FÉDÉRATION
WALLONIE-BRUXELLES

# PUBLIC DEBT

## ANNUAL REPORT **2013**

Federation Wallonia-Brussels / French Community of Belgium

**www.budget-finances.cfwb.be**

9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • **5,000 million € EMTN** • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • **9,213 million € Revenue** • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue • **4,752 million € Outstanding debt** • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue • 4,752 million € Outstanding debt • **51.6% Debt/revenue ratio** • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • **Aa3/P1 Financial rating** • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • **1.8% Debt service/revenue ratio** • 3.6% Internal rate of interest • **6.4 years duration** • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue •

2014

GlobalCapital
Bond Awards

# Our congratulations go to Communauté française de Belgique who were awarded second place in the category Most impressive sub-sovereign borrower, MTNs

GlobalCapital held its eighth annual Bond Dinner on May 21st at the Guildhall in the City of London. Over 300 market professionals attended the event, at which GlobalCapital presented its 2014 Bond Awards to the most impressive individuals and market teams on both the borrowing and investment banking sides of the market.

GlobalCapital's awards are decided by market participants – banks, borrowers and law firms – who vote for what they believe to the most impressive institutions, individuals and deals of the past year.

Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • **« + » Extra-financial rating** • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • **3.6% Internal rate of interest** • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • **18 Counterparties or intermediaries** • 9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • **9,213 million € Revenue** • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • **3,322 million € Derivative hedge products** • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • **Aa3/P1 Financial rating** • « + » Extra-financial rating • **4,000 million € MTN local programmes** • 18 Counterparties or intermediaries • 9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products • Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or intermediaries • 9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio • 3.6% Internal rate of interest •

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June 2014

FÉDÉRATION WALLONIE-BRUXELLES

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# FOREWORD

For a number of years, the strategic choices in terms of debt management policy of the Federation Wallonia-Brussels (FWB) have focused on communication with investors and flexibility in the financial products offered.

The FWB innovated in 2011 in obtaining an extra-financial rating from a Corporate Social Responsibility (CSR) analysis, followed by an SRI (Socially Responsible Investing) benchmark issue of € 500 million. In 2012 it enhanced its range of products proposed to investors with two new types of issue: "zero-coupon" notes and "inflation linked" notes. In 2013 a 20 year floating rate note linked to the OLO 8 years has also been included in the community debt portfolio.

The combination of these new products with classic or structured issues under the EMTN program, as well as issues under the *Schuldschein* format, enabled the FWB to finance over € 500 million in 2013, including € 100 million to cover anticipated financing needs for 2014.

This funding was concluded with a weighted average spread of 20.5 basis points compared to Federal State financing (OLO), and with a relatively long weighted average maturity (19.1 years). This confirms the positive perception of our credit risk in the financial markets.

The implementation of strategic choices initiated by the Debt Directorate of the FWB ranked the entity second in the category « most impressive sub-sovereign borrower » as part of the 2014 Awards granted by GlobalCapital.

All 2013 financial operations initiated by the FWB, as well as the detailed description of the institutional and administrative framework in which we operate, are presented in this report.

This document, as well as our website (www.budget-finances.cfwb.be), highlight our wish for transparency and optimal communication in the area of debt management.

**The Minister of Budget and Finance**
**of the Federation Wallonia-Brussels**

# THE KEY FIGURES OF THE FEDERATION WALLONIA-BRUSSELS

| Amounts in € million as of 31 December | 2012 | 2013 |
|---|---|---|
| **Stock of debt of the Community** | | |
| Total community consolidated debt | 4,499.4 | 4,751.9 |
| Long-term community debt<br>- Direct debt<br>- University debt | 4,622.7<br>4,526.7<br>96.0 | 4,904.0<br>4,810.2<br>93.8 |
| Short-term community debt | -38.9 | -66.9 |
| Community debt held by the Fonds Ecureuil | 84.4 | 85.1 |
| | | |
| Amortisations | 254.2 | 225.5[1] |
| Re-borrowing of amortisations | 254.2 | 225.5 |
| New borrowings | 252.2 | 281.2 |
| **Debt instruments used** | | |
| Long-term EMTN Financing programme | 3,219.5 | 3,591.4 |
| Private loans (bank loans) | 245.7 | 243.5 |
| *Schuldschein* | 504.8 | 516.7 |
| OLCo, Lobo, ... | 90.0 | 90.0 |
| Commercial paper & short-term EMTN | 562.7 | 462.4 |
| **Characteristics of the debt of the Federation Wallonia-Brussels** | | |
| Financial rating awarded by rating agency Moody's<br>- Long-term<br>- Outlook<br>- Currency<br>- Short-term | <br>Aa3<br>Negative<br>Aa3<br>P-1 | <br>Aa3<br>Stable[2]<br>Aa3<br>P-1 |
| Extra-financial rating awarded by agency Vigeo | «+» | «+» |
| Distribution according to the rate (in %)<br>- Fixed rate<br>- Floating rate | <br>91.07<br>8.93 | <br>90.76<br>9.24 |
| Residual maturity in terms of liquidity (in years) | 7.79 | 8.09 |
| Residual maturity in terms of rate (in years) | 8.03 | 8.62 |
| Duration (in years) | 6.03 | 6.37 |
| Implied rate (in %) | 3.53 | 3.40 |
| Internal rate of return (in %) | 3.84 | 3.57 |
| Debt/revenue ratio (in %) | 49.57 | 51.58 |
| Debt service/revenue ratio (in %) | 1.80 | 1.82 |
| Short-term debt[3]/total consolidated debt ratio (in %) | 4.15 | 4.95 |

1. Including € 100 million quarterly commercial paper not renewed in November 2013
2. See Credit Opinion of 13 March 2014
3. Short-term debt time t= short-term debt stricto senso as of 31/12/tt + Amortisations (t+1)

# INTRODUCTION

In line with the reports published by the Federation Wallonia-Brussels (FWB) since the nineties, this report (related to 2013 figures) aims at providing detailed information on the debt solely contracted (or taken over) by the Federation; i.e. the debt that is issued and managed directly by the administrative services of the Ministry of the FWB (in charge of this debt) and which interest costs are charged on the expenditures budget of the FWB.

For the sake of clarity and transparency and with the objective to provide a comprehensive overview to the reader, the debt issued by other entities than the FWB (debt for which the FWB is not responsible but which is still included in its consolidation perimeter according to the European concept of gross consolidated debt (concept of Maastricht)), is for the first time presented in this report. This presentation remains however synthetic. The details of this debt should indeed be made available to any interested reader by the legal entity which is responsible for this debt; i.e. the entity that issues, manages and repays the debt.

**CHAPTER 1**

# Institutional framework of the Federation Wallonia-Brussels (French Community of Belgium)

Since June 2011, all usual communications are done with the official designation Federation Wallonia-Brussels in accordance with the decision of the Government and the Parliament. As the Constitution has not been modified, the legal texts[1] still refer to the designation «French Community». In this report, we will most of the time use the designation Federation Wallonia-Brussels and the acronym FWB. The designation is however not altered in the extracts of law articles cited in the present report.

## 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[2] – 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

1/ These are primarily: normative texts such as preliminary drafts of decrees and of orders from the Government of the French Community; labour agreements, employment contracts, lease contracts, rental contracts, etc; documents related to procurement contracts, etc.

2/ Constitution enacted on 17 February 1994.

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 authorized 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 FEDERATION WALLONIA-BRUSSELS (FRENCH COMMUNITY): "GEOGRAPHICAL" ORGANISATION, INSTITUTIONS, NEW DESIGNATION, RESPONSIBILITIES AND FINANCING

### C.1. "Geographical" organisation

The Federation Wallonia-Brussels (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 later modified.

The Parliament[1] of the French Community (or Parliament of the Federation Wallonia-Brussels) is a unicameral 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.

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".

The Government of the Federation Wallonia-Brussels included seven members[1] and represented, since the regional and European elections of 7 June 2009, a coalition between the Socialist Party (PS), Ecolo and the Humanist Democratic Centre (cdH), who together made up 74% of the seats in the Parliament of the Federation. At the time of finalizing this report the coalition and the new Government from the elections held on 25 May 2014 were not yet officially formed. 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.

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 FWB may involve a coalition different from that of the Federal Government, or even the regional Governments. Nevertheless, the present Governments[2] of Wallonia and of the Federation 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 Federation).

### C.3. New designation: the Federation Wallonia-Brussels

The «French-language Cultural Community» is the name that the Constitution gave in 1970 to the federated political community formed by the Walloons together with the Francophone from Brussels. The constitutional review of 1980 has changed this designation into «French Community». Other designations have been proposed over time. For example, the designation «French Community Wallonia-Brussels» or «Community Wallonia-Brussels» became popular and was used by political actors, concomitantly with the official terminology.

Thus, in its general policy statement of May 1999 the Government decided that the French Community of Belgium would also be called «Community Wallonia-Brussels». This designation was intended to further highlight the role played by community institutions as a link between Francophones from Wallonia and Brussels. The designation «Federation Wallonia-Brussels» is the result of the evolution in the above mentioned debate and allows putting the focus on the two components of the Community.

1/ Four Community Ministers were also Regional Ministers (including the Minister of Budget and Finance); along these same lines, the Walloon Minister-President was 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).

2/ For memory, only charged with “current affairs” since elections of 25 May 2014.

### C.4. Responsibilities

The powers and responsibilities of the Federation Wallonia-Brussels 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, theater 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 Federation Wallonia-Brussels' sphere of responsibility also includes national and international cooperation, as well as scientific research.

In 1993[2], the FWB transferred the exercise of certain of its responsibilities to the Walloon Region[3] and the French Community Commission of the Brussels-Capital Region. In particular this transfer covered school buildings, sports infrastructure, tourism, professional training and continuing education, as well as health and social assistance policies.

2013 was a year of important reforms of the Belgian State. The federated bodies received new responsibilities for an estimated amount of roughly twenty billion euros. A significant part of the responsibilities received by the FWB will be transferred directly by decree, via an "intra-francophone" agreement, to the Walloon Region and Cocof. Therefore, the new responsibilities of the FWB, following the sixth State reform, will be limited to Justice Centers ("maisons de justice) and a part of healthcare prevention[4].

### 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 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[5].

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.

1/ For further details, see the chapter "Rapport économique et financier" of the 2014 General Statement, available on the budget site of the Ministry of the French Community at the following address: http://www.budget-finances.cfwb.be.

2/ 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).

3/ New designation: Wallonia.

4/ See on this subject the special law of 6 January 2014 related to the sixth State reform and the proposition of so-called "Sainte-Emilie" decree available on the website of the Federation Wallonia-Brussels http://www.pfwb.be and/or on the website of the Official Gazette http://www.ejustice.just.fgov.be

5/ In the proposition of special law modifying the LSF, submitted at the Belgian Chamber of Representatives on 24 July 2013, this article is modified as follows: "... the financing of the budget of the French Community and of the Flemish Community is ensured by: non-tax revenue ; allocated portions of federal personal income taxes and VAT ; federal allocations ; a transition mechanism ; loans". This will be further analysed in the next annual report, when the modifications of the LSF will be fully effective.

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 Federation Wallonia-Brussels.

The special law of 13 July 2001 on refinancing the Communities and 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].

The changes to the LSF following the institutional Agreement of 11 October 2011 for the sixth State reform will be further analysed in next annual reports whenever the amending laws voted in Parliament entry into force.

The LSF reviewed in 2014 will enter into force on 1 January 2015. The major principles of the revised law related to transfers of financial flows resulting from the sixth Sate reform are:

- Not structurally impoverish one or more federated bodies;
- Ensure the long term viability of the Federal State;
- Strengthen the accountability of federated bodies in connection with their responsibilities and policies;
- Take account of externalities, social reality and the role of the Brussels-Capital Region;
- Take into account the criteria of population and students;
- Maintain solidarity between bodies, exempted from adverse effects;
- Ensure the bodies' financial stabilisation;
- Take into account efforts to be accomplished by all bodies to consolidate public finances.

The LSF revised in 2014 has been built in such a way that, when entering into force in 2015, the revenues of the FWB will be identical to those before the revision. Nevertheless it should be noted that consolidation of public finances is expected from the FWB, same as for all bodies of the Federal State integrated into the LSF. This consolidation effort is applied after calculation of the balance between the old and the new law.

It is also to be noted that revenues collected by the FWB for the responsibilities "family allowances, care for the elderly" and for (part of) the responsibility for "health" will be transferred directly to the Walloon Region or Cocof who will actually exercise these responsibilities. Initial estimates for revenues related to the responsibilities remaining those of the FWB amount to roughly € 130 million.

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 Federation 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.

# 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 Federation 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 borrowing 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 that 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 only that he be informed. The Federation Wallonia-Brussels 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.

1/ Loans addressed to private parties.

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

**CHAPTER 2**

# Administrative and technical framework for management of the debt and the community treasury

## A. ADMINISTRATIVE FRAMEWORK

The finances of the Federation Wallonia-Brussels are managed by the community Minister having Budget and Finance under his responsibilities.

By virtue of Article 3 of the decree containing the revenue budget of the Community, the Minister is authorized to subscribe loans authorized 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 Office* 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 FSMA (Financial Services and Markets Authority; formerly the Banking, Finance and Insurance Commission[2]).

In order to optimise the management of regional and community finances, organisational synergies have been set up between Wallonia and the Federation Wallonia-Brussels, notably by the creation of a joint Treasury Council[3] within which the strategic orientations of management of the debt and the treasury, the coordination of community and regional finance policies, the determination of joint principles of financial risk management and the intensification of synergies in the light of

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 (previous designation of the actual Debt Directorate).

2/ Designation used until 1 April 2011.

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

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 main financial instruments to which the Federation Wallonia-Brussels holds title or for which it is issuer. As for the Back/Middle Office, it has 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 Pricewaterhouse-Coopers[3] 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 and reporting) are in line with good practices identified in bodies 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.

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.

As for the statutory auditors in charge of prudential supervision, they note in their report of April 2014 that “the tools and procedures put in place by the Debt Directorate allow to evaluate and manage the risks[1] inherent in management of the treasury and of the debt of the Federation Wallonia-Brussels. These tools and procedures lead to publication of reports that faithfully reflect the actions taken as well as the situation of the treasury and the debt of the Federation”.

1/ The four essential risks identified by the auditors being:
- the interest rate risk and in particular the interest rate yield curve risk;
- the operational risk;
- the liquidity risk;
- the counterparty risk.

