

SECTOR IN-DEPTH

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Covered Bonds

Belgium - Legal Framework for Covered Bonds

Summary

In these legal framework reports, we analyse credit-relevant characteristics of individual covered bond jurisdictions and compare the strength of each feature against the benchmark of an “average” legal framework. This enables readers to make detailed comparisons across jurisdictions.

The Belgian legal framework,¹ which was introduced in 2012, contains relatively prescriptive requirements, notably on asset and liquidity coverage. In addition, current covered bond programmes have very similar contractual arrangements. The legal framework and contractual market practice include the following strong features:

- » A 5% minimum over-collateralisation (OC) test which must withstand sudden unexpected interest rate and currency movements, therefore mitigating interest rate and currency mismatch risks.
- » A requirement that issuers maintain six month liquidity coverage.
- » Strong independent management by an independent cover pool administrator (gestionnaire de portefeuille) after issuer default, with high flexibility to refinance the covered bonds.
- » Upon issuer insolvency, the law substantially limits the risks of commingling, set-off and claw-back.

The Belgian legal framework includes the following weaker feature:

- » OC above the legal minimum level of 5% may contain high loan-to-value (LTV) loan parts from the outset (i.e., when the loan is added to the pool, not as a result of falling property values).

This report is divided into three parts:

- A. "Summary of Relative Strengths and Weaknesses", in which we summarise the main strengths and weaknesses of the legal/contractual framework.
- B. "Summary of Law and Scoring", in which we provide an overview of the legal/contractual framework together with our legal scores.
- C. "The Legal Framework in Detail", divided into "Structure and Supervision", "Before Issuer Default" and "After Issuer Default", which contain a more detailed description of key legal features and how we evaluate them.

The features of the legal framework are just some of the factors we consider when determining ratings.² Please consult the relevant issuer research (pre-sale report/new issue report/performance overviews) to best understand how we derive our ratings for covered bonds issued under individual programmes.

Our analysis and scoring may evolve over time, particularly if we receive more information, or as statute, case law and/or the views of legal counsel and commentators evolve. Covered bond laws are rarely tested, are silent on many points and are open to interpretation.

We present our views based on information obtained to date, and we may update this report to reflect future changes. This report does not contain legal advice.

A. Summary of Relative Strengths and Weaknesses

Relative Strengths - Covered Bond Law³

- » The law requires that the value of cover pool assets of one asset type is at least 85% of the covered bond balance. This provides a high level of certainty that the residential mortgage cover pools will not include riskier asset classes such as commercial real estate.
- » Derivative agreements may be part of the cover pool, must meet minimum counterparty credit quality requirements and, for internal swaps only, collateral posting obligations.
- » The law mitigates interest rate risk and currency risk by requiring that the coverage tests and liquidity test must withstand a sudden and unexpected interest rate and currency movement (set at 2% and 8% respectively, unless the issuer uses its internal stress tests).
- » Loans in arrears by more than 90 days are excluded from the 85% core assets coverage test and the OC and loans in arrears by 30 to 89 days are subject to a 50% haircut.
- » There is a six month liquidity requirement.
- » The law protects the issuer from the consequences of a parent insolvency. The National Bank of Belgium (NBB) may appoint an administrator at the time of issuer insolvency or prior to the actual insolvency of the issuer. The dedicated cover pool administrator has a strong and clearly defined role relative to the issuer's administrator and a clear mandate to act in the interests of the covered bondholders, including a duty to ensure the covered bonds receive timely payment.
- » Upon issuer insolvency, the law substantially limits the risks of commingling, set-off and claw-back.
- » There is strong flexibility for refinancing the covered bonds after issuer default. The cover pool administrator may (1) transfer the covered bond liabilities together with the assets to another bank; (2) sell either a portion or the whole of the cover pool; and/or (3) enter into liquidity loans and repo agreements, using its own covered bonds.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Relative Strengths - Contractual

- » All covered bond programmes contain exclusively either residential loans or public-sector loans, and do not contain any commercial property loans.
- » For residential loan programmes, all properties are located in Belgium whereas for the public sector programme all borrowers are Belgian entities.

Relative Weaknesses - Covered Bond Law

Weaknesses may be mitigated by market practice, contractually or otherwise.

- » The 5% minimum OC requirement is calculated on a nominal basis only, although the NBB requires issuers to report net present values (NPV) of the covered bonds and cover pool on a quarterly basis.
- » High LTV loan parts or non-performing assets may be included in the cover pool. However, high LTV loan parts will not be included in the OC test calculation, and non-performing assets will be partially or totally excluded.

B. Summary of Law and Scoring

We score features of legal frameworks as “Strong”, “Average” or “Weak”. The scores are a relative, credit-based indication of how any given feature compares to similar features found in other covered bond legal frameworks.⁴

In addition, market practice (whether contractual or otherwise) may intervene to make a legal feature more or less significant than it appears from a review of the legal framework. We use a market practice (MP) score to provide a composite evaluation, e.g., Average (MP strong), where a feature of the covered bond law is made stronger or weaker by market practice. However, MPs describe practices that are common but not necessarily universal, so readers should check individual programmes for programme-specific structure and practice.

We will continue to review legal frameworks, meaning the benchmark legal framework and our scores may evolve over time, and this report may be updated accordingly.

Overview

Entities that can issue covered bonds	Regulated financial institutions, including universal banks and specialist mortgage banks.
Licensing	The issuer must obtain from the banking regulator at least two licenses, firstly a general license which is an approval of the issuer as covered bond issuer and secondly one or more specific licenses for each covered bond programme.
Regulator	National Bank of Belgium (NBB)

