year, without being forced to go the market at a specific time and for specific amounts.

Four operations in Schuldschein format were signed for a total of €

108.0 million and maturities of 15 and 20 years with start dates 15 April and 17 May 2010. The first half of the year was closed with two issues in EMTN format, the first done for 50 years for an amount of € 30.0 million, the second for € 15.0 million for 9 years.

Four other loans have been realized under the legal framework of the EMTN programme for a total of € 175.0 million and maturities of respectively 7 years, 8 years and 12 years. Three of them were indexed on the Euribor 3 months and immediately swapped for fixed rates in order to benefit from the low level of long-term rates. The start dates of these issues were respectively: 31 August, 1 September, 28 September and 22 October. Note that four new counterparties participated directly or as intermediary in the Community financing, which meets the objective of diversifying the financing sources of the French Community.

During the beginning of the third quarter and late in the fourth quarter of the year, local programmes of commercial paper were activated four times through new renewable six months issues for a total of € 212.7 million.

C 2 2 TREASURY

Up until 31 December 2009, the interest rate conditions applied to the current account of the French Community by its cashier were based on the Euribor 1 month (base 365) corrected by an upward spread for the lending rate and a downward spread for the borrowing rate. These rates were subject to quarterly arithmetic averaging and were compared, with a view to arbitrage, with those of investments or issues on the cash market. A new Cashier's protocol, concluded after proper market consultation and signed on 17 November 2009, entered into effect on 1 January 2010. Since this date the reference rate is the Euribor 1 week (base 360) and is subject to monthly arithmetic averaging. The "account conditions vs. cash market conditions" principle of arbitrage described above is of course still applied. Overdraft authorisation is maintained at € 2,500.0 million without reservation or commitment fees.

As for management of deficits and surpluses, this is carried out, for the former, by means of short-term commercial paper programmes and for the latter, through investments in government bills; these latter being, as a reminder, not subject to withholding tax.

The management of spreads between commercial paper rates, borrowing and lending rates of the current account and investment rates in treasury certificates of the federal State or the federated bodies has allowed the cost of treasury financing to be markedly reduced.

DEFICIT MANAGEMENT

The French Community enjoys for issues carried out on commercial paper programmes, terms allowing it to finance itself, from one day to one year, in general some 3 to 7 basis points (bp) below the interbank rate (Euribor). This explains why it is in general more advantageous for the Community to finance itself in the short term by commercial paper issues than by a debit from the current account.

In 2005, a total amount of € 1.67 billion was borrowed via thirty-eight issues of commercial paper for an average amount of € 44.05 million, at an average weighted rate of 2.05% and with an average weighted maturity of 14.2 days.

