

# PROSPECTUS FOR ADMISSION TO TRADING ON EURONEXT BRUSSELS

## LOAN INVEST NV/SA, COMPARTMENT SME LOAN INVEST 2017

(institutionele VBS naar Belgisch recht / SIC institutionelle de droit belge)

EUR 3,920,000,000 SME Asset-Backed Floating Rate Notes due 2051,

issue price 100 per cent.

Application has been made for an admission to trading of the EUR 3,920,000,000 SME Asset-Backed Floating Rate Notes due 2051 (the “Notes”), to be issued by Loan Invest NV/SA, *institutionele VBS naar Belgisch recht / SIC institutionelle de droit belge* (the “Issuer”) acting through its Compartment SME Loan Invest 2017, on Euronext Brussels NV (“Euronext Brussels”). The Notes will be issued on 7 April 2017 or such later date as may be agreed between the Issuer, the Seller and the Manager.

This Prospectus constitutes a prospectus for the purposes of the Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on a regulated market (the “Prospectus Act”) and the listing and issuing rules of Euronext Brussels (the “Listing Rules”). No application will be made to list the Notes on any other stock exchange.

The Notes are only offered, directly or indirectly, to holders that satisfy the following criteria (“Eligible Holders”):

- (1) they qualify as qualifying investors (*in aanmerking komende beleggers / investisseurs éligibles*) within the meaning of Article 5, §3/1 of the Belgian Act of 3 August 2012 on institutions for collective investment that satisfy the criteria of Directive 2009/65/EC and on institutions for investment in receivables (*Wet betreffende de instellingen voor collectieve belegging die voldoen aan de criteria van Richtlijn 2009/65/EG en de instellingen voor belegging in schuldvorderingen / Loi relative aux organismes de placement collectif qui répondent aux conditions de la Directive 2009/65/CE et aux organismes de placement en créances*), as amended from time to time (the “UCITS Act”) (“Qualifying Investors”) acting for their own account. A list of Qualifying Investors is attached as Annex 1 to this Prospectus (Qualifying Investors);
- (2) they do not constitute investors that, in accordance with Annex A, (I), second indent, of the Royal Decree of 3 June 2007 concerning further rules for implementation of the directive on markets in financial instruments (“MiFID”), have registered to be treated as non-professional investors; and
- (3) they are holders of an exempt securities account (“X-Account”) with the Securities Settlement System operated by the National Bank of Belgium or (directly or indirectly) with a participant in such system and will use that X-Account for the holding of the Notes.

The Notes may only be acquired, by direct subscription, by transfer or otherwise and may only be held by Eligible Holders. Notes may not be acquired by a transferee who is not subject to income tax or who is, as far as interest income is concerned, subject to a tax regime that is deemed by the Belgian tax authorities to be significantly more advantageous than the Belgian tax regime applicable to interest income (within the meaning of Articles 54 and 198, 11° of the Belgian Income Tax Code 1992 or any successor provision) or by a transferee who is a resident of, or has an establishment in, or acts, for the purposes of the Notes, through a bank account held on, a tax haven jurisdiction, a low-tax jurisdiction or a non-cooperative jurisdiction within the meaning of Article 307, §1, fifth indent of the Belgian Income Tax Code 1992 or any successor provision (the “Excluded Holder”). Any acquisition of a Note by, or transfer of a Note to, a person who is not an Eligible Holder and/or by a person who is an Excluded Holder shall be void and not binding on the Issuer and the Security Agent. If a Noteholder ceases to be an Eligible Holder and/or becomes an Excluded Holder, it is obliged to report this to the Issuer and it will promptly transfer the Notes it holds to a person that qualifies as an Eligible Holder and that does not qualify as an Excluded Holder. Each payment of interest on Notes of which the Issuer becomes aware that they are held by a holder that does not qualify as an Eligible Holder or that qualifies as an Excluded Holder, will be suspended. Upon issuance of the Notes, the denomination of the Notes is EUR 250,000.

The Notes will carry a floating rate of interest, payable monthly in arrears, which will be the Euro Interbank Offered Rate (“Euribor”) for one (1) month deposits in euro plus, a margin per annum, which will be 0.75 per cent. The interest rate applicable to the Notes will never be less than zero.

The Notes are scheduled to mature on the Monthly Payment Date falling in April 2051 (the “Final Maturity Date”). On the first Monthly Payment Date falling in May 2017 and on each Monthly Payment Date thereafter, the Notes will be subject to mandatory partial redemption in accordance with the terms and conditions of the Notes (the “Conditions”) through the application of the Notes Redemption Available Amount to the extent available.

On the Monthly Payment Date falling in April 2022 and on each Monthly Payment Date thereafter (each an “Optional Redemption Date”) the Issuer will have the option to redeem all (but not some only) of the Notes then outstanding at their Principal Amount Outstanding subject to and in accordance with the Conditions.

It is a condition precedent to issuance that the Notes, on issue, be assigned at least an ‘AAA(sf)’ rating by Fitch Ratings S.A.S. (“Fitch”) and at least ‘AAA (sf)’ by DBRS (“DBRS”) (Fitch and DBRS both jointly referred to as the “Rating Agencies” and each as a “Rating Agency”). As of the date of this Prospectus, each of the Rating Agencies is established in the European Union and is registered in accordance with Regulation (EU) No 1060/2009 (the “CRA Regulation”), published on the European Securities and Markets Authority’s (ESMA) website (<http://www.esma.europa.eu>). **A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. For a discussion of some of the risks associated with an investment in the Notes, see Risk factors herein.**

The Notes will (directly and indirectly) be secured by a first ranking right of pledge in favour of the Noteholders and the other Secured Parties, including Deloitte Bedrijfsrevisoren/Réviseurs d’Entreprises C.V.B.A. (the “Security Agent”) on behalf of the Noteholders and the other Secured Parties over (i) the SME Receivables (as defined below), (ii) the Issuer’s claims under or in connection with the Transaction Documents, and (iii) the balances standing to the credit of the Transaction Accounts (as defined below). Recourse in respect of the Notes is limited to the SME Receivables, any claims of the Issuer under the Transaction Documents and the balances standing to the credit of the Transaction Accounts and there will be no

other assets of the Issuer, such as any assets that are the property of other compartments of the Issuer, and any rights in connection therewith, available for any further payments.

The Notes will be issued in the form of dematerialised notes under the Belgian Company Code (*Wetboek van Vennootschappen/ Code des Sociétés*) (the “**Company Code**”) and cannot be physically delivered. The Notes will be delivered in the form of an inscription on a securities account. The clearing of the Notes will take place through the X/N securities and cash clearing system operated by the National Bank of Belgium (“the **NBB**”) or any of its successors (the “**Securities Settlement System**”). Access to the Securities Settlement System is available through participants which include certain banks, stock brokers and Euroclear and Clearstream, Luxembourg.

The Notes will be solely the obligations of Compartment SME Loan Invest 2017 of the Issuer and have been allocated to Compartment SME Loan Invest 2017 of the Issuer. The Notes will not be obligations or responsibilities of, and will not be guaranteed by, any other entity or person. In particular, the Notes will be no obligations or responsibilities of, and will not be guaranteed by, any of the parties to the Transaction Documents, other than the Issuer acting through its Compartment SME Loan Invest 2017. Furthermore, none of such persons or entities or any other person in whatever capacity (i) has assumed or will accept any liability whatsoever to the Noteholders in respect of any failure by the Issuer to pay any amounts due under the Notes, or (ii) is or will be under any obligation whatsoever to provide additional funds to the Issuer (except for the limited circumstances described in this Prospectus).

The Seller has undertaken to retain a material net economic interest of not less than 5% in the securitisation transaction contemplated in this Prospectus (the “**Transaction**”) in accordance with Article 405, paragraph (1) sub-paragraph (d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the “**Capital Requirements Regulation**” or “**CRR**”) and Article 51 paragraph (1) sub-paragraph (d) of the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU (the “**AIFM Regulation**”). As at the Closing Date, such interest will in accordance with Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51 paragraph (1) sub-paragraph (d) of the AIFM Regulation be comprised of an interest in the first loss tranche, and, if necessary, other tranches having the same or a more severe risk profile than those sold to the investors. Any change in the manner in which this interest is held shall be notified to investors. The Seller has provided a corresponding undertaking with respect to the interest to be retained by it during the period wherein the Notes are outstanding to the Issuer and the Security Agent in the SME Receivables Purchase Agreement. In addition to the information set out herein and forming part of this Prospectus, the Seller has undertaken to make available materially relevant data with a view to complying with Article 405 of the CRR and Articles 51 and 52 of the AIFM Regulation, which can be obtained from the Seller upon request. After the Closing Date, the Issuer will prepare monthly investor reports wherein relevant information with regard to the SME Receivables will be disclosed publicly together with an overview of the retention of the material net economic interest by the Seller as confirmed to the Issuer for each monthly Investor Report. Such information can be obtained from the website [www.kbc.be/abs/smeloaninvest2017](http://www.kbc.be/abs/smeloaninvest2017). For the avoidance of doubt, none of the Issuer, the Seller, the Arranger or the Manager makes any representation as to the accuracy or suitability of any financial model which may be used by a prospective investor in connection with its investment decision. Each prospective investor is required to independently assess and determine the sufficiency of the information described above for the purposes of complying with Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51 paragraph (1) sub-paragraph (d) of the AIFM Regulation and none of the Issuer, the Seller (in its capacity as the Seller and the Servicer), the Administrator, the Arranger nor the Manager makes any representation that the information described above or in the Prospectus is sufficient in all circumstances for such purposes. In addition, each prospective noteholder should ensure that it complies with the implementing provisions in respect of Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51 paragraph (1) sub-paragraph (d) of the AIFM Regulation in its relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction should seek guidance from their regulator.

This prospectus (“**Prospectus**”) has been approved by the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (“**FSMA**”) on 28 March 2017 pursuant to Article 23 of the Belgian Act of 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the “**Prospectus Act**”). This approval cannot be considered as a judgment as to the opportunity or the quality of the Transaction, nor on the situation of the Issuer.

Given the complexity of the terms and conditions of the Notes, an investment in the Notes is suitable only for experienced and financially sophisticated investors who understand and are in a position to evaluate the merits and risks inherent thereto and who have sufficient resources to be able to bear any losses which may result from such investment.

For the page reference of the definitions of capitalised terms used herein see *Index of Defined Terms*.

For a discussion of certain risks that should be considered in connection with any investment in the Notes, see *Risk Factors* herein.

**Arranger**  
**KBC Bank NV**

**Manager**  
**KBC Bank NV**

The date of this Prospectus is  
28 March 2017

## 1. IMPORTANT INFORMATION

Neither the delivery of this Prospectus at any time nor any sale made in connection with the offering of the Notes shall imply that the information contained herein is correct at any time subsequent to the date of this Prospectus or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus. Neither the Issuer nor any party have any obligation to update this Prospectus, except when required in accordance with applicable law.

No one is authorised by the Seller, the Issuer, the Arranger or the Manager to give any information or to make any representation concerning the issue, offering and sale of the Notes other than those contained in this Prospectus in accordance with applicable laws and regulations and, if given or made, such information or representation must not be relied upon as having been authorised by the Seller, the Issuer, the Arranger or the Manager.

This Prospectus is to be read and construed in conjunction with the articles of association of the Issuer which are incorporated herein by reference (see Section 11 – *Documents Incorporated by Reference* below).

The Manager will subscribe or will procure the subscription of the Notes on the Closing Date on the terms set out in the Subscription Agreement (see Section 30 – *Purchase and Sale* below). The minimum investment required per investor acting for its own account is EUR 250,000.

The Manager shall be entitled to cancel its obligations to subscribe the Notes in certain circumstances by notice to the Issuer, the Seller and the Security Agent at any time on or before the Closing Date. As a consequence of such cancellation, the issue of the Notes and all acceptances and sales shall be cancelled automatically and the Issuer and the Manager shall be released and discharged from their obligations and liabilities in connection with the issue and the sale of the Notes.

Neither this Prospectus nor any part thereof constitutes an offer or an invitation to sell or a solicitation of an offer to buy Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. This Prospectus is published exclusively for the purpose of the admission to trading of the Notes on Euronext Brussels. This Prospectus has been approved by the FSMA on 28 March 2017 pursuant to Article 23 of the Prospectus Act. This approval cannot be considered as a judgment as to the opportunity or the quality of the Transaction, nor on the situation of the Issuer.

The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. A fuller description of the restrictions on offers, sales and deliveries of the Notes and on the distribution of this Prospectus is set out in Section 30 – *Purchase and Sale* below. Persons into whose possession this Prospectus (or any part thereof) comes, are required to inform themselves about, and to observe, any such restrictions.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Arranger or the Manager to subscribe for or to purchase any Notes and neither this Prospectus nor any part hereof may be used for or in connection with an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person who is not an Eligible Holder or to whom it is unlawful to make such offer or solicitation.

The information contained in this Prospectus was obtained from the Issuer and other sources, but no assurance can be given by the Arranger or the Manager as to the accuracy or completeness of such information. Subject to the responsibility statements below, none of the Seller, the Administrator, the Security Agent, the Arranger or the Manager makes any representation, express or implied, or accepts responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. In making an investment decision, investors must rely on their own examination of the terms of this offering and the Notes and the risks and rewards involved. The content of this Prospectus should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisors prior to making a decision to invest in the Notes.

**The Notes will be solely the obligations of Compartment SME Loan Invest 2017 of the Issuer and will not be obligations or responsibilities of, and will not be guaranteed by, any other entity or person. In particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by, any of the parties to the Transaction Documents, other than the Issuer acting through its Compartment SME Loan Invest 2017. Furthermore, none of such persons or entities or any other person in whatever capacity acting (i) has assumed or will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amounts due under the Notes, or (ii) is or will be under any obligation whatsoever to provide additional funds to the Issuer (except for the limited circumstances described in this Prospectus).**

The Notes may only be acquired by direct subscription, by transfer or otherwise, and may only be held by holders that satisfy the following criteria (“**Eligible Holders**”):

- (1) they qualify as qualifying investors (*in aanmerking komende beleggers / investisseurs éligibles*) within the meaning of Article 5, §3/1 of the Belgian Act of 3 August 2012 on institutions for collective investment that satisfy the criteria of directive 2009/65/EC and on institutions for investment in receivables (*Wet betreffende de instellingen voor collectieve belegging die voldoen aan de criteria van Richtlijn 2009/65/EG en de instellingen voor belegging in schuldvorderingen / Loi relative aux organismes de placement collectif qui répondent aux conditions de la Directive 2009/65/CE et aux organismes de placement en créances*), as amended from time to time (the “**UCITS Act**”) acting for their own account (“**Qualifying Investors**”). A list of Qualifying Investors is attached as Annex I;
- (2) they do not constitute investors that, in accordance with annex A, (I), second indent, of the Royal Decree of 3 June 2007 concerning further rules for implementation of the directive on markets in financial instruments (“**MiFID**”), have registered to be treated as non-professional investors; and
- (3) they are holders of an exempt securities account (“**X-Account**”) with the Securities Settlement System or (directly or indirectly) with a participant in such system and will use that X-Account for the holding of the Notes.