CHAPTER 3

# Treasury and community indebtedness

## A. GENERAL PRESENTATION

### A.1. Components of the community debt as of 31 December: variation from 2009 to 2013[1]

The various components of the community debt drawn up as of 31 December for the years 2009 to 2013 have developed as follows:

| Amounts in millions of € | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Direct debt [1] | 3,187.6 | 3,930.3 | 4,272.4 | 4,526.7 | 4,810.2 |
| University debt [2] | 176.7 | 174.2 | 98.2 | 96.0 | 93.8 |
| **Long-term community debt [3] = [1] + [2]** | **3,364.3** | **4,104.5** | **4,370.6** | **4,622.7** | **4,904.0** |
| Outstanding treasury commercial paper [4] | | | 29.9 | | |
| Current account debit [5] | | 23.9 | | | |
| Current account credit [6] | 47.0 | | 11.2 | 38.9 | 66.9 |
| **Short-term community debt [7]** = [4] + [5] – [6] | **– 47.0** | **23.9** | **18.7** | **– 38.9** | **– 66.9** |
| Community debt held by the Fonds Ecureuil [8] | 81.0 | 81.7 | 83.0 | 84.4 | 85.1 |
| **Total community consolidated debt [9] = [3] + [7] – [8]** | **3,236.2** | **4,046.7** | **4,306.4** | **4,499.4** | **4,751.9** |

As from the beginning of the years 2000 and until 2008, the community debt was stabilised in nominal terms[2], and reduced in relative terms. Following the very serious banking and financial crisis of 2007/2008, 2009 was marked by a substantial, though controlled, rise in the nominal consolidated community debt to € 3,236.2 million. As the impact of the banking, financial, and later economic crisis, has prolonged in 2010, the Community indebtedness reached € 4,046.7 million. This represents an increase of € 810.5 million compared to 31/12/2009. As of 31/12/2011, the indebtedness has continued to grow but to a lower extent, despite the occurrence of the Euro-zone crisis, and reached a total amount of € 4,306.4 million. This represents an increase of € 259.7 million compared to 31/12/2010. During the years 2012 and 2013 the consolidated community debt increased respectively by € 193.0 million and € 252.5 million to reach a total of € 4,499.4 million as per 31/12/2012 and € 4,751.9 million at the end of 2013.

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 round offs can appear between a total and the sum of its constituent parts.

2/ To approximately € 2.9 billion.

Excluding net balances to be financed, the total amount to be borrowed by the Federation Wallonia-Brussels for the period 2009/2013 amounted to € 1,542.8 million; given the size of the net balances to be financed during the period under review, the total amount that the Federation had to fund on the financial markets represented *in fine* € 3,554.6 million.

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 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: 18.1% in 2008, 2.5% in 2009, 12.6% in 2010, 6.3% in 2011, 4.1% in 2012 and 5.0% in 2013.

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

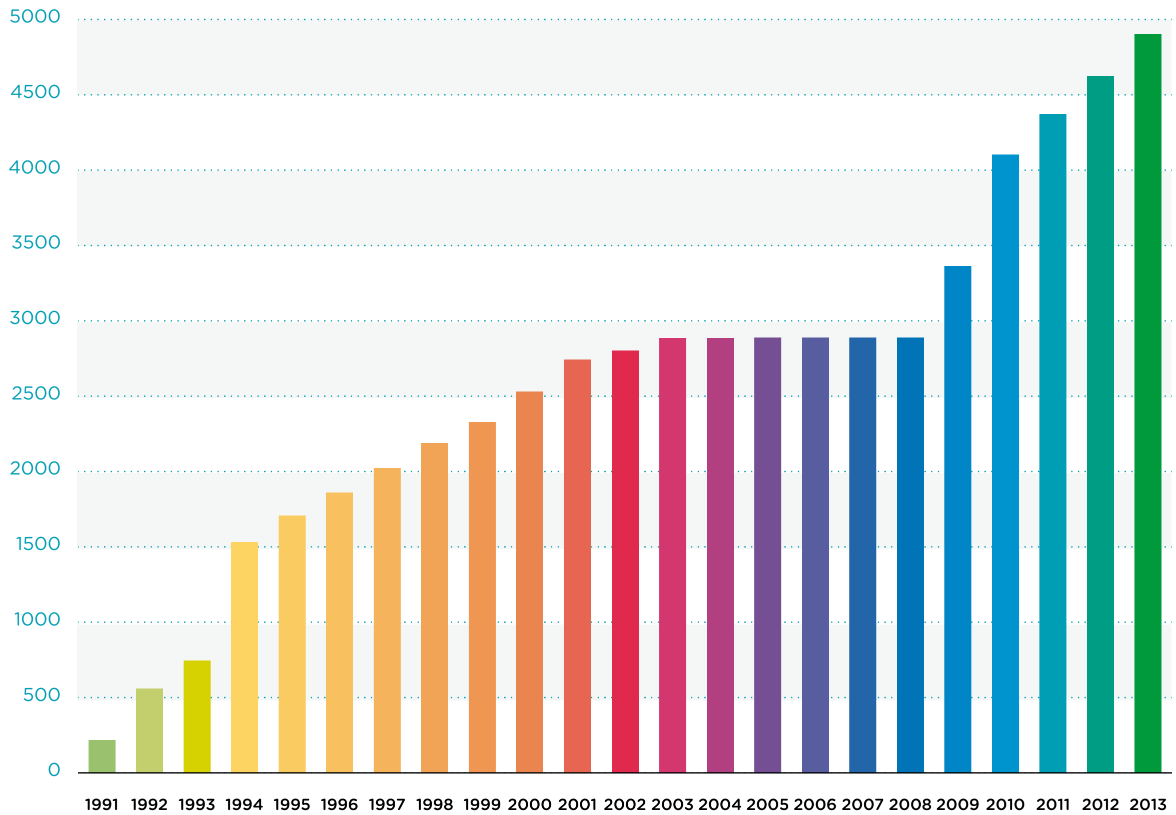
| Amounts in million € adopted as of 31 December | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Accounts outside merger of Community schools of the FWB | 40.3 | 35.4 | 29.0 | 8.8 | 0.0 |
| Foreign currency provision accounts | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

The reduction of the outstanding amounts for the accounts "outside merger" of the Community schools of the FWB in 2012 and 2013 is due to the decision of the Minister of the FWB which prescribes that these schools use an account "from the merger" as main account for their daily operations. Furthermore, since 31/12/2013 the cashier is also able to provide the Debt Directorate with movements and balances on savings and investment accounts of FWB's Community schools. Those accounts are "outside merger" and represent a balance of € 173 million as per end 2013.

### A.2. Evolution and distribution of the long-term non-consolidated community debt

The variation from 1991 to 2013 of the total long-term community debt (heading [3] of the table point A1 above) is presented as follows:

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



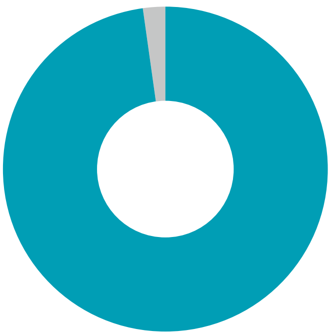

While the long-term community debt had been stabilized in nominal terms for the 2002-2008 period, in 2013 (similarly to 2009, 2010, 2011 and 2012) it showed a rise primarily related to the net balance to be financed for the financial year in strict compliance with budgetary cooperation agreements (see A.3 below).

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 | 740.3 | 22.00 |
| 2011 | 4,370.6 | 266.1 | 6.48 |
| 2012 | 4,622.7 | 252.1 | 5.77 |
| 2013 | 4,904.0 | 281.2 | 6.08 |

The distribution in 2012 and 2013 of the various components of the total long-term debt is as follows:

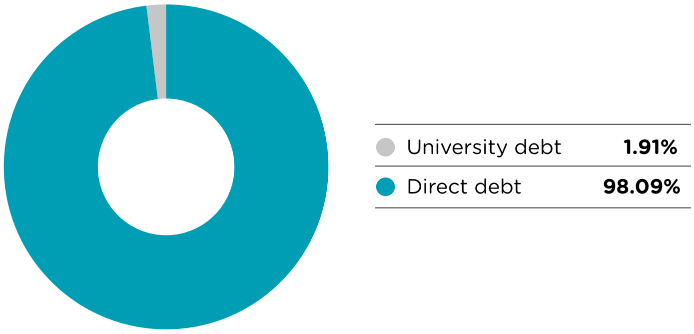
**FIGURE 2**
**Distribution of the outstanding amount of € 4,622.74 million as of 31/12/2012**



| | |
|---|---|
| University debt | **2.08%** |
| Direct debt | **97.92%** |

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 € 4,903.97 million as of 31/12/2013**




The relative share of the indirect debt (university debt) thus continues to decrease, as shown in the table below, 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 |
| 2011 | 4,370.6 | 98.2 | 4,272.4 | 97.75 |
| 2012 | 4,622.7 | 96.0 | 4,526.7 | 97.92 |
| 2013 | 4,904.0 | 93.8 | 4,810.2 | 98.09 |

### 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 Federation budgetary result with the accounting guidelines of the European Commission. This has necessitated an adjustment of budgetary policy.

The table below illustrates that the Federation Wallonia-Brussels 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 | | | |
|---|---|---|---|
| Year | Objec-tive in € million | Financing balance achieved in million € | |
| 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[1] | - 40.2[2] | - 32.6 | Financing balance better than objective by € 7.6 million |
| 2008[3] | 8.4 | 58.6 | Financing capacity exceeding objective by € 50.2 million |
| 2009 | - 266.5 | - 265.2[4] | Financing balance better than objective by € 1.3 million |
| 2010 | - 727.1 | - 719.5[5] | Financing balance better than objective by € 7.6 million |
| 2011 | - 328.0 | - 195.3[6] | Financing balance better than objective by € 132.7 million; realisation improved by € 352.7 million compared to initial objective |
| 2012 | - 250.15 | - 158.5 | Financing balance better than objective by € 91.65 million; realisation improved by € 279.6 million compared to initial objective |
| 2013 | - 228.0[7] | - 168.1 | Financing balance better than objective by € 59.9 million |

1/ 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.

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

3/ 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.

4/ Financing balance as calculated and published by High Council of Finance in March 2011 : *"2010 Evaluation and budgetary trajectory for the 2011-2015 Stability Programme"*, Section: " Financing requirements of the public authorities"

5/ Court of Audit, *Prefiguration of the results of the budget execution for the French Community for 2010*, 30th May 2011, p. 27. Document available on the following address: https://www.courdescomptes.be/FR/Publications.

6/ Reevaluation updated and published on 18 April 2014 by the National Accounts Institute on its website: http://www.nbb.be/belgostat/. The 2012 realizations have also been recalculated and the 2013 are published for the first time.

7/ High Council of Finance – Section "Financing requirements of the public authorities", Recent budget evaluations and evaluation regarding the stability program, November 2013, pp. 152-153.
Objectives set by the Concertation Committee 2 July 2013.

As indicated in the section "Financing requirements of the public authorities" from the High Council of Finance (CSF) 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".

All reports and opinions delivered by the High Council of Finance are available on the website of the High Council of Finance: http://www.docufin.be/.

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" 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" in which individual results for the federated bodies are also specified. In the report of March 2011, the results are listed entity by entity for the years 2009 and 2010. The annex to the March 2011 report published in October 2011 does not provide individual figures but only overall trends. It is also the case for the documents published in March 2012 by the section "Financing requirements of public entities" of the CSF, related to the budgetary trajectory for the stability program 2012-2015. However, the publication of the CSF from October 2012 and entitled "Recent budgetary evolutions and benchmarking with regard to stability programs", includes a split of data by entity. This is also the case for the aforementioned publication from November 2013.

In 2007, in the context of intra-Francophone cooperation, Wallonia carried out a "transfer of objective of € 38.5 million" towards the Federation. Concretely, the Region revised its objective by the above-mentioned 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 Federation and the Wallonia agreed, based on a "best effort", to a joint supplementary contribution of € 90.0 million to the Stability Pact. During the 1st budgetary adjustment of the FWB, 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 for the Federation Wallonia-Brussels 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 maximum deficit of 3% of GDP in 2012. In this context, the following objectives have been assigned to the FWB: a net financing balance of € –266.5 million in 2009 and € –727.1 million in 2010. For both years, the Federation realized better financing balances than the objectives assigned by the cooperation agreements.

For the years 2011 and 2012, the objectives assigned to the Community were coming from the draft agreement of 3 February 2010 and amounted respectively to € -548.0 million (2011) and € –438.1 million (2012). The initial deficit objective for 2011 was € 548.0 million which was reduced to € 328.0 million as agreed between the Governments of the French Community and the Walloon Region during the Interministerial Conference on Budget and Finance held on 8 February 2012. As it was highlighted by the High Council of finance in its report of October 2012 (page 92) for the 2011 realisations estimated at a deficit of € 246.6 million: "While realizing a positive margin of € 81.4 million with regard to the objective of € -328.0 million, the French Community has not only achieved its indicative objectives resulting from the agreements with the Federal Authority, but has also achieved its own objective after transfer of objectives".

In fact, based on the refined calculations from the National Accounts Institute and published on 18 April 2014, the realisation of the FWB for 2011 amounts to € –195.3 million; the positive margin is of respectively € 132.7 million and € 352.7 million compared to the initial and final objectives.

Similarly, the budget objective for 2012 (initially of € –438.1 million) was first reduced to a deficit of € 359.5 million resulting from the budget transfer of € 77.1 million towards the Walloon Region and the budget transfer of € 1.5 million towards the Brussels-Capital Region. For the second budget adjustment, the FWB had set its deficit objective to € 250.15 million, which represents a supplementary improvement of € 109.35 million. The High Council of Finance states in the section "Financing requirements of the public authorities" on pages 112-113 of its report (*Recent budget evolutions and evaluation regarding the stability program*) from November 2013: "With a SEC deficit of € 174 million[1], the French Community respects the indicative target deficit of € 359.5 million from the draft agreement of February 2010, adjusted to take into account the budget transfers. The improvement with regards to this objective amounts to € 185.5 million. Given the magnitude of the margin, the Community has also met its own target set during the second 2012 budget adjustment (i.e. an improvement of € 109.35 million)".

1/ Revaluated at € 158.5 million by the National Accounts Institute on 18 April 2014.

For 2013, the agreement on the allocation of budgetary targets between the Federal State and the community and regions (Entity II) is based on the decision of the Conciliation Committee held on 2 July 2013. This agreement forecasted a total objective for Entity II of € –537.0 million (equivalent to – 0.1% of GDP) with a maximum deficit objective set at € 228.0 million for the FWB. The realisations of the Community were estimated in April 2014 by the National Accounts Institute at € –168.1 million, which represents a positive margin of € 59.9 million.

## B. BREAKDOWN OF THE COMPONENTS OF THE DEBT

The present Report deals only with the debt managed by the Debt Directorate of the Federation Wallonia-Brussels, 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 FWB 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 amortisation, but also of indirect debt amortisation.

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

In 2008, the total amount in amortisation 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 falling due 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 – considering the net balance to be financed that year – by means of six issues at the beginning of December 2009 under EMTN format and another under *Schuldschein* format several days later, and via an issue of commercial paper at three months[3] carried out in November 2009.

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.

The total amount in loans falling due in 2010 was evaluated at € 127.4 million[1] 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 under EMTN format, four issues made under *Schuldschein* format and finally four issues of commercial paper at six months renewable each semester.

For the year 2011, the loans falling due amounting to a total of € 485.4 million (including a line of commercial paper for € 235.0 million, monthly renewable, which was concluded for a period of 8 years (from February 2003 to February 2011) and € 76.0 million university loans) have all been refinanced in direct debt - as the net balance to be financed that year - through eight bond issues carried out in the frame of the EMTN programme, two issues made under *Schuldschein* format and two issues of commercial paper at six months renewable each semester, for a total of € 751.5 million. The total long term direct debt amounted to € 4,272.4 million as of 31/12/2011.