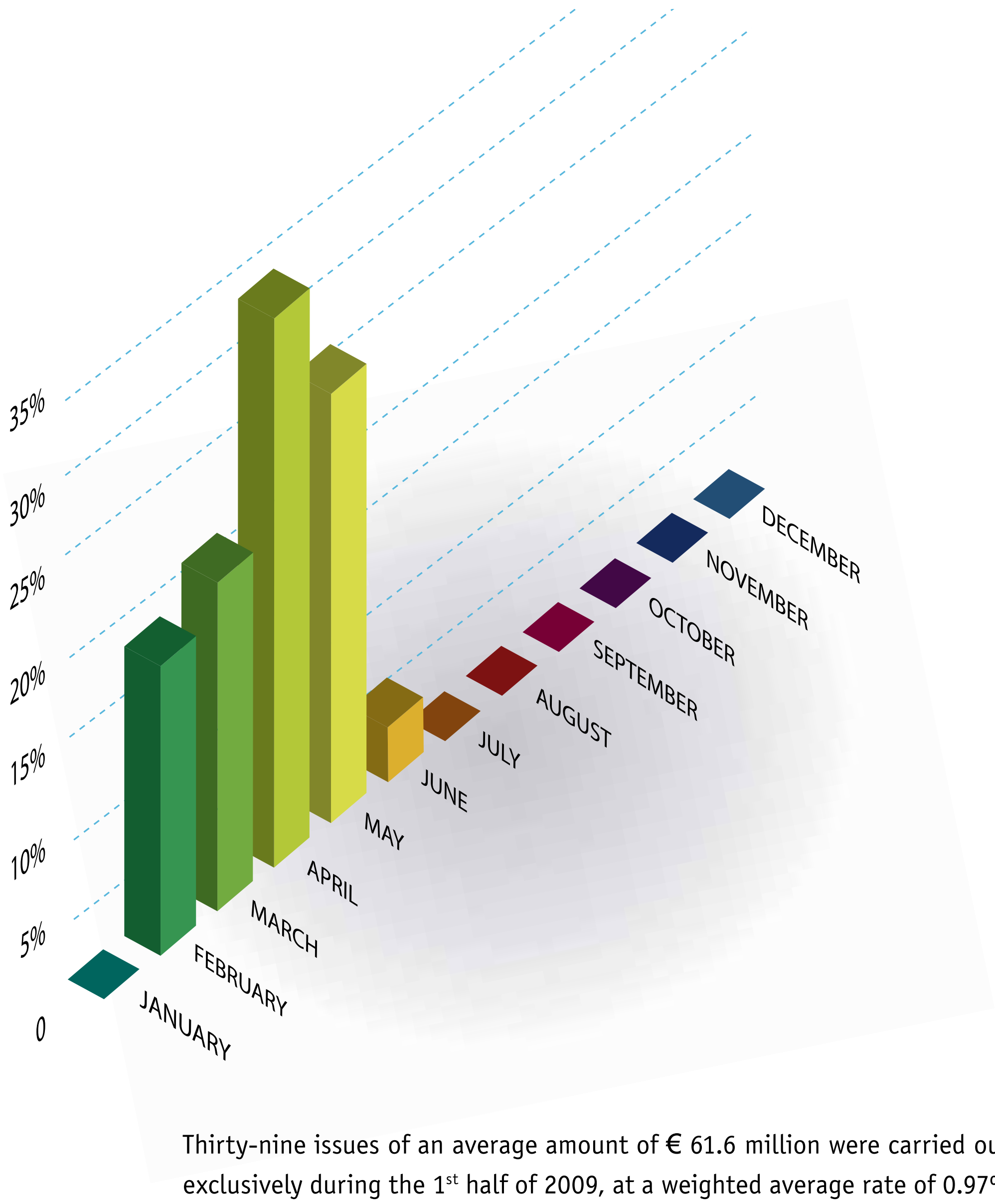
Eighty-four issues of an average amount of € 30.62 million were carried out in 2006 to attain a total volume of € 2.57 billion, at an average weighted rate of 2.74% and with an average weighted maturity of 14.6 days.

During 2007, eighty-six issues of an average amount of 39.54 million (the total amount of the short-term loans thus reached € 3.40 billion) were carried out principally during the first three trimesters, at an average weighted rate of 3.88% and an average weighted term of 13.2 days.

In 2008, the total short-term amount borrowed reached € 3.16 billion via eighty-one issues at an average weighted rate of 4.04% and an average maturity of 10.1 days. Most of the issues having been carried out during the first two trimesters of the year, the short-term financing cost was not significantly affected by the variations in short-term rates (rising until 8 October 2008, then falling).

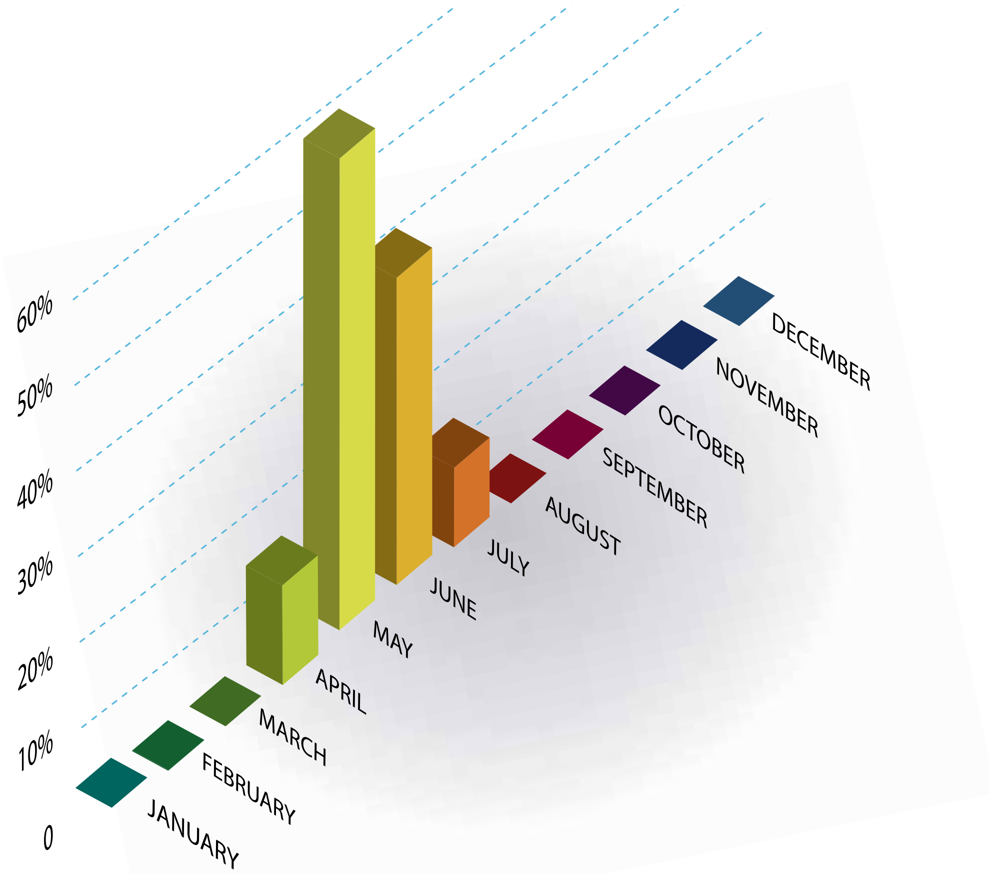
The cycle of revenue collection and expense disbursement presented above explains the reduced need for commercial paper issues during the second semester. This being the case, the issues carried out at the end of 2008 were not carried out only to deal with the needs of the treasury, but also to allow the Fonds Ecureuil to observe its legal obligations to invest all its assets in community paper.