Notes may not be acquired by a Belgian or foreign transferee who is not subject to income tax or who is, as far as interest income is concerned, subject to a tax regime that is deemed by the Belgian tax authorities to be significantly more advantageous than the Belgian tax regime applicable to interest income (within the meaning of Articles 54 and 198, §1 11° of the Belgian Income Tax Code 1992 or any successor provision) or by a transferee who is a resident of, or has an establishment in, or acts, for the purposes of the Notes, through a bank account held on, a tax haven jurisdiction, a low-tax jurisdiction or a non-cooperative jurisdiction within the meaning of Article 307, §1, fifth indent of the Belgian Income Tax Code 1992 or any successor provision (the “**Excluded Holder**”).

Any acquisition of a Note by, or transfer of a Note to, a person who is not an Eligible Holder or to a person who is an Excluded Holder shall be void and not binding on the Issuer and the Security Agent. If a Noteholder ceases to be an Eligible Holder or becomes an Excluded Holder, it is obliged to report this to the Issuer and it will promptly transfer the Notes it holds to a person that qualifies as an Eligible Holder and that does not qualify as an Excluded Holder. Each payment of interest on Notes of which the Issuer becomes aware that they are held by a holder that does not qualify as an Eligible Holder or that qualifies as an

Excluded Holder, will be suspended. Upon issuance of the Notes, the denomination of the Notes is EUR 250,000.

Furthermore, no Notes may be acquired by a Belgian or foreign transferee that qualifies as an “affiliated company” (within the meaning of Article 11 of the Company Code) of the Issuer, save where such transferee also qualifies as a “*financial institution*” referred to in Article 56, §2, 2° of the Belgian Income Tax Code 1992.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission or any other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is unlawful.

The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the “**Securities Act**”), or any state securities laws, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, United States persons as defined in Regulation S under the Securities Act (“**Regulation S**”), except in certain transactions exempt from or not subject to the registration requirements of the Securities Act (see *Purchase and Sale* below). Accordingly, the Notes are being offered, sold or delivered only to non-U.S. persons (within the meaning of Regulation S) in offshore transactions in reliance on Regulation S.

In connection with the issue of any Notes, KBC Bank NV acting as stabilising manager (as the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Notes and 60 days after the date of the allotment of the relevant Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Capitalised terms used in this Prospectus, unless otherwise indicated, have the meaning as set out in this Prospectus. An index of defined terms, including those which are not defined in the Conditions, starts on page 241.

All references in this Prospectus to “**EUR**”, “**€**”, “**Euro**” and “**euro**” refer to the single currency which was introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community (as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam).

Where relevant, a reference to the Issuer must be construed as a reference to Compartment SME Loan Invest 2017 of the Issuer. All obligations of the Issuer to the Noteholders and the other Secured Parties have been allocated to Compartment SME Loan Invest 2017 of the Issuer and the Noteholders and the other Secured Parties only have recourse to the Pledged Assets of Compartment SME Loan Invest 2017.

## 2. RESPONSIBILITY STATEMENTS

The Issuer is responsible for the information contained in this Prospectus. The responsibility of the Issuer is based on Article 61 of the Prospectus Act. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information from third-parties contained and specified as such in this Prospectus has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, does not omit anything which would render the reproduced information inaccurate or misleading. The Issuer accepts responsibility accordingly. The registered office of the Issuer is located at Koningsstraat 97 (4th floor), 1000 Brussels.

KBC Bank NV is responsible for the paragraph relating to Article 405 of the CRR and Article 51 of the AIFM Regulation on p. 2 of this Prospectus and for the information contained in the following sections of this Prospectus: *The Belgian Market for SME Loans, KBC Bank NV, Portfolio Overview, SME Loan Underwriting and Servicing, Related Party Transactions – Corporate Services Provider, Related Party Transactions – the Domiciliary Agent – the Listing Agent – the Reference Agent, Related Party Transactions – the Account Bank, and Related Party Transactions – the Swap Counterparty* only. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained and specified as such in these paragraphs is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information from third-parties contained and specified as such in these paragraphs, has been accurately reproduced and, as far as KBC Bank NV is aware and is able to ascertain from information published by that third party, does not omit anything which would render the reproduced information inaccurate or misleading. KBC Bank NV accepts responsibility accordingly. The registered office of KBC Bank NV is located at Havenlaan 2, 1080 Brussels.

The Security Agent is responsible for the information contained in the section *The Security Agent* and in the section *Related Party Transactions – The Security Agent* only. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained and specified as such in this paragraph is in accordance with the facts and does not omit anything likely to affect the import of such information. The Security Agent accepts responsibility accordingly. The registered office of the Security Agent is located at Gateway building, Nationale Luchthaven van Brussel 1J, 1930 Zaventem.

The Administrator is responsible for the information contained in the section *Related Party Transactions – The Administrator* only. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained and specified as such in this paragraph is in accordance with the facts and does not omit anything likely to affect the import of such information. The Administrator accepts responsibility accordingly. The registered office of the Administrator is located at Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.

Neither the Arranger nor the Manager has independently verified the information contained herein. Accordingly, the Arranger and the Manager make no representation, warranty or undertaking, express or implied, or accept any responsibility or liability, with respect to the accuracy and completeness of any of the information in this Prospectus or part thereof or any other information provided by the Issuer in connection with the Notes. The Arranger, the Manager and the Seller expressly do not undertake to review the financial conditions or affairs of the Issuer during the life of the Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial conditions and affairs of the Issuer and should review, among other things, the most recent financial statements of the Issuer for the purposes of making its own appraisal of the creditworthiness of the Issuer and when deciding whether or not to purchase, hold or sell any Notes during the life of the Notes.

This Prospectus is a prospectus within the meaning of the Regulation (EC) 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

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## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risk associated with the Notes are also described below. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. The description of the risk factors below should not be read as a legal advice. If you are in any doubt about the content of this Prospectus or the regulatory framework, you should consult an appropriate professional adviser.*

### 3. RISK FACTORS – THE ISSUER

#### 3.1 Status of the Issuer as Institutional VBS/SIC

##### (a) Relevance of the Issuer’s status as VBS/SIC

The Issuer has been established so as to have and maintain the status of an Institutional VBS/SIC.

Belgian law provides for a specific legal framework designed to facilitate securitisation transactions. These rules are set out in the UCITS Act and its implementing decrees. This legislation provides for a dedicated category of investment undertakings, which are designed for making investments in receivables. These vehicles can be set up as an investment company (*vennootschap voor belegging in schuldvorderingen* (or “VBS”) / *société d’investissement en créances* (or “SIC”)), i.e. as a commercial company under Belgian law in the form of a limited liability company (*naamloze vennootschap / société anonyme*) or in the form of a limited liability partnership (*commanditaire vennootschap op aandelen / société en commandite par actions*). The operations of a VBS/SIC are mainly governed by the UCITS Act and its implementing decrees, its articles of association (*statuten / statuts*) and, except to the extent provided in the UCITS Act, the Company Code.

To date, the legislation provides for a single type of VBS/SIC: the so-called “institutional VBS/SIC”. In order to qualify as an “institutional VBS/SIC” (“**Institutional VBS/SIC**”), the VBS/SIC must, *inter alia*, attract its funding exclusively from Qualifying Investors.

In order to facilitate securitisation transactions, an Institutional VBS/SIC benefits from certain special rules for the assignment of receivables and from a special tax regime. The status as Institutional VBS/SIC is in particular a requirement for the absence of corporate tax on the revenues of the Issuer and, in principle, for an exemption of VAT on certain expenses of the Issuer (see section 7.10 below) and facilitates the assignment of the SME Receivables to or by the Issuer. The loss of such Institutional VBS/SIC status would impact adversely on the Issuer’s ability to satisfy its payment obligations to the Noteholders.

##### (b) Maintenance of the Institutional VBS/SIC status

Under the UCITS Act, the regulatory status of an Institutional VBS *inter alia* depends on the securities it issues being acquired and held at all times by Qualifying Investors only.

Article 271/6, §2 of the UCITS Act provides expressly that a listing on a regulated market accessible to the public (such as Euronext Brussels) and/or the acquisition of securities (including shares) of an

institutional VBS/SIC by investors that are not Qualifying Investors, through third parties and outside the control of the Institutional VBS/SIC, would not adversely affect the status of an investment vehicle as an Institutional VBS/SIC, provided that:

- (1) the Institutional VBS/SIC has taken “*adequate measures*” to guarantee that the investors of the VBS/SIC are Qualifying Investors acting for their own account; and
- (2) the Institutional VBS/SIC does not contribute to, nor promote, the holding of its securities by investors that are not Qualifying Investors acting for their own account.

The “adequate measures” the Issuer has undertaken and will undertake for such purposes are described below.

The Royal Decree of 15 September 2006 relating to some measures on institutional companies for collective investment in receivables (*Arrêté royal portant certaines mesures d'exécution relatives aux organismes de placement collectif en créances institutionnels / Koninklijk besluit houdende bepaalde uitvoeringsmaatregelen voor de institutionele instellingen voor collectieve belegging in schuldvorderingen*) (the “**2006 Royal Decree VBS/SIC**”) sets out the circumstances and conditions in which an Institutional VBS/SIC will be deemed to have taken such “adequate measures”.

In order to procure that the securities issued by the Issuer are held only by Qualifying Investors acting for their own account, the Issuer has taken the following measures:

- (1) in respect of the shares of the Issuer:
  - (i) the shares of the Issuer will be registered shares; and
  - (ii) the Articles of Association of the Issuer contain transfer restrictions stating that its shares can only be transferred to Qualifying Investors acting for their own account, with the sole exception, if the case arises, of shares which in accordance with Article 271/6, §2 of the UCITS Act, would be held by the Seller as credit enhancement; and
  - (iii) the Articles of Association of the Issuer provide that the Issuer will refuse the registration (in its share register) of the prospective purchase of shares, if it becomes aware that the prospective purchaser is not a Qualifying Investor acting for its own account (with the sole exception, if the case arises, of shares which in accordance with Article 271/6, §2 of the UCITS Act, would be held by the Seller as credit enhancement); and
  - (iv) the Articles of Association of the Issuer provide that it will suspend the payment of dividends in relation to its shares if it becomes aware that such shares are held by a person who is not a Qualifying Investor acting for its own account (with the sole exception, if the case arises, of shares which in accordance with Article 271/6, §2 of the UCITS Act, would be held by the Seller as credit enhancement); and
- (2) in respect of the Notes:
  - (i) the Notes will have the selling and holding restrictions described in Section 30 - *Purchase and Sale* below; and
  - (ii) the Manager will undertake pursuant to the Subscription Agreement in respect of primary sales of the Notes, to sell the Notes solely to Qualifying Investors acting on their own account; and

- (iii) the Notes are issued in dematerialised form and will be included in the Securities Settlement System; and
- (iv) the nominal value of each individual Note is EUR 250,000 upon issuance; and
- (v) in the event that the Issuer becomes aware that Notes are held by investors other than Qualifying Investors acting for their own account in breach of the above requirement, the Issuer will suspend interest payments relating to these Notes until such Notes will have been transferred to and are held by Qualifying Investors acting for their own account; and
- (vi) the Conditions of the Notes, the Articles of Association of the Issuer, the Prospectus and any other document issued by the Issuer in relation to the issue and initial placing of the Notes will state that the Notes can only be acquired, held by and transferred to Qualifying Investors acting for their own account; and
- (vii) all notices, notifications or other documents issued by the Issuer (or a person acting on its account) and relating to transactions with the Notes or the trading of the Notes on Euronext Brussels will state that the Notes can only be acquired, held by and transferred to Qualifying Investors acting for their own account; and
- (viii) the Conditions provide that the Notes may only be held by persons that are holders of an X-Account with the Securities Settlement System operated by the National Bank of Belgium or (directly or indirectly) with a participant in such system.

By implementing these measures, the Issuer has complied with the conditions set out in the 2006 Royal Decree VBS/SIC. Without prejudice to the obligation of the Issuer not to contribute or to promote the holding of the Notes by investors other than Qualifying Investors under the UCITS Act, the measures guarantee to the Issuer, provided that it complies with these measures, that its status as Institutional VBS/SIC will not be challenged as a result of the admission to trading of the Notes on Euronext Brussels or if it would appear that Notes are held by investors other than Qualifying Investors under the UCITS Act. The Issuer has undertaken in the Transaction Documents to comply at all times with the requirements set out in the 2006 Royal Decree VBS/SIC in order to qualify and remain qualified as an Institutional VBS/SIC.

### **3.2 The Issuer has limited resources available to meet its obligations**

The obligations of the Issuer under the Notes are limited recourse obligations and the ability of the Issuer to meet its obligations in full to pay principal and interest on the Notes will be dependent on the receipt by it of funds under the SME Receivables, the receipt by it of payments under the Swap Agreement and the receipt by it of interest in respect of the balance standing to the credit of the Issuer Accounts. In addition, the Issuer will have available to it the balances standing to the credit of the Reserve Account. See further Section 12 – *Credit Structure*.

In the event that the Security Interests in respect of the Notes has been fully enforced and the proceeds of such enforcement, after payment of all other claims ranking in priority, are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes, the Noteholders shall have no further claim against the Issuer or the Security Agent in respect of any such unpaid amounts. See further section 4.18 (*Enforcement of Security for the Notes*).

### **3.3 The Notes will be solely the obligations of the Issuer**

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or responsibilities of, or guaranteed by, any other entity or person, in whatever capacity acting. In

particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by, any of the parties to the Transaction Documents, other than the Issuer acting through its Compartment SME Loan Invest 2017. Furthermore, none of such persons or entities or any other person in whatever capacity acting:

- (a) has assumed or will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amounts due under the Notes, or
- (b) is or will be under any obligation whatsoever to provide additional funds to the Issuer (except in the limited circumstances described herein).

### 3.4 Compartments – Limited Recourse

The Issuer has been established to issue notes from time to time, including the Notes. The Notes are issued by the Issuer, acting through its Compartment SME Loan Invest 2017. This is the sixth compartment that has been created by the Issuer.

Article 271/11, §3 of the UCITS Acts provides that, in case of the dissolution, liquidation (*ontbinding en vereffening / dissolution et liquidation*) or reorganisation of compartments, the rules on the dissolution and liquidation of companies must be applied *mutatis mutandis*. Each compartment must be liquidated separately and such liquidation does not entail the liquidation of any other compartment. Only the liquidation of the last compartment will entail the liquidation of the Institutional VBS/SIC.

Article 271/11, §4 of the UCITS Act, expressly provides that:

- (1) the rights of the shareholders and the creditors, which have arisen in respect of a particular compartment or in relation to the creation, operation or liquidation of such compartment, only have recourse to the assets of such compartment. Similarly, the creditors in relation to liabilities allocated or relating to other compartments of the same Institutional VBS/SIC only have recourse against the assets of the compartment to which their rights or claims have been allocated or relate;
- (2) if there are different compartments in the Institutional VBS/SIC, all liabilities or transactions must, in relation to the relevant counterparty, be clearly allocated to one or more of such compartments. Directors may be held jointly liable by the company or third parties for all damages that result from a breach of this provision; and
- (3) the Belgian law rules on judicial reorganisation (*gerechtelijke reorganisatie / réorganisation judiciaire*), as applicable, and bankruptcy (*faillissement / faillite*) are to be applied separately for each compartment and a judicial reorganisation, as applicable, or bankruptcy of a compartment does not as a matter of law entail the judicial reorganisation, as applicable, or the bankruptcy to the other compartments or of the Institutional VBS/SIC. Creditors can contractually limit or waive their rights to claim the dissolution, liquidation or bankruptcy of the compartments or the Institutional VBS/SIC

All obligations of the Issuer to the Noteholders and the other Secured Parties have been allocated to Compartment SME Loan Invest 2017 of the Issuer and the Noteholders and the other Secured Parties only have recourse to the Pledged Assets of Compartment SME Loan Invest 2017.