The total amount of loans falling due in 2012 was measured at € 154.2 million in the beginning of the year, and was corrected later to € 254.2 million, due to the early repayment of commercial paper for an amount of € 100 million, monthly renewable and which was concluded for a period of 4 years (from January 2009 to January 2013). The balance to be financed for 2012 was initially estimated at € 250.1 million, which means that the total amount to be financed during the year amounted to € 504.3 million. The gross financing requirements have been met through six issues under the EMTN programme and four issues under *Schuldschein* format. It should be noted that more than 55% of those requirements were met during the first quarter of the year[2]. The total amount borrowed during the year finally amounted to € 506.3 million, leading to a total direct debt of € 4,526.7 million as of 31 December 2012.

For the year 2013, the amount of amortisations was initially measured at € 199.7 million, including € 75.0 million related to the Lobo issue concluded in 2008 and for which the option could be exercised in 2013 (or in 2015, or in 2016, etc.)[3]. Given an initial funding balance of € 228.3 million, the gross financing needs amounted to € 428.1 million at the beginning of the year. During the budget meetings, an additional amount of € 62.0 million was allocated, bringing the gross financing needs of the year to about half a billion, amount which was fully covered during the first semester of the year. As the Lobo were not exercised in March 2013, it has been decided to not renew a quarterly commercial paper for a total of € 100.0 million; the amount of debt maturing in 2013 has therefore been recalculated to € 225.5 million and the nominal stock of direct long-term debt at 31/12/2013 reached € 4,810.2 million.

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

2/ The first loan being concluded as from 4th January 2012 under the *Schuldschein* format.

3/ As the investor did not wish to modify the rate of the Lobo (possible exercise of the option in March) the issue has de facto been extended until 2015 at least at the initial rate.

The variation of the outstanding amount of the direct debt (in million €) as of 31 December for the years 1991 to 2013 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 | 447.9 | 450.3 | 3,187.6 |
| 2011 | 266.1 | 409.4 | 485.4 | 4,272.4 |
| 2012 | 252.1 | 252.0 | 254.2 | 4,526.7 |
| 2013 | 281.2 | 223.3 | 225.5 | 4,810.2 |

### B.1.1. Standard and structured private loans

The Federation Wallonia-Brussels has contracted standard private loans since 1991 and structured private loans since 1995. These are concluded with financial institutions, the number of which has considerably expanded over time leading by the end of 2013 to 18 different counterparties[1] as active financial intermediaries in the financing of the FWB (against 9 as of 31/12/2008).

The structures backing the loans can be extremely varied (swaption, a series of swaptions, caps, floors, options with activation or deactivation barriers, etc.). They are developed internally 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 and risk. In 2012, the FWB concluded two inflation linked issues under EMTN format, with a maturity of 10 years and indexed on the general Belgian consumer price index. This specific index was retained as it directly

1/ A total of 20 counterparties as per April 2014.

impacts the Community revenues. It allows therefore a natural hedge, as the changes in the interest payments are perfectly matched with changes in the revenues in case of adjustments in the inflation levels. These issues were of course not swapped.

A third *inflation linked* issue with the same basic characteristics of those concluded in 2012 was made on January 2013: 10 year maturity; coupon and redemption linked to the general Belgian consumer price index; not swapped; EMTN format.

In May 2013, a so-called *OLO Participation* issue was concluded for an amount of € 100.0 million with a coupon indexed annually on OLO 8 years flat for a period of 20 years; this issue is capped and floored until maturity. The risk of the OLO rate is not a new risk to be monitored as it is a natural risk for the FWB, i.e. the funding cost of the FWB is naturally impacted by an increase in OLO rates. The only constraint here is the maturity of 8 years. Furthermore, there is almost no market for this kind of product and it is therefore difficult or impossible to hedge. The legal format is the EMTN.

In June 2013, the FWB also concluded under EMTN format a 30np20 puttable issue for a total amount of € 100.0 million at a reduced rate priced on the midswap 20 years: at a specific date in 20 years, the investor has the opportunity to extend its investment for 10 extra years under the same conditions. This issue is included with a maturity of 20 years in the amortisation profile of the community debt: it is a usual precautionary principle in the debt management of the FWB.

### B.1.2. Loans under *Schuldschein* format

In order to satisfy requests from German investors, the Federation has had an increasing use of this financing format in the last years and has produced standard documentation allowing a high degree of reactivity and flexibility. The '*Schuldscheine*' are loan conventions from German law, intended for professional investors who are therefore exempted from booking these loans at market value. These issues can be ceded in accordance with German law and are not listed. Moreover, they are placed by means of an intermediary bank[1], who often (but not necessarily) acts as Paying and Calculation Agent. In general, the loans under *Schuldschein* format are concluded for long maturities and can present simple structures.

This format has been used regularly in the last years, and represented 10.5% of the debt portfolio of the FWB as of 31/12/2013. Specific and flexible documentation being realized, a very short notice is required to realize financing operations (even with very long maturities). This element is highly appreciated by potential investors.

1/ As of 31/12/2013, these intermediary banks were: Barclays, HSBC, Goldman Sachs and Deutsche Bank; most of them also acting as paying and calculation agent.

| Stock of *Schuldscheine* as of 31/12/2013 | | | | |
|---|---|---|---|---|
| Amount in € | Issue date | Start date | Maturity date | Reference yield |
| 138,500,000.00 | 22/06/2009 | 26/06/2009 | 26/06/2019 | IRS |
| 100,000,000.00 | 10/12/2009 | 14/12/2009 | 13/12/2027 | IRS |
| 50,000,000.00 | 26/03/2010 | 15/04/2010 | 15/04/2025 | IRS |
| 10,000,000.00 | 26/03/2010 | 15/04/2010 | 15/04/2030 | IRS |
| 18,000,000.00 | 29/03/2010 | 15/04/2010 | 15/04/2025 | IRS |
| 30,000,000.00 | 03/05/2010 | 17/05/2010 | 17/05/2030 | IRS |
| 21,000,000.00 | 02/09/2011 | 14/09/2011 | 14/03/2029 | IRS |
| 29,691,341.74 | 10/10/2011 | 03/11/2011 | 03/11/2031 | Zero Coupon |
| 25,000,000.00 | 04/01/2012 | 16/01/2012 | 16/01/2032 | IRS |
| 34,000,000.00 | 17/02/2012 | 05/03/2012 | 05/03/2032 | CMS |
| 25,000,000.00 | 16/08/2012 | 29/08/2012 | 29/08/2036 | IRS |
| 25,000,000.00 | 26/11/2012 | 05/12/2012 | 05/12/2036 | IRS |
| 10,500,00.00 | 04/07/2013 | 19/07/2013 | 19/08/2033 | IRS |
| Total amount activated in € 516,691,341.74<br>Weighted average maturity: 16.6 years<br>Weighted residual term: 13.2 years | | | | |

### B.1.3. Domestic commercial paper programmes – Short, medium and long term

From 1994 and until the end of 2003, the Federation had two domestic financing programmes available at Belfius (previously Dexia Bank Belgium): 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 has been regularly updated. The last update (essentially a technical update) is dating from 8 July 2013. A new update is foreseen on 8 July 2014.

Since its establishment at the end of 1994, the FWB 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 Federation Wallonia-Brussels 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. It should be noted that a third local financing programme, also for an amount of € 750.0 million, was concluded on 8 February 2013 with ING, which allowed increased access to broader financing sources for the FWB. This programme will also be updated on 8 July 2014.

We emphasize that in the context of diversification of its types and sources of financing, the Federation has had the opportunity to use dematerialized issues similar to the German *Schuldschein* (see point B.1.2.), and in doing so, has been able to take advantage of an advantageous financing cost compared to other proposals received.

### B.1.4. EMTN financing programme

The rating[1] granted by Moody's Investor Services agency to the Federation Wallonia-Brussels, 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, updated periodically since that time and annually since 2008. The next update is planned for the beginning of July 2014.

Following a market consultation, the Federation charged Deutsche Bank and Belfius with setting up this programme. The dealers are, besides the two banking institutions cited above, BNP Paribas Fortis, CBC Banque SA, Crédit Agricole CIB, Goldman Sachs International, HSBC, ING and KBC Bank NV.

This programme allows the FWB to issue short-, medium- and long-term paper (from 30 days to 100 years) for a maximum amount of € 5,000.0 million. The issues can be public as well as private, using notably the reverse inquiry process.

1/ Aa3/P1: see on this topic the press releases *Analysis* and *Credit Opinion* published by the Agency in December 2011. Since the beginning of the year 2004 till the end of December 2011, the rating of the Federation was Aa1/P1. The downgrade with two *notches* of the Federation following the rating downgrade of the Kingdom occurring a few days earlier. The last publication of Moody's concerning the FWB (dating from 13 March 2014) confirmed the Aa3/P1 long- and short-term ratings of the institution. Furthermore the outlook changed from negative to stable.

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.

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 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 floating rate issues).

The programme has been activated eight times during 2011 for long-term issues for a total amount of € 603.5 million (weighted average maturity of 6.3 years; weighted average rate after eventual IRS of 3.899%) and once for a treasury issue of € 30.0 million at three months E3M Flat.

The EMTN format has also been used intensively in 2012 (78% of the total amount borrowed during the year) through 6 issues, with a weighted average maturity of 14.3 years and a weighted average yield (after IRS if applicable) of 3.316%, for a total amount of € 396.0 million.

The program was activated more intensively in 2013 (98% of gross financing needs were under this format) via 13 issues for a total amount of more than € 493.0 million with a weighted average maturity of 19.1 years and a weighted average rate after possible IRS of 2.717%.

| Stock of EMTN as of 31/12/2013 | | | |
|---|---|---|---|
| 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 |
| 5,500,000.00 | 28/02/2011 | 28/02/2015 | 3.31500 |
| 5,000,000.00 | 2/03/2011 | 2/03/2015 | 3.33700 |
| 5,000,000.00 | 2/03/2011 | 2/03/2015 | 3.38700 |
| 15,000,000.00 | 4/03/2011 | 4/03/2016 | 3.62500 |

| | | | |
|---|---|---|---|
| 18,000,000.00 | 18/03/2011 | 18/03/2021 | E6M + 94.5bp |
| 20,000,000.00 | 7/04/2011 | 18/12/2023 | 4.45000 |
| 500,000,000.00 | 16/06/2011 | 16/06/2017 | 3.87500 |
| 35,000,000.00 | 5/07/2011 | 5/01/2018 | 3.93500 |
| 65,000,000.00 | 15/03/2012 | 01/08/2016 | 2.21190 |
| 100,000,000.00 | 23/03/2012 | 10/12/2024 | 3.85000 |
| 56,000,000.00 | 28/03/2012 | 28/03/2022 | Inflation Linked |
| 30,000,000.00 | 27/04/2012 | 27/04/2022 | Inflation Linked |
| 45,000,000.00 | 06/12/2012 | 15/11/2036 | 3.38000 |
| 100,000,000.00 | 28/12/2012 | 28/09/2034 | 3.28130 |
| 20,000,000.00 | 20/02/2013 | 20/02/2023 | Inflation Linked |
| 50,000,000.00 | 18/02/2013 | 10/12/2024 | 2.87440 |
| 30,000,000.00 | 01/03/2013 | 02/03/2043 | 3.50000 |
| 21,250,000.00 | 28/02/2013 | 28/12/2022 | 2.54400 |
| 24,000,000.00 | 12/03/2013 | 12/03/2053 | 3.50000 |
| 25,000,000.00 | 28/03/2013 | 28/03/2017 | E6M + 22,0bp |
| 10,000,000.00 | 17/05/2013 | 17/05/2024 | 2.31250 |
| 50,000,000.00 | 21/05/2013 | 21/05/2040 | 3.22100 |
| 13,000,000.00 | 27/05/2013 | 27/05/2033 | 3.00000[1] |
| 100,000,000.00 | 24/05/2013 | 24/05/2033 | OLO8Yr = 1.54% |
| 10,000,000.00 | 19/06/2013 | 17/05/2024 | 2.56660 |
| 100,000,000.00 | 28/06/2013 | 29/06/2033 | 30np20 = 3.33900 |
| 35,000,000.00 | 10/09/2013 | 19/11/2029 | 3.53500 |
| Total amount outstanding in €: 3,585,250,000.00<br>Weighted average maturity: 12.6 years<br>Weighted residual term: 8.1 years | | | |

Through the establishment of this financing programme, combined with an excellent rating (being identical since the start of the rating of the Kingdom), the Federation is seeking to ensure better visibility on the financial markets, which should allow it to further facilitate its access to financing and to optimize its financing costs.

During the revision of the programme finalized on 8 July 2013, it was decided in particular to make use of the clause for increasing the maximum volume of the programme, to bring it to € 5,000.0 million as opposed to € 4,000.0 million on 8 July 2010, € 2,500.0 million on 26 May 2009 and € 1,500.0 million when it was created in December 2003. 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 31/12/2013 amounts thus to € 1,414.75 million taking into account amortisations and excluding short term issues (3 and 6 months).

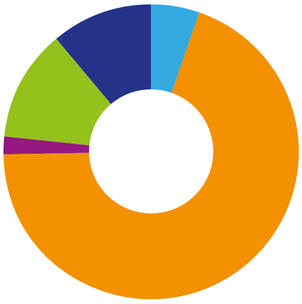
In a concern for reducing liquidity and refinancing risk, lines of credit which can be drawn upon at any time, without reservation or non-utilization fee, have moreover been opened since 1994.

1/ The fixing of 22 May 2013 determines the rate payable on 26 May 2014. The fixing of 22 May 2014 is 1.49% and will apply on the interest period ending on 25 May 2015.

The financing capacity of the Community was thus ensured in both the short and long term under conditions determined in advance (compared to precise references) for a total amount of € 150 million: it is composed of two back-up lines attached each to monthly renewals of commercial papers.

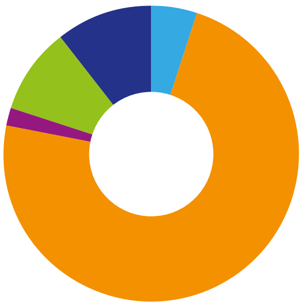
The following graphs specify, for the total debt, the proportion of the outstanding amount in different types of loans as of 31 December 2012 and as of 31 December 2013.

**FIGURE 4**
**Different types of loans in total debt of € 4,622.74 million as of 31/12/2012**



| | |
|---|---|
| Private loans (bank loans) | **5.3%** |
| Long-terme EMTN Financing programme | **69.6%** |
| OLCo, Lobo, etc. | **1.9%** |
| Commercial papers & short-term EMTN | **12.2%** |
| *Schuldschein* | **10.9%** |

**FIGURE 5**
**Different types of loans in total debt of € 4,903.97 million as of 31/12/2013**



| | |
|---|---|
| Private loans (bank loans) | **5.0%** |
| Long-terme EMTN Financing programme | **73.2%** |
| OLCo, Lobo, etc. | **1.8%** |
| Commercial papers & short-term EMTN | **9.4%** |
| *Schuldschein* | **10.5%** |

## 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 organizations to the Federation Wallonia-Brussels, for which the Federation 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.