FIGURE 9 **Monthly issues of commercial paper in 2009**



Thirty-nine issues of an average amount of € 61.6 million were carried out exclusively during the 1st half of 2009, at a weighted average rate of 0.97% and with a weighted average maturity of 8.8 days.

FIGURE 10 **Monthly issues of commercial paper in 2010**



In 2010, seven issues have been realized for a total amount € 612, 0 million, essentially during the second quarter, at an average weighted rate of 0.51% and an average weighted maturity of 8.3 days.

SURPLUS MANAGEMENT

Benefitting, as explained above, from the exemption from the advance levy on revenues from investments in treasury certificates of the federal State or Belgian federated bodies, The French Community invested in these various types of paper according to its available treasury funds.

Contrary to the interest paid by the paper of public bodies, the quarterly balance of the current account, when it is a credit balance, is subject to an advance levy of 15%. Thus, any credit balance is systematically invested in the product without advance levy when the interest rate which can be obtained by such an investment is not lower than the current account rate.

In 2005, thirty-five investments – for an average amount of € 100.5 million – were carried out during the second semester for a total amount of € 3.52 billion at the average weighted rate of 2.0% and for an average weighted maturity of 5.0 days.

In 2006, on the other hand, a total amount of € 589.6 million was placed in six investments – principally made during the first quarter of the year – at an average weighted rate of 2.4%, for an average weighted duration of 4.4 days and an average amount of € 98.3 million.

During 2007, only four investments were made for an amount of € 203.0 million at an average weighted rate of 3.95% and for an average weighted maturity of 6.1 days.

Twelve investments for a total of € 640.0 million were made in 2008 at an average weighted rate of 4.22% and for an average weighted term of 8.6 days. If the market conditions had been different (less deteriorated), other investments could have been made during the second half of the year, but the current account credit conditions constituted a more advantageous alternative for the Community. Likewise, in 2009, sixteen investments were carried out with Belgian public bodies – exclusively during the 2nd half of the year – for a total of € 585,975,400.00 at a weighted average rate of 0.44% and a weighted average maturity of 27.0 days.

In 2010, ten investments have been realized for a total amount of € 310,190,900.00 at an average weighted rate of 0.57% and for an average weighted maturity of 27.7 days.