Exhibit 1

Summary of Key Features and Scores

Key Features	Summary of Legal Framework	Moody's Legal Score
BEFORE ISSUER DEFAULT		
Asset and Covered Bond Eligibility		
Types of assets permitted in cover pools/types of covered bonds	Eligible assets are (1) residential mortgage loans or RMBS notes; (2) commercial mortgage loans and CMBS notes; (3) public sector exposures and securitisation notes backed by public sector exposures; and (4) credit institution exposures. Only one of items 1, 2 or 3 above must represent at least an amount equal to 85% of the covered bonds (the 85% core assets coverage test).	Average (MP Strong)
Maximum LTVs for mortgage-backed assets	Maximum LTVs are (1) 80% for residential mortgage loans; and (2) 60% for commercial real estate mortgage loans.	Average
Valuation requirements	Valuations must be based on prudent methods and if appropriate, the property value must be adjusted.	Average
Foreign assets in cover pool	Residential/commercial mortgage loans with properties located in the European Economic Area (EEA) are permitted. Public sector exposures with debtors located in the OECD are permitted. In practice, Belgian cover pools do not contain foreign assets.	Average (MP Strong)
Substitute assets ⁵	85% of the covered bonds must be backed by non-substitute assets (Substitute assets include claims on credit institutions in the OECD. Only claims towards highly-rated institutions (i.e. with risk weight that corresponds to credit quality step 1 or credit quality step 2, depending on the nature and maturity of the claim, under Directive 2006/48/CE) are included in the legal OC test.	Average
Derivatives in the cover pool	<i>Requirements and characteristics.</i> Derivative agreements may be registered in the cover pool. There are minimum counterparty credit quality requirements and agreements may not terminate due to issuer insolvency. In practice, Belgian covered bonds make no use of derivatives. <i>Collateral posting and counterparty replacement, if applicable.</i> Internal swap counterparties must post collateral if their credit quality declines. Collateral posting and counterparty replacement for external swaps are not specifically addressed by the law but are not restricted.	Strong (MP Average) Average
Management of Cover Pool		
Legal minimum OC	Minimum OC is 5% on a nominal basis.	Average
Cover tests and management of key risks	<i>Asset coverage.</i> Asset coverage is achieved, on a nominal basis, by the continuous application of the minimum 5% OC requirement (the OC test). In addition, the issuer must ensure that cover pool revenues sufficiently cover payments under the covered bonds (the coverage test). However, issuers report quarterly to the NBB asset coverage on a net present value (NPV) basis. <i>Interest rate risk.</i> The 85% core assets coverage test, the OC test, the coverage test and the liquidity test must withstand a sudden and unexpected interest rate movement. A 2% stress test on interest rates is applied unless the issuer uses internal stress tests. <i>Currency risk.</i> The 85% core assets coverage test, the OC test, the coverage test and the liquidity test must withstand a sudden and unexpected currency movement. A 8% stress test on exchange rates is applied unless the issuer uses internal stress tests. <i>Liquidity risk.</i> A liquidity test requires coverage of any liquidity needs in the next six months.	Weak (MP Average) Strong Strong Strong
Committed OC/OC quality	In addition to the 5% legal minimum, OC may be committed by contract. The law permits initial inclusion of ineligible assets (i.e., exceeding LTV thresholds).	Weak
Treatment of ineligible assets ⁶	Ineligible assets form part of the cover pool but are not included in the calculation of OC test or the 85% core assets coverage test.	Average
Treatment of non-performing assets	There is no requirement to remove non-performing assets, but loans that are 90+ days past due are excluded from the OC test and the 85% core assets coverage test, and a 50% haircut is applied to loans that are 30+ days past due and are included in the tests.	Strong
Cover pool monitor	There is an independent cover pool monitor (<i>surveillant de portefeuille</i>) who monitors legal requirements (including asset eligibility, coverage tests and asset register).	Average
Role of regulator	NBB is responsible for general oversight, licensing and regulation and receives reports from the cover pool monitor.	Average
Cover pool register	There is a cover pool register that contains details of cover pool assets.	Average
Cover pool audit	General audit requirements and specific checks by the cover pool monitor.	Average

Key Features	Summary of Legal Framework	Moody's Legal Score
AFTER ISSUER DEFAULT		
Issuer Default – General		
Main relevant insolvency law(s)	Bankruptcy law dated 8 August 1997 and law dated 25 April 2014 on status and control of credit institution.	N/A
Specialist issuer that may survive default of rated supporting entity	N/A This category applies if issuers are typically unrated but rely on support from a rated parent/ other entity. We apply a default score of Average.	Average
Trigger(s) for issuer default	Insolvency of the issuer.	Average
Appointment of administrator prior to issuer default	Possible. The NBB may appoint an administrator before insolvency proceedings are opened.	Strong
Responsibility for cover pool administration following issuer default	The covered bond programme(s) will be administered by a cover pool administrator (<i>gestionnaire de portefeuille</i>). The cover pool administrator can act independently of the issuer's insolvency administrator in matters relating to the covered bond programme(s).	Strong
Role of the regulator at time of issuer default	The regulator appoints the cover pool administrator and will continue close monitoring of the programme.	Average
Moratorium risk	Not applicable to the cover pool or covered bonds at issuer default.	Average
Unsecured claim (additional)	Yes.	Average
Cover Pool Asset and Cash Flow Segregation and Priority Rights		
Segregation of cover pool assets	Assets are ring-fenced by virtue of registration in the cover pool register.	Average
Priority right of covered bondholders vs. unsecured creditors	Covered bondholders, together with other creditors identified in the covered bonds' issuance terms, will be fully repaid at the maturity from the cover pool ahead of other creditors and will have a priority right over any application of assets registered in the cover pool.	Average
Priority between covered bondholders and others entitled to a claim on the cover pool	Priority rules between the covered bondholders and creditors which have a right over the cover pool must be determined in accordance with the terms and conditions and any transaction agreements. Cover pool administrator's fees can be deducted from the segregated estate.	Average
Priority for OC	Covered bondholders and other creditors identified in the covered bonds' issuance terms will have priority rights over OC in the cover pool. Excess assets may only be returned to the general insolvency estate if the insolvency administrator can prove that such assets are with certainty no longer necessary as cover pool assets.	Average
Protection of cash flows from cover pool assets (commingling risk)	Cover pool priority rights extend to funds with the issuer at the time of bankruptcy and funds subsequently received if registered in the cover pool. In addition, should such funds not be identifiable in the issuer's general estate, the issuer must provide replacement assets to the cover pool administrator (revindication mechanism).	Strong
Set-off	The law substantially excludes set-off risk because a debtor may only exercise set-off or defense of non performance if the claims are due and payable prior to insolvency proceedings.	Strong
Claw-back risk	The law provides that cover pool assets may not be clawed back absent fraud.	Strong
Security	No additional security interest is created over the cover pool.	Average
Rights to foreign assets	In general, enforcement would follow the local law where the asset is located. The property must be located in an EEA country and debtors of public sector exposures must be located in an OECD country. Applicable foreign law must recognise covered bondholders' priority.	Average
Management of Cover Pool		
Duties and powers of administrator	The cover pool administrator manages the cover pool and the covered bonds in substantially the same manner as the issuer. This includes all servicing and cash management, for which he may use the staff of the insolvency estate or engage third parties. There is a specific duty to ensure timely payment of covered bonds.	Strong
Can an administrator enter into contracts for hedging post-issuer default?	Yes.	Average
Restrictions on enforcement of cover pool assets by administrator	No restrictions are likely, apart from general compliance with loan terms and any laws of general application relating to the assets.	Average
Ongoing role of regulator	NBB is not a manager or servicer of last resort. However it will have appointed the cover pool administrator and will continue to exercise general oversight.	Average
Liquidity reserve for interest payments	See <i>Cover tests and management of key risks – Liquidity risk</i> , above. The law requires a reserve to cover six months liquidity.	Strong
Refinancing the Covered Bonds		
Specific provisions in the law for liquidity to address refinancing risk - general	See <i>Cover tests and management of key risks – Liquidity risk</i> , above, for the six months liquidity cover. This aims to ensure there is a period of at least six months following issuer default where cash and proceeds of liquid assets are sufficient to pay interests and repay maturing covered bonds.	Strong