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.).

The financial charges (interest and amortisation) for the "academic loans" are entirely assumed by the budget of the Federation. 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 are 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 Federation Wallonia-Brussels.

| Evolution of the outstanding amount on the academic university debt, 1994 - 2013 (in € million) | | | |
|---|---|---|---|
| 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 | 176.7 |
| 2010 | 176.7 | 2.4 | 174.2 |
| 2011 | 174.2 | 76.0 | 98.2 |
| 2012 | 98.2 | 2.2 | 96.0 |
| 2013 | 96.0 | 2.2 | 93.8 |

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.

## B.3. Treasury

### B.3.1. Overall treasury balance

The treasury of the Federation Wallonia-Brussels 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).

All the accounts opened by the FWB with its cashier (currently and at until the end of 2018: Belfius) 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 of the Federation is mainly fed by three types of resources strictly included in the LSF, which guarantees the perception by the FWB (see in this respect Article 54 § 2 of the LSF as detailed in D.1. of the chapter I of this report). Therefore, the budgeted revenues are totally realized from one year to another, as it is highlighted in the successive reports of the Court of Audit[1].

The first two financial resources for the Community are, in decreasing order of importance, the portions of the VAT and IPP which are paid by the Federal State to the Federation Wallonia-Brussels in strict application of the provisions of the LSF[2]. The allocation paid by the federal authorities to finance foreign university students enrolled in the educational establishments of the FWB 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.

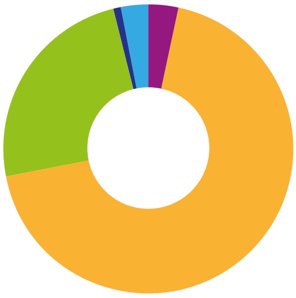
The Federation had fiscal resources available through the RRTV. Beginning in 2002, after the revision of the previously cited financing law, the RRTV became a regional tax and was replaced by a compensatory allocation calculated as a fixed amount and indexed to the general consumer price index.

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 realization, or non-realization, of the budgetary objectives assigned by the Cooperation Agreements.

1/ See also the reports of the Court of Audit published in May/June of the year (t) on the prefiguration of the results for the budget execution for the year (t-1). Therefore, on 31 May 2013 the prefiguration of the results for the budget execution of the French Community for 2012 was published on the website of the Court of Audit (https://www.courdescomptes.be)

2/ Until 2014 included; i.e. until the full entry into force of the LSF modified according to the sixth State Reform.

**GRAPHIQUE 6**
**2013 Revenues excluding allocated revenues (Collections)**



| | |
|---|---|
| RRTV compensatory allocation | **3.49%** |
| VAT allocation | **68.51%** |
| IPP allocation | **24.18%** |
| Foreign university student allocation | **0.81%** |
| Others | **3.00%** |

Figure 6 shows the distribution in relative value of the revenue of the Federation for 2013.

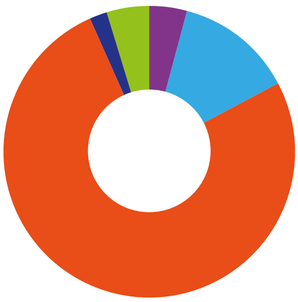
The substitution of a fixed-sum allocation for the RRTV community tax means that, since 2002, more than 98% of the resources of the FWB constitute allocations that have been paid and guaranteed by the Federal State. This situation contributes to reinforcing the almost perfect predictability and the low volatility of the revenues of the community institution.

## * Expenditures

A rough distribution of the expenditures of the Federation Wallonia-Brussels appears as follows:

- the Education, Research and Training sector represents slightly more than three quarters of the general expense budget of the FWB. 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 FWB to Wallonia and the French Community Commission of the Brussels-Capital Region correspond to the amounts due by the Federation 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**
**2013 Expenditures excluding debt amortisation (Disbursed)**

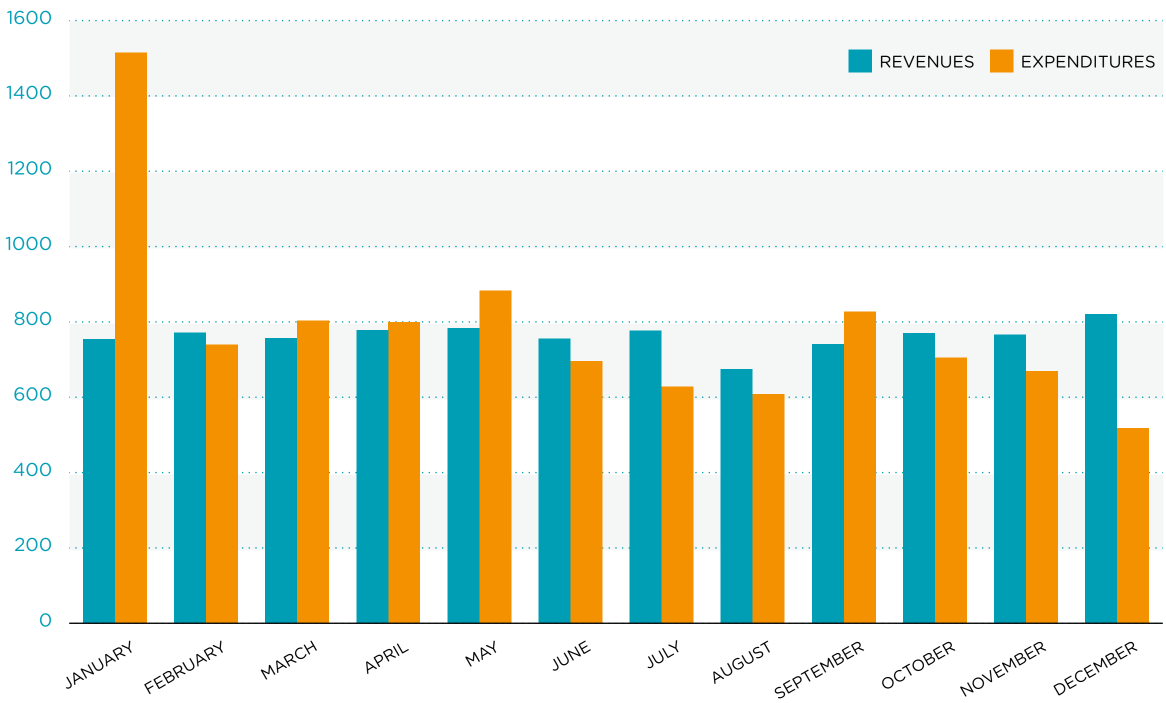


| | |
|---|---|
| General Services | **4.36%** |
| Culture, health, social issues, etc. | **12.88%** |
| Education, research, teaching, etc. | **76.17%** |
| Public debt | **1.87%** |
| Allocation to the Walloon Region and the French Comm. | **4.72%** |

### 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 2013 is illustrated by the following graph:

**FIGURE 8**
**Cycle of 2013 revenues and expenditures (in € million)**



The graph above shows that the Federation collects its revenues and pays its expenses at a relatively regular rate.

Two factors explain this phenomenon:

- first, most of the revenue (a portion of the IPP and the VAT, the RRTV compensatory allocation and the allocation for foreign students) is paid by the Federal by twelfths at the beginning of each month (the 1st working day of each month);
- second, a significant proportion of the expenses of the Federation 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 Wallonia and to the French Community Commission (see above) by the FWB 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 Community Government 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 FWB 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 FWB 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 salaries are paid systematically during the last days of the month, thus smoothing better out the expenditure cycle a little bit.

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/

# C. PRINCIPLES OF DEBT MANAGEMENT

### C.1. Reminder of the principles of debt management

Seven principles are consistently observed in managing the debt of the Federation Wallonia-Brussels. These principles are the following:

#### 1. Harmonization 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 FWB. 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 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 Federation. 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 was slightly modified, as it was no longer a matter of attaining, on 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. Following the opinion given by the Treasury Council [of the community] at its meeting held on 30 April 2004, it had been decided to classify at a variable rate all loans maturing within two years regardless of their structure, in order to take into account the interest rate risk on reborrowing of amortisations. 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.

As from 2010, the risk linked to changes in the level of interest rates and the risk linked to financing needs were 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 amortisation.

From now on, the part of the debt for which the coupon varies with the interest rate movements must be less than each year 15%.
In addition, the cumulative amount of amortisation for the next 5 years cannot exceed 50% of the stock of debt, knowing that from one year to another, the amount of amortisation cannot exceed 15% of the stock of debt.

## 3. Active use of the most suitable financial instruments

The Federation Wallonia-Brussels uses the financial instruments best suited to manage its debt. In this regard, speculation is systematically excluded and each derivative product selected is, or will be during the 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 the early 2000s, in order to maintain a minimum duration of 4.0 years and given the shape of the interest rate curve, the FWB issued long-term loans, in the form of OLCos issues (at fixed rates), FRNs and commercial papers swapped against fixed rates (€ 235.0 million at eight years). In addition, a series of basis swaps were concluded or renewed. As from 2004, the Federation had opted for intensive use, almost exclusive in 2005 and exclusive in 2006 and 2007, of its EMTN programme, sometimes hedged 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 had thus been temporarily exceeded till 2008, in line with market reality. As of 31/12/2006, the fixed rate ratio was at 84.5%. The recommendation that consisted in automatically classifying any loan with a maturity less than two years, regardless of its structure, as floating rate, implied notably that, over time, the 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 1st January 2007, the fixed-rate portion had gone 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 rating level of the Federation, the fixed rate/floating rate ratio 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 had been maintained at the relatively high rate of 83.76% on 31/12/2007.

During the conclusion of the refinancing operations decided at the beginning of 2008 and 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 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 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.

As of 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;

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

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.

- 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 in point C.1.2 above) amounted to 90.57%/9.43%[1]. The slope, shape and level of the yield curve in 2010 has prompted the Federation to swap directly to fixed rate, from the 18 realised financing operations, the 11 that were proposed by the investor at variable rate. Ultimately, all 2010 financing was concluded at fixed rate for a total amount of € 867.7 million covering all needs. Some of the 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 has been calculated as 10.8 years and the weighted average rate after eventual 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.

That is how two issues of commercial paper at six months renewable started respectively on 1st of February and 21 February 2011 as underlying of the two above-mentioned forward swaps; ten other issues have been realized (eight under the EMTN format and two under the *Schuldschein* format) mainly during the first semester of 2011. The 2011 financings have been made (after eventual coverage) at fixed rate up to 97.6% for a weighted average maturity of 6.8 years and a weighted average rate of 3.80%. Thus, the fixed rate ratio as of 31/12/2011 has been measured at 92.47%. The total amount borrowed reached € 751.5 million covering all the needs of 2011.

In 2012, apart from the inflation linked notes (for memory, these notes are not covered by swap and are considered as floating rate notes in the ratios), all the issues have been concluded directly with a fixed rate or swapped to a fixed rate (when they were indexed to CMS, for instance). The ratio of fixed rate loans therefore decreased slightly in comparison with 2011, and amounted to 91.07% as of 31/12/2012.

For the financial operations concluded in 2013, the Inflation Linked issue of € 20.0 million and the OLO Participation[2] of € 100.0 million have been classified as floating rate notes in the debt portfolio, the same for the € 25.0 million debt referenced on the Euribor; as a consequence, the ratio of fixed rate loans decreased to 90.76% as of 31 December 2013.

It should be noted that the natural benchmark of the Federation Wallonia-Brussels for its loans is the OLO, with which the spread is much less volatile than with the IRS.

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

2/ Some counterparties also call it BEC or OLO-TEC.

Given the strong financial links between the Federal State and the FWB, which are expressed through the LSF and are confirmed by the rating (the same for both entities), the spread OLO/FWB can only reflect the difference in liquidity as the risk specific to Belgium is already integrated in the evolution of the OLO.

## 4. "Investor-oriented" strategy

The financing programmes – such as the EMTN – available to the Federation Wallonia-Brussels allow it to continuously fund its treasury and its consolidated debt. Use of these programmes offers the advantages of a reduction 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 (over 95%) of FWB 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 Federation Wallonia-Brussels and public bodies integrated into the SEC

Since 7 February 1995[2], the Fédération[3] has been exempt from advance levy when it invests its treasury surpluses in dematerialized securities from public administration bodies (sector S13) listed in the consolidation of national accounts by the European authorities.

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

## 6. Management of the repayment schedule

The Federation Wallonia-Brussels 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 thus to be in the market for relatively similar amounts each year.

1/ A special brochure entitled "Investing in the Federation Wallonia-Brussels" has been drafted and has been available since March 2010 and updated each year, including an English 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.

The limitation of the 5-year cumulative amortisation to stock of debt ratio to maximum 50% also contributes to this objective. Below its evolution in recent years:

| Year | 5-year cumulative amortisation ratio |
|---|---|
| 31/12/2010 | 39.3% |
| 31/12/2011 | 38.5% |
| 31/12/2012 | 46.0% |
| 31/12/2013 | 47.0% |

### 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 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[1], about € 600.0 million came therefore 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 organized 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 chosen, minimum maturity of 3 years, minimum amount of € 10.0 million per tranche, validity of offers from 6 to 22 June

1/ Which was relatively heavy, especially in 2010, but in accordance with the cooperation agreements of December 2009 and February 2010.

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 under 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 remained present in Federation 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 finalized with two new counterparties who had never previously had the opportunity to actively participate in community financing.

The 2010 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 FWB 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 under *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 under 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 FWB. 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.

The loans falling due in 2011 amounted to € 485.4 million and the net balance to be financed represented at the beginning of the year € 375.0 million; the financing needs for year 2011 were therefore initially estimated to somewhat more than € 860 million[1] (slightly less than in 2010). In the course of January and February 2011, € 130.5 million was raised under EMTN format (4 issues for a total amount of € 30.5 million) and through two issues of € 50.0 million each realized in local financing programmes by means of rollovers of commercial papers at six months renewable each semester.

Moreover, the Federation Wallonia-Brussels, as a debt issuer, decided at the beginning of the year to complete its financial rating assigned by Moody's with an extra-financial rating assigned by the company Vigeo, which had been selected through public procurement launched in the 2nd semester of 2010.