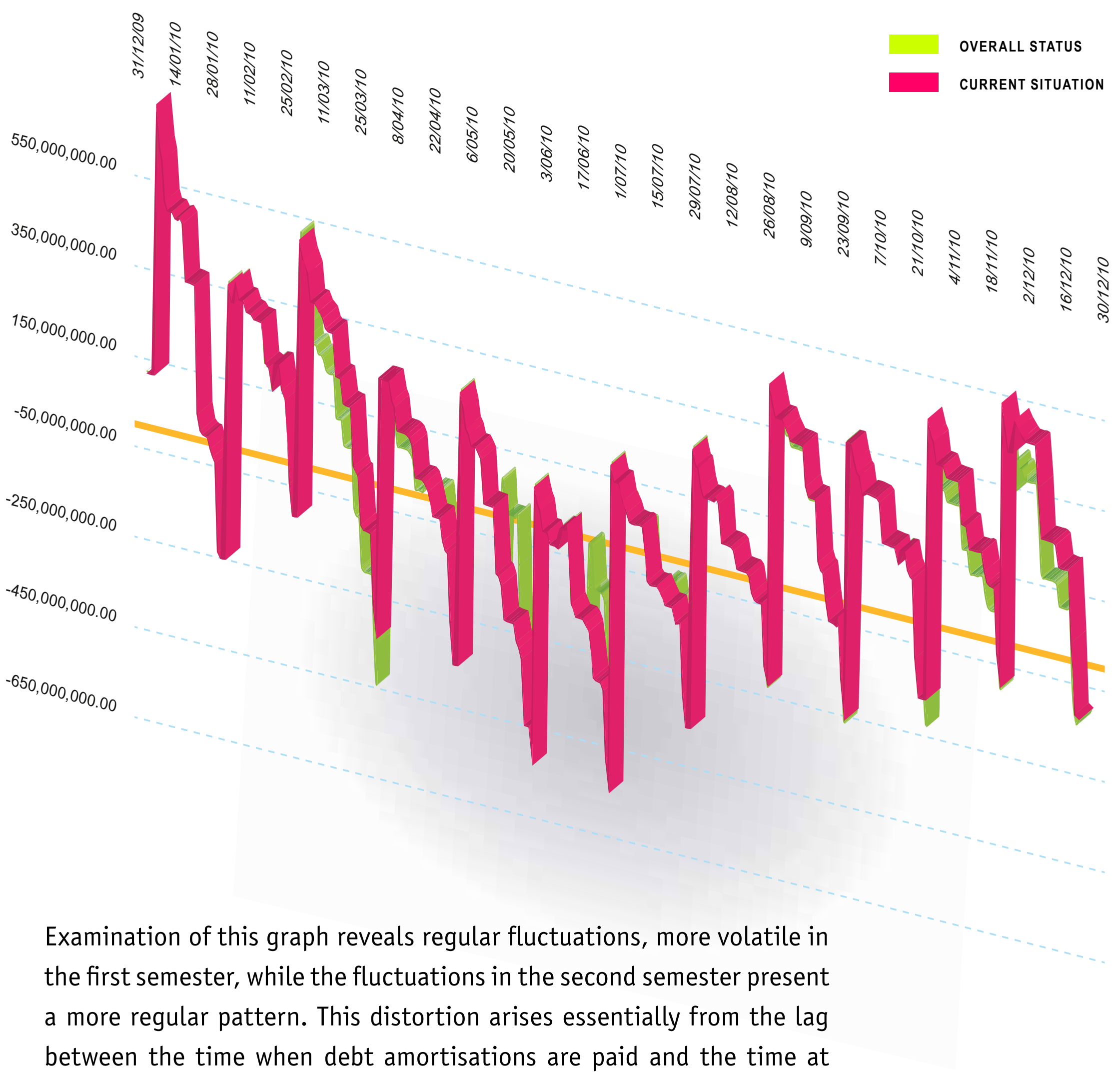
TREASURY CYCLE

In the framework of active treasury management, it is interesting to consider its annual cycle. This allows analysis of the development of the overall daily status of all the accounts and determination of discrepancies in the rates of revenue collection and expense disbursement.

The general appearance of the treasury curve comes from the fact that the significant expenditures of the French Community occur mostly at the end of a month, while most of the revenues are collected at the beginning of the corresponding period.

The following graph shows for 2010, on the one hand, under the name of "overall status", the situation of the treasury resulting from combining all the accounts of the French Community, including the various management transactions (treasury investments and loans); on the other hand, under the name of "current situation", the treasury cycle corrected for very short term investments and loans.

FIGURE 11 **Treasury cycle for 2010**



Examination of this graph reveals regular fluctuations, more volatile in the first semester, while the fluctuations in the second semester present a more regular pattern. This distortion arises essentially from the lag between the time when debt amortisations are paid and the time at which they are re-borrowed.

In 2005, repayment and refinancing of amortisations were practically concluded as of the month of May; in 2006, while 91% of the amortisations took place during the 1st semester 87% of their refinancing occurred by mid-February. The volatility of the treasury fluctuations was thus less in the second semester of the years 2005 and 2006. Refinancing of 2007 amortisations, given their relatively modest amount, had no significant influence on the general pattern of the graph. In 2009, as in 2008, because refinancing of amortisations had been carried out very early in the year, the volatility of cash movements were all the more reduced. We note that the 2nd and 3rd quarters were marked by the deferral of the due date for the withholding tax on professional income from one to four months. As the order of magnitude of the withholding tax on professional income in the French Community is € 100.0 million per month, this deferment resulted in non-negligible movements.