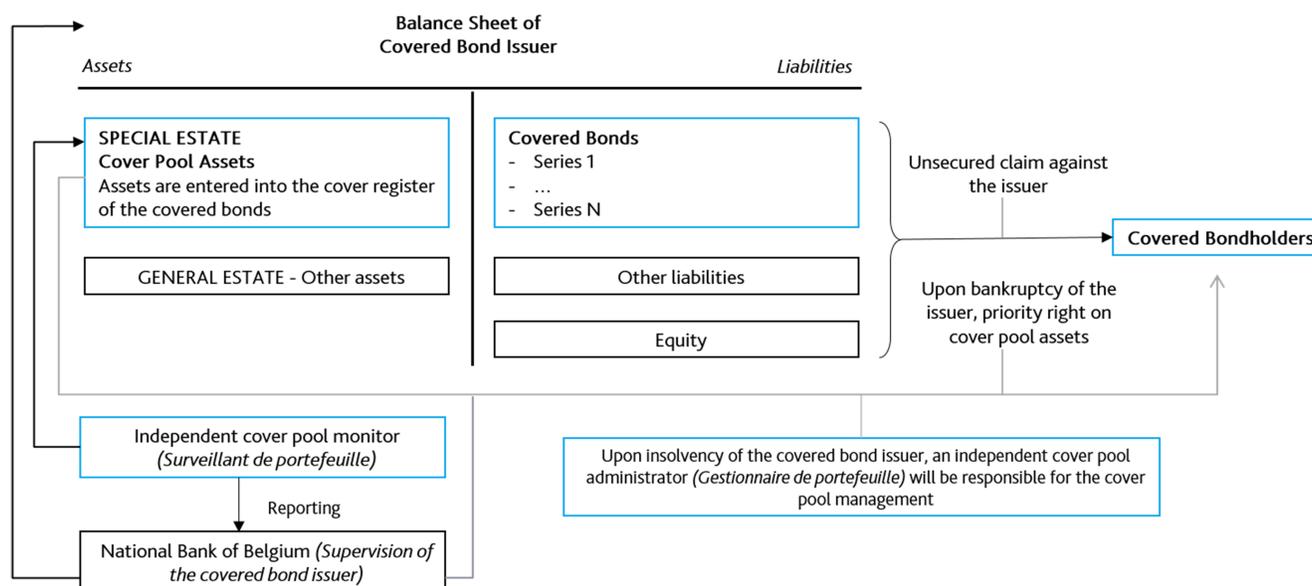
Transfer of cover pool assets together with liabilities	This is possible with permission from NBB and consultation of the covered bondholders' representative.	Strong
Sale of cover pool assets	The cover pool administrator has wide flexibility to arrange whole or partial asset sales.	Strong
Can the administrator enter into (a) liquidity loans; and/or (b) repo agreements?	The cover pool administrator may enter into liquidity loans and subscribe to its own covered bonds for repo purposes.	Strong
Ability to reset interest rates	Yes, subject to any pre-existing limitation on the issuer's rights to re-set.	Average
Acceleration of covered bonds	Under the law, acceleration is possible only (1) if decided by the cover pool administrator after consent from the NBB and consultation of the covered bondholders' representative; or (2) if 50% of the covered bondholders (with a two-third quorum) request an acceleration (no voting rights attached to retained covered bonds).	Average
Time subordination	The possibility of liquidating the cover pool assets may mitigate time subordination risk.	Average

C. The Legal Framework in Detail

I. Structure and Supervision

Exhibit 2

Legal Structure of a Typical Belgian Covered Bond Transaction



Source: Moody's Investors Service

Typical Legal Structure

- » The issuer is a regulated credit institution, supervised by the banking regulator (NBB).
- » The issuer may be a universal bank or a specialist mortgage bank. All existing issuers are universal banks.
- » The issuer issues covered bonds from its own balance sheet, with the cover pool assets staying on balance sheet but ring-fenced by registration in the cover pool register. Covered bonds may be backed by residential mortgage, commercial mortgage or public sector assets but the value of assets belonging to only one of these asset types must be at least 85% of the covered bonds.
- » The issuer may issue covered bonds in the form of either "Belgian pandbrieven/lettres de gage", which comply with Directive 2013/36/EU (CRD IV), or "Belgian covered bonds", which are non CRD IV-compliant covered bonds. There are currently only Belgian pandbrieven/lettres de gage programmes.

- » Hedging: there are currently no swaps in Belgian covered bond programmes that we rate.

Supervision and Control

- » The issuer must obtain from the banking regulator (NBB) at least two licenses: firstly a general license which is an approval of the issuer as covered bond issuer and secondly one specific license for each covered bond programme.

Limits on programme size

- » Under the Belgian law, a covered bond issuer may not issue new covered bonds if the cover pool assets exceed 8% of the bank's total assets.
- » The NBB may impose specific further limits on covered bond issuance by a given issuer to protect other creditors' interests.

II. Before Issuer Default

This section describes the features of Belgian covered bonds before issuer default. A score of "Average" is given below to some features without further explanation. This means that we regard the relevant feature as typical of our average or benchmark legal framework.

Asset and Covered Bond Eligibility

Types of assets permitted in cover pools/ types of covered bonds

Cover pools may comprise:

1. Residential mortgage loans: residential loans fully or partially secured by first-ranking mortgages. Loans relating to buildings under construction or building projects are limited to 15% of the total residential mortgage loans.
2. Commercial mortgage loans: commercial loans fully or partially secured by first-ranking mortgages, excluding any loans relating to buildings under construction or building projects.
3. Public sector exposures: claims against or guaranteed by or insured by (i) central, regional or local authorities or central banks of OECD countries; (ii) public entities of OECD countries; and (iii) multilateral development banks or international organisations that qualify for a 0% risk weight under the standardised approach;⁷
4. Notes issued by securitisation vehicles provided that (i) the vehicle is governed by the laws of an EEA country; (ii) the notes have a maximum risk weight of 20% under the standardised approach⁸ and are part of the most senior tranche; (iii) at least 90% of the underlying assets correspond to one of the categories mentioned in items 1 (residential mortgage loans), 2 (commercial mortgage loans) or 3 (public sector exposures) above; (iv) the originator(s) of the underlying assets and the covered bond issuer are affiliates; and (v) the most subordinated tranche is fully retained by the covered bond issuer, or any of its affiliates.
5. Credit institution exposures: claims against credit institutions in OECD countries, in particular cash held on deposit by credit institutions, including the issuer.
6. Hedges: positions relating to hedging instruments in respect of cover pool assets or covered bonds, provided that the swap counterparty is a credit institution of an OECD country.