Article 271/11, § 2 of the UCITS Act provides that the articles of association of the Institutional VBS/SIC determine the allocation of costs to the Institutional VBS/SIC and each compartment.

However, when no clear allocation of liabilities (including costs and expenses) to compartments of the Issuer has been made in a particular contract entered into by the Institutional VBS/SIC, it is unclear under Belgian law whether in such case the relevant creditor would have recourse to all compartments of the Issuer. A similar uncertainty exists in relation to creditors whose claims are not based on a contractual relationship (e.g. social security authorities or creditors with claims in tort) and cannot be clearly allocated to a particular compartment. The parliamentary works to the predecessor of the UCITS Act (whose provisions have been incorporated into the UCITS Act) and legal writers suggest that, in the absence of clear allocation, the relevant creditor may claim against all compartments and the investors of these compartments would only have a liability claim against the directors of the Institutional VBS/SIC. Consequently and from that perspective, the liabilities of one compartment of the Issuer may affect the liabilities of its other compartments.

In this respect, the Articles of Association of the Issuer provide that the costs and expenses which cannot be allocated to a compartment will be allocated to all compartments *pro rata* the outstanding balance of the receivables of each compartment.

All obligations of the Issuer to the Noteholders and the other Secured Parties are limited in recourse and the Noteholders and the other Secured Parties will have a right of recourse only in respect of the Pledged Assets (belonging to Compartment SME Loan Invest 2017) and will not have any claim, by operation of law or otherwise, against, or recourse to any of the Issuer's other assets or its issued and paid up capital.

Furthermore, all sums payable to each Secured Party in respect of the Issuer's obligations to such Secured Party shall be limited to the lesser of:

- (1) the aggregate amount of all sums due and payable to such Secured Party; and
- (2) the aggregate amounts received, realised or otherwise recovered by the Security Agent in respect of the SME Receivables and any other Pledged Assets, subject to the payment of amounts ranking in priority to payment of amounts due in respect of the Notes. See further Section 12 - *Credit Structure*.

If there are insufficient funds available to the Issuer to pay in full all principal, interest and other amounts in respect of the Notes at their maturity date in accordance with the Conditions, the Noteholders will have no further claim against the Issuer in respect of any such unpaid amount and such unpaid amount shall be discharged in full. No recourse may be made for any amount due in respect of any Notes or any other obligations of the Issuer against any officer, member, director, employee, shareholder, security holder or incorporator of the Issuer or their respective successors or assigns.

#### **4. RISK FACTORS – THE NOTES**

##### **4.1 Factors which might affect an investor's ability to make an informed assessment of the risk associated with Notes**

Investors in the Notes must be able to make an informed assessment of the Notes, based upon full knowledge and understanding of the facts and risks. Investors must determine the suitability of that investment in light of their own circumstances. The following factors might affect an investor's ability to appreciate the risk factors outlined below, placing such investor at a greater risk of receiving a lesser return on his investment:

- (1) if such an investor does not have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits of investing in the Notes in light of the risk factors outlined below;

- (2) if such an investor does not have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of his particular financial situation, the significance of these risk factors and the impact the Notes will have on his overall investment portfolio;
- (3) if such an investor does not have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the investor's currency;
- (4) if such an investor does not understand thoroughly the terms of the Notes and is not familiar with the behaviour of any relevant indices in the financial markets (including the risks associated thereof) as such investor is more vulnerable from any fluctuations in the financial markets generally; and
- (5) if such an investor is not able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect his investment and his ability to bear the applicable risks.

#### **4.2 Risks related to prepayment on the SME Loans and the occurrence of a Sequential Trigger Event**

The Issuer is obliged to apply the Notes Redemption Available Amount towards repayment of the Notes and, as long as no Sequential Trigger Event has occurred, the Subordinated Loan, in accordance with paragraph (b) of Condition 4.5 (Redemption and Cancellation). The maturity of the Notes will depend on, inter alia, the amount and timing of payment of principal (including full and partial prepayments, sale of the SME Receivables by the Issuer, Net Proceeds upon enforcement of a SME Loan and repurchase by the Seller of SME Receivables) on all relevant SME Loans. The average maturity of the Notes may be affected by a higher or lower than anticipated rate of prepayments on the SME Loans or the occurrence of a Sequential Trigger Event.

The rate of prepayment of SME Loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates, changes in tax laws (including, but not limited to, amendments to mortgage interest tax deductibility), local and regional economic conditions and changes in Borrowers' behaviour. No guarantee can be given as to the level of prepayment that the SME Loans may experience, and a variation in the rate of prepayments of principal on the SME Receivables may affect the Notes. The estimated average life of the Notes must therefore be viewed with considerable caution and Noteholders should make their own assessment thereof.

In accordance with Article 9 of the Law of 21 December 2013 regarding the financing of small and medium sized enterprises (the "SME Financing Law"), a Borrower who entered into a credit agreement after 10 January 2014 may at any time prepay the entire outstanding amount of its SME Loan, provided that:

- the Borrower gives the lender 10 business days prior notice per registered letter; and
- the Borrower pays a prepayment fee (if agreed with the lender) in accordance with article 9, §2 of the SME Financing Law.

#### **4.3 Credit Risk**

There is a risk of non-payment of principal and/or interest on the Notes due to non-payment of principal and/or interest on the SME Receivables. The ability of the Issuer to meet its obligations in full to pay principal of and interest on the Notes will be dependent on the receipt by it of funds under the SME Receivables, the proceeds of the sale of any SME Receivables, the receipt by it of payments under the Swap Agreement and the receipt by it of interest in respect of the balances

standing to the credit of the Transaction Accounts (See Section 12 - *Credit Structure*). In addition, the Issuer will have available to it the balances standing to the credit of the Reserve Account for certain of its interest obligations.

The credit risk is mitigated by the subordinated ranking of the Subordinated Loan. The proceeds of the Subordinated Loan will be used to (i) pay part of the Initial Purchase Price and (ii) credit the Reserve Account up to the Reserve Account Required Amount.

The credit risk is further mitigated by (i) the excess in the Interest Amount generated by the SME Receivables and (ii) the excess margin of 0.25 per cent. per annum calculated on a monthly basis and applied to the aggregate outstanding principal amount of SME Receivables that is not paid over to the Swap Counterparty under the Swap Agreement (together the “**Excess Margin**”). This Excess Margin is used to pay interest on the Subordinated Loan but can be used in priority to make good any shortfall in the Principal Deficiency Ledger (See Section 12.4 (*Priority of Payments in respect of interest*)).

If, upon default by the Borrowers and after exercise by the Servicer of all available remedies in respect of the applicable SME Receivables, the Issuer does not receive the full amount due from such Borrowers, Noteholders may receive by way of principal repayment on the Notes an amount less than the Principal Amount Outstanding of their Notes and the Issuer may be unable to pay in full interest due on the Notes.

The risk regarding the payments on the SME Receivables is influenced by, among other things, market interest rates, general economic conditions, the financial standing of the Borrowers and other similar factors. Other factors such as loss of earnings, illness, divorce (in relation to a individual as Borrower) and other similar factors could ultimately have an adverse impact on the ability of the Borrowers to repay their SME Receivables.

#### **4.4 Liquidity Risk**

There is a risk of temporary liquidity problems if interest on the SME Receivables is not received on time or is not received at all. This risk is mitigated by (i) the requirement to credit the Reserve Account with an amount equal to the Reserve Account Required Amount, (ii) the Excess Margin and (iii) the revenues of the SME Receivables that have been purchased with the (partial) proceeds of the Subordinated Loan.

#### **4.5 Maturity Risk**

There is a risk that the Issuer will not have received sufficient principal to fully redeem the Notes at their Final Maturity Date. The ability of the Issuer to redeem all the Notes in full and to pay all amounts due to the Noteholders (including after the occurrence of an Event of Default), may depend upon whether the value of the SME Receivables is sufficient to redeem the Notes. In addition, no assurance can be given that the Issuer will exercise its option to redeem the Notes on the first or any subsequent Optional Redemption Date or that there will be a purchaser for the SME Receivables.

#### **4.6 Risk that the Issuer will not exercise its right to redeem the Notes on an Optional Redemption**

No guarantee can be given that the Issuer will exercise its right to redeem the Notes on the first Optional Redemption Date or on any subsequent Optional Redemption Date. The exercise of such right will, among other things, depend on the ability of the Issuer to have sufficient funds available to redeem the Notes, for example, through the sale of the SME Receivables still outstanding at that time.

#### **4.7 Risk of early redemption as a result of the Clean-Up Call Option, the Regulatory Call Option, the Optional Redemption in case of Change of Law, and the Optional Redemption in case of a Ratings Downgrade Event or for tax reasons**

Should the Seller exercise its Clean-up Call Option or Regulatory Call Option on any Monthly Payment Date, the Issuer will redeem the Notes by applying the proceeds of the sale of the SME Receivables towards redemption of the Notes in accordance with the Conditions on such Monthly Payment Date, whether falling before or after the first Optional Redemption Date. The Issuer will have the option to redeem the Notes in case of Change of Law, a Ratings Downgrade Event or for tax reasons on any Monthly Payment Date in accordance with the Conditions. If the Issuer exercises any of such options, the Notes may be redeemed prior to the first Optional Redemption Date and will be redeemed prior to the Final Maturity Date, as applicable. The Issuer will give notice to the Noteholders in accordance with the Conditions.

#### **4.8 Interest Rate Risk**

The amount of revenue receipts that the Issuer receives will fluctuate according to the interest rates applicable to the SME Loans and the Transaction Accounts. The Issuer will be subject to floating rate interest obligations under the Notes (floored at zero) while the SME Loans are subject to either a variable rate of interest or a fixed rate of interest.

To hedge the Issuer's exposure against the possible variance between, on the one hand, the revenue it receives from (a) the SME Loans subject to a variable rate of interest or a fixed rate of interest and (b) the interest on the Transaction Accounts and, on the other hand, the floating rate of interest it pays under the Notes, the Issuer will on or about the Closing Date enter into the Swap Agreement with the Swap Counterparty.

There can be no assurance that the Swap Agreement will adequately address the interest rate risk the Issuer is exposed to in case the Swap Counterparty fails to perform its obligations under the Swap Agreement and because of the reasons set out below.

##### ***Termination and the failure to make payments under the Swap Agreement***

A failure by the Swap Counterparty to make timely payments of amounts due under the Swap Agreement will constitute a default thereunder. The Swap Counterparty is obliged to make payments under the Swap Agreement only to the extent that the Issuer makes payments under it. To the extent that the Swap Counterparty defaults on its obligations under the Swap Agreement to make payment to the Issuer on any payment date under the Swap Agreement, the Issuer will be exposed to the possible variance between the fixed and variable interest received under the SME Receivables and the floating rate interest payable under the Notes.

To the extent that the Swap Counterparty defaults on its obligations under the Swap Agreement to make payment to the Issuer on any payment date under the Swap Agreement, or the Swap Agreement is terminated, and unless a comparable replacement swap agreement is entered into, the Issuer may have insufficient funds to make payments due under the Notes. In addition, if the Swap Agreement terminates, the Issuer may in certain circumstances be required to make a termination payment to the Swap Counterparty. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Noteholders.

The Swap Agreement can be terminated by one party if, amongst other things, (i) an event of default (as defined therein) occurs in relation to the other party, (ii) it becomes unlawful for either party to perform its obligations under the Swap Agreement, (iii) an Enforcement Notice is served, (iv) in certain circumstances, the Issuer redeems the Notes in full, or (v) certain tax events occur. Events of



default in relation to the Issuer in the Swap Agreement will include (i) non-payment under the Swap Agreement and (ii) certain insolvency-related events.

The Swap Agreement can also be terminated by the Issuer in certain circumstances if the Swap Counterparty is downgraded (see Section 12.11 – *Credit Structure – Downgrade of Swap Counterparty*). If the Swap Agreement is terminated, no assurance can be given on the ability of the Issuer to enter into a replacement swap, or if one is entered into, as to the credit rating or cost of a replacement Swap Counterparty.

For the avoidance of doubt, the Issuer will not be obliged to pay to the Swap Counterparty under the Swap Agreement any amounts in respect of the SME Receivables (or any Prepayment Penalties) to the extent that it has not effectively received such amounts from the Borrowers, the Sellers or the Servicer, as the case may be.

#### ***Novation by the Swap Counterparty***

In certain circumstances the Swap Counterparty has the right to novate (in whole or in part), the Swap Agreement to any third party, subject to, amongst other things, the then current ratings of the Notes not being downgraded.

#### ***Withholding or deduction of Taxes***

The Swap Counterparty will be obliged to make payments under the Swap Agreement without any withholding or deduction of taxes unless required by law, subject to the right to novate (in whole or in part) the obligations under the Swap Agreement to a third party, as described in this section above.

If any withholding or deduction is required by law, the Swap Counterparty will be required to pay such additional amounts as are necessary to ensure that the net amount received by the Issuer under the Swap Agreement will be equal to the amount that the Issuer would have received had no such withholding or deduction been required. The Swap Agreement will provide, however, that if due to any change in tax law after the date of the Swap Agreement, the Swap Counterparty will, or there is a substantial likelihood that it will, be required to pay to the Issuer additional amounts for or on account of a tax (a “**Tax Event**”), the Swap Counterparty may (with consent of the Issuer) transfer its rights and obligations under the Swap Agreement to any of its other offices, branches or affiliates to avoid the relevant Tax Event.

#### **4.9 The Swap Counterparty may terminate the Swap Agreement if it is adversely affected by an amendment to a Transaction Document without its consent**

The Swap Counterparty may terminate the Swap Agreement upon the making of an amendment to the Transaction Documents that in the opinion of the Swap Counterparty, materially and adversely affects the Swap Counterparty with respect to any amount payable to or by the Swap Counterparty or the priority of payments of any amount payable to or by the Swap Counterparty without its consent. The Swap Counterparty thus may have a decisive influence on the decision to amend a Transaction Document, even if it is not a party to such Transaction Document.

#### **4.10 Limited Liquidity of the Notes**

Prior to this offering, there has been no public secondary market for the Notes and there can be no assurance that the issue price of the Notes will correspond to the price at which the Notes will be traded after the initial offering of the Notes. Furthermore, there can be no assurance that active trading in the Notes will commence or continue after the offering. A lack of trading in the Notes could adversely affect the price of the Notes as well as the Noteholders’ ability to sell the Notes.