C 3 INTEREST RATE CURVE IN 2010

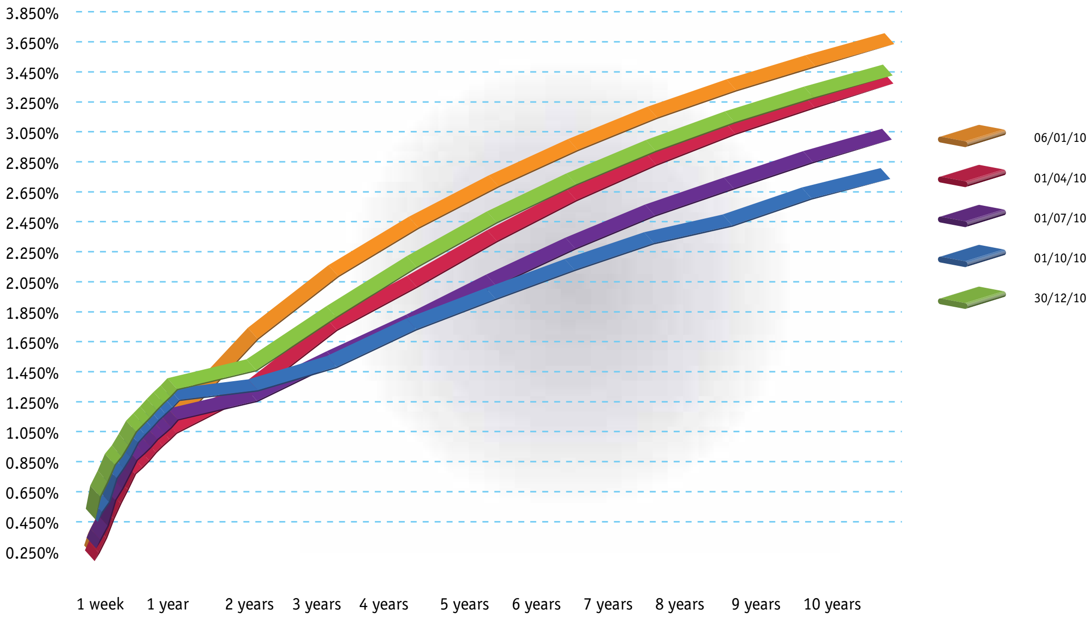
In 2010, the yield curve (Euribor - IRS) has flattened, but with different amplitudes depending on the time of the year and the maturities, as shown in the figure below illustrating the evolution of the Euribor and IRS curve. During the first quarter, we observe a decrease (5-10bp) of the short-term rates, however less pronounced than the decrease of medium and long term rates (30-40bp). The decline of medium and long term rates continued during the next two quarters, while the short-term rates showed an upward trend in the second quarter followed by a relatively stable third quarter. Finally, in the last quarter of the year, not only the short but also the medium and long term rates started a strong recovery, the short-term rates ending at levels above those seen in the beginning of the year, whereas the medium and long term rates ended the year slightly below the levels of early 2010.

The 1-year IRS rate approached the 2-year IRS rate, the spread 1 year/ 2 years moved from a level close to 55bp at 31 December 2009 to around 15bp at 31 December 2010. The 1-year IRS rate remained relatively stable, fluctuating within a range of 25bp and closing the year with an increase of 25bp, whereas the 2-year IRS rate ended the year with a decline of nearly 25bp, evolving from 1.85% at the beginning of 2010 to 1.60% at the end of 2010.

The European Central Bank has left its key interest rates unchanged in 2010, keeping the refinancing rate to its lowest level of 1%.
After a decline during the first quarter, the 1-month Euribor rate was recovering in the following three quarters, going from 0.45% at the beginning of January 2010 to 0.78% at the end of December 2010. The