The value of assets falling under only one of items 1, 2 or 3 (in each case including securitisation notes as mentioned in item 4 and backed by the same asset type) must be at least equal to 85% of the covered bonds (the "85% Core Assets Coverage Test").

Score: Average (MP Strong). Programmes may be exposed to high single-obligor concentrations, potentially elevating the credit risk of commercial property loans in particular. However, due to the 85% Core Assets Coverage Test, investors can be sure that a residential mortgage loan cover pool or public sector cover pool cannot become exposed to a significant portion of commercial assets. In practice, no programme contains commercial mortgage loans.

Maximum LTVs for mortgage-backed assets

There is no maximum LTV for inclusion in the cover pool. However, the law limits the portion of the loans that can be taken into account for the valuation of the cover pool assets (for the purpose of the OC test and the 85% core assets coverage test) to: (1) 80% of the property value for residential loans; and (2) 60% of the property value for commercial loans.

Score: Average.

Valuation requirements

Valuation must be documented in a clear and transparent manner by a person who is independent from the decision-making process in relation to loan origination.

Initial mandatory valuation is required for properties valued in excess of EUR3 million or 2% of the covered bond balance. For other properties, the issuer can use the sale price agreed between the seller and purchaser or, in respect of properties under construction, the estimated value determined by the architect.

The issuer must use prudent valuation methods and if appropriate, adjust the property value. The NBB approves the retained valuation method and recommends that an issuer uses a valuation method combining the property's intrinsic value and the expected cash flows generated by the property.

Valuations must be checked periodically and at least annually for commercial properties or every three years for residential properties. For this purpose, the issuer may use adequate indices such as Stadimindex. More frequent updates are required if market conditions have changed significantly.

Score: Average. The covered bond law contains reasonably detailed provisions on valuation, including mandatory updating. However, there is no requirement for physical inspection to value residential property.

Foreign assets in cover pool

- » Residential/commercial mortgage loans: the property must be located in the EEA.
- » Public sector exposures: the debtor/guarantor/insured must be located in the OECD, except for claims of multilateral development banks or international organisations.

A cover pool asset governed by foreign law will only be taken into account for the purpose of coverage tests and liquidity test if such foreign law does not prevent such asset from being allocated in priority to covered bondholders.

Score: Average (MP Strong). The score reflects that the scope of foreign asset exposures is limited to EEA for mortgage loans or OECD for public sector loans. In practice, cover pools do not contain any foreign assets.

Substitute assets

Under the law, substitute assets⁹ must comprise claims against credit institutions in OECD countries, in particular cash held on deposit by credit institutions, including the issuer (see item 5 above in *Types of assets permitted in cover pools / types of covered bonds* section).

However, only substitute assets which meet the following rating criteria will be included in the 105% OC test: (1) claims against a credit institution that benefit from credit quality step 1 under Directive 2006/48/CE¹⁰ and, for deposit claims only, the claim must mature within one year from the date of registration in the cover pool; and (2) claims against a credit institution that benefit from credit quality step 2 under Directive 2006/48/CE¹¹ and maturing within 100 days from the date of registration in the cover pool. The value of these claims in the OC test must be equal to their accounting value in the bank's accounting statements.

There is no limitation on substitute assets, but the 85% Core Assets Coverage Test implies that if there is exactly 5% OC, substitute assets can make up a maximum 20% of the covered bonds and a maximum 19% of the cover pool.

Score: Average.

Derivatives in the cover pool

REQUIREMENTS AND CHARACTERISTICS

The issuer may enter into derivative contracts with third parties to hedge certain risks, although there is no requirement to do so. Derivatives registered in the cover pool rank equally with covered bonds. Derivatives may be included in the cover pool only if they meet the following criteria:

1. They hedge against interest rate risk, currency risk or any other risks associated with the cover pool assets or the covered bonds;
2. The swap counterparty is a credit institution of an OECD country;
3. Reorganisation measures or bankruptcy proceedings opened against the issuer do not trigger early termination of the derivatives, either automatically or at the counterparty's election;
4. Derivatives are not included in any novation or netting agreements to which the issuer is a party;
5. The swap counterparty benefits from credit quality step 1 or 2 under Directive 2006/48/CE;
6. If the swap counterparty belongs to the same group as the issuer, further conditions apply: (i) the counterparty must be a credit institution in an EEA country and benefit from credit quality step 1 under Directive 2006/48/CE; (ii) net exposures to this counterparty must be collateralised by cash or eligible financial instruments (as detailed in Directive 2006/48/CE, annex VII, part 1, point 7); and
7. They are recorded as cover pool assets in the register.

Derivatives are not taken into account in issuers' calculation of minimum OC.

Score: Strong (MP Average). The score is based on the focus on initial counterparty credit quality and the further limitations on internal derivatives. However, in practice, Belgian programmes make no use of derivatives.

COLLATERAL POSTING AND COUNTERPARTY REPLACEMENT, IF APPLICABLE

Minimum rating requirements only apply at the time of registration of derivatives in the cover pool and the law does not provide for any specific replacement trigger.

Counterparties under eligible internal derivatives must post collateral, either in cash or through eligible financial instruments (as detailed in Directive 2006/48/CE, annex VII, part 1, point 7), in an amount at least equal to the net exposure to the counterparty. For derivatives with external counterparties, the law does not require collateral posting to mitigate counterparty risk.

Collateral posted under derivatives registered in the cover pool is not taken into account in issuers' calculation of minimum OC, but will benefit the covered bonds, in accordance with the terms and conditions of the covered bonds and any contractual agreements entered into in relation to the covered bonds.

Score: Average. Despite providing specifically for collateral posting for internal swaps, the law does not require collateral posting for external swaps.

Management of Cover Pool

Legal minimum OC

Minimum OC of 5% is required on a nominal basis and must be maintained continuously (see *Asset coverage* below for further details of OC test).

Score: Average.

Cover tests and management of key risks

There are various tests that are outlined below. The issuer must comply with the coverage tests and the liquidity test on a daily basis. Compliance with the tests will be checked by the cover pool monitor on a monthly basis, and reported to the NBB on a quarterly basis.

ASSET COVERAGE

There are three asset coverage tests (together, the “cover tests”), all calculated on a nominal basis:

1. The 85% core assets coverage test (see *Asset and Covered Bond Eligibility - Types of assets permitted in cover pools / types of covered bonds* above for further details);
2. The cover pool value must be at least 105% of the principal amount of issued covered bonds on a nominal basis (the “OC test”);
3. The aggregate amount of interest, principal and other revenues arising from the cover pool must provide a sufficient cover for the aggregate interest and principal payments under the covered bonds, related management costs and derivatives' costs (the “asset adequacy test”).

In addition, the NBB requires, as part of the mandatory quarterly reporting on interest rate risk, that issuers report the NPV of the cover pool and the covered bond (assuming three scenarios, i.e. unchanged interest rates, a 2% increase or a 2% decrease in interest rates) to check asset coverage on a NPV basis.