KBC Bank NV intends to acquire a substantial part of the Notes, which may result in KBC Bank NV holding a participation exceeding 75 per cent. of the Principal Amount Outstanding of the Notes. In addition, Affiliated Entities of KBC Bank NV may also subscribe to the Notes. There can however be no assurance that KBC Bank NV or any Affiliated Entity of KBC Bank NV will continue to hold these Notes, without prejudice to the requirements pursuant to Article 405 of the CRR and Article 51 of the AIFM Regulation (as referred to under section 7.6 below).

#### **4.11 Voting rights**

There may be potential conflicts of interest between the interests of KBC Bank NV as holder of part of the Notes and the interests of External Investors (as defined below).

KBC Bank NV will acquire a substantial part of the Notes, which may result in KBC Bank NV holding a participation exceeding 75 per cent. of the Principal Amount Outstanding of the Notes. In addition, Affiliated Entities of KBC Bank NV may also subscribe to the Notes. While KBC Bank NV (or any Affiliated Entity) remains the owner of those Notes, it will be entitled to vote in respect of them, except that with respect to the voting of any Basic Terms Modification, specific quorum- and majority requirements, as set out in Condition 4.12 (*Meetings of Noteholders, Modifications and Waivers*), will apply in order to protect the interest of External Investors.

#### **4.12 Average Life of the Notes**

Details of the weighted average life of the Notes can be found in section 10 (Key Parties and Overview Principal Features).

The weighted average life of the Notes is subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the above estimates and assumptions will prove in any way to be correct. The average life must therefore be viewed with considerable caution and Noteholders should make their own assessment thereof.

#### **4.13 The Issuer has counterparty risk exposures**

Counterparties to the Issuer may not perform their obligations under the Transaction Documents or may terminate such Transaction Documents in accordance with their terms, which may result in the Issuer not being able to meet its obligations. It should be noted that there is a risk that (a) KBC Bank NV in its capacity as Swap Counterparty, Domiciliary Agent, Listing Agent and Reference Agent, Seller, Subordinated Loan Provider, Servicer and Corporate Services Provider will not perform its obligations under the relevant Transaction Documents, and (b) the Issuer Directors and/or the Shareholder Director will not perform their obligations under the relevant Management Agreements, and (c) Intertrust Administrative Services B.V. as Administrator will not perform its obligations under the Issuer Services Agreement.

Neither the Issuer nor the Domiciliary Agent will have any responsibility for the proper performance by the Clearing System operated by the National Bank of Belgium or a (directly or indirectly) participant in such system of their obligations under their respective rules, operating procedures and calculation methods.

#### **4.14 Force Majeure**

Belgian law recognises the doctrine of *overmacht / force majeure*, permitting a party to a contractual obligation to be freed from such obligation upon the occurrence of an event which renders impossible the performance of such contractual obligation. There can be no assurance that any of the parties to the Transaction Documents will not be subject to a *overmacht / force majeure* event

leading to them being freed from their obligations under the Transaction Documents to which it is a party. This could undermine the ability of the Issuer to meet its obligations under the Notes.

#### **4.15 Payments on the SME Receivables are subject to credit, liquidity and interest rate risks**

Payments on the SME Receivables are subject to credit, liquidity and interest rate risks. This may be due to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers and similar factors. Other factors such as loss of earnings, illness, divorce or other similar factors may lead to an increase in delinquencies and bankruptcy filings or filing for a collective debt arrangement by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay their SME Loans. The ultimate effect of this could be to delay or reduce the payments on the Notes or to increase the rate of repayment of the Notes.

#### **4.16 Risks of Losses Associated with Declining Values of Mortgaged Assets or pledged business**

The security for the Notes created under the Pledge Agreement may be affected by, among other things, a decline in the value of the Mortgaged Assets or pledged businesses. No assurance can be given that values of the Mortgaged Assets or the pledged business have remained or will remain at the level at which they were on the date of origination of the related SME Loans. A decline in value may result in losses to the Noteholders if such security is required to be enforced.

In addition, if foreclosure action is taken by a third party creditor against the Borrower prior to the Servicer, the Servicer will not control the foreclosure procedures in relation to the Mortgaged Assets or pledged business but rather will need to follow the foreclosure actions of the third party having been prior in starting up its proceedings. This will not affect the priority rights in relation to the Mortgaged Assets or pledged business with respect to the Mortgages or Floating Charges, as the case may be, created thereon.

#### **4.17 Parallel Debt**

Under Belgian law no security interest can be validly created in favour of a party which is not the creditor of the claim which the security interest purports to secure. In order to secure the valid creation of the security in favour of the Security Agent, the Noteholders and the other Secured Parties, the Issuer has entered into the Parallel Debt Agreement, pursuant to which it has undertaken, as a separate and independent obligation, by way of parallel debt, to pay to the Security Agent any amounts equal to the amounts due by it to the Secured Parties. Upon receipt by the Security Agent of any amount in payment of the Parallel Debt, the payment obligations of the Issuer to the Secured Parties shall be reduced by an amount equal to the amount so received.

Any payments in respect of the Parallel Debt and any proceeds received by the Security Agent may in case of an insolvency of the Security Agent not be separated from the Security Agent's other assets so the Secured Parties accept a credit risk on the Security Agent.

In addition, the Security Agent has been (i) designated as representative (*vertegenwoordiger / représentant*) of the Noteholders in accordance with Article 271/12, §1 of the UCITS Act, (ii) as agent on behalf of the Secured Parties in accordance with article 5 of the Collateral Law and (iii) as irrevocable agent (*mandataris / mandataire*) of the other Secured Parties. In each case, its powers include the acceptance of the pledges created under the Pledge Agreement and the enforcement of the rights of the Secured Parties. The Security Agent, as representative of the Secured Parties under article 5 of the Collateral Law can enforce the pledge over bank accounts pursuant to the provisions of the Collateral Law. It does not need to be the creditor of the parallel debt.

Based on the above and even though there is no Belgian statutory law or case law in respect of a parallel debt or Article 271/12, §1, first to seventh indent of the UCITS Act to confirm this, the

Issuer has been advised that such a parallel debt creates a claim of the Security Agent thereunder which can be validly secured by a pledge such as the pledge created by the Pledge Agreement and that, even if that were not the case, the pledges created pursuant to the Pledge Agreement should be valid and enforceable in favour of the Security Agent and the other Secured Parties.

#### **4.18 Enforcement of Security for the Notes**

The Pledge Agreement is governed by Belgian law. Under Belgian law, upon enforcement of the security for the Notes, the Security Agent, in its capacity as pledgee and acting on its own behalf and on behalf of the other Secured Parties, will be permitted to collect any monies payable in respect of the SME Receivables, any moneys payable under the Transaction Documents pledged to it and any monies standing to the credit of the Transaction Accounts and to apply such monies in satisfaction of obligations of the Issuer which are secured by the Pledge Agreement.

The Security Agent will also be permitted to apply to the president of the commercial court (*rechtbank van koophandel / tribunal de commerce*) for authorisation to sell the Pledged Assets. The Security Agent and the other Secured Parties have a first ranking claim over the proceeds of any such sale. Other than claims under the SME Receivables Purchase Agreement in relation to a material breach of a warranty and a right of action for damages in relation to a breach of the Issuer Services Agreement, the Issuer and the Security Agent will have no recourse to the Seller.

In addition to other methods of enforcement permitted by law, Article 271/12, §2 of the UCITS Act also permits all Noteholders (acting together) to request the president of the commercial court to attribute to them the Pledged Assets in payment of an amount estimated by an expert. In accordance with the terms of the Pledge Agreement, only the Security Agent shall be permitted to exercise these rights.

Any proceeds from any sale of the Pledged Assets will be applied in accordance with the Priority of Payments upon Enforcement (see Section 12 - *Credit Structure*).

The ability of the Issuer to redeem all the Notes in full (including after the occurrence of an event of default in relation to the Notes) while any of the SME Receivables are still outstanding, may depend upon whether the SME Receivables can be sold, otherwise realised or refinanced so as to obtain an amount sufficient to redeem the Notes. There is not an active and liquid secondary market for SME Loans in Belgium. Therefore, it may be that neither the Issuer nor the Security Agent will be able to sell or refinance the SME Receivables on appropriate terms should either of them be required to do so.

Enforcement of the pledges to the extent that they comprise the security securing the SME Receivables will occur through the enforcement of the pledge over the SME Receivables.

The enforcement rights of creditors are suspended during bankruptcy proceedings. The Secured Parties will be entitled to enforce their security, but only after the filing of the first report of verification of claims submitted in the bankrupt estate has been completed and the liquidator (*curator/curateur*) and the supervising judge have drawn up a record of all liabilities. This normally implies a suspension of enforcement of about two (2) months, but the liquidator may ask the court to suspend individual enforcement for a maximum period of one year from the date of the bankruptcy judgement. This stay of enforcement does not apply, however, to the enforcement of a pledge over a bank account and over bank receivables and would not be applicable to the Transaction Accounts and the SME Receivables.

#### **4.19 Insolvency of the Issuer**

The Issuer has been incorporated in Belgium under the laws of Belgium as a commercial company and is subject to Belgian insolvency legislation. There can be no legal assurance that the Issuer will not be declared insolvent.

However, limitations on the corporate purpose of the Issuer are included in the Articles of Association, so that its activities are limited to the issue of negotiable financial instruments for the purpose of acquiring receivables. Outside the framework of the activities mentioned above, the Issuer is not allowed to hold any assets, enter into any agreements or carry out any other activities. The Issuer may carry out the commercial and financial transactions and may grant security to secure its own obligations or to secure obligations under the Notes or the other Transaction Documents, to the extent only that they are necessary to realise the corporate purposes as described above. The Issuer is not allowed to have employees.

Pursuant to the Pledge Agreement, none of the Secured Parties, including the Security Agent, (or any person acting on their behalf) shall until the date falling one year after the latest maturing Note is paid in full, initiate or join any person in initiating any insolvency proceeding or the appointment of any insolvency official in relation to the Issuer.

#### **4.20 Limited capitalisation of the Issuer**

The Issuer is incorporated under Belgian law as a limited liability company (*naamloze vennootschap / société anonyme*) with a share capital of EUR 69,500. In addition, the principal shareholder, Loan Securitisation B.V, is a Dutch private limited liability company (*besloten vennootschap*) which has been capitalised for the purpose of its shareholding in the Issuer. There is no assurance that the shareholder will be in a position to recapitalise the Issuer, if the Issuer's share capital falls below the minimum legal share capital (i.e. EUR 61,500).

#### **4.21 Preferred Creditors under Belgian Law**

Belgian law provides that certain preferred rights (*privilèges/voorrechten*) may rank ahead of a mortgage or other security interest. These preferred rights include the lien for legal costs incurred in the interest of all creditors, or the lien for the maintenance or conservation of an asset.

In addition, if a debtor being a merchant (*koopman / commerçant*) is declared bankrupt while or after being subject to a judicial reorganisation with creditors (*réorganisation judiciaire / gerechtelijke reorganisatie*), then any new debts incurred during the judicial reorganisation procedure may be regarded as being debts incurred by the bankrupt estate ranking ahead of debts incurred prior to the judicial reorganisation procedure.

These debts may rank ahead of debts secured by a security interest to the extent they contributed to safeguarding such security interest. Similarly, debts incurred by the liquidator of a debtor after such debtor's declaration of bankruptcy may rank ahead of debts secured by a security interest if the incurring of such debts were beneficial to the secured creditor.

In addition pursuant to the Conditions, the claims of certain creditors will rank senior to the claims of the Noteholders by virtue of the relevant priority of payments referred to therein (see Section 12 - *Credit Structure*).

#### **4.22 Commingling Risk**

The Issuer's liability to make payments in respect of the Notes and to pay its operating and administrative expenses depends on funds being received from the Borrowers by the Seller and such

funds subsequently being swept by the Seller or the Servicer on its behalf to the Issuer's Collection Account. The Seller may also collect other funds in the same account on which the payments by the Borrower under the SME Receivables are made, and to this extent there may be a risk of commingling of proprietary funds of the Seller and the Issuer. In case of an insolvency of the Seller, the recourse the Issuer would have against the Seller would be an unsecured claim against the insolvent estate of the Seller for collection money received by the Seller from the Borrower in connection with the SME Receivables at such time.

This commingling risk is mitigated by the fact that the amounts received by the Seller in respect of the SME Receivables will be swept on a daily basis by the Seller or the Servicer on its behalf to the Issuer Collection Account. Furthermore, upon the occurrence of a Risk Mitigation Deposit Trigger Event, an amount corresponding to the Risk Mitigation Deposit Amount shall have to be credited to the Deposit Account which can be used for the purpose of indemnifying the Issuer against commingling risk (see further Section 0 - *SME Receivables Purchase Agreement Section 17.9 Risk Mitigation Deposit*).

A commingling risk also exists by reason of the fact that the Seller also acts as Account Bank. This commingling risk is mitigated by the fact that if at any time:

- (a) the short-term IDR of the Account Bank is assigned a rating of less than the Fitch Required Minimum Short Term Rating or any of such rating is withdrawn and the long-term IDR of the Account Bank is assigned a rating of less than the Fitch Required Minimum Long Term Rating or such rating is withdrawn; or
- (b) if at any time the long-term unsecured unsubordinated and unguaranteed debt obligations of the Account Bank are assigned a rating of less than the DBRS Required Minimum Rating,

the Issuer will be required within thirty (30) calendar days to transfer the balance of the relevant Transaction Accounts to an alternative bank with the Required Minimum Rating or to obtain a third party, with the Required Minimum Ratings, to guarantee the obligations of the Account Bank. See Section Section 12 - *Credit Structure*.

#### **4.23 Rating Agency Criteria**

The rating criteria used by a Rating Agency to assign a rating to the Notes may be amended by such rating Agency from time to time. Such amendments may result in a downgrade of the ratings assigned to the Notes. Following amendments of the relevant rating criteria by a Rating Agency the relevant parties to a Transaction Document may agree (but are under no obligation) to amend and restate the relevant Transaction Document in order to implement the new criteria so as to maintain the ratings then assigned to the Notes, subject to the terms of the relevant Transaction Document. Such amendments and/or the costs associated with the implementation of such amendment may be prejudicial to the interest of the Noteholders.

#### **4.24 Ratings of the Notes**

The (future) ratings of the Notes addresses the assessment made by the Rating Agencies of the likelihood of full and timely payment of interest and ultimate payment of principal on or before the Final Maturity Date.

The rating expected to be assigned to the Notes by the Rating Agencies is based on the value and cash flow generating ability of the SME Loans and other relevant structural features of the Transaction, including, *inter alia*, the short-term and long-term IDR of the other parties involved in the transaction and reflect only the views of the Rating Agency.

There is no assurance and the Issuer can give no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any of the Rating Agencies as a result of changes in or unavailability of information or if, in the Rating Agency's judgement, circumstances so warrant. Any rating agency other than the Rating Agencies could seek to rate the Notes and if such unsolicited ratings are lower than the comparable rating assigned to the Notes by the Rating Agencies, such unsolicited ratings could have an adverse effect on the value of the Notes. For the avoidance of doubt, any references to "ratings" or "rating" in this Prospectus are to ratings assigned by the Rating Agencies only. Future events and/or circumstances relating to the SME Receivables and/or the Belgian market for SME Loans, in general could have an adverse effect on the rating of the Notes.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if in its judgment, the circumstances (including a reduction in the credit rating of the Account Bank or the Swap Counterparty) in the future so require.