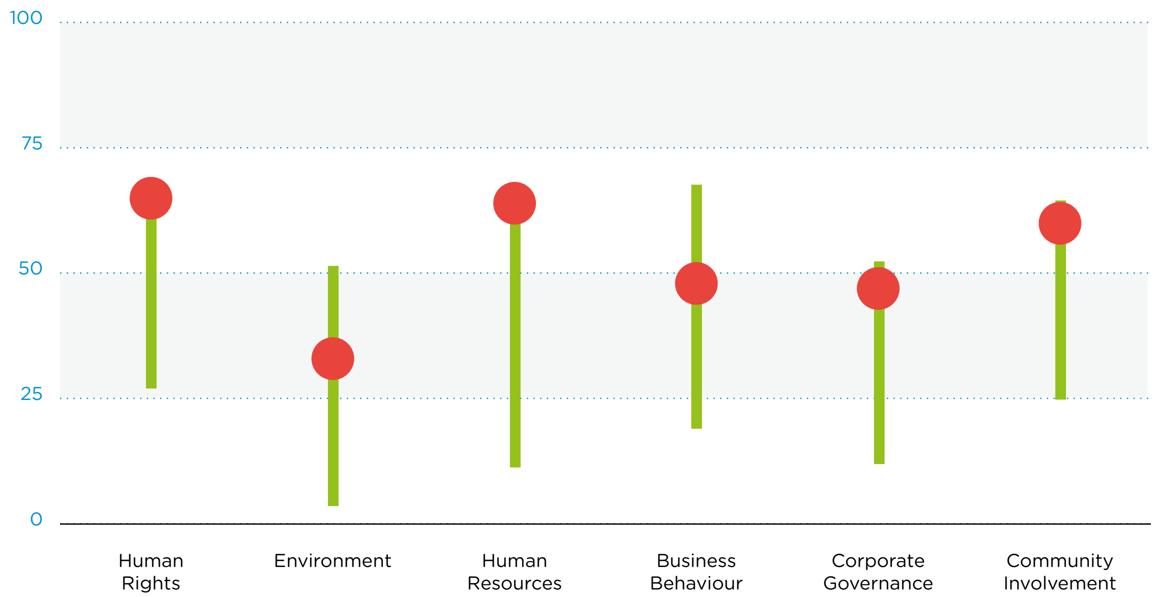
Vigeo carried out a CSR (Corporate Social Responsibility) analysis of the FWB and submitted its final report on 14 February 2011. This report gives the Federation one of the highest scores among those assigned by Vigeo[2], the second (at the time of the analysis) of the panel of 26 comparable local communities studied and/or audited in Germany, France, Italy, Spain... and, for the first time, in Belgium.

1/ For more details, see "Financing Needs and Strategy 2011" available on the website of the Budget and Finance Directorate General of the FWB at: http://www.budget-finances.cfwb.be; Category "News" on 19 January 2011. Document also available in English.

2/ For more details, see «Résultat de l'évaluation du niveau de responsabilité sociétale atteint par le Ministère de la Communauté française au 14 février 2011" available on the website of the Budget and Finance Directorate General of the FCB (FWB) at: http://www.budget-finances.cfwb.be; Category " News" on 21 March 2011.

**FIGURE 9**

**Company's performance [●] comparison with its sector (min ▬ max)**



This good extra-financial rating enables the Federation to expand its financing opportunities along with its investor basis, given that all its loans may as from now on be qualified as SRI (Socially Responsible Investment). At the beginning of the second quarter of 2011, the FWB therefore launched a market consultation for an SRI financing, notably based on the aforementioned extra-financial rating, either in the form of a benchmark syndicated issue or in the form of private issues. After analysis of the proposals, the joint Treasury Council has proposed the Community Minister for Budget and Finance to proceed - if market conditions allow– to a benchmark syndicated issue of maximum € 500.0 million ideally at 6 years under the EMTN format, the bookrunners being BNP Paribas Fortis and Belfius. After completion of the road shows, the issue was carried out on 9 June 2011 for a maturity of six years and a total amount of € 500.0 million subscribed by about forty investors mainly Belgian and French, but also Dutch, German and Swiss, attracted not only by the financial quality of the Federation signature, but also by its social responsibility aspect.

Following this benchmark transaction, an issue of € 35.0 million under EMTN format has been done for a slightly longer maturity (6.5 years) with start date in early July 2011. The gross financing needs for the year were then mostly covered during the first semester of 2011; and have been completed by two *Schuldschein* formats concluded in September and in October for long maturities of respectively 18 years (€ 21.0 million) and 20 years (€ 27.0 million) and an issue of € 30.0 million at three months in December using the legal framework of the EMTN programme.

This last issue aimed to "pre-finance" a cash inflow expected from European Funds for the first quarter of 2012; it was the first time that the Federation used its EMTN programme and not its local financing programmes for a very short term issue, the dealer having been selected after suitable competitive bidding. It should be noted that the loan of € 27 million with maturity 20 years concluded on 10$^{th}$ October 2011 under *Schuldschein* format is a zero-coupon loan held in that form in the debt portfolio of the FWB but treated annually from a budget point of view (in 2012, 2013, etc.). Therefore, the impact of the financial charges on the budget is not concentrated in 2031 (year of reimbursement).

The financing of the gross requirements of the FWB for 2012 started as from 4$^{th}$ January 2012, through the conclusion of a vanilla issue of € 25 million (maturity 20 years) under the *Schuldschein* format. It was followed on 17$^{th}$ February 2012 by the realization (under this same format) of multi-tranche financing for a total amount of € 100.0 million (including € 34.0 million delivered in 2012). This transaction was concluded after one-to-one meetings with the investor and the proposing bank, and with a favourable opinion of the Community Treasury Council approved by the Ministers of Budget and Finances.

In the row of these transactions, two PPs at fixed rate (EMTN format) were concluded, respectively on 8th March (€ 65.0 million, maturity 4.4 years) and 16th March (100.0 million, maturity 12.7 years). They were followed by two inflation linked issues concluded (after suitable competitive bidding) on 20th March (€ 56.0 million, maturity 10 years) and 11th April 2012 (€ 30.0 million, maturity 10 years). As a reminder, since Community revenues were being indexed at the Belgian consumer price index, there was no need (neither was there any economic rationale) to swap these last two issues, the hedge with the revenues being natural, hence perfect. At that time, more than 55% of the gross financing requirements of the FWB for 2012 were therefore covered; this was, of course[1] (!), without any increase of the spreads on OLO.

Two other transactions under the *Schuldschein* format were concluded at the end of August and at the end of November, each for an amount of € 25.0 million, but for longer maturities (tenor at 24 years) than the transactions concluded in the beginning of the year (in the same format). This allowed meeting the interests of the FWB, those of the investors and of the proposing bank.

After a road-show in Paris in the end in November 2012 (in the form of one-to-one meetings), the EMTN programme was activated two more times: an issue of € 45.0 million at fixed rate and with a maturity of 24 years, followed by an issue of € 100 million falling due on 28th September 2034 (with a coupon indexed on CMS) appointed simultaneously to a swap receiving the coupon indexed on CMS and paying a fixed rate. One should note that this issue allowed pre-financing of 20% of the gross financing requirements for 2013, initially estimated at € 500.0 million. On the other hand, a line of credit of € 100.0 million (falling due in January 2013) was repaid early.

In all, the total amount which was borrowed in 2012 amounts to € 505.0 million[2], with an weighted average maturity close to 16 years and a weighted average spread of 22.2 bps over OLO (114.9 bps over MidSwap). This includes 83.0% of fixed-rate borrowing (after IRS, if applicable) and 78.4% under the EMTN format (21.6% under *Schuldschein* format).

As announced on the website of the Directorate General of Budget and Finance of the FWB[3] in its document “Financing Needs & Strategy for 2013”, the gross financing needs for 2013 were initially estimated at € 428.1 million, of which € 199.7 million debt coming at maturity in the course of the year, including the Lobo issue of € 75.0 million concluded in 2008[4] at a rate of 3.62% with a maturity up to 2058. For memory, in the framework of this *Stand Alone* issue, the investor can make a one-time proposal for a new rate in 2013 (or in 2015, or in 2016…); the FWB may accept the new rate and the loan runs then at these conditions until 17 March 2058 or refuse the new rate and reimburse the loan. The option was not exercised by the investor in 2013, leading to a decrease in amortisations. As in the recent years, the funding needs of the year

1/ For memory, the risk of the FWB is the risk of the Federal State (more information on this point in the successive publications by Moody’s), over which premium for lower liquidity is added.

2/ In order to be perfectly strict, one should add €1.3 million related to the growth of the zero coupon note concluded in October 2011. Moreover, the FWB is granted the unilateral option to raise € 66.0 million in the frame of the multi-tranche, with predefined conditions on the rates.

3/ Refer to the website: http://www.budget-finances.cfwb.be/; topic “News”.

4/ Refer to the 2012 Annual Report, pp 51-52; on the website http://www.budget-finances.cfwb.be/index.php?id=6100.

were met at a steady pace as shown in the table below:

| Format | Transaction | Start date | End date | amount | Type of rate[1] |
|---|---|---|---|---|---|
| EMTN | 31/01/2013 | 20/02/2013 | 20/02/2023 | 20,000,000.00 | Inflation Linked |
| EMTN Tap | 11/02/2013 | 18/02/2013 | 10/12/2024 | 55,191,313.00 | Fixed Rate |
| EMTN | 12/02/2013 | 01/03/2013 | 02/03/2043 | 30,000,000.00 | Fixed Rate |
| EMTN | 22/02/2013 | 28/02/2013 | 28/12/2022 | 21,250,000.00 | Fixed Rate |
| EMTN | 04/03/2013 | 12/03/2013 | 12/03/2053 | 24,000,000.00 | Fixed Rate |
| EMTN | 25/03/2013 | 28/03/2013 | 28/03/2017 | 25,000,000.00 | Euribor |
| EMTN | 07/05/2013 | 17/05/2013 | 17/05/2024 | 10,000,000.00 | Fixed Rate |
| EMTN | 13/05/2013 | 21/05/2013 | 21/05/2040 | 50,000,000.00 | Fixed Rate |
| EMTN | 15/05/2013 | 27/05/2013 | 27/05/2033 | 13,000,000.00 | Fixed Rate |
| EMTN | 16/05/2013 | 24/05/2013 | 24/05/2033 | 100,000,000.00 | OLO 8Yr |
| EMTN Tap | 12/06/2013 | 19/06/2013 | 17/05/2024 | 10,000,000.00 | Fixed Rate |
| EMTN 30np20 | 21/06/2013 | 28/06/2013 | 29/06/2033 | 100,000,000.00 | Fixed Rate |
| *Schuldschein* | 4/07/2013 | 19/07/2013 | 19/08/2033 | 10,500,000.00 | Fixed Rate |
| EMTN | 26/08/2013 | 10/09/2013 | 19/11/2029 | 35,000,000.00 | Fixed Rate |

Total amount financed: € 503.9 million
Weighted average maturity: 19.1 years
Weighted average margin compared to OLO: 20.5bp
Weighted average margin compared to MidSwap: 81.4bp
Part financed at fixed rate after possible IRS : 71.2%
Part financed under EMTN format: 97.9%
Part financed under *Schuldschein* format: 2.1%

Finally, following the downgrade of two notches of the Kingdom, Moody's Investor Services agency reviewed (on 19$^{th}$ December 2011) the rating of the Federation to Aa3/P1 (since the beginning of 2004 this rating was Aa1/P1). This rating change confirms, on the one hand the tight financing links between the FWB and the Federal State (cf. Chapter III, point C.1.3) and, on the other hand, the credit quality of the Federation[2], based on:

- Its sound financial performance, despite some impairment;
- The strict and continuous respect of its engagements regarding budgetary cooperation agreements (CSF);
- The lowness of its debt charge; and
- Its active and sophisticated debt management as well as its broad and flexible access to financing sources.

Note that if ratings Aa3/P1 have been confirmed on 13 March 2014, the outlook went from negative to stable

### C.2.2. Treasury

Up to 31 December 2009, the interest rate conditions applied to the current account of the Federation Wallonia-Brussels 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

1/ After possible derivative

2/ More on this point in the Credit Opinion dating from 13 March 2014 and the Credit Analysis dating from 28 June 2013 published by the rating agency Moody's.

issues on the cash market. The new Cashier's protocol, concluded on 17 November 2009 after proper market consultation, with entry into force on 1 January 2010, uses the Euribor 1 week (base 360) as reference rate. The rate is subject to monthly arithmetic averaging. Since 1st January 2014 and the amendment of 17 December 2013, if the reference rate (i.e. monthly arithmetic average of the Euribor 1 week (base 360)) remained unchanged, the spread attached to the debit account was reduced by 3.0 bp and the one related to the credit account rose by 5.0 bp; thereby improving the conditions applied to the Community. Overdraft authorisation is maintained at € 2,500.0 million without reservation or commitment fees and its validity has been extended until 31 December 2018.

For the management of deficits and surpluses, an arbitrage is made between current account conditions and cash market conditions, via short-term commercial paper programmes for deficits and through investments in government bills for surpluses; these latter being, for memory, 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

For issues carried out under commercial paper programmes (from one day to one year), the Federation enjoys, in general financing terms, levels close to the interbank rate (Euribor), when market conditions allow for it. This explains why it is in general more advantageous for the FWB to finance itself in the short term by commercial paper issues than by a debit from the current account.

In 2011, twenty-two issues were carried out for a total amount of € 1,979.8 million, at an average weighted rate of 1.12% and for an average weighted maturity of 11.5 days. Most issues (93.4%) were carried out during the 1st semester of the year. As a reminder, the € 30.0 million issue made in December 2011 under the EMTN format has not been carried out because of treasury deficit in the strict sense, but in order to "pre-finance" a cash inflow expected from European funds for the beginning of 2012. However, in 2012, due to the favourable levels of treasury, only seven issues (total amount of € 930.0 million) were carried out (mainly during the second quarter) with a weighted average rate of 0.26% and a weighted average maturity of 6.3 days. In 2013, 15 issues were carried out, all in the first semester of the year, for a total of € 1,149.0 million, a weighted average maturity of 6.1 days and a weighted average rate of 0.18%.