VALUE OF MORTGAGE LOANS IN THE 85% CORE ASSETS COVERAGE TEST AND OC TEST

For the purpose of the 85% Core Assets Coverage Test and OC Test, the value of mortgage loans will be assessed as follows:

1. Residential mortgage loans: the lower of (i) the outstanding loan balance; (ii) 80% of the property value; and (iii) the mortgage value. The mortgage value for a property located in Belgium is equal to the aggregate of:
 - a. the aggregate of the first ranking mortgage value (i.e. the amount registered on the mortgage registry) and any lower ranking mortgages' values provided that no other creditor ranks in-between; and
 - b. the mortgage mandate¹² value (i.e. the amount of the mortgage which the lender can register pursuant to the mortgage mandate), but only up to 2/3 of (a).
2. Commercial mortgage loans: the lower of (i) the outstanding loan balance; (ii) 60% of the property value; and (iii) the mortgage value. The mortgage value does not take into account mortgage mandates.

In relation to all sums mortgages¹³ and if all claims secured by an all sum mortgage are not included in the cover pool, the mortgage value and property value will depend on the priority rules as mentioned in the covered bonds' terms and conditions.

Score: Weak (MP Average). The law only explicitly refers to nominal coverage tests. However, in practice NBB regulations on quarterly reporting of interest rate risk oblige issuers to check asset coverage quarterly on a NPV basis.

INTEREST RATE RISK

The issuer must define rules to limit interest rate risk. The issuer must ensure that in case of sudden and unexpected interest rate movement, cash inflows on the cover pool are sufficient to continue to meet the cover tests and the liquidity test and/or the issuer must have sufficient eligible assets which can be shortly added to the cover pool.

The interest rate movement assumption should be either (1) an immediate 2% increase or decrease in interest rates; or (2) if the issuer uses internal stress tests for the purpose of its capital requirements, an assumption selected by the issuer, provided that it is sufficiently prudent (a confidence interval of at least 99% and a one year horizon should be applied).

The liquidity test (see *Liquidity risk* below) will also help to mitigate interest-rate risk in the short term (six months).

Score: Strong. The score is based on the inclusion of a reasonably specific interest-rate stress. No derivatives are currently used in the Belgian market.

CURRENCY RISK

Similarly, the issuer must define rules to limit currency risk. The issuer must ensure that in case of sudden and unexpected currency movement, cash inflows on the cover pool are sufficient to continue to meet the cover tests and the liquidity test and/or the issuer must have sufficient eligible assets which can be quickly added to the cover pool.

The currency movement assumption should be either (1) an immediate 8% increase or decrease in currency exchange rates; or (2) if the issuer uses internal stress tests for the purpose of its capital requirements, an assumption selected by the issuer, provided that it is sufficiently prudent (a confidence interval of at least 99% and a one year horizon should be applied).

The liquidity test (see *Liquidity risk* below) will also help to mitigate currency risk in the short term (six months).

Score: Strong. Relatively high currency stresses are applied. No derivatives are currently used in the Belgian market and covered bonds are not exposed to foreign exchange risk.

LIQUIDITY RISK

The cover pool assets must generate over a period of six months enough inflows or include enough liquid assets in order to enable the issuer to make all unconditional payments on the covered bonds (including principal, interest and other costs) falling due during the following six months. Inflows must be adjusted to take into account expected payment defaults on the assets. Liquid assets included in this liquidity test must (1) be eligible for the cover pool; (2) not have been otherwise included in the expected inflows; (3) qualify as liquid assets under banking regulations;¹⁴ and (4) be valued in accordance with the OC test calculation rules.

Amounts available to the issuer under a liquidity facility can only be included in the liquidity test if (1) the lender is a credit institution in a EEA country, which benefits from credit quality step 1 under Directive 2006/48/CE and does not belong to the same consolidated group as the issuer; and (2) the facility's purpose is exclusively related to the covered bonds and the issuer cannot use drawn amounts for any other payments.

In case of breach of the liquidity test, the issuer must within 14 days take all necessary measures to meet the test. In the meantime, the issuer cannot issue any new covered bonds.

Score: Strong. The existence of a test requiring a specified and material amount of liquidity to be held is a strong feature. However, some shortfalls may still arise if all loan instalments due on the cover pool assets are not paid or if the lender under the liquidity facility defaults.

Committed OC/OC quality

We expect that obligations undertaken by an issuer to maintain a certain level of OC are enforceable. OC may include assets that are non-performing and/or ineligible (i.e., exceeding LTV thresholds). However, the OC test excludes ineligible assets.

Score: Weak. The score reflects that (1) the law permits initial inclusion of ineligible assets that may reduce the quality of nominal OC; and (2) there are no requirements to remove assets that become ineligible.

Treatment of ineligible assets

To the extent assets have been registered in the cover pool, they will form part of the cover pool. Assets that become ineligible will remain in the cover pool (to the extent they are not removed) and the covered bondholders will still benefit from a priority right over these assets. However, ineligible assets will not be taken into account in the OC test or the 85% core assets coverage test.

Score: Average.

Treatment of non-performing assets

Assets which are non-performing at the time of registration cannot be registered and are therefore excluded from the cover pool. For this purpose, a loan will be considered as non-performing if (1) the borrower is in arrears on any interest or principal payment for more than 90 days; or (2) the issuer considers that the borrower is unlikely to fully comply with its payment obligations unless the issuer takes enforcement measures.

If a loan is part of the cover pool and defaults after its registration date, it will remain part of the cover pool.

However, for the purpose of the OC test and the 85% core assets coverage test, the following haircuts apply: (1) 100% (ie. value of zero) for non-performing loans (pursuant to the above mentioned definition); (2) 50% if the loan is in arrear for more than 30 days.

Score: Strong. The score is based on the exclusion of non-performing assets from OC tests. However, we note that OC might include non-performing assets where these are retained in the cover pool.

Cover pool monitor

The issuer appoints, subject to the NBB's approval, a cover pool monitor (*surveillant de portefeuille*) in respect of any covered bond issuance or covered bond issuance programme. The monitor is appointed until the maturity of the relevant covered bonds, but he can be revoked earlier subject to the NBB's prior approval.

The cover pool monitor must be a bank auditor (*réviseur*) or an audit firm, licensed as such by the NBB, and must be adequately qualified and experienced to carry out its obligations under the covered bond law. The cover pool monitor should not be the statutory auditor of the issuer's accounts.

The main role of the cover pool monitor is to check compliance of the issuer with the covered bond law and report any breach to the NBB.

Prior to a covered bond issuance, the cover pool monitor must (1) check that cover pool assets comply with the legal eligibility criteria and have been valued in accordance with the covered bond law in the OC test and the 85% core assets coverage test (see blue box above), that the issuer complies with the cover tests and the liquidity test and that the register is correctly maintained; and (2) send a report to the NBB and the issuer on the outcome of its investigations.