#### **4.25 The Security Agent may agree to modifications without the Noteholders' prior consent**

Pursuant to the terms of the Pledge Agreement, the Security Agent may, without the consent of the Noteholders and the other Secured Parties, authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any proposed or actual breach of any covenants or provisions contained in or arising pursuant to the Notes or any of the Transaction Documents, but only insofar as, in its opinion, the interest of the Noteholders will not be materially prejudiced thereby. Any such authorisation or waiver will be binding on the Noteholders and the other Secured Parties.

Furthermore, the Security Agent may, without the consent of the Noteholders and the other Secured Parties, at any time and from time to time, concur with the Issuer or any other person in making any modification:

- (1) to the Transaction Documents which in the opinion of the Security Agent is of a formal, minor, or technical nature or is to correct a manifest error or to comply with the mandatory provisions of Belgian law; or
- (2) to the Transaction Documents which in the opinion of the Security Agent is not materially prejudicial to the interests of the Noteholders, provided that the then current ratings of the Notes will not be adversely affected by any such modification (it being understood that the fact that the then current rating of the Notes will not be adversely affected does not address whether such modification is in the best interest of, or prejudicial to, some or all of the Noteholders),

it being understood that any modification of a Transaction Document must be approved by each party thereto. Any such modification shall be binding on the Noteholders and the other Secured Parties.

#### **4.26 No Gross-up for Taxes**

If withholding of, or deduction for, or an account of any present or future taxes, duties or charges of whatsoever nature are imposed by or on behalf of the Kingdom of Belgium or any other jurisdiction or any political subdivision or any authority therein or thereof having power to tax, the Issuer will make the required withholding or deduction of such taxes, duties or charges for the account of the Noteholders, as the case may be, and shall not be obliged to pay any additional amounts to the Noteholders.

## 5. RISK FACTORS – THE SME LOANS

### 5.1 True sale and pledge of SME Receivables

Pursuant to the SME Receivables Purchase Agreement, the Seller transfers to the Issuer the full economic benefit of, and the legal title to, the SME Receivables and all Related Security. The sale of the SME Receivables is a true sale to the effect that, upon an insolvency or bankruptcy of the Seller, the SME Receivables do not form part of the Seller's insolvent estate or are not subject to claims by the Seller's liquidator or creditors, except as set out below.

The sale has the following characteristics:

- (1) the Issuer has no recourse to the Seller except that (i) the Seller may be required to repurchase SME Receivables in relation to which there is a breach of warranty at the time of the transfer of the SME Receivables or upon a Non-Permitted Variation; or (ii) the Seller may be required to indemnify the Issuer for all costs, losses and damages incurred as a consequence of such breach; and
- (2) the sale is for the Outstanding Principal Amount under the SME Receivables.

For further details see Section 0 - *SME Receivables Purchase Agreement* below.

### 5.2 Effectiveness of the sale of and pledge over Loans secured by Mortgage or pledge of the business

- (a) Loans secured by Mortgage or Mortgage Mandate

Certain of the SME Receivables (or the SME Loans in connection therewith) may be secured by a mortgage or mortgage mandate over real property ("**SME Mortgage Receivables**"). The enforceability of a transfer or pledge of SME Mortgage Receivables towards third parties, including the creditors of the Seller, is subject to Article 5 of the Belgian Act of 16 December 1851 on liens and mortgages (the "**Mortgage Act**") which prescribes a notarial deed and marginal notation of the transfer or pledge in the local mortgage register. Articles 81*bis* and following of the Mortgage Act grant an exemption from Article 5 of the Mortgage Act in relation to a transfer and pledge of SME Mortgage Receivables by or to, amongst others, an Institutional VBS/SIC, so that a transfer or pledge of mortgage receivables to or by an Institutional VBS/SIC is enforceable against third parties (*tegenwerpelijk aan derden / opposable aux tiers*) without marginal notation.

As to the (maintenance of the) status of the Issuer as an Institutional VBS/SIC, see Section 3.1(b) - *The status of the Issuer as Institutional VBS/SIC* above.

Prior to the entry into force of the Belgian Act of 3 August 2012 regarding various measures to facilitate the mobilisation of claims in the financial sector (*wet betreffende diverse maatregelen ter vergemakkelijking van de mobilisering van schuldvorderingen in de financiële sector / loi relative à des mesures diverses pour faciliter la mobilisation de créances dans le secteur financier*), as amended from time to time (the "**Mobilisation Act**") on 3 September 2012, a loss of the status of the Issuer as an Institutional VBS/SIC would have resulted in the exemption set out in Articles 81*bis* and following of the Mortgage Act not being available and therefore in an absence of an effective sale of the SME Mortgage Receivables.

The Mobilisation Act has however expanded and clarified the exemptions from article 5 of the Mortgage Act by amending articles 81*bis* and following of the Mortgage Act (previously included in articles 50 and following of the Belgian Law of 4 August 1992 on mortgage credits (*Wet van 4 augustus 1992 op het hypothecair krediet/Loi du 4 août 1992 relative au crédit hypothécaire*)).



First of all, a transfer or pledge of mortgage receivables by or to an institution that at the time of transfer or pledge qualifies as a Belgian credit institution falling under the Credit Institutions Supervision Act, such as the Seller, now also benefits from the exemption. Furthermore, also a transfer or pledge by or to an institution that at the time of transfer or pledge qualifies as a “mobilisation vehicle” as defined in Article 2 of the Mobilisation Act (a “**Mobilisation Vehicle**”) benefits from the exemption and is enforceable against third parties (*tegenwerpeijk aan derden / opposable aux tiers*) without marginal notation. An institution that is registered on the list of institutional undertakings for the investment in receivables held by the Belgian Federal Public Service Finance in accordance with the provisions of Part 3bis the UCITS Act, qualifies as a Mobilisation Vehicle as set out in the Mobilisation Act. The Issuer was registered as an Institutional VBS/SIC with the Belgian Federal Public Service Finance on 8 May 2007. Compartment SME Loan Invest 2017 of the Issuer has been registered with the Federal Public Service Finance (*Federale Overheidsdienst Financiën / Service Public Fédéral Finances*) on 16 March 2017.

(b) Loans secured by a Floating Charge or a Floating Charge Mandate

Certain of the SME Receivables (or the SME Loans in connection therewith) may be secured by a floating charge or floating charge mandate over the business of the relevant Borrower. In accordance with Article 4, 2° of the Mobilisation Act, all privileges and security rights securing a credit facility that is not secured by a mortgage follow the transfer of the receivables (“bank claims”) resulting from advances granted under such credit facility for and up to the amount of the transferred receivable, regardless of the amount that remains due under the underlying credit facility. As a result, any Floating Charges securing any SME Receivable that is not secured by a mortgage follows the transfer of SME Receivable to the Issuer. According to Article 7, §3 of the Mobilisation Act, a mandate to register a business pledge is, unless otherwise provided for in such mandate, *ex officio* deemed to be concluded in favour of any successor in title of the owner of the secured bank claim, the transferees of such claim included. Any Floating Charge Mandates relating to an SME Receivables will therefore be deemed to be concluded in favour of the Issuer.

### 5.3 No notification or acknowledgment of the Sale and Pledge

Article 1690 of the Belgian Civil Code (*Belgisch Burgerlijk Wetboek / Code Civil belge*) will apply to the transfer of the SME Receivables. Between the Seller and the Issuer, as well as against third parties (other than the Borrowers), the SME Receivables are transferred on the Closing Date without the need for the Borrowers’ involvement.

Except as described below, the sale of the SME Receivables to the Issuer (as well as the pledge of the SME Receivables to the Noteholders and the other Secured Parties) will not be notified to or acknowledged by the Borrowers, the Insurance Companies or third party providers of additional collateral until the occurrence of a Notification Event.

Failure to give notice to or obtain an acknowledgement by the Borrowers, the Insurance Companies and third party providers of additional collateral will have the following commercial and legal consequences until such notice is given:

- (1) The liabilities of the Borrowers under the relevant SME Loans (and the liabilities of the Insurance Companies or, as the case may be, the third party providers of additional collateral) will be validly discharged by payment to the Seller. The Seller, having transferred all rights, title, interest and the benefit in and to the relevant SME Loan to the Issuer, will however, be the agent of the Issuer (for so long as it remains Servicer under the Issuer Services Agreement) for the purposes of the collection of monies relating to the SME Loans and will be accountable to the Issuer accordingly.

- (2) The failure to give notice or obtain acknowledgment of the transfer also means that the Seller can agree with the Borrowers, the Insurance Companies or the other third party collateral providers to vary the terms and conditions of the SME Loans, the Related Security or the other collateral and that the Seller in such capacity may waive any rights under the SME Loans and the Related Security. The Seller, as Servicer, will, however, undertake for the benefit of the Issuer that it will not vary, or waive any rights under any of the SME Loans, the Related Security or the other collateral other than in accordance with the SME Receivables Purchase Agreement;
- (3) If the Seller were to transfer or pledge its SME Receivables in respect of the same SME Loans, the Loan Security or other collateral to a party other than the Issuer either before or after the Closing Date (or if the Issuer were to transfer or pledge the same to a party other than the Security Agent), the assignee who first notifies or obtains acknowledgment from the Borrowers or, as the case may be, the Insurance Companies, or, as the case may be, the other third party providers of collateral and acts in good faith would have the first claim to the relevant SME Loans or the additional collateral. The Seller will, however, represent to the Issuer and the Security Agent that it has not made any such transfer or pledge on or prior to the Closing Date, and it will undertake to the Issuer and the Security Agent that it will not make any such transfer or pledge after the Closing Date, and the Issuer will make a similar undertaking to the Security Agent;
- (4) Payments made by Borrowers, Insurance Companies or other third party collateral providers to creditors of the Seller will validly discharge their respective obligations under the SME Loans or the additional collateral, provided the Borrowers or, as the case may be, the third party collateral providers and such creditors act in good faith. However, the Seller will undertake:
  - (A) to notify the Issuer of any attachment (*bewarend beslag / saisie conservatoire* or *uitvoerend beslag / saisie exécutoire*) by its creditors of any SME Loan or other collateral which may lead to such payments;
  - (B) not to give any instructions to the Borrowers or third party collateral providers to make any such payments; and
  - (C) to indemnify the Issuer and the Security Agent against any reduction in the obligations to the Issuer of the Borrowers or third party collateral providers due to payments to creditors of the Seller.
- (5) Borrowers, Insurance Companies or other third party collateral providers may raise against the Issuer (or the Security Agent) all rights and defences, including rights of set-off, which existed against the Seller prior to the notification of the transfer or pledge. Under the SME Receivables Purchase Agreement, the Seller will warrant in relation to each SME Receivable and Related Security, that no such rights and defences have arisen in favour of the Borrower or the third party collateral providers up to the Closing Date. If a Borrower or third party collateral provider subsequently fails to pay in full any of the amounts which the Issuer is expecting to receive, claiming that such a right or defence has arisen in its favour against the Issuer, the Seller will indemnify the Issuer and the Security Agent for the amount by which the amounts due under the relevant SME Receivable or third party collateral are reduced (whether or not the Seller was aware of the circumstances giving rise to the Borrowers or third party collateral provider's claim at the time it gave the warranty described above).

The SME Receivables Purchase Agreement provides that upon the occurrence of certain Notification Events (as set out in the SME Receivables Purchase Agreement), the Seller shall (i) notify the

relevant Borrowers and any other relevant parties indicated by the Issuer or the Security Agent, including third party collateral providers, of the assignment of the SME Receivables and the Related Security to the Issuer and (ii) instruct the relevant Borrowers of the SME Loans and any other relevant parties indicated by the Issuer and/or the Security Agent, including the third party collateral providers to pay any amounts due directly to the Issuer Collection Account or, at its option, the Issuer will be entitled to make such notification or give such instruction itself or on behalf of the Seller, except in certain limited circumstances (see Section 17 - *SME Receivables Purchase Agreement*). A similar principle is included in the Pledge Agreement with respect to the Security Interests in the SME Receivables.

#### 5.4 Shared Security

The Loan Security that may secure an SME Receivable (which may include, *inter alia*, Mortgages, Mortgage Mandates, floating charges (*pand handelszaak / gage sur fonds de commerce*) granted under the Business Pledge Act (“**Floating Charges**”), floating charge mandates (“**Floating Charge Mandates**”), pledges over financial instruments and/or cash, farmers’ liens under the Belgian Act of 15 April 1884 on farmers’ loans (*landbouwenning / prêts agricoles*) (“**Farmers’ Liens**”), farmers’ lien mandates (“**Farmers’ Lien Mandates**” and together with the Mortgage Mandates and Floating Charge Mandates, “**Mandates**”) does not necessarily only secure such SME Receivable, but often also secures:

- (1) in case the SME Receivable constitutes a term advance under a revolving facility (*kredietopening / ouverture de crédit*) (a “**Credit Facility**”), all advances made from time to time under such Credit Facility; and
- (2) in many cases, all other amounts which the Borrower owes or in the future may owe to the Seller (**All Sums Security Interests**).

As a consequence of the sale of an SME Receivable to the Issuer, the Issuer and the Seller shall thus share the benefit of the same Related Security (a “**Shared Security**”) since it will secure both the SME Receivable (security in favour of the Issuer) and other loans, if any, or any other obligations owing from time to time to the Seller, if any (security in favour of the Seller). In this respect, it should also be noted that the proceeds which are to be allocated to the Seller may increase in the future to the extent (i), in case of an All Sums Security Interest, the amount of debts owed by the Borrower to the Seller increases, or (ii), in case of Loan Security granted in relation to a Credit Facility, additional advances are granted to the Borrower under a Credit Facility.

#### 5.5 SME Loans not or partially secured by a Mortgage, a Floating Charge or a Farmers’ Lien

Certain SME Loans are not or only partially secured by a Mortgage, a Floating Charge or a Farmers’ Lien. Where an SME Loan is not fully secured by a Mortgage, a Floating Charge or a Farmers’ Lien, the Borrower of the relevant SME Loan or a third party provider of Loan Security may have granted a Mandate. A Mandate does not constitute an actual security which creates a priority right of payment out of the proceeds of a sale of the mortgaged or pledged assets, but is an irrevocable power of attorney granted by a Borrower or a third party provider of Loan Security to certain attorneys enabling them to create a Mortgage, a Floating Charge or a Farmers’ Lien, as the case may be, as security for the SME Loan.

#### 5.6 Real security over moveable assets

On 11 July 2013, a Belgian law was enacted amending the Belgian Civil Code as far as the taking of real security over movable assets is concerned and abolishing various provisions (the **Law on Movable Security Rights**). As part of this Law on Movable Security Rights, Belgian law will allow for the creation of a uniform right of pledge over all types of movable assets (*roerende*

*goederen/biens meubles*) which can be rendered effective against third parties either (i) by the dispossession of the pledged goods under the control of the beneficiary of the pledge or a third party pledgeholder, or (ii) the registration of the pledge in a newly to be constituted national register for pledge (the **National Register for Pledges**). The Law on Movable Security Rights will enter into force on a date to be further determined by royal decree, however at the latest by 1 January 2018, which should in principle allow time for the set-up of the National Register for Pledges by the Belgian government.