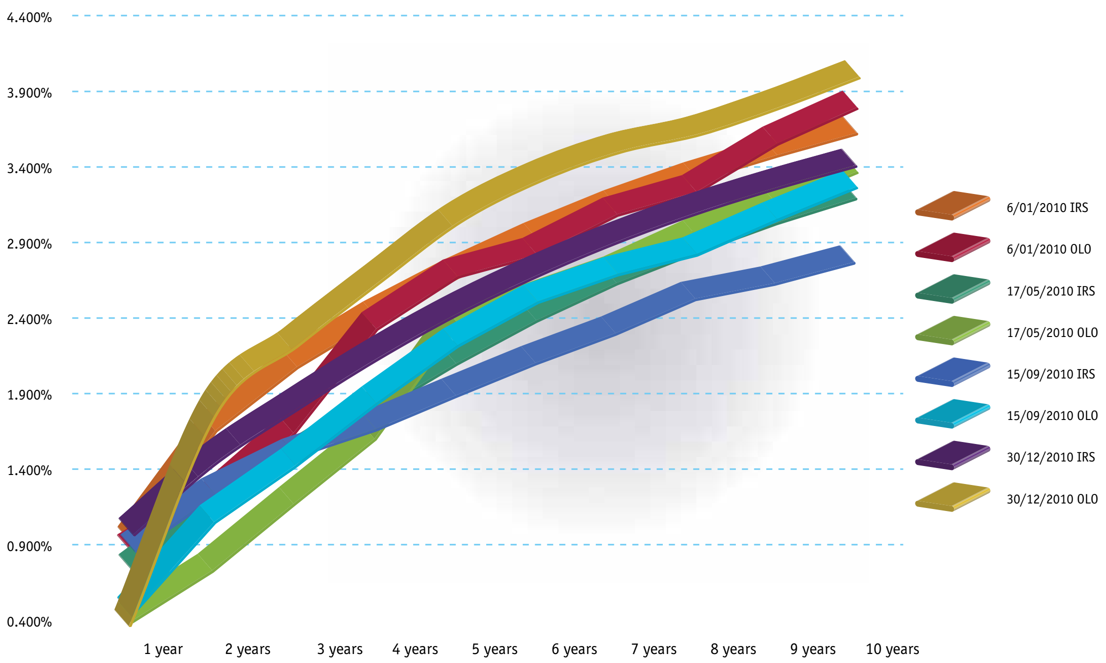
3-month and 6-month Euribor rates have experienced a similar trend, going respectively from 0.7% and 0.99% as of 31 December 2009 to 1% and 1.23% as of 31 December 2010.

FIGURE 12 **Variation of the Euribor and IRS yield curves in 2010**



Up until its 2009 edition, dealing with the 2008 figures, the Report on the Debt of the French Community was limited to an analysis of the yield curve based on the variation of the Euribor and IRS. This analysis allowed the variation of the rates that were then the references for community financing to be understood. Since 2009, the variation of the OLO – IRS spread is such that performing analysis of the yield curve to decide upon debt positioning in terms of the fixed rate/floating rate ratio or duration must also be related to the variation of a Euribor – OLO curve, corrected for the existing spread between the OLO and the French Community issue.

FIGURE 13 **Variation of the IRS and OLO rate curves in 2010**



In 2010, the OLO curve followed the multi-speed movement of the IRS curve, but with different amplitudes depending on the time of the year and on the maturities as shown by the figure comparing the OLO & IRS curves. The short-term rates started their recovery in the third quarter after being marked by respectively a bearish and a stable quarter. The medium and long term rates experienced on the other hand three quarters of successive declines, starting their recovery only in the last quarter of the year. In January, the IRS / OLO spread is small for all maturities greater than 4 years and in the range of -5bp at 7 years and 18bp at 10 years. In May, the IRS / OLO spread is positive for all maturities greater than 4 years and in the range of 9bp at 7 years and 23bp at 10 years. In September, the IRS / OLO spread is positive for all maturities greater than 3 years and in the range of 37bp at 7 years and 50bp at 10 years. In December, the IRS / OLO spread is positive for all maturities greater than one year and in the range of 65bp at 5 years, 7 years and 10 years.

According to the major principles of debt management presented in section C of Chapter III of this Report, a positive yield curve such as the one observed in 2010 would argue for an increase of proportion of floating rate debt. However, the historically low level of interest rates, especially on very long maturities, argued for maintaining a high level of debt borrowed at fixed rate. The fixed part of the fixed rate/floating rate ratio – which, for memory, serves as a measurement and management tool for overall exposure to interest rate risk – was brought to 90,6% end 2010. This positioning is in line with the principle of maintaining the proportion of floating rate debt below a maximum of 15%, as decided by the Minister for Budget and Finance on a proposal of the Treasury Council.

C | 4 | DEBT MANAGEMENT TOOLS

The Debt Directorate uses several measurement instruments to assess the risk level of its debt portfolio.