After the issuance of covered bonds, the cover pool monitor must (1) on an annual basis, take reasonable actions to check the same items as prior to a covered bond issuance, and provide a report thereof to the NBB; in particular, the cover pool monitor must test the efficiency of the issuer's internal control process in relation to covered bonds; and (2) on a monthly basis, check compliance with the cover tests and the liquidity test and correctness of the register and audit the reporting data provided by the issuer to the NBB on a quarterly basis.

Score: Average.

Role of regulator

NBB has general oversight of the issuer's activities, including checking its compliance with the law, and receiving regular reports from the cover pool monitor and the issuer.

The NBB provides two types of licences in relation to covered bonds: a licence granted to the issuer on its organisational capacity to manage and monitor covered bonds, and a licence granted to a specific issuance or an issuance programme.

Even if the issuer complies with the 8% issuance limit (see *Supervision and control* above), the NBB can require an issuer to limit its covered bond issuance further in order to protect other creditors of the issuer.

In case of breach by an issuer of its legal obligations, the NBB can exercise its general regulatory powers; specifically, it can prevent the issuer from issuing further covered bonds, impose administrative penalties and revoke the issuer's licence as covered bond issuer (after a remediation period or immediately).

Score: Average. The score reflects the broad-based role of the regulator.

Cover pool register

The covered bond law requires that the issuer maintains a register of cover pool assets for one or more specified covered bonds or for all covered bonds issued in the context of an issuance programme. A cover pool asset or a covered bond can only be recorded in one register.

The law sets out what information should be provided, including (1) the covered bonds' characteristics, including nominal value, maturity date and interest rate; (2) the cover pool assets' characteristics, including category (under the legal classification), contract type, nominal value, currency, issuance or origination date, maturity date, registration date, counterparties' details, repayment

characteristics, interest rate, collateral (including guarantees and mortgages which should be easily identifiable and accessible using the register) and valuation. Any change should be recorded in the register on a daily basis.

Once an asset is entered on the register it is part of the pool until its removal.

Score: Average.

Cover pool audit

The cover pool monitor shall, at least on an annual basis, carry out checks of the internal controls and perform an audit of the register, the cover pool and compliance with the cover and liquidity tests. Some checks must also be performed by the cover pool monitor on a monthly basis.

The issuer will further be subject to the general audit requirements for a financial institution.

Score: Average.

III. After Issuer Default

This section describes the features of Belgian covered bonds after issuer default. A score of "Average" is given below to some features without further explanation. This means that we regard the relevant feature as typical of our average or benchmark legal framework.

Issuer Default¹⁵ – General

For European jurisdictions subject to the Bank Resolution and Recovery Directive (BRRD)¹⁶, authorities will have wide powers to resolve failing banks prior to an issuer default. We do not cover national implementation of the BRRD in our legal reports because, even though the bank may go through resolution before it (or part of it) enters insolvency proceedings, our reports focus on the post-insolvency legal frameworks.¹⁷ In addition, we expect the national implementation of BRRD to be similar across EU jurisdictions in relation to covered bonds.

Main relevant insolvency law(s)

Bankruptcy law dated 8 August 1997 and law dated 25 April 2014 on status and control of credit institution.

Specialist issuer that may survive default of rated supporting entity

This category applies if issuers are typically specialist entities that rely on support from a rated parent or other related entity. This model does not apply in Belgium so we have not addressed this distinction here.

Score: Average.

Triggers for issuer default

Under Belgian law, issuer default would be triggered by the opening of bankruptcy proceedings (*faillissement/faillite*)¹⁸ or reorganisation proceedings (*gerechtelijke reorganisatie/reorganisation judiciaire*).¹⁹

Score: Average.

Appointment of administrator prior to issuer default

The NBB may appoint a cover pool administrator before insolvency proceedings if:

1. Upon the adoption by the NBB of a reorganisation measure against the issuer if such measure, according to the NBB, is likely to have a negative impact on the relevant Belgian covered bonds; or
2. The NBB considers that the issuer's situation is likely to largely jeopardise the interests of the Belgian covered bondholders; or
3. The NBB removed the issuer's license as covered bond issuer.

Score: Strong. The cover pool administrator can act at an early stage for the benefit of covered bondholders.

Responsibility for cover pool administration following issuer default

There is a cover pool administrator (*gestionnaire de portefeuille*) appointed by the NBB, which cannot be the same entity as the bank's general administrator. The cover pool administrator is responsible for the segregated estate only, but with certain rights against the estate of the bank.

The cover pool administrator carries out the full management of the segregated estate and has all the necessary powers to perform such management, including the right to dispose of the assets without any restrictions. The cover pool administrator carries out its role with a view to comply with the undertakings stated in the covered bonds' issuance terms and conditions. After its appointment, only the cover pool administrator or any person acting on its behalf can take actions in respect of the segregated estate.

The law clearly states that the cover pool administrator exercises all rights on behalf of the segregated estate and complies with the segregated estate's obligations as if the segregated estate was a separate legal entity and can take any actions on behalf of the segregated estate to improve liquidity.

Score: Strong. It is a relative strength of the law to have a dedicated cover pool administrator, that has a strong and clearly defined role relative to the bank's administrator and a clear mandate to act in the interests of the covered bondholders.

Role of the regulator at time of issuer default

The NBB appoints the cover pool administrator and shall ensure that it fulfills various conditions. In particular the administrator must have the necessary expertise and experience, in particular as manager of asset portfolios similar to the cover pool.²⁰

Score: Average.

Moratorium risk

There is no provision for a moratorium under Belgian law that would specifically apply to payment flows on the cover pool or the covered bonds in the event of issuer default. However, operational issues could arise in case of a moratorium imposed on the issuer as a whole.

Score: Average. Moratorium risk is uncommon where the covered bond law is reasonably strong.

Unsecured claim (additional)

Covered bondholders have an unsecured claim against the issuer. The mechanics of how this would work are not entirely clear. Covered bondholders would be treated like other creditors of the insolvency estate, i.e. they would be able to register their claims as contingent claims against the insolvency estate. However, the timing of any payments is uncertain.

Score: Average.

Cover Pool Asset and Cash Flow Segregation and Priority Rights

Segregation of cover pool assets

Assets become segregated by virtue of registration in the cover pool register. The law provides that assets entered in the register are separate from the issuer's general assets and not part of its insolvency estate.

Score: Average.

Priority right of covered bondholders vs. unsecured creditors

The covered bond law provides that the cover pool is exclusively allocated to the payments to covered bondholders, as well as payments to certain creditors identified pursuant to the issuance terms and conditions of the relevant covered bonds (in practice the contractual documentation refers to amounts due to the representative of covered bondholders, the cover pool monitor, the cover pool administrator, or any other entity providing services to the special estate such as any servicer, account bank, auditor, etc).