As part of the overhaul of the existing system for creation of real security over movable assets, the Law on Movable Security Rights has also abolished the regimes of the Floating Charges and the Farmer's Liens as a separate category of real security rights over movable assets, two categories of security rights which already provided for a registered based security interest right. The Law on Movable Security Rights does however provide for a transitory regime allowing the beneficiary of a Floating Charge or a Farmer's Lien who properly registered its security right prior to the entry into force of the Law on Movable Security Rights on the basis such existing regimes, to retain a right of pledge having the same rank under the new regime provided it registers such right of pledge in the new National Register for Pledges within a period of 12 months after the entry into force of the Law on Movable Security Rights. A Floating Charge Mandate and a Farmer's Lien Mandate will, by operation of law, allow for the conclusion of a pledge agreement in accordance with the provisions of the Law on Movable Security Rights. The SME Receivables Purchase Agreement contains a covenant of the Seller to register at its own cost the Floating Charges and the Farmers' Liens in the new National Register for Pledges within a period of 12 months after the entry into force of the Law on Movable Security Rights.

## **5.7 Set-Off and defense of non-performance**

### **(a) Set-off following the sale of the SME Receivables**

The sale of the SME Receivables to the Issuer and the pledge of the SME Receivables to the Secured Parties, including the Security Agent on behalf of the Noteholders and the other Secured Parties, will not be notified to the Borrowers, the Insurance Companies nor to third party providers of a Loan Security, except in certain circumstances. Set-off rights may therefore continue to arise in respect of cross-claims between a Borrower (or third party provider of collateral) and the Seller, as soon as such cross-claims exist and are fungible, liquid (*vaststaand / liquide*) and payable (*opeisbaar / exigible*), potentially reducing amounts receivable by the assignee and the beneficiaries of the Pledge. In such case this could limit the amounts received by the Issuer, which could in its turn prevent the Issuer from fulfilling its payment obligations under the Transaction, to the extent the Seller would be declared bankrupt or would no longer be able to indemnify the Issuer.

To mitigate this risk under the SME Receivables Purchase Agreement and the Issuer Services Agreement, the Seller will agree to indemnify the Issuer if a Borrower or provider of Loan Security, claims a right to set-off against the Issuer. The rights to payment of such indemnity will be pledged in favour of the Secured Parties.

In addition, the provisions of the Mobilisation Act have now further reduced the risk that amounts receivable under the SME Receivables and the Loan Security are reduced on the basis of set-off rights. The Issuer (and the Secured Parties) will no longer be subject to set-off risk: (a) following notification of the assignment of the SME Receivables (and/or the Loan Security) to the assigned debtors (or acknowledgement thereof by the assigned debtors), to the extent the conditions for set-off are only satisfied after such notification (or acknowledgment); and (b) regardless of any notification or acknowledgement of the assignment, following the start of insolvency proceedings or the occurrence of a situation of concurrence of creditors (*samenloop / concours*) in relation to the Seller, to the extent the conditions for set-off are only satisfied following or as a result of such insolvency proceedings or concurrence of creditors.

## **(b) Defense of non-performance**

Under Belgian law a debtor may, in certain circumstances in case of default of its creditor invoke the defence of non-performance, pursuant to which it would be entitled to suspend payment under its obligations until its creditor has duly discharged its obligations due and payable to the debtor. In such case this defence could limit the amounts received by the Issuer, which could in its turn prevent the Issuer from fulfilling its payment obligations under the Transaction, to the extent the Seller would be declared bankrupt or would no longer be able to indemnify the Issuer. The exception of non-performance is subject to various conditions, the most important ones being: (a) the debt in respect of which payment is suspended must be due and must be conditional upon payment of a debt owed by the other party; (b) the other party must have defaulted on its debt, in a material way; (c) the amount/value involved in the suspension must be in proportion to the amount/value of the default; (d) finally, there must be a close interrelationship between the two debts, typically such close interrelationship is accepted to exist where both debts arise under the same contract or otherwise are so closely interrelated that they are a part of a single transaction. If all such conditions are met, the defence of non-performance may be invoked by a debtor in respect of a Loan.

However, pursuant to the Mobilisation Act, the assigned debtor cannot invoke the defence of non-performance (a) following notification of the assignment of the SME Receivable (and/or the Loan Security) to the assigned debtors (or acknowledgement thereof by the assigned debtor), to the extent the conditions for defence of non-performance are only satisfied after such notification (or acknowledgment); and (b) regardless of any notification or acknowledgement of the assignment, following the start of insolvency proceedings or the occurrence of a situation of concurrence of creditors (*samenloop/concours*) in relation to the Seller, to the extent the conditions for defense of non-performance are only satisfied following or as a result of such insolvency proceedings or concurrence of creditors.

## **5.8 Insurance Policies**

The Issuer as mortgagee enjoys statutory protection under Article 10 of the Mortgage Act and Article 112 of the Insurance Act of 4 April 2014 on insurances (*Wet betreffende de verzekeringen / Loi relative aux assurances*) (the “**Insurance Act**” ) pursuant to which any indemnity which third parties (including Insurance Companies) owe for the reason of the destruction of or damage to the mortgaged property will be allocated to the mortgagee-creditors to the extent these indemnities are not used for the reconstruction of the mortgaged property.

Article 112, §2 of the Insurance Act, however, provides that the Insurance Company can pay out the indemnity to the insured in case the holder of an unpublished/undisclosed security over the property does not oppose this by prior notification. As the assignment of the SME Loan and the Mortgage to the Issuer will not be noted in the margin of the mortgage register, the question arises to what extent the lack of disclosure of the assignment could prejudice the Issuer’s rights to the insurance proceeds. Although there are no useful precedents, the assignment should not prejudice the Issuer’s position because (i) the Mortgage will remain validly registered notwithstanding the assignment and (ii) the Issuer would be the assignee and successor of the Seller. Whether the Insurance Company needs to pay to the Seller or to the Issuer would not be of any interest to the Insurance Company.

A notification issue also arises in connection with Article 120, §1 of the Insurance Act which provides that the Insurance Company cannot invoke any defences which derive from facts arising after the accident has occurred (for instance a late filing of a claim) against mortgagee-creditors the mortgages of whom are known to the insurance company. Again, for the same reasons set out above, the Insurance Company should not have a valid interest in disputing the rights of the Issuer.

Pursuant to Article 120, §2 of the Insurance Act:

- (a) the Insurance Company can invoke the suspension, reduction or termination of the insurance coverage only after having given the Seller one (1) month prior notice; and
- (b) if the suspension or termination of the insurance coverage is due to the non-payment of premiums, the Seller has the right to pay the premiums within the one-month notice period and thus avoid the suspension or termination of the insurance coverage.

“**Insurance Company**” means any insurance company granting an Insurance Policy (in respect of a SME Receivable);

“**Insurance Policy/ies**” means any and all hazard insurance(s), fire insurance(s) or debt insurance(s)(*schuldsaldoverzekering/assurance solde restant dû*) (in respect of a Borrower or a Mortgaged Asset).

## **5.9 Enforcement of Loan Security**

The sale proceeds of the sale of the Loan Security may not entirely cover the outstanding amount under such SME Receivable. Subject to the availability of credit enhancement, there is a risk that a shortfall will affect the Issuer’s ability to make the payments due to the Noteholders. Moreover, if action is taken by a third party creditor against a Borrower prior to KBC Bank NV acting as Servicer following the sale of the SME Receivables to the Issuer, the Seller will not control the foreclosure proceedings but rather will become subject to any prior foreclosure proceedings initiated by a third party creditor prior to the institution of foreclosure proceedings by KBC Bank NV.

In addition, certain SME Receivables may not be 100 per cent. covered by the Loan Security.

## **5.10 Data Protection**

To the extent the transfer of SME Receivables entails the transfer of personal data in relation to the Borrowers of the underlying SME Loans, the transfer of SME Receivables by the Seller to the Issuer in connection with the Transaction includes a processing of personal data under the Belgian Act of 8 December 1992 on the protection of privacy (the **Belgian Privacy Act**).

The Belgian Privacy Act permits the processing of personal data under several permissibility grounds, including (a) the prior consent of the data subject, (b) the necessity to process the personal data in order to execute an agreement to which a data subject is a party, and (c) the necessity to process the personal data for legitimate interests of the controller of the processing (insofar as these interests are not outweighed by the legitimate interests of the data subject). The Issuer has been advised that a view could be taken that the transfer of the SME Receivables by the Seller to the Issuer is permitted based on the latter two grounds, so that the prior consent of the Borrowers must not be obtained.

Non-compliance with these regulations may expose the Issuer to legal sanctions and penalties which could have a negative impact on its capacity to (re)pay the Notes.

## **6. RISK FACTORS – PORTFOLIO INFORMATION**

### **6.1 No Searches and Investigations**

None of the Issuer or the Security Agent have made or caused to be made nor will any of them make or cause to be made, any enquiries, investigations or searches to verify the details of the SME Receivables or the Related Security, or to establish the creditworthiness of any Borrower, or any other enquiries, investigations or searches which a prudent purchaser of the SME Receivables would ordinarily make, and each will rely instead on the representations and warranties given by the Seller

in the SME Receivables Purchase Agreement. These representations and warranties will be given in relation to the SME Receivables and all rights related thereto.

If there is an unremedied material breach of any representation and warranty in relation to any SME Receivable and Related Security relating thereto and, to the extent the breach can be remedied, the Seller has not remedied the breach within thirty (30) calendar days of receipt of notice therefrom from the Issuer, the Issuer will have the right (exercisable upon its own initiative or at the direction of the Security Agent) to require the Seller to repurchase such SME Receivables and the Related Security, for an aggregate amount equal to the then Outstanding Principal Amount of the repurchased SME Receivable plus accrued interest thereon and costs up to (but excluding) the date of completion of the repurchase. The Issuer and the Security Agent will have no other remedy in respect of such breach if the Seller fails to effect such repurchase in accordance with the SME Receivables Purchase Agreement. This may affect the quality of the SME Receivables and the Related Security and accordingly the ability of the Issuer to make payments on the Notes.

## **6.2 Historical Information**

The historical, financial and other information set out under *Portfolio Overview* represents the historical performance of the SME Receivables. There can be no assurance that the future performance of the SME Receivables will be similar to the historical performance of the SME Receivables set out in this Prospectus.

The historical and other information set out under *The Belgian Market for SME Loans* is historical information, and therefore the description of the Belgian market for SME loans may not constitute a comprehensive and up-to-date description. There can be no assurance of future similar developments of the Belgian market for SME loans.

## **6.3 Limited Provision of Information**

Except if required by law, the Issuer will not be under any obligation to disclose to the Noteholders any financial information in relation to the SME Receivables. The Issuer will have no obligation to keep any Noteholder or any other person informed as to matters arising in relation to the SME Receivables, except for the information provided in the monthly investor report (the **Investor Report**) produced by the Administrator in relation to the Notes, which will be made available to, among others, the Issuer, the Security Agent and the Domiciliary Agent, on or about each Monthly Payment Date.

## **7. RISK FACTORS – GENERAL**

### **7.1 Global Credit Market Conditions**

Holder should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. The Issuer cannot predict when these circumstances will change and if and when they do whether conditions of general market illiquidity for the Notes and instruments similar to the Notes will return in the future.

### **7.2 Notes in dematerialised form**

The Notes will be issued in the form of dematerialised notes under the Company Code and will be represented exclusively by book entries in the records of the Securities Settlement System.

Access to the Securities Settlement System is available through its Securities Settlement System Participants whose membership extends to securities such as the Notes (the “**Securities Settlement**”).

**System Participants**”). Securities Settlement System Participants include certain Belgian banks, stock brokers (*beursvennootschappen / sociétés de bourse*), SIX SIS Ltd, Monte Titoli, Euroclear France, Clearstream, Luxembourg and Euroclear.

Transfers of interests in the Notes will be effected between the Securities Settlement System Participants in accordance with the rules and operating procedures of the Securities Settlement System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the Securities Settlement System Participants through which they hold their Notes.

The Issuer and the Domiciliary Agent will not have any responsibility for the proper performance by the Securities Settlement System or its Securities Settlement System Participants of their obligations under their respective rules and operating procedures.

Investors will only be able to hold the Notes through an X-account through a Securities Settlement System Participant, including Euroclear or Clearstream. The Investors will therefore need to confirm their status as Eligible Investor (as defined in Article 4 of the *Koninklijk Besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing / Arrêté Royal du 26 mai 1994 sur la retenue et bonification du précompte mobilier* (“**Royal Decree of 26 May 1994 on the deduction and indemnification of withholding tax**”)) in the account agreement to be entered into with a Securities Settlement System Participant, including Euroclear or Clearstream.

### 7.3 Change in Law and Tax

The structure of the Transaction and, among other things, the issue of the Notes and the ratings assigned to the Notes are based on law, tax rules, regulations, guidelines, rates and procedures, and administrative practice in effect at the date of this document. No assurance can be given that there will be no change to such law, tax rules, rates, procedures or administrative practice after the date of this Prospectus which change might have an adverse impact on the Notes and the expected payments of interest and repayment of principal in respect of the Notes.

### 7.4 Conflict of interest

KBC Bank NV/SA is acting in a number of capacities (as Seller, Servicer, Subordinated Loan Provider, Domiciliary Agent, Listing Agent, Reference Agent, Arranger, Manager, Account Bank, Swap Counterparty and Corporate Services Provider) in connection with the Transaction described herein. In acting in such capacities in connection with such Transaction, KBC Bank NV/SA shall have only the duties and responsibilities expressly agreed to by it in its relevant capacity and shall not, by virtue of its acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to hold a standard of care other than expressly provided with respect to each such capacity.

Noteholders should therefore be aware that a conflict of interest could arise between the various roles of KBC Bank NV/SA and that KBC Bank NV/SA has no implicit or explicit obligation or duty to act in the best interest of the Noteholders when performing its various functions.

### 7.5 Risks relating to the proposed financial transactions tax

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the “**Commission’s proposal**”) for a financial transaction tax (“**FTT**”) to be adopted in certain participating EU member states (including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, although Estonia has since stated that it will not participate). If the Commission’s proposal was adopted, the FTT would be a tax primarily on “financial institutions” (which would include the Issuer) in relation to “financial transactions” (which



would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating member states. Generally, it would apply where at least one party is a financial institution, and at least one party is established in a participating member state. A financial institution may be, or be deemed to be, "established" in a participating member state in a broad range of circumstances, including (a) by transacting with a person established in a participating member state or (b) where the financial instrument which is subject to the financial transaction is issued in a participating member state.

The FTT may give rise to tax liabilities for the Issuer with respect to certain transactions (including concluding swap transactions and/or purchases or sales of securities (such as authorised investments)) if it is adopted based on the Commission's proposal. Any such tax liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest or principal than expected. It should also be noted that the FTT could be payable in relation to relevant transactions by investors in respect of the Notes (including secondary market transactions) if the conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission's proposal. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

However, the FTT proposal remains subject to negotiation between participating member states. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## **7.6 Legal investment considerations and implementation of regulatory changes that may restrict certain investments or may affect the liquidity of the Notes**

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory position for certain investors in securitisation exposures and/or on the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Seller, the Servicer, the Administrator, the Manager or the Arranger makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment or other regulatory treatment of their investment in the Notes on the Closing Date or at any time in the future.

### **(a) Risk Retention Rules**

Investors should be aware of the EU risk retention and due diligence requirements which currently apply, or are expected to apply in the future, in respect of various types of EU regulated investors including credit institutions, authorised alternative investment fund managers, investment firms, insurance and reinsurance undertakings, UCITS funds and institutions for occupational retirement provision. In particular, investors subject to European supervision should be aware of Article 405 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the "**Capital Requirements Regulation**" or "**CRR**") and Article 51 and 52 of the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU (the "**AIFM Regulation**").

Amongst other things, such regulations restrict investors subject thereto from investing in asset-backed securities unless (i) that investor is able to demonstrate that it has undertaken certain due diligence in respect of various matters including its note position, the underlying assets and (in the case of certain types of investors) the relevant sponsor or originator and that procedures are established for such activities to be conducted on an ongoing basis, and (ii) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the investor that it will retain, on an on-going basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor. Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear.

Article 405 of the CRR and Article 51 and 52 of the AIFM Regulation apply in respect of the Notes. With respect to the commitment of the Seller to retain a material net economic interest in the securitisation and with respect to the information to be made available by the Issuer or another relevant party (or, after the Closing Date, by the Servicer), please see the following statement.

The Seller has undertaken to retain a material net economic interest of not less than 5% in the Transaction in accordance with Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51 paragraph (1) sub-paragraph (d) of the AIFM Regulation. As at the Closing Date, such interest will in accordance with Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51 paragraph (1) sub-paragraph (d) of the AIFM Regulation be comprised of an interest in the first loss tranche, and, if necessary, other tranches having the same or a more severe risk profile than those sold to the investors. Any change in the manner in which this interest is held shall be notified to investors. The Seller has provided a corresponding undertaking with respect to the interest to be retained by it during the period wherein the Notes are outstanding to the Issuer and the Security Agent in the SME Receivables Purchase Agreement. In addition to the information set out herein and forming part of this Prospectus, the Seller has undertaken to make available materially relevant data with a view to complying with Article 405 of the CRR and Articles 51 and 52 of the AIFM Regulation, which can be obtained from the Seller upon request. After the Closing Date, the Issuer will prepare monthly Investor Reports wherein relevant information with regard to the SME Receivables will be disclosed publicly together with an overview of the retention of the material net economic interest by the Seller as confirmed to the Issuer for each Investor Report. Such information can be obtained from the website [www.kbc.be/abs/smeloaninvest2017](http://www.kbc.be/abs/smeloaninvest2017). For the avoidance of doubt, none of the Issuer, the Seller, the Arranger or the Manager makes any representation as to the accuracy or suitability of any financial model which may be used by a prospective investor in connection with its investment decision. Each prospective investor is required to independently assess and determine the sufficiency of the information described above for the purposes of complying with Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51 paragraph (1) sub-paragraph (d) of the AIFM Regulation and none of the Issuer, the Seller (in its capacity as the Seller and the Servicer), the Administrator, the Arranger nor the Manager makes any representation that the information described above or in the Prospectus is sufficient in all circumstances for such purposes. In addition, each prospective noteholder should ensure that it complies with the implementing provisions in respect of Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51 paragraph (1) sub-paragraph (d) of the AIFM Regulation in its relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction should seek guidance from their regulator.

Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with any relevant requirements and none of the Issuer, the Seller, the Servicer, the Administrator, the Arranger nor any Manager makes any

representation that the information described above is sufficient in all circumstances for such purposes.

Prospective investors should therefore make themselves aware of the changes and requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Notes. The matters described above and any other changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

**(b) Basel III & Solvency II**

The Basel Committee on Banking Supervision (the “**Basel Committee**”) approved significant changes to the Basel II regulatory capital and liquidity framework in 2011 (such changes being commonly referred to as “**Basel III**”). In particular, Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio “backstop” for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Basel Committee member countries agreed to implement Basel III from 1 January 2013, subject to transitional and phase-in arrangements for certain requirements e.g. the Liquidity Coverage Ratio requirements refer to implementation from the start of 2015, with full implementation by January 2019, and the Net Stable Funding Ratio requirements refer to implementation from January 2018). Implementation of Basel III requires national legislation and therefore the final rules and the timetable for their implementation in each jurisdiction as well as the treatment of asset-backed securities (e.g. as Liquidity Coverage Ratio eligible assets or not) may be subject to some level of national variation. The European authorities have indicated that they support Basel III in general. The capital rules of Basel III have been implemented through a directive and a regulation adopted on 26 June 2013 by the Council of the European Union (collectively referred to as “**CRD IV**”), which replaced the directives 2006/48/EC and 2006/49/EC, as amended by directive 2009/111/EC. CRD IV entered into force on 1 January 2014, with full implementation by January 2019; however, CRD IV allows individual Member States to implement a stricter definition and/or level of capital more quickly than is envisaged under Basel III. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the Solvency II framework in Europe.

It should be noted that the European Commission has published legislative proposals for two new regulations related to securitisation. Amongst other things, the proposals include provisions intended to implement the revised securitisation framework developed by BCBS and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated investors. There are material differences between the legislative proposals and the current requirements including with respect to application approach under the retention requirements and the originator entities eligible to retain the required interest. Moreover, further changes may be, and have been, proposed through the political negotiation process. It is not clear whether, and in what form, the legislative proposals (and any corresponding technical standards) will be adopted. In addition, the compliance position under any adopted revised requirements of transactions entered into prior to adoption, and of activities undertaken by a party (including an investor) in respect of such transactions, is uncertain.

Implementation of the Basel III and Solvency II framework and any changes as described above may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the

Notes for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements or regulatory liquidity requirements in respect of the Notes and as to the consequences for and effect on them of any changes to the Basel framework (including the changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

## 7.7 The Belgian bank recovery and resolution regime

Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the “**Bank Recovery and Resolution Directive**” or “**BRRD**”) provides for the establishment of a European-wide framework for the recovery and resolution of credit institutions and investment firms. The stated aim of the BRRD is to provide supervisory and resolution authorities, including the resolution college of the National Bank of Belgium within the meaning of Article 21ter of the Law of 22 February 1998 establishing the organic statute of the National Bank of Belgium, or any successor body or authority (the “**National Resolution Authority**” and, together with the national resolution authorities of other participating Member States, the “**NRAs**”), with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers’ exposure to losses.

BRRD had been transposed into Belgian law in subsequent stages pursuant to:

- (a) the Credit Institutions Supervision Act;
- (b) the law of 18 December 2015 containing various financial provisions;
- (c) the Royal Decree of 26 December 2015 amending the Credit Institutions Supervision Act related to the recovery and resolution of groups;
- (d) the Royal Decree of 18 December 2015 amending the Credit Institutions Supervision Act which introduces the bail-in mechanism; and
- (e) the law of 27 June 2016 for the implementation of several provisions of the BRRD in relation to the use of government financial stabilisation tools, the objectives of resolution financing arrangements and the establishment and use of resolution financing arrangements.

Under the Belgian bank recovery and resolution regime, the supervisory and resolution authorities (which includes the National Resolution Authority) are able to take a number of measures in respect of any credit institution it supervises if deficiencies in such credit institution’s operations are not remedied. Such measures include: the appointment of a special commissioner whose consent is required for all or some of the decisions taken by all the institution’s corporate bodies; the imposition of additional requirements in terms of solvency, liquidity, risk concentration and the imposition of other limitations; the complete or partial suspension or prohibition of the institution’s activities; the revocation of the institution’s licence; and the right to impose the reservation of distributable profits, or the suspension of dividend distributions or interest payments to holders of additional Tier 1 capital instruments.

The Credit Institutions Supervision Act allows the NRA to take resolution actions. Such powers include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a “bridge institution” (an entity created for that purpose which is

wholly or partially in public control) and (iii) separate assets by transferring impaired or problem assets to a bridge institution or one or more asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down. The Credit Institutions Supervision Act grants a “bail in” power to the NRA. The NRA now have the ability to impose losses on certain financial liabilities of the failing credit institution, either by writing down the principal amount of the liability or converting it into equity. Due to the bail-in mechanism, shareholders and creditors will thus have to contribute to the losses of the failing institution.

It should be noted that (i) certain elements of the Credit Institutions Supervision Act require further detailed measures to be taken by other authorities, in particular the National Bank of Belgium, (ii) certain elements of the Credit Institutions Supervision Act will be influenced by further regulations (including through technical standards) taken or to be taken at European level, and (iii) the application of the Credit Institutions Supervision Act may be influenced by the recent assumption by the European Central Bank of certain supervisory responsibilities which were previously handled by the National Bank of Belgium and, in general, by the allocation of responsibilities between the European Central Bank and the National Bank of Belgium.

Finally, it should be noted that certain of the European initiatives (in particular the prohibition on proprietary trading) to be transposed into Belgian law pursuant to the Credit Institutions Supervision Act are still in draft form, or subject to political discussion, at the European level. Whilst the Credit Institutions Supervision Act contains powers to allow the government to conform the Credit Institutions Supervision Act to developments at a European level in certain areas through a royal decree, it cannot be ruled out that there will be differences between the regulatory regime promulgated by the relevant European directives and the regulatory regime of the Credit Institutions Supervision Act.

Although the exercise of powers by the National Bank of Belgium under the Credit Institutions Supervision Act could not affect the transfer of legal title to the SME Loans to the Issuer, there is a risk that such exercise of powers could adversely affect the proper performance by each of the Seller, the Servicer and the Administrator of its payment and other obligations to the Issuer and enforcement thereof against the such parties under the Transaction Documents.

## **7.8 European Market Infrastructure Regulation**

European Regulation N° 648/2012 of the European Parliament and or the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (“**EMIR**”) introduced requirements to improve transparency and reduce the risks associated with the over-the-counter (OTC) derivatives market. The application of EMIR requirements depends largely on the qualification of an entity as either a financial or non-financial counterparty. In general terms EMIR establishes certain requirements for OTC derivatives contracts, including a mandatory clearing obligation, risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty and reporting requirements.

For financial counterparties and non-financial counterparties above the clearing threshold, EMIR requires (i) that OTC derivatives contracts that are subject to a mandatory clearing obligation clear through a central counterparty and (ii) to implement new risk management standards for all bilateral OTC derivative trades that are not cleared by a central counterparty, including a requirement for these counterparties to post mandatory margin.

Under EMIR, (i) financial counterparties and (ii) non-financial counterparties whose positions in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold must clear OTC derivatives contracts that are entered into on or after the effective date for the clearing obligation for that counterparty pair (the “**Clearing Start Date**”). In addition, some market participants will have

to, from the relevant Clearing Start Date, clear relevant transactions entered into during a given period leading up to the relevant Clearing Start Date, a requirement known as “frontloading”.

Contracts which are declared subject to the clearing obligation will have to be cleared through an authorised or recognised central counterparty (“**CCP**”) when they trade with each other or with equivalent third country entities unless an exemption applies. Subject to certain conditions, intragroup transactions will not be subject to the clearing obligation. At this moment CCPs have been authorised to offer services and activities in the European Union in accordance with EMIR and following the entry into force on 21 December 2015 of the delegated regulation (the “**IRS Clearing RTS**”) relating to the introduction of the mandatory clearing obligation for certain interest rate swap transactions in USD, EUR, GBP and JPY (“**G4 IRS Contracts**”), there is now a concrete timeframe for the first classes of transactions subject to mandatory clearing and frontloading. The IRS Clearing RTS include a further categorisation of in-scope counterparties by splitting in-scope counterparty types into Category 1, 2, 3 and 4. This further categorisation impacts the relevant Clearing Start Date. The clearing obligation for this first wave of contracts will start from 21 June 2016 for Category 1 counterparties, 21 December 2016 for Category 2 counterparties, 21 June 2017 for Category 3 counterparties and 21 December 2018 for Category 4 counterparties.

The Swap Agreement will likely qualify as an OTC derivative having a conditional notional amount. However, OTC derivatives contracts that are not cleared by a central counterparty are subject to certain other risk management procedures, including arrangements for timely confirmation of OTC derivatives contracts, portfolio reconciliation, dispute resolution and arrangements for monitoring the value of outstanding OTC derivatives contracts. Certain of these risk mitigation requirements impose obligations on the Issuer in relation to the Swap Agreement. EMIR also contains requirements with respect to margining, which are expected to be phased in early 2017. Various regulatory and implementing technical standards have now come into force, but certain critical technical standards have not yet been finalised or come into force, including those addressing the scope of collateralisation obligations in respect of OTC derivative contracts which are not cleared. In addition, under EMIR, counterparties must report all their OTC and exchange traded derivatives contracts to an authorised or recognised trade repository or to ESMA.

The CRR aims to complement EMIR by applying higher capital requirements for bilateral, over-the-counter derivative trades. Lower capital requirements for cleared trades are only available if the central counterparty is recognised as a 'qualifying central counterparty', which has been authorised or recognised under EMIR (in accordance with related binding technical standards). Further significant market infrastructure reforms have been introduced by amendments to the EU Markets in Financial Instruments Directive and are expected to be implemented in 2018.

EMIR may, *inter alia*, lead to more administrative burdens and higher costs for the Issuer. In addition, there is a risk that the Issuer’s position in derivatives according to EMIR exceeds the clearing threshold and/or is included in the classes of OTC derivatives that are subject to the clearing obligation and, consequently, the Swap Agreement may become subject to clearing and margining requirements. This could give rise to additional costs and expenses for the Issuer, which may in turn reduce amounts available to make payments with respect to the Notes. The Issuer may also need to appoint a third party and/or incur costs and expenses to enable it to comply with the regulatory requirements imposed by EMIR. In the event that under EMIR additional provisions or technical standards do come into force, this may necessitate amendments to the Transaction Documents. The Issuer will pay such costs, without prior consent of the Security Agent or the Noteholders, under item (iii) of the Interest Priority of Payments or item (iii) of the Priority of Payments upon Enforcement.

Pursuant to Article 12(3) of EMIR any failure by a party to comply with the rules under Title II of EMIR should not make the Swap Agreement as applicable invalid or unenforceable. However, if any

party fails to comply with the rules under EMIR it may be liable for a fine. If such a fine is imposed on the Issuer, the Issuer may have insufficient funds to pay its liabilities in full.

## 7.9 Eligible collateral

The European Central Bank does not provide any pre-issuance advice regarding the eligibility of assets as Eurosystem collateral. The Eurosystem does only provide counterparties with advice regarding the eligibility of assets as Eurosystem collateral if such assets are submitted to it as collateral. None of the Issuer and the Manager nor any Affiliated Entity of the Issuer and the Manager gives any representation or warranty as to whether the European Central Bank will ultimately confirm the eligibility of such Notes for such purpose and none of the Issuer and the Manager nor any Affiliated Entity of the Issuer and the Manager will have any liability or obligation in relation thereto if the Notes are at any time deemed ineligible for such purposes.

## 7.10 VAT treatment of management services supplied to a VBS/SIC

Services supplied to a VBS/SIC in respect of its management (including its administration and the organisation and management of its financing instruments) and its assets (including the receipt of payments on behalf of the Issuer and the forced collection of receivables) should be exempt from Belgian VAT on the basis of the exemption provided for in article 44, §3, 11° of the Belgian VAT Code. Despite the intention of the legislator (in the Law of 3 August 2016) to correct an incomplete reference to the relevant regulatory framework (as confirmed in a decision from the Belgian VAT authorities dd. 30 March 2015 (ET 127.885)), the corrected text would based on a literal reading not achieve that objective, due to a mistake in the text of the law. It is expected that the text of the law will be corrected again.

## 7.11 Tax treatment of interest payments by the Borrowers under the SME Loans under Article 198, §1, 11° of the BITC 1992

Under Belgian income tax, at arm's length interest payments by a borrower on loans relating to its professional activities (such as the SME Loans) are generally tax deductible as professional expenses. In respect of entities subject to Belgian corporate income tax, the deduction of such interest payments as professional expenses is, among others, nevertheless disallowed in the event that:

- (a) the real beneficiary of the interest payments due under the loans is not subject to income tax or, in respect of that income, is subject to a taxation regime which is considerably more advantageous than the regular income tax regime for Belgian corporate residents, or is an entity affiliated to the Borrower; and
- (b) the aggregate amount of the loans referred to sub (a) above exceeds five times the sum of:
  - (i) the taxed reserves of such borrower at the beginning of the taxable period; and
  - (ii) the paid-up capital of such borrower at the end of the taxable period,

whereby the tax deduction is disallowed to the extent that the debt to equity ratio as referred to under (b) (the "**Debt to Equity Ratio**") exceeds 5 to 1 (Article 198, §1, 11° of the BITC 1992).

As set out below (see section 19.13 (*Tax Position of the Issuer*) below), a VBS/SIC such as the Issuer is subject to corporate income tax at the ordinary rate of currently 33.99%, but its tax base is notional. This means that the Issuer will only be taxed on any disallowed expenses and any abnormal or gratuitous benefits received. Interest payments which the Issuer receives on the SME Loans are therefore not included in its tax base.

The question has therefore been raised whether, based on a strict reading of Article 198, §1, 11° of the BITC 1992, the Issuer could be considered as an entity which is subject to a taxation regime which is considerably more advantageous than the regular income tax regime for Belgian resident companies. In that case, payments of interest on SME Receivables that were transferred to the Issuer would not be tax deductible for the Borrowers to the extent that the 5 to 1 Debt to Equity Ratio is exceeded at the level of the latter.

To obtain legal certainty on this point, the Seller has obtained an advance tax ruling dated 31 January 2017 and with reference number 2016.837, in which the Belgian Ruling Commission confirmed that the tax deductibility of interest payments by the Borrowers under the SME Loans, following their transfer to the Issuer, is not affected by the restrictions of Article 198, §1, 11° of the BITC 1992.

## 7.12 Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as **FATCA**, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Belgium) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes that are characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

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*The Issuer believes that the risks described under Section 3, 4, 5 and 6 above are certain of the principal risks inherent in the Transaction for the Noteholders but the inability of the Issuer to pay interest or repay principal on the Notes may occur for other reasons and, accordingly, the Issuer does not represent that the above statements of the risks of holding the Notes are comprehensive. While the various structural elements described in the Prospectus are intended to lessen some of these risks for Noteholders there can be no assurance that these measures will be sufficient or effective to ensure payment to the Noteholders or interest and principal on such Notes on a timely basis at all.*



## 8. TRANSACTION OVERVIEW

*The following is an overview of the principal features of the Transaction described in this Prospectus including the issue of the Notes. The information in this section does not purport to be complete. This overview should be read as an introduction to and in conjunction with, and is qualified in its entirety by reference, to the detailed information appearing elsewhere in this Prospectus. Prospective Noteholders are advised to read carefully, and to rely solely on, the detailed information appearing elsewhere in this Prospectus, the Conditions and the Transaction Documents referred to therein in making any decision whether or not to invest in any Notes. If a claim relating to the information contained in this Prospectus will be brought before a competent court, the claimant will, subject to the legal requirement of the relevant member state of the European Economic Area, have to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

*Capitalised terms used but not defined in this section have the meaning given thereto elsewhere in this Prospectus.*

### Transaction Overview

The following is an overview of the transaction as illustrated by the Transaction Structure Diagram below.

- (1) On or about 31 March 2017 the Issuer will enter into a SME Receivables purchase agreement (the “**SME Receivables Purchase Agreement**”) with the Seller and the Security Agent. Pursuant to the SME Receivables Purchase Agreement the Seller will sell and assign to the Issuer legal title to the SME Receivables. The SME Receivables consist of any and all rights of the Seller against certain borrowers under SME Loans originated by the Seller which loans may be secured, by a (i) a first ranking Mortgage, (ii) a lower ranking Mortgage, (iii) a mandate to create Mortgages in Belgium, (iv) a Floating Charge or (v) a Floating Charge Mandate, or may be unsecured. The initial purchase price for the SME Receivables amounts to 100% of the Outstanding Principal Amount of the SME Receivables on the Cut-Off Date (which will be equal to an amount of approximately, EUR 5,600,000,000). The transfer of legal title to the SME Receivables will take place on 7 April 2017 or on such later date as may be agreed between the Issuer, the Seller and the Manager (the “**Closing Date**”). The Issuer will pay the initial purchase price on the Closing Date.
- (2) To fund the initial purchase price, the Issuer will issue the Notes and enter into the Subordinated Loan Agreement with the Subordinated Loan Provider on the Closing Date.
- (3) The Issuer will credit on the Closing Date EUR 56,000,000 from the proceeds of the Subordinated Loan to the Reserve Account.
- (4) On each Monthly Payment Date, the Issuer will pay the Noteholders interest and principal in accordance with and subject to the Interest Priority of Payments and the Principal Priority of Payments. See Section 12 – *Credit Structure*.
- (5) The rates of interest on the SME Receivables and on the Transaction Accounts will not necessarily equal the floating rates applicable to the Notes. In order to provide a hedge against certain differences in these rates, the Issuer will enter into an interest rate swap transaction under an ISDA Master Agreement, including a schedule and a credit support annex thereto (the “**Credit Support Annex**”) (together, the “**Swap Agreement**”) with KBC Bank NV (as the “**Swap Counterparty**”).
- (6) The ability of the Issuer to meet its obligations under the Notes will depend primarily upon the receipt by it of principal and interest from the Borrowers under the SME Receivables

and the receipt of funds under the Swap Agreement. The Issuer will secure its obligations under the Notes. Pursuant to a parallel debt agreement (the “**Parallel Debt Agreement**”) the Issuer will undertake to pay to the Security Agent, on the same terms and conditions, an amount equal to the aggregate of all amounts from time to time due and payable by the Issuer to the Noteholders and the other Secured Parties (such payment undertaking and the obligations and liabilities resulting from it being referred to as the “**Parallel Debt**”). Upon receipt by the Security Agent of any amount in payment of the Parallel Debt, the payment obligations of the Issuer to the Secured Parties shall be reduced by an amount equal to the amount so received.

- (7) The Issuer will enter into a pledge agreement (the “**Pledge Agreement**”) with Deloitte Bedrijfsrevisoren / Réviseurs d’Entreprises C.V.B.A. (the “**Security Agent**”) pursuant to which the Security Agent is appointed (i) as representative (*vertegenwoordiger / représentant*) of the Noteholders in accordance with Article 271/12, §1, first to seventh indent of the UCITS Act with respect to their rights and obligations under the Notes and the Conditions, (ii) as agent on behalf of the Secured Parties in accordance with article 5 of the Collateral Law and (iii) as irrevocable agent (*mandataris / mandataire*) of the other Secured Parties. Furthermore, in accordance with the terms of the Pledge Agreement, the obligations of the Issuer to the Secured Parties and the Parallel Debt are secured by a first-ranking pledge over (i) the SME Receivables (ii) the Issuer’s claims under the Transaction Documents and (iii) the balances standing to the credit of the Transaction Accounts. Upon the occurrence of an Event of Default under the Notes, the Security Agent may give notice to the Issuer that the amounts outstanding under the Notes (and under the Parallel Debt) are immediately due and payable and may enforce the Pledge Agreement. The Security Agent will apply the amounts recovered upon enforcement of the Pledge Agreement in accordance with the Priority of Payments upon Enforcement towards satisfaction of the amounts owed by the Issuer to the Noteholders and such other transaction parties. See Section 12 – *Credit Structure*.
- (8) The Issuer will enter into a subordinated loan agreement (the “**Subordinated Loan Agreement**”) with KBC Bank NV (as the “**Subordinated Loan Provider**”) on or before the Closing Date, pursuant to which the Subordinated Loan Provider will agree to make available to the Issuer a subordinated loan (the “**Subordinated Loan**”), the proceeds of which will be used to (i) pay part of the Initial Purchase Price, and (ii) credit the Reserve Account up to the Reserve Account Required Amount.
- (9) The Issuer will enter into an expenses subordinated loan agreement (the “**Expenses Subordinated Loan Agreement**”) with the Subordinated Loan Provider on or before the Closing Date, pursuant to which the Subordinated Loan Provider will agree to make available to the Issuer an expenses subordinated loan (the “**Expenses Subordinated Loan**”), the proceeds of which will be used to pay certain initial costs and expenses in connection with the issue of the Notes.
- (10) The Issuer will enter into an Account Bank Agreement (the “**Account Bank Agreement**”) with KBC Bank NV (as the “**Account Bank**”) and the Security Agent on or before the Closing Date, pursuant to which the Account Bank guarantees a certain interest rate (the “**Account Interest Rate**”) determined by reference to Eonia minus 0.125 per cent. (with a floor at zero) on the balance standing from time to time to the credit of certain bank accounts maintained by the Issuer with the Account Bank.
- (11) The Issuer will enter into a SME payment transactions and issuer services agreement (the “**Issuer Services Agreement**”) with the Seller (as the “**Servicer**”), the Security Agent, KBC Bank NV (as “**Corporate Services Provider**”) and Intertrust Administrative Services B.V. (as “**Administrator**”) on or before the Closing Date, pursuant to which (i) the Servicer will

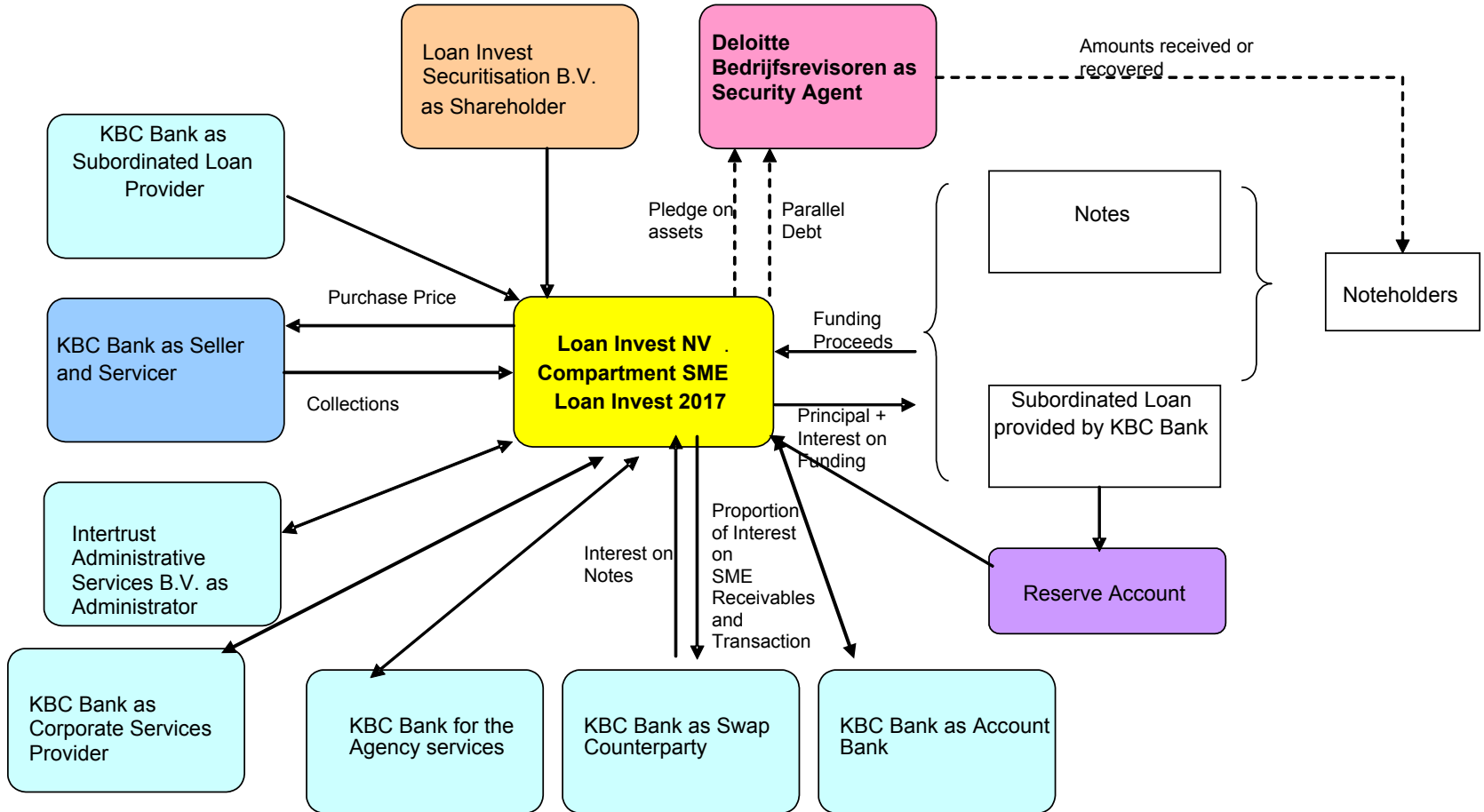
agree to provide SME payment transactions and the other services as agreed in the Issuer Services Agreement in relation to the SME Receivables, (ii) the Corporate Services Provider will agree to provide certain reporting and corporate services for the Issuer and (iii) the Administrator will agree to provide certain administration, calculation and cash management services for the Issuer.

In addition, the Issuer will enter into *inter alia* the following agreements:

- (1) a subscription agreement (the “**Subscription Agreement**”) with KBC Bank NV (as “**Arranger**” and as “**Manager**”) pursuant to which the Manager agrees to subscribe and pay for or to procure subscription and payment for the Notes;
- (2) an agency agreement (the “**Agency Agreement**”) with KBC Bank NV (as the “**Domiciliary Agent**”, “**Listing Agent**” and “**Reference Agent**”) pursuant to which the Domiciliary Agent, the Listing Agent and the Reference Agent will respectively act as domiciliary agent, listing agent and reference agent in relation to the Notes;
- (3) a clearing agreement (the “**Clearing Agreement**”) with the National Bank of Belgium (as “**Securities Settlement System