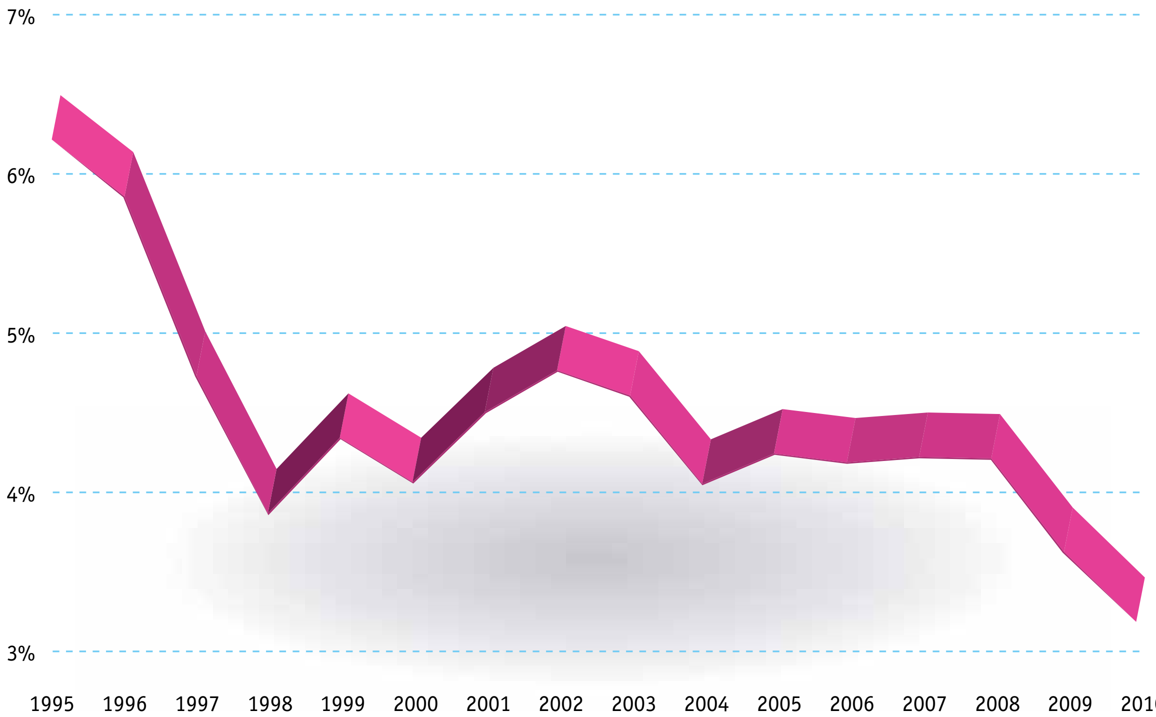
Since 2000, the usual parameters of "average life"[1] and "implied rate" have been supplemented by those of "duration" and "internal rate of return".

The results as of 31 December for 2008, 2009 and 2010 are as follows:
* in terms of maturities
- "residual maturity in terms of liquidity": 6.8 years / 7.2 years / 7.7 years
- "residual maturity in terms of rates": 6.9 years / 6.5 years / 6.7 years
- "duration": 5.1 years / 5.7 years / 5.7 years
* in terms of rates
- the variation of the "implied rate" (the amount of interest paid annually compared to the corresponding debt stock) for the period from 1995 to 2010 is described in the following tables and graphs:

Year	1995	1996	1997	1998	1999	2000	2001	2002
Implied rate	6.4%	6.0%	4.7%	3.7%	4.3%	4.0%	4.6%	4.9%
Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Implied rate	4.9%	4.1%	4.4%	4.3%	4.4%	4.4%	3.8%	3.3%

1 More precisely, the indicators "residual maturity in terms of liquidity" and "residual maturity in terms of rates" are used.

FIGURE 14 **Variation of the implied rate 1995 – 2010**



Debt management, carried out through stable positioning of the fixed rate/floating rate ratio and by consolidation of the duration target, generated a total implied rate of 4.34% in 2006, 4.41% for 2007, 4.43% for 2008, 3.77% for 2009 and 3.28% for 2010 for the French Community. The variation of the implied rate from one year to the next results from interest rate levels, movements in the yield curve allowing dynamic debt management, and the level of debt stock. Most of the new issues of the French Community being ultimately expressed in terms of fixed rate, the implied rate measured during the budgetary year (n) refers, insofar as they are concerned, to the transactions concluded during the financial year (n – 1). Thus the implied rate of 2008 was not affected by the issues concluded in 2008, but by those carried out in 2007 for an amount of € 27.0 million. As in 2009, the debt stock underwent a non-negligible rise in 2010, which had a downward impact on the implied rate since the interests relating to new loans are paid for the most part during the 2011 financial year.