**FIGURE 10**
**Monthly issues of commercial paper in 2012**

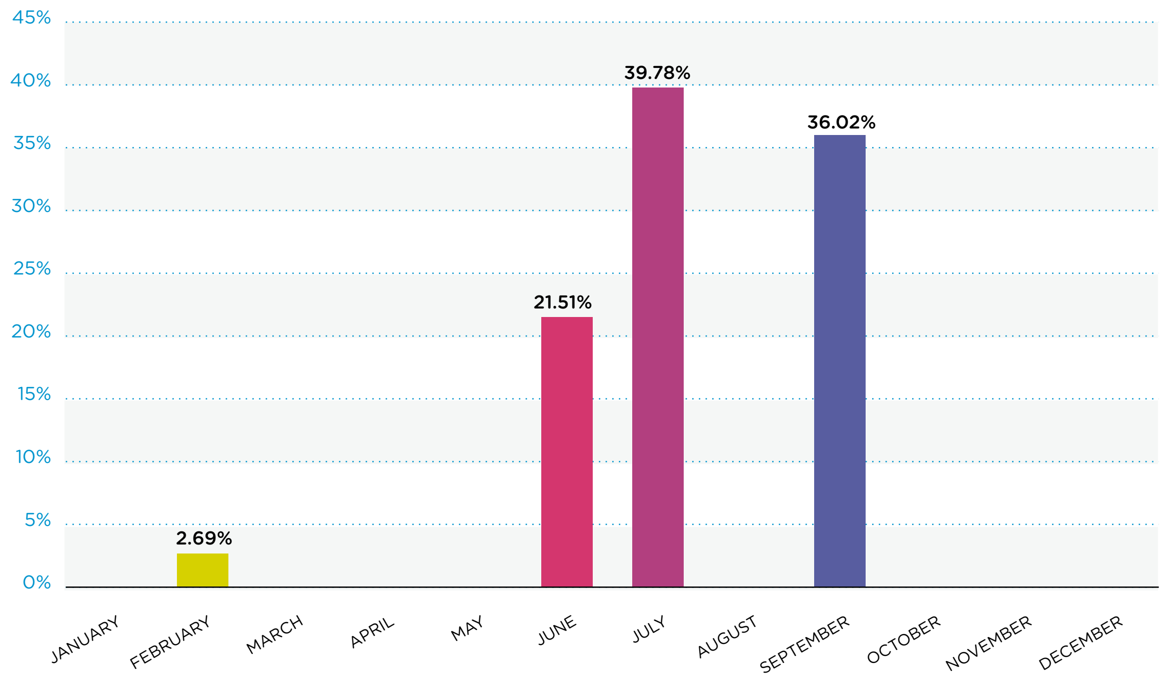
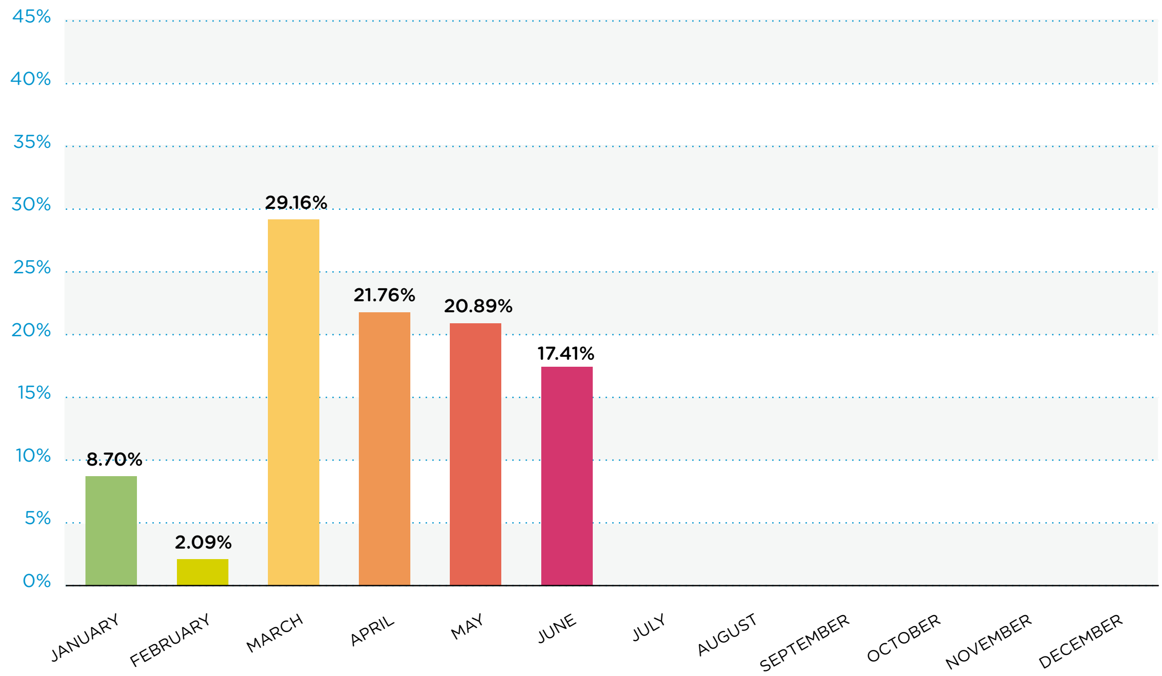



**FIGURE 11**
**Monthly issues of commercial paper in 2013**



The table below gives an overview of the commercial paper issues (including any fixed term advances) of these last years:

| Year | Number | Average amount in € million | Weighted average rate | Weighted average maturity | Total amount in € million |
|---|---|---|---|---|---|
| 2005 | 38 | 44.05 | 2.05% | 14.2 days | 1,674.0 |
| 2006 | 84 | 30.62 | 2.74% | 14.6 days | 2,572.4 |
| 2007 | 86 | 39.54 | 3.88% | 13.2 days | 3,400.4 |
| 2008 | 81 | 39.03 | 4.04% | 10.1 days | 3,161.6 |
| 2009 | 39 | 61.61 | 0.97% | 8.8 days | 2,403.0 |
| 2010 | 7 | 87.43 | 0.51% | 8.3 days | 612.0 |
| 2011 | 22 | 89.99 | 1.12% | 11.5 days | 1,979.8 |
| 2012 | 7 | 132.86 | 0.26% | 6.3 days | 930.0 |
| 2013 | 15 | 76.6 | 0.18% | 6.1 days | 1,149.0 |

### * 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 Federation invests in these various types of paper according to its available treasury funds.

Unlike the interest paid by papers issued by public bodies, the quarterly balance of the current account, when it is a credit balance, is subject to a withholding tax of 21% since 1st of January 2012[1] (against 15% previously). Thus, subject to market appetite, any credit balance is systematically invested in products for which withholding tax does not apply as soon as the interest rate obtained with such investments is not lower than the rate applicable to the current account.

The table below gives an overview of the investments (including any term deposits) made these last years:

| Year | Number | Average amount in € million | Weighted average rate | Weighted average maturity | Total amount in € million |
|---|---|---|---|---|---|
| 2005 | 35 | 100.5 | 2.0% | 5.0 days | 3,517.0 |
| 2006 | 6 | 98.3 | 2.4% | 4.4 days | 589.6 |
| 2007 | 4 | 50.8 | 3.9% | 6.1 days | 203.0 |
| 2008 | 12 | 53.3 | 4.2% | 8.6 days | 640.0 |
| 2009 | 16 | 36.6 | 0.4% | 27.0 days | 586.0 |
| 2010 | 10 | 31.0 | 0.6% | 27.7 days | 310.2 |
| 2011 | 28 | 29.4 | 1.3% | 29.8 days | 821.9 |
| 2012 | 9 | 30.1 | 0.4% | 28.3 days | 271.3 |
| 2013 | 24 | 41.2 | 0.2% | 26.5 days | 988.3 |

1/ Withholding tax reviewed to 25% as from 1st January 2013.

The investments made in 2013 were concentrated in the 2nd semester of the year and consisted of papers issued by Belgian public entities (regions and provinces) and term deposits with the cashier for a total of nearly one billion euro at 26.5 days. The market conditions were such that no additional investment was made.

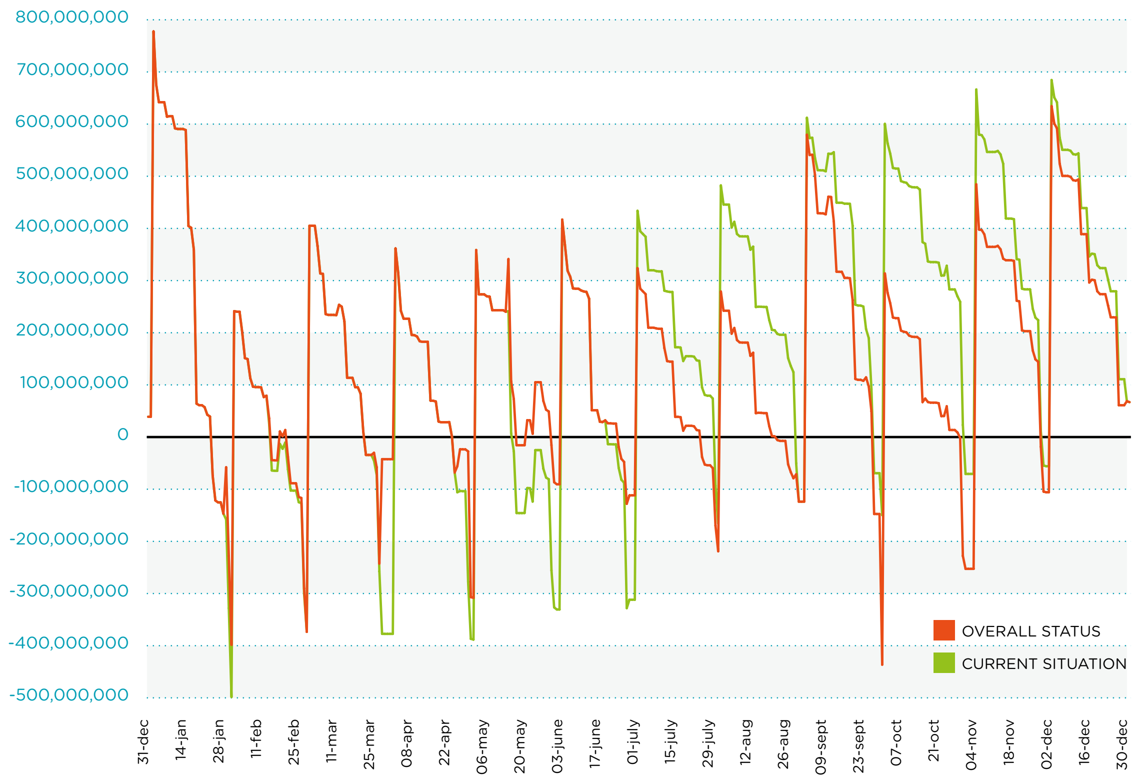
## * treasury cycle

In the framework of active treasury management, it is interesting to consider its annual cycle. This allows for an 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 2013, 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 very short term investments and loans.

**FIGURE 12**
**Treasury cycle for 2013**



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 amortisation is paid and the time at which they are re-borrowed.

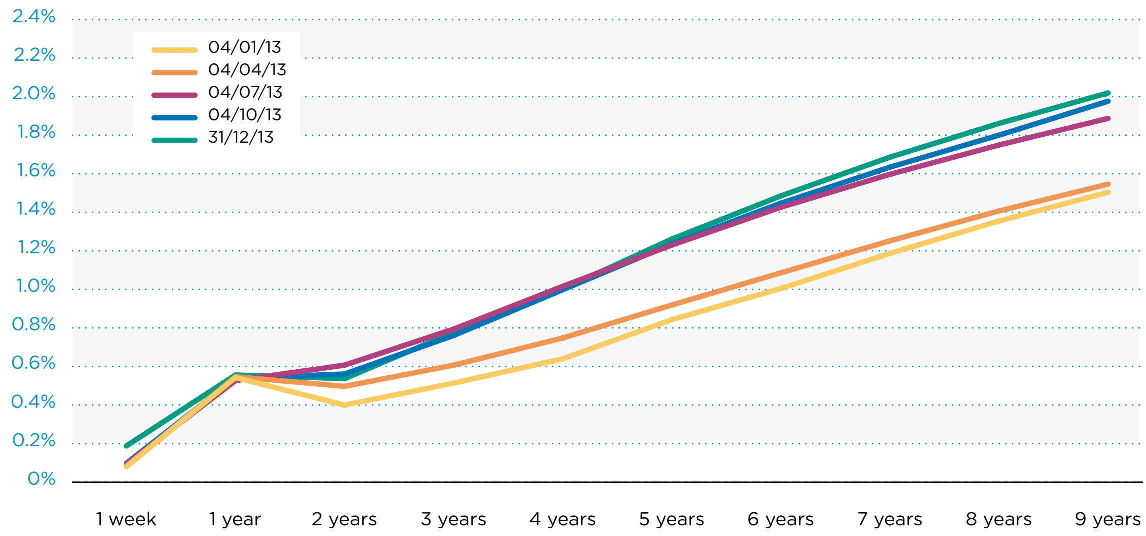
In 2005, repayment and refinancing of amortisations were practically concluded as of the month of May; in 2006, while 91% of the amortisation took place during the 1st semester 87% of their refinancing occurred by mid-February. The volatility of the treasury fluctuations was thus less in the second semester 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 amortisation 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 Federation Wallonia-Brussels is € 100.0 million per month, this deferment resulted in non-negligible movements.

In 2010, the total re-borrowing on amortisations was performed in the first two trimesters of the year; consequently, the typical movement of the community's treasury mentioned above has been repeated. In 2011, in contrary, the treasury evolution has been influenced by the realization of the benchmark loan, which allowed refinancing at once all of the depreciations falling before and after the start date of the € 500.0 million issue. At the opposite, in 2012, the financing of the gross needs of the FWB (amortisations and budget balances) started early in the year[1]. This reduced the debits on the current account as well as the volatility of the changes in treasury. This trend was accentuated in 2013: gross financing needs were totally covered by May/June.

1/ More than 55% of those financing requirements were covered as from the 1st quarter of the year, while the loans falling due were mainly concentrated in March/April 2012.

## C.3. Interest rate curve in 2013

**FIGURE 13**
**Variation of the Euribor and IRS yield curves in 2013**




Overall, we note an upward trend of the yield curve (Euribor - IRS) in 2013. The medium- and long-term rates (i.e. rates with a maturity of more than one year) progressed by an average of 40bp on the year, despite a slight decline in the medium-term rates in the course of the second half of the year. The short-term rates (i.e. rates with a maturity of less than a year) also progressed, especially during the last quarter of 2013 where it increased with an average of 6bp. The yield curve finished the year at a higher level than the one at the beginning of the year, the effect being the strongest on the long-term part of the curve.

The graph on the evolution of the yield curve (Euribor - IRS) shows that the increase in the rates was progressive during the year, with a marked increase during the second quarter of 2013 for medium-and long-term rates (average increase of 29bp) and during the last quarter for short-term rates (average increase of 6bp). The steepening of the yield curve as from the second quarter (i.e. the difference between the two years and the 10 years rates went from 117 bp at the end of the first quarter to 163bp at the end of the year) is due to a continuous rise in long-term rates combined with a slight decrease (an average of 3bp) in medium-term rates in the second half of 2013. The short-term rates increased on average by 8bp on the year.

The spread IRS 1 year/IRS 2 years moved from a level of 5bp at the start of the year to a level of 13bp by 31 December 2013. The 1-year IRS rate, as well as the 2-years IRS rate rose during the year. The 1-year IRS rate increased to 0.40% at the end of 2013 (compared to 0.33%

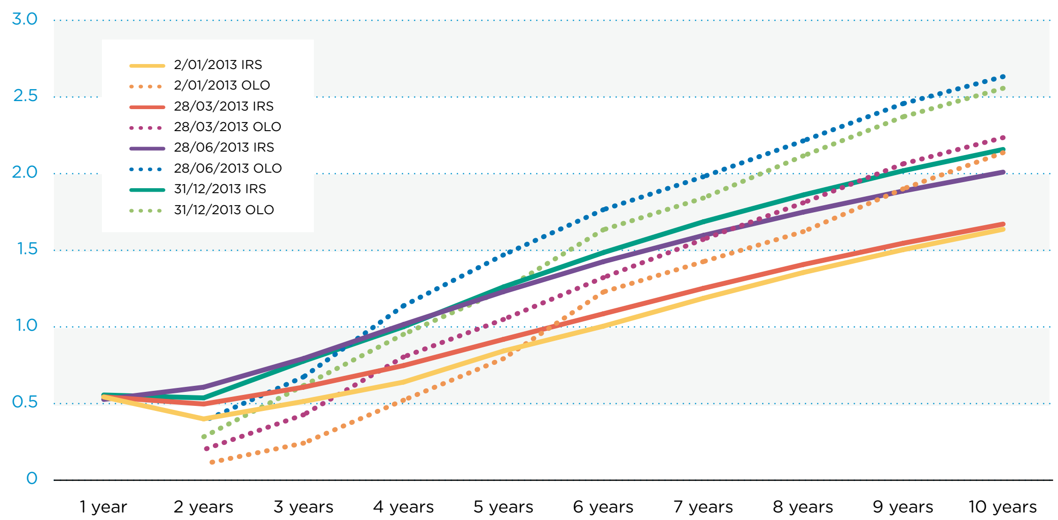
the year before). The IRS rate 2 years saw a slightly more marked increase, going from 0.38% at the end of December 2012 to 0.54% by 31 December 2013.