Other creditors of the issuer may not exercise any rights against or attach the cover pool.

Score: Average.

Priority between covered bondholders and others entitled to a claim on the cover pool

After issuer insolvency, the priority rules between the covered bondholders and creditors which have a right over the cover pool pursuant to the covered bonds' terms and conditions must be determined in accordance with the terms and conditions and any transaction agreements.

The covered bond law also includes the following specific provisions:

If additional liquidity is provided, the covered bonds' issuance terms and conditions determine if the liquidity provider has priority over or is subordinated to the covered bonds. In the absence of such provision, it will rank pari passu with covered bondholders and other creditors of the segregated estate.

Unless provided otherwise in the contracts, the cover pool administrator can deduct from the segregated estate its remuneration as well as all other costs to the extent such costs are beneficial to the liquidation of the cover pool.

Score: Average.

Priority for OC

Covered bondholders and other permitted claimants will have priority rights for OC in excess of the legal minimum.

The insolvency administrator of the issuer is entitled, after consultation with the NBB, to require that any assets that are "with certainty" no longer necessary as cover assets, return to the general estate. The preparatory works of the covered bond law specify that the determination as to whether certain cover assets are necessary or not must take into account not only the regulatory requirements but also, as the case may be, the maintenance of the ratings assigned by external credit ratings agencies.

Score: Average.

Protection of cash flows from cover pool assets (commingling risk)

The covered bond law sets up two layers of protection against commingling risk:

1. All sums and payments relating to the assets constituting the segregated estate that are collected for the account of the segregated estate are automatically excluded from the bankruptcy estate and exclusively allocated to the segregated estate;
2. In addition, the law sets up a "revindication mechanism". If amounts mentioned in (1) above cannot be identified in the general estate, the creditors of the segregated estate will have a priority claim over other unencumbered assets of the same value and selected based on the criteria specified in the covered bonds' issuance terms and conditions. The issuer or its insolvency administrator must make such replacement assets available to the cover pool administrator manager upon his first demand.

Score: Strong. Both the legal segregation of cash-flows and the revindication mechanism are strong features.

Set-off

The law on mobilisation of claims dated 3 August 2012 substantially excludes set-off risks both before and after issuer default.

A debtor may only exercise set-off (or the defence of non-performance) to the extent that the relevant payment obligations (e.g. deposit and loan) become due and payable prior to the occurrence of insolvency proceedings in respect of the originator and, if the debtor has been notified of registration of the loan to the segregated estate, prior to such notification.

Score: Strong. The law substantially excludes set-off risk.

Claw-back risk

Pursuant to the law on mobilisation of claims dated 3 August 2012, the registration of an asset in the cover register is valid and enforceable against third parties and accordingly can be effective if the registration (1) precedes the opening of insolvency proceedings; or (2) is made on the day insolvency proceedings are opened provided that the issuer can invoke that it was legitimately unaware of the opening of insolvency proceedings. Registration in the cover pool register could only be challenged in case of fraud.

Score: Strong. The law substantially excludes claw-back risk.

Security

No security interest is created over the cover pool in addition to covered bondholders' preferential right.

Score: Average.

Rights to foreign assets

For claims backed by residential and commercial properties, eligible property (and any relevant security) must be situated in an EEA country. For public sector exposures or exposures to credit institutions, the debtor must be located in an OECD country.

In addition, in the event that assets in the segregated estate (or the enforcement of security securing such assets) are governed by foreign law, such assets may be taken into account for purposes of the cover tests and the liquidity test, provided that the foreign law does not prohibit the relevant assets to be exclusively allocated to the satisfaction of the obligations towards the covered bondholders and other creditors with a priority right over the cover pool.

Score: Average.

Management of Cover Pool

Duties and powers of administrator / covered bond administrator

After issuer default, the cover pool administrator is in charge of the covered bond programme and is legally entrusted with all necessary and relevant powers to manage the special estate in compliance with the law and the terms and conditions of the covered bonds. For this purpose, the cover pool administrator has a duty to administer the programme, including servicing of the cover pool loans and allocation of cash to covered bondholders. The cover pool administrator may use the issuer's resources, as well as engage third parties, to do this. The cover pool administrator has a specific duty to ensure that covered bonds are paid in full and on time.

Score: Strong. The score reflects the fact that the cover pool supervisor has wide powers, explicit management responsibilities for the covered bond programme and access to the issuer's resources.

Can an administrator / covered bond administrator enter into contracts for hedging post-issuer default?

There is a specific provision in the covered bond law allowing the administrator to enter into derivatives, to the extent derivatives hedge against interest rate risk or any other risks associated to the cover pool assets or the covered bonds.

Score: Average.

Restrictions on enforcement of cover pool assets by administrator/covered bond administrator

The cover pool administrator should not be subject to any legal requirements over and above those that the issuer would have been subject to, such as compliance with the relevant loan terms and any laws of general application to the relevant asset.

Score: Average.

Ongoing role of regulator

The NBB is not a manager or servicer of last resort. However, the regulator will have appointed the cover pool administrator and will continue to be involved in general oversight of the covered bond programme, as well as on the following points:

1. NBB must approve any decision of the cover pool administrator to (i) sell any cover pool assets which may trigger a breach of a cover tests, the liquidity test or any contractual undertakings; sell the segregated estate (assets and liabilities) or (ii) liquidate the cover pool and repay the covered bonds prior to their maturity date if cover pool assets are not sufficient;
2. NBB must be involved in (i) any consultation of the covered bondholders on liquidation of the cover pool and repayment of the covered bonds prior to their maturity date; (ii) any request from the issuer's liquidator to obtain the transfer of cover pool assets when it is certain that they are not necessary in the cover pool;
3. NBB will receive quarterly reporting from the cover pool administrator and can request any additional information or more frequent updates.

Score: Average. The score reflects the regulator's general ongoing involvement following issuer default.

Liquidity reserve for interest payments

The covered bond law provides for a reserve of liquid assets covering a rolling six months of outgoing cash flows (see *Before Issuer Default - Management of Cover Pool / Liquidity Risk* above).

Score: Strong. The reserve fund feature is better than average for a legal framework.

Refinancing the Covered Bonds

Specific provisions in the law for liquidity to address refinancing risk - general

See *Before Issuer Default - Management of Cover Pool / Liquidity Risk* above as to the six month liquidity requirements. Although not completely risk-free, this reserve should nevertheless ensure a meaningful amount of time between (1) the point of issuer default; and (2) the point where scheduled cash-flows from the pool / sale of liquid assets will no longer be sufficient to repay principal and interest on the covered bonds. During this period, there will be time to explore further options for refinancing the covered bonds.

Score: Strong. This feature mitigates refinancing risk.