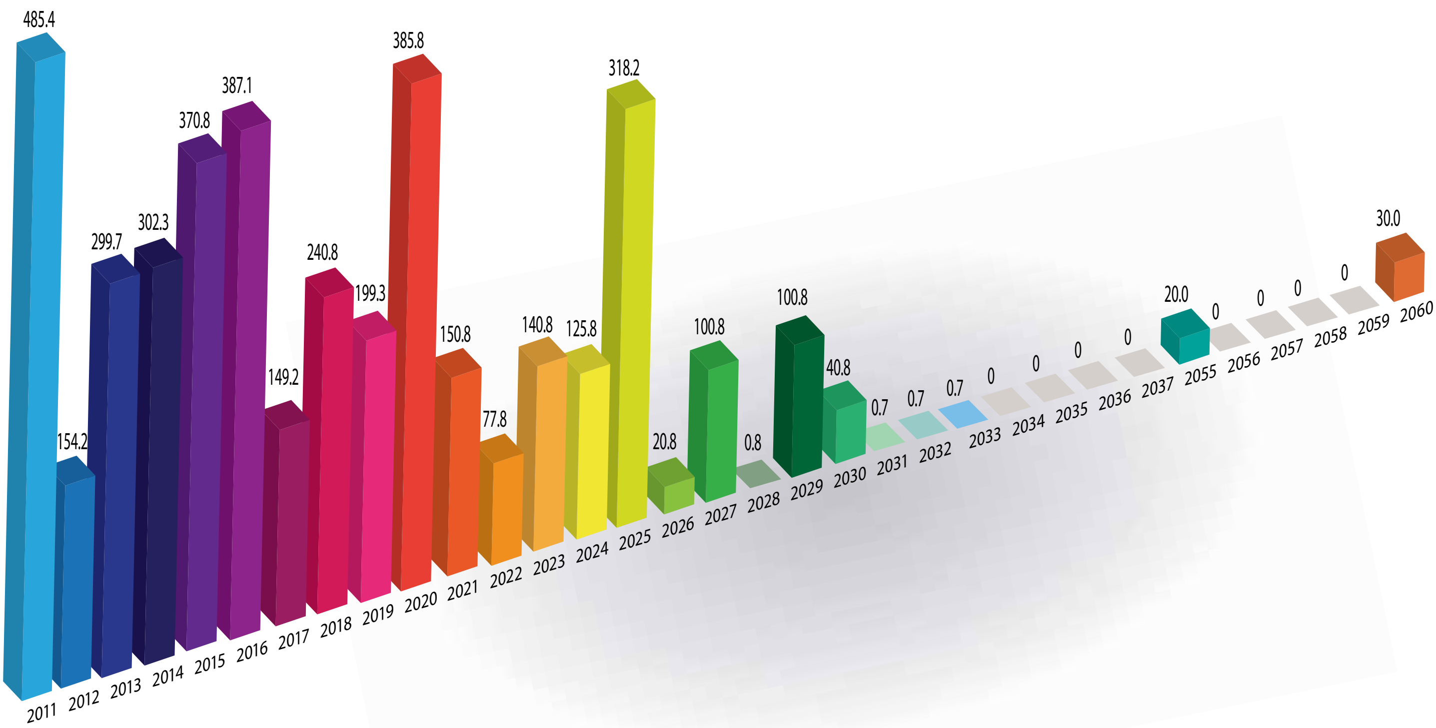
These results in terms of rates are to be put in perspective with the duration and the average term, reducing the risk of liquidity and refinancing, as well as with the decision to position the fixed/floating ratio essentially at fixed rate, such that the debt of the French Community is not only low-cost, but in particular low-risk in terms of both rates and refinancing terms.

The “internal rate of return” corresponds approximately to the constant nominal debt stock, or, up until 2008, to the implied rate. In 2009 and 2010, the internal rate of return was measured at respectively 4.2% and 3.8%.

C | 5 | TIMETABLE FOR AMORTISATIONS

Another objective of the French Community as regards debt is to “smooth out” the amortisations as much as possible in order to avoid any shortfall in market liquidity; this is in particular a matter of avoiding refinancing peaks. It should be noted that, in the representation below, in order not to overcomplicate the graph, it is assumed that the Lobo falls due in 2013, while the possible years due are 2013, 2015, 2016, ... or 2058.

FIGURE 15 **Amortisations as of 31/12/2010 (in € million)**



65 borrowing lines • 8,029 million € in revenues
4,047 million € outstanding debt
1.7% debt service/revenue ratio
50.4% debt/revenue ratio
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50.4% debt/revenue ratio
4,000 million € in EMTN
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3,700 million € in derivative hedge products
Aa1 rating
3,250 million € in MTN • 4,047 million € outstanding d
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French Community of Belgium
Boulevard Léopold II, 44
B - 1080 Bruxelles
email: budget-finances@cfwb.be
web: www.budget-finances.cfwb.be

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