The European Central Bank changed its key interest rates two times in 2013. In May 2013, the ECB modified its refinancing rate to 0.50% (compared to 0.75% in 2012). In November 2013, it made another change: a decrease of 0.25% to a record low of 0.25%. This key change led certain banks to decrease their interest rates, particularly in the private sector.

Unlike the decline observed in 2012, the trend in 2013 for the short-term Euribor rates (rates with a maturity of less than 6 months) has been on the rise. The Euribor one month rate doubled during the year going from 0.11% in January to 0.22% at the end of December. The 3-month Euribor rate increased by 10bp to reach a level close to 0.29% by year end. The 6-month Euribor rate experienced a slight increase from 0.32% in January to 0.39% in December. Euribor rates at 9 months and 12 months, however, remained stable during the year.

Up until its 2009 edition, dealing with the 2008 figures, the Report on the Debt of the Federation Wallonia-Brussels 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 an 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 FWB issue.

**FIGURE 14**
**Variation of the IRS and OLO rate curves in 2013**



On the general evolution of the OLO curve during 2013, we first note a relatively parallel increase of the entire yield curve during the first two quarters of the year (an average increase of 52bp). Then, during the third quarter, the trend reversed and the curve experienced a slight decline (average decrease of 11bp). Finally, in the fourth quarter, the curve remained stable. On average, the rate rose 40bp during the year.

If we compare the evolution of the OLO curve with the evolution of the IRS curve, we see that the OLO curve showed a much stronger increase than the swap curve for rates with a maturity of less than 4 years. In general, we note that the OLO curve is below the IRS curve for the short-term portion and above the IRS curve for the long-term portion.

This trend is reflected in the spread IRS/OLO, which is negative for the short-term maturities for all quarters of 2013. At the beginning of the year, the IRS/OLO spread 2 years averaged -29bp and stayed relatively stable during the subsequent quarters. The IRS/OLO spread 5 years saw significant fluctuations going from -5bp at the beginning of the year to 24bp at the end of June, and to -2bp at the end of December. For long-term maturities (from 6 to 10 years), the IRS/OLO spread was positive and increased with the maturity. There is an increase in the spread during the first two quarters, but a greater decrease in the following two quarters. At the end of the second quarter, the IRS/OLO spread was around 34bp for 6 years, 47bp for 8 years, and 62bp for 10 years. Six months later, the spreads had fallen at 15bp, 26bp and 40bp respectively.

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 2012/2013 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, as a reminder, serves as a measurement and management tool for overall exposure to interest rate risk – was brought to 91.1% end 2012 and to 90.8% end 2013. 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.

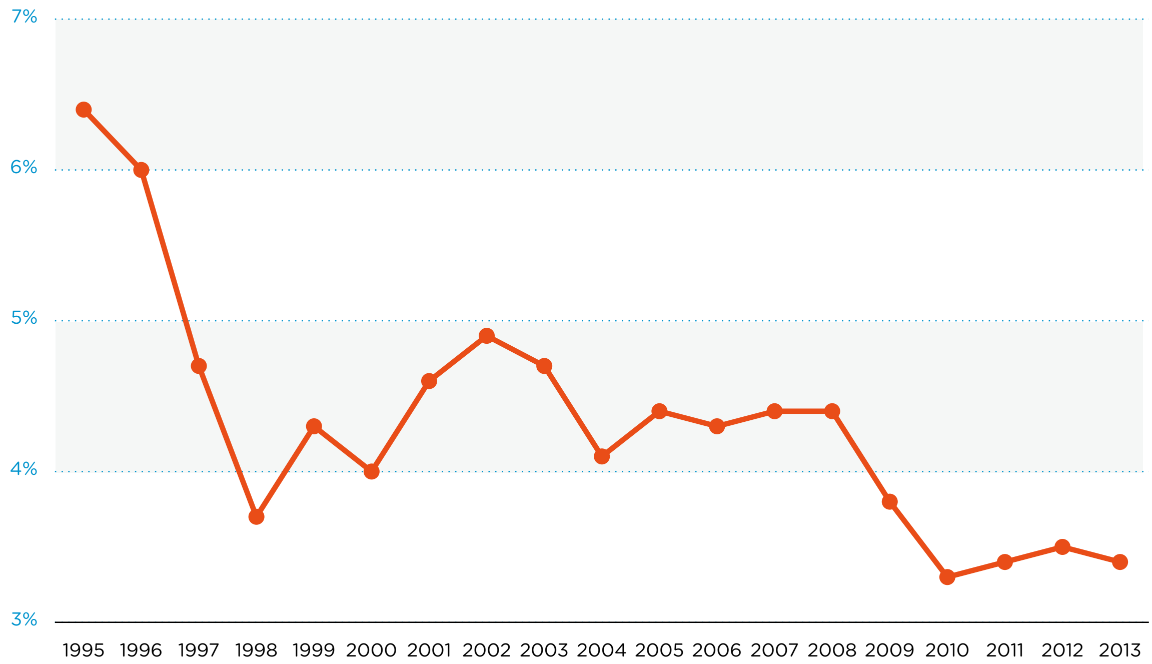
Since 2000, the usual parameters of “average life”[1] and “implied rate” have been supplemented by those of “duration” and “internal rate of return”.

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

The results as of 31 December for 2011, 2012 and 2013 are as follows:
* in terms of maturities
  - "residual maturity in terms of liquidity": 7.4 years/7.8 years/8.1 years
  - "residual maturity in terms of rates": 7.6 years/8.0 years/8.6 years
  - "duration": 5.8 years/6.0 years/6.4 years
* in terms of rates
  - the variation of the "implied rate" (the amount of interest paid annually compared to the stock of corresponding debt on 31 December) for the period from 1995 to 2013 is described in the following tables and graphs:

| Year | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| Implied rate | 6.4% | 6.0% | 4.7% | 3.7% | 4.3% |
| **Year** | **2000** | **2001** | **2002** | **2003** | **2004** |
| Implied rate | 4.0% | 4.6% | 4.9% | 4.9% | 4.1% |
| **Year** | **2005** | **2006** | **2007** | **2008** | **2009** |
| Implied rate | 4.4% | 4.3% | 4.4% | 4.4% | 3.8% |
| **Year** | **2010** | **2011** | **2012** | **2013** | |
| Implied rate | 3.3% | 3.4% | 3.5% | 3.4% | |

**FIGURE 15**
**Variation of the implied rate 1995 – 2013**



The variation of the implied rate from one year to the next results from interest rate levels, movements in the yield curve, dynamic debt management and the level of debt stock. Most of the new issues of the Federation Wallonia-Brussels 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, 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 FWB is not only low-cost, but in particular low-risk in terms of both rates and refinancing terms.

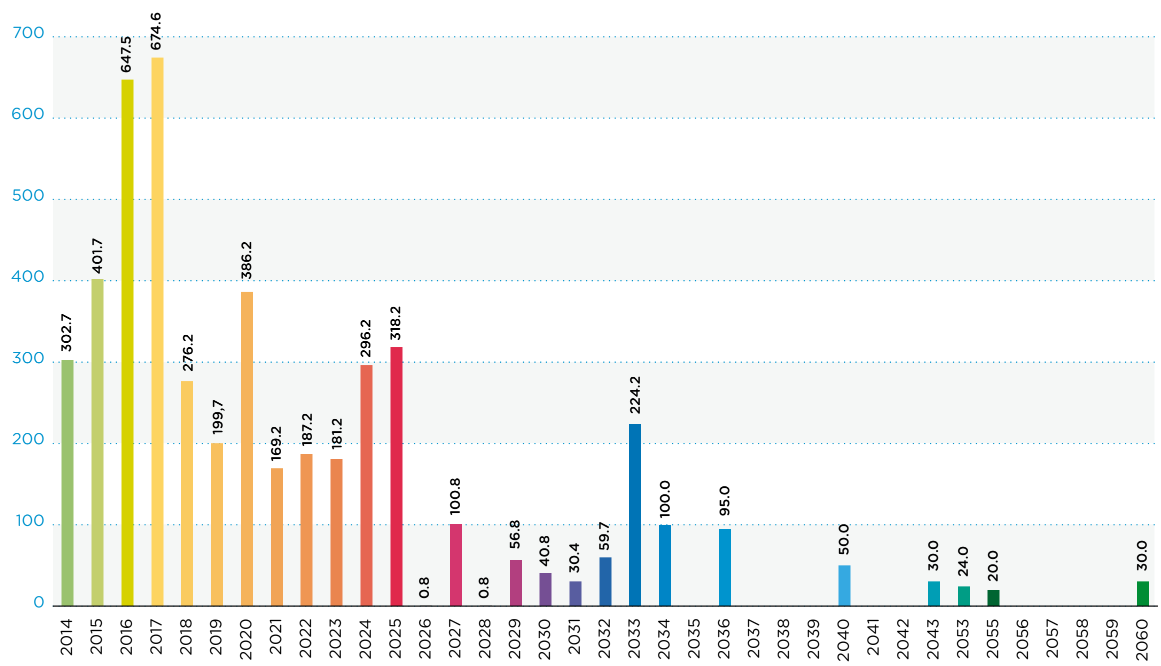
The "internal rate of return" corresponds approximately with constant nominal debt stock, or until 2008, to the implied rate; this was not observed anymore in the subsequent years. Hence, in 2009 and 2010, the internal rate of return was measured at respectively 4.2% and 3.8%. In 2011, it showed a slight increase and reached 3.9% to come back to 3.8% in 2012 and 3.6% in 2013.

## C.5. Timetable for amortisation

Another objective of the Federation Wallonia-Brussels with regards to debt is to "smooth out" the amortisation as much as possible in order to avoid any shortfall in market liquidity; this is in particular a matter of avoiding refinancing peaks[1].

1/ 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 2015, while the possible years due are 2015, 2016, … or 2058. Other assumptions made: the monthly renewals of commercial paper being guaranteed by firm commitment, the maturity chosen is the maturity of the firm commitment; for the quarterly and semi-annual renewals of treasury bills, the maturity is defined either by the management intention or to the 1st call date depending whether they are linked to respectively classic or callable swap.

