**ENCLOSURE 1**

**Specific comments related to Credit Framework.**

**Exposure Distributions**
The Consultative Proposal would require that banks using the IRB Approach have a "meaningful distribution of exposures across [rating] grades and [that] no more than 30% of the gross exposures (before on balance sheet netting) should fall in any one borrower grade." Imposing such a cap for any borrower grade might lead to unexpected results in terms of asset quality. E.g. : a bank may have decided to invest only in external "investment grade" corporate; the cap of 30 % would force it to decrease its global asset quality by investing in lower quality companies. Although we understand that the objective of this rule is to avoid non-granular rating system, techniques exist to assess granularity in a rating system. So, we would suggest including this concern in the validation process instead of imposing a cap that could lead to artificially balanced portfolios.

**Retail portfolio Risk Evaluation**
Requiring five years of historical data to validate retail EL values might not be appropriate since banks change their internal scoring systems frequently to improve predictability and performance. A validation standard in the order of 2 to 3 years might be more appropriate in the retail context.

**Securitisation**
100% LGD assumption for the IRB treatment of securitisation vehicles is excessively conservative. By their contractual terms, these instruments are more likely to have lower LGDs than their corporate counterparts. Therefore, Fortis believes that securitisations deserve no more onerous treatment than loans to corporations. Specifically, the standard LGD assumption for securitisations in the Foundation IRB should be set at 50%.

**Specific treatment for short-term maturities (funded in the local currency)**
The proposal recognises a favourable treatment for short-term maturities funded in local currencies under Option 1 and 2 for banks in the standardised approach. Short-term maturity is defined as a maturity of less than 3 months. Short-term maturity favourable treatment equivalent to sovereign, corporate and bank portfolio should be applied to all segments. Secondly, short-term maturity should be defined as a maturity of less than one year, to have a coherent treatment of drawn and undrawn lines. Finally, this measure should be applicable independently from the currency in order to avoid different risk weight treatment for a same counterpart.

**Treatment of Multilateral Development Banks (MDBs) and Public Sector Entities (PSEs)**
Recognition of favourable treatment for MDBs and PSEs is subject to national discretion. In order to avoid cherry picking between the national regulators, it is advisable to have a central list of all recognised MDBs and PSEs by local regulators and to have this list accepted by all local regulators.

**Treatment of insurance companies**
Loans by financial institutions to Insurance companies are treated as corporate. Due to the fact that insurance companies are also supervised by local insurance regulators and that a

capital framework exists, we advocate a treatment of insurance companies similar to the treatment of banks.

**Treatment of undrawn facility**

The Basel proposal advocates 0 % weight for the undrawn part of committed lines below one year if automatic cancellation exists in case of credit event. We suggest the same favourable treatment for undrawn facility without maturity as most of these products cover retail portfolios.

**Credit risk mitigation**

For small and medium size enterprises, collateral plays an important role in their project and specialised (like shipping, aircraft,…) financing. Therefore we suggest that "business assets" collateral be taken specifically into account for those counterparties. Those "business assets" will be included in the pre-LGD credit risk mitigation framework.