Transfer of cover pool assets together with liabilities

The covered bond law specifically provides that, with the prior consent of the NBB and after consultation of the representative of the covered bondholders, the cover pool administrator may assign the liabilities under the covered bonds together with the assets to another institution which will be in charge of managing the pool and comply with the terms and conditions of the bonds.

Score: Strong. The score reflects that there is a clear option to transfer assets together with liabilities.

Sale of cover pool assets

There is wide flexibility under the covered bond law allowing the cover pool administrator to sell or otherwise transfer either a portion or the whole of the cover pool. Transfers resulting in a breach of the cover tests, the liquidity test or any contractual undertaking or transfers effected prior to an early repayment of the covered bonds require the NBB's approval.

Score: Strong. The score reflects that there is a clear mandate to sell/transfer assets and relative flexibility around asset sales/transfers.

Can the administrator enter into liquidity loans and/or repo agreements?

The cover pool administrator may enter into agreements to improve liquidity or to ensure timely repayments under the covered bonds. The covered bond law expressly refers to the ability to enter into liquidity agreements and their priority will be defined in the covered bonds' issuance terms and conditions or, if silent, will rank *pari passu* with covered bonds. In addition, the issuer can subscribe to its own covered bonds and use them for repo purposes.

Score: Strong, as there are wide powers to enter into financing arrangements and use cover pool assets for this purpose.

Ability to reset interest rates

The cover pool administrator should have the same rights to re-set interest rates as applied to the issuer. However, for most residential loans, interest rate would be fixed so no re-set would apply.

Score: Average.

Acceleration of covered bonds

After issuer default, the cover pool administrator can only liquidate the segregated estate and repay the covered bonds prior to their maturity in the following circumstances:

1. After prior consent from the NBB and consultation with the representative of the covered bondholders, the cover assets are not, or risk not being, sufficient to repay covered bonds. The cover assets are deemed not to be sufficient when, among others things, the cover tests and the liquidity test are no longer met; or
2. After consultation with the NBB, the majority of covered bondholders has approved liquidation of the cover pool and early repayment of covered bonds (50% majority with a two third quorum). Covered bonds retained by the issuer have no voting rights.

Score: Average.

Time subordination

After issuer default, covered bonds are to be paid out according to their original maturity. There is no requirement under the law that the cover pool should be apportioned pro rata to maturing covered bonds, so later maturing bonds might suffer shortfalls, whilst earlier maturing bonds get paid out in full. However, if it is determined that cover pool assets will not be sufficient to repay covered bonds, the cover pool administrator can liquidate the cover pool and prepay all covered bonds pro rata.

Score: Average.

Moody's Related Research

Rating Methodologies:

- » [Moody's Approach to Rating Covered Bonds, August 2015 \(SF 412595\)](#)

Special Comments:

- » [European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 \(SF66418\)](#)
- » [Moody's Global Covered Bonds Monitoring Overview: Q1 2016 \(1038508\)](#)
- » [Comparing Legal Frameworks for Covered Bonds: After Issuer Default, October 2015](#)
- » [Comparing Legal Frameworks for Covered Bonds: Eligibility Criteria and Cover Pool Management Before Issuer Default, December 2014 \(SF386530\)](#)

Webpages:

- » www.moodys.com/coveredbonds
- » www.moodys.com/Pages/CoveredBondLegalFrameworks.aspx

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- [1](#) (1) Royal decree dated 11 October 2012 relating to issuance of Belgian covered bonds by credit institutions subject to Belgian law, (2) royal decree dated 11 October 2012 relating to the cover pool administrator in respect of issuance of Belgian covered bonds by a credit institution subject to Belgian law, (3) regulation no. 2012-12 of the National Bank of Belgium (NBB) dated 29 October 2012 relating to practical modalities in respect of the royal decree mentioned in (1) and (4) NBB regulation no. 2012-13 dated 29 October 2012 in relation to cover pool administrators for Belgian credit institutions issuing Belgian covered bonds. We may also refer to provisions of the general law not specific to covered bonds where applicable.
- [2](#) Although we describe certain legal features here as being more or less favourable than a "typical" framework, this does not mean the presence or absence of such features would directly impact the rating of a covered bond or the credit enhancement levels consistent with that rating. Many non-legal features need to be factored in, as set out in our rating methodology for covered bonds (see Related Research).
- [3](#) See endnote 1 above.
- [4](#) Sources of information include (1) relevant legislative / regulatory provisions; (2) legal analysis provided by counsel in the relevant jurisdiction; and (3) information provided by issuers and other market participants.
- [5](#) In this context, "substitute assets" refers to eligible assets which do not fall under any of the main categories of eligible assets (residential mortgage loans or RMBS notes, commercial mortgage loans and CMBS notes, public sector exposures and related securitisation notes backed by public sector exposures, see items 1 to 4 in *Types of assets permitted in cover pools / types of covered bonds* section).
- [6](#) In this context, "ineligible" refers to mortgage loans or loan parts where the LTV has increased above the legal threshold.
- [7](#) See Annex VI, point 20 of EU Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions. [to be checked and updated]
- [8](#) See Annex IX, part 4, point 6 of EU Directive 2006/48/EC.
- [9](#) See endnote 5.
- [10](#) [Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006](#) relating to the taking up and pursuit of the business of credit institutions. Pursuant to the *Circulaire* ppb-2007-2-CPB dated 8 February 2007, for our ratings credit quality step 1 corresponds to Aa3 or above.
- [11](#) For our ratings, credit quality step 2 corresponds to A1-A3.
- [12](#) A mortgage mandate is an irrevocable power of attorney that does not provide a security interest over the property once granted but the right to unilaterally register a mortgage as a security for the loan in the future, at the lender's discretion.
- [13](#) All sums mortgage loans are loans secured by a mortgage that also secures other present and future loans originated by the lender.
- [14](#) NBB regulation dated 2 June 2015 relating to credit institutions' liquidity.
- [15](#) "Issuer default" is the commonly used term that refers to the point in time at which the issuer ceases to make payments under the covered bonds, without recourse to the covered bond collateral. In our covered bond methodology (see Related Research) this is referred to as a "CB Anchor Event".
- [16](#) Directive 2014/59/EU of the European Parliament and the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, 15 May 2014. Some provisions of the BRRD were anticipated in the Belgium Act of 25 April 2014 on the legal status and supervision of credit institutions. In addition two royal decrees were passed on 18 December 2015 and 26 December 2015 to finalise the transposition of the BRRD (in relation to bail-in and resolution of banking groups respectively).
- [17](#) Our Counterparty Risk Assessments address issuer risks prior to insolvency and capture the benefits of the BRRD. See [EU Bank Recovery and Resolution Regime Strengthens Belgian Covered Bonds](#), July 2015.
- [18](#) Law of 8 August 1997 on bankruptcy.
- [19](#) Law of 31 January 2009 on the Continuity of Undertakings.
- [20](#) Any covered bond issuer with a cover pool consisting of similar asset types will be considered as having sufficient experience.

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