**FIGURE 16**
**Amortisations as of 31/12/2013 (in € million)**



## C.6. Bonds of the FWB as per 31/12/2013

| Type | Managers or Dealers | ISIN Code | Issue date | Maturity | Amount in € | Coupon | Rate after possible derivatives |
|---|---|---|---|---|---|---|---|
| EMTN Inaugural | Banque Internationale à Luxembourg / Deutsche Bank | BE5950296251 | 18/03/2004 | 18/03/2014 | 300,000,000.00 | FRN | 4.08000 |
| EMTN PP | Belfius | BE6216836096 | 28/02/2011 | 28/02/2015 | 5,500,000.00 | Fixed Rate | 3.31500 |
| EMTN PP | Belfius | BE6216841146 | 02/03/2011 | 02/03/2015 | 5,000,000.00 | FRN | 3.33700 |
| EMTN PP | Belfius | BE6216961373 | 02/03/2011 | 02/03/2015 | 5,000,000.00 | FRN | 3.38700 |
| EMTN PP | Natixis | BE5951677483 | 26/05/2004 | 26/05/2015 | 112,500,000.00 | FRN | 3.84125 |
| EMTN PP | BNP Paribas Fortis | BE5961499738 | 26/10/2005 | 26/10/2015 | 10,000,000.00 | Fixed Rate to Index Linked | 3.30420 |
| EMTN PP | BNP Paribas Fortis | BE6000473536 | 04/12/2009 | 04/12/2015 | 50,000,000.00 | Fixed Rate | 3.33200 |
| EMTN PP | Belfius | BE6000477578 | 04/12/2009 | 04/12/2015 | 8,000,000.00 | FRN | E6M+45.0bp |
| EMTN PP | HSBC | BE6217020963 | 04/03/2011 | 04/03/2016 | 15,000,000.00 | Fixed Rate | 3.62500 |
| EMTN PP | Depfa | BE6000195667 | 01/07/2009 | 01/07/2016 | 100,000,000.00 | FRN | E6M+120.0bp |
| EMTN PP | Belfius | BE6000203743 | 03/07/2009 | 04/07/2016 | 67,000,000.00 | Fixed Rate | 4.45000 |
| EMTN PP | Citi | BE6234941720 | 15/03/2012 | 01/08/2016 | 65,000,000.00 | Fixed Rate | 2.21190 |
| EMTN PP | BNP Paribas Fortis | BE0931948690 | 22/09/2006 | 22/09/2016 | 25,000,000.00 | Quanto Range Accrual | 3.95000 |
| EMTN PP | BNP Paribas Fortis | BE6000474542 | 04/12/2009 | 04/12/2016 | 40,000,000.00 | Fixed Rate | 3.55700 |
| EMTN PP | BNP Paribas Fortis | BE6000478584 | 04/12/2009 | 04/12/2016 | 80,000,000.00 | FRN | E6M+50.0bp |
| EMTN PP | Belfius | BE6251734842 | 28/03/2013 | 28/03/2017 | 25,000,000.00 | FRN | E3M+35.0bp |
| EMTN Benchmark ISR | Belfius / BNP Paribas Fortis | BE6222391359 | 16/06/2011 | 16/06/2017 | 500,000,000.00 | Fixed Rate | 3.87500 |
| EMTN PP | Belfius | BE6000204758 | 03/07/2009 | 03/07/2017 | 48,000,000.00 | Fixed Rate | 4.61200 |
| EMTN PP | BNP Paribas Fortis | BE6202613459 | 31/08/2010 | 31/08/2017 | 50,000,000.00 | FRN | 2.52000 |
| EMTN PP | BNP Paribas Fortis | BE6000475556 | 04/12/2009 | 04/12/2017 | 50,000,000.00 | Fixed Rate | 3.75000 |
| EMTN PP | CBC | BE6223130954 | 05/07/2011 | 05/01/2018 | 35,000,000.00 | Fixed Rate | 3.93500 |
| OLCo | BNP Paribas Fortis | BE0371862617 | 21/02/2003 | 21/02/2018 | 15,000,000.00 | Fixed Rate | 4.60000 |
| EMTN PP | BNP Paribas Fortis | BE6203355118 | 28/09/2010 | 28/09/2018 | 40,000,000.00 | FRN | 2.99350 |
| EMTN PP | BNP Paribas Fortis | BE6209743945 | 22/10/2010 | 22/10/2018 | 35,000,000.00 | FRN | 3.03600 |
| EMTN PP | Deutsche Bank | BE6000901932 | 14/06/2010 | 14/06/2019 | 15,000,000.00 | Fixed Rate | 3.12500 |
| EMTN PP | Belfius | BE6000476562 | 04/12/2009 | 04/12/2019 | 45,000,000.00 | Fixed Rate | 4.02500 |
| EMTN PP | Belfius | BE6000581643 | 25/01/2010 | 27/01/2020 | 25,000,000.00 | Fixed Rate | 3.91100 |
| EMTN PP | BNP Paribas Fortis | BE6000587707 | 29/01/2010 | 29/01/2020 | 100,000,000.00 | FRN | 2.99000 |
| EMTN PP | Belfius | BE6000621076 | 04/02/2010 | 04/02/2020 | 75,000,000.00 | FRN | 3.57500 |
| EMTN PP | SocGen | BE6000596799 | 05/02/2010 | 05/02/2020 | 20,000,000.00 | Fixed Rate | 3.86600 |
| EMTN PP | BNP Paribas Fortis | BE6000661478 | 19/02/2010 | 19/02/2020 | 80,000,000.00 | Fixed Rate | 3.82500 |
| EMTN PP | Portigon | BE5957817778 | 06/04/2005 | 06/04/2020 | 75,000,000.00 | FRN | 4.06300 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| EMTN PP | Crédit Agricole CIB | BE5957816762 | 07/04/2005 | 07/04/2020 | 10,000,000.00 | Zero Coupon & Index Linked Redemption | 4.01000 |
| EMTN PP | BNP Paribas Fortis | BE5962384855 | 11/01/2006 | 11/01/2021 | 50,000,000.00 | CMS Linked | 3.51000 |
| EMTN PP | BNP Paribas Fortis | BE6217578721 | 18/03/2011 | 18/03/2021 | 18,000,000.00 | FRN | E3M+105.0bp |
| EMTN PP | BNP Paribas Fortis | BE5963463971 | 15/02/2006 | 15/09/2021 | 100,000,000.00 | Volatility Note with Shout Option | 3.79100 |
| EMTN PP | Belfius | BE0932601439 | 28/03/2007 | 28/03/2022 | 27,000,000.00 | Inflation Linked | 4.31800 |
| EMTN PP | ING | BE6235497466 | 28/03/2012 | 28/03/2022 | 56,000,000.00 | Inflation Linked | Inflation Linked |
| EMTN PP | Natixis | BE6236469480 | 27/04/2012 | 27/04/2022 | 30,000,000.00 | Inflation Linked | Inflation Linked |
| EMTN PP | HSBC | BE6202620520 | 01/09/2010 | 01/09/2022 | 50,000,000.00 | Fixed Rate | 3.13300 |
| EMTN PP | BNP Paribas Fortis | BE6249766567 | 28/02/2013 | 28/12/2022 | 21,250,000.00 | FRN | 2.54400 |
| EMTN PP | Belfius | BE0934134249 | 18/02/2008 | 20/02/2023 | 30,000,000.00 | Inflation Linked | 2.42000 |
| EMTN PP | Crédit Suisse | BE6249329077 | 20/02/2013 | 20/02/2023 | 20,000,000.00 | Inflation Linked | Inflation Linked |
| EMTN PP | BNP Paribas Fortis | BE5957900632 | 07/04/2005 | 07/04/2023 | 100,000,000.00 | CMS Linked | 4.14300 |
| EMTN PP | BNP Paribas Fortis | BE5958048175 | 14/04/2005 | 14/04/2023 | 10,000,000.00 | CMS Linked | 4.14500 |
| EMTN PP | ING | BE6218338562 | 07/04/2011 | 18/12/2023 | 20,000,000.00 | Fixed Rate | 4.45000 |
| EMTN PP | BNP Paribas Fortis | BE6253035271 | 17/05/2013 | 17/05/2024 | 20,000,000.00 | FRN | 2.43925 |
| EMTN PP | Goldman Sachs | BE6235350939 | 23/03/2012 | 10/12/2024 | 100,000,000.00 | Fixed Rate | 3.85000 |
| EMTN PP | Union des Banques Suisses | BE6235350939 Tap | 18/02/2013 | 10/12/2024 | 50,000,000.00 | Fixed Rate | 3.85000 |
| EMTN PP | Banque Internationale à Luxembourg | BE5957804644 | 30/03/2005 | 30/03/2025 | 200,000,000.00 | Fixed Rate | 4.19975 |
| EMTN PP | Belfius | BE5963491287 | 13/02/2006 | 13/02/2026 | 20,000,000.00 | Fixed Rate to Index Linked | 3.54400 |
| EMTN PP | HSBC | BE6257518488 | 10/09/2013 | 19/11/2029 | 35,000,000.00 | Fixed Rate | 3.53500 |
| EMTN PP | ING | BE6253357584 | 24/05/2013 | 24/05/2033 | 100,000,000.00 | OLO Participation | OLO8Yr Flat |
| EMTN PP | Commerzbank | BE6253245433 | 27/05/2013 | 27/05/2033 | 13,000,000.00 | Fixed Rate | 3.00000 |
| EMTN PP | Goldman Sachs | BE6246391765 | 28/12/2012 | 28/09/2034 | 100,000,000.00 | CMS Steepener | 3.28130 |
| EMTN PP | Goldman Sachs | BE6246336216 | 06/12/2012 | 15/11/2036 | 45,000,000.00 | Fixed Rate | 3.38000 |
| EMTN PP | Belfius | BE6253136319 | 21/05/2013 | 21/05/2040 | 50,000,000.00 | Fixed Rate | 3.22100 |
| EMTN PP | Union des Banques Suisses | BE6249397751 | 01/03/2013 | 02/03/2043 | 30,000,000.00 | Fixed Rate | 3.50000 |
| EMTN PP | Citi | BE6254548850 | 28/06/2013 | 29/06/2043 | 100,000,000.00 | Fixed Rate (30np20) | 3.33900 |
| EMTN PP | Union des Banques Suisses | BE6250063623 | 12/03/2013 | 12/03/2053 | 24,000,000.00 | Fixed Rate | 3.50000 |
| EMTN PP | Banque Internationale à Luxembourg | BE5957805658 | 30/03/2005 | 30/03/2055 | 20,000,000.00 | Fixed Rate | 4.37200 |
| Stand Alone | JP Morgan | BE0934112021 | 17/03/2008 | 17/03/2058 | 75,000,000.00 | Lobo | 3.62000 |
| EMTN PP | Goldman Sachs | BE6000907020 | 11/06/2010 | 11/06/2060 | 30,000,000.00 | FRN | 4.12000 |

CHAPTER 4

# The debt of the FWB in the framework of the European concept of gross consolidated debt (concept of Maastricht)

As mentioned in the introduction of this report, the debt issued by other entities than the FWB, but which is consolidated under the concept of gross consolidated debt (concept of Maastricht) of the FWB perimeter, is covered for the first time in this report in order to provide the reader of this report with a clear, transparent and comprehensive overview.

The Ministry of the FWB is not directly responsible for managing or supporting the costs of the entire debt integrated in the concept of gross consolidated debt (concept of Maastricht) of the FWB perimeter. In order to avoid any misunderstanding, it is therefore important to make a distinction between the total community consolidated debt of the FWB, covered in detail in this report, and the gross consolidated debt (concept of Maastricht) of the FWB perimeter.

The difference between both concepts comes from the inclusion, in the concept of gross consolidated debt (concept of Maastricht) in the perimeter of the FWB, of the debt (if any) issued and managed under the responsibility of the entities consolidated with the FWB in the sector of the public administrations.
These entities consist in the following list, as of 17th April 2014 (source: http://www.nbb.be/DOC/DQ/F_pdf_PDE/PDE_liste_FR.pdf):

## FRENCH COMMUNITY OF BELGIUM

**Legislative bodies**
S.1312 Parlement de la Communauté française

**Ministerial departments**
S.1312 Ministère de la Communauté française

**Scientific institutions**
S.1312 Académie royale des sciences, des lettres et des Beaux-Arts de Belgique
S.1312 Académie royale de médecine de Belgique
S.1312 Académie royale de langue et de littérature françaises

**Public interest organisations (category A)**
S.1312 Fonds pour l'égalisation des budgets et pour le désendettement de la Communauté française

**Public interest organisations (category B)**
S.1312 Office de la naissance et de l'enfance ONE
*S.11001 Centre Hospitalier Universitaire de Liège*
S.1312 Entreprise publique des Technologies nouvelles de l'Information et de la Communication de la Communauté française ETNIC
S.1312 Institut de formation en cours de carrière
S.1312 Fonds Écureuil

**Not classified under the Law of 16th March 1954**
S.1312 ASBL la médiathèque de la Communauté française de Belgique
S.1312 Radiotélévision belge de la Communauté française RTBF
S.1312 Conseil interuniversitaire de la Communauté française CIUF
S.1312 Conseil supérieur de l'audiovisuel
S.1312 SONUMA
S.1312 Société de gestion du bois Saint-Jean

**Universities (including their own heritage) and institutions of higher education**
***- Universities of the French Community***
S.1312 Université de Liège ULG
S.1312 Université de Mons-Hainaut UMH
S.1312 Faculté des sciences agronomiques de la Communauté française à Gembloux
*- Universities (« Universités libres »)*
S.1312 Université libre de Bruxelles ULB
S.1312 Université catholique de Louvain UCL
S.1312 Facultés universitaires Notre-Dame de la paix Namur FUNDP
S.1312 Faculté universitaire catholique de Mons FUCAM
S.1312 Faculté polytechnique de Mons FPM
S.1312 Facultés universitaires Saint-Louis Bruxelles FUSL
S.1312 Faculté de Théologie Protestante de Bruxelles FUTP
S.1312 Fondation universitaire luxembourgeoise FUL
***- University academies***
S.1312 Académie Universitaire Wallonie-Bruxelles
S.1312 Académie Universitaire Louvain
S.1312 Académie Universitaire Wallonie-Europe
***- Institutions of higher education***
S.1312 Hautes école

**Services with independent accounting**
S.1312 Conservatoire royal de musique de Liège
S.1312 Conservatoire royal de musique de Mons
S.1312 Conservatoire royal de musique de Bruxelles
S.1312 Centre du cinéma et de l'audiovisuel
S.1312 Services de la Communauté à gestion séparée de l'enseignement de la Communauté
S.1312 Services de la Communauté à gestion séparée pour les services de promotion de la santé à l'école
S.1312 Fonds des bâtiments scolaires de l'enseignement de la Communauté
S.1312 Fonds des bâtiments scolaires de l'enseignement officiel subventionné
S.1312 Fonds de garantie des bâtiments scolaires
S.1312 Centre technique et pédagogique de l'enseignement de la Communauté française à Frameries
S.1312 Centre d'autoformation et de formation continuée à Tihange
S.1312 Agence fonds social européen
S.1312 Observatoire des politiques culturelles
S.1312 Centre des technologies agronomiques de la Communauté française à Strée
S.1312 Centre de technique horticole de la Communauté française à Gembloux
S.1312 Centre de l'aide à la presse écrite
S.1312 Musée royal de Mariemont
S.1312 Ecole communautaire de l'Administration de la Communauté française
S.1312 Agence francophone pour l'éducation à la formation tout au long de la vie
S.1312 Agence pour l'évaluation de la qualité de l'enseignement supérieur organisé ou subventionné par la Communauté française
S.1312 Service francophone des métiers et des qualifications SFMQ

The websites of the INA and the National Bank of Belgium (NBB) present an outstanding amount of debt for the FWB and all the entities included in the list of the consolidated entities with the FWB (i.e. the concept of gross consolidated debt (concept of Maastricht) of the perimeter of the FWB) equal to (for the period 2010-2013):

| French Community of Belgium (EUR million, outstanding end of year amounts) | | | | |
|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** |
| **Gross consolidated debt (concept of Maastricht)** | **5,233** | **5,536** | **5,778** | **6,044** |
| Detention by the French Community of debt issued by other public entities | 82 | 83 | 84 | 85 |
| **Contribution of the FWB to the Maastricht debt** | **5,151** | **5,453** | **5,694** | **5,959** |

Source : www.nbb.be/belgostat/PublicatieSelectieLinker?LinkID=58000057|910000082&Lang=F

One can estimate the contribution of the entities of the perimeter of the FWB to the Maastricht debt of Belgium by computing the difference between the outstanding amounts of the total contribution of the FWB to the Maastricht debt (published by the INA) and those of the community consolidated debt excluding the treasury of the FWB (included in this report). This contribution is presented in the following table:

| French Community of Belgium (EUR million, outstanding end of year amounts) | | | | |
|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** |
| Contribution of entities in FWB perimeter to Maastricht debt | 1,104 | 1,135 | 1,156 | 1,140 |

Two important remarks:

1) The contribution of the entities included of the perimeter of the FWB to the Maastricht debt is highly linked to the evolution of the list of entities which are consolidated by the FWB in the field of public administrations. It means that if an entity is included/excluded from this list, the contribution of the entities in the perimeter of the FWB for the Maastricht debt might increase/decrease, while no debt has been issued or repaid.
2) All the ratios, indicators and analyses that are presented in this report only concern the community consolidated debt of the FWB, not the gross consolidated debt (concept of Maastricht) of the perimeter of the FWB.
   For instance, the ratio debt/revenues (%) that presented in this report amounts to 51.58% (end 2013) and is calculated as the ratio between the community consolidated debt of the FWB and the revenues of the Ministry of the FWB only. Computing such ratios at the level of the gross consolidated debt (concept of Maastricht) of the perimeter of the FWB would involve adding the revenues of all the consolidated entities listed above to the revenues of the Ministry of the FWB.

The reading of this chapter highlights that, when speaking of « debt of the FWB », two different amounts might exist; both of them are correct for what they are related to, but they representing two different concepts. It is therefore very important to precise that if we want to talk about the debt it is either:

- Representing the economic concept of the sum of the amounts borrowed, managed by the FWB and for which the interest charges are on the FWB's budget;
- Or representing the accounting concept of contribution of the FWB and all the entities consolidated by the FWB (in the sector of the public administrations) to the gross consolidated debt (concept of Maastricht) of Belgium.

9,213 million € Revenue • 4,752 million € Outstanding debt • 51.6% Debt/revenue ratio • 1.8% Debt service/revenue ratio
• 3.6% Internal rate of interest • 6.4 years duration • 5,000 million € EMTN • 3,322 million € Derivative hedge products •
Aa3/P1 Financial rating • « + » Extra-financial rating • 4,000 million € MTN local programmes • 18 Counterparties or inter-
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FÉDÉRATION
WALLONIE-BRUXELLES

Federation Wallonia-Brussels
Boulevard Léopold II, 44
B - 1080 Brussels
email : budget-finances@cfwb.be
web : www.budget-finances.cfwb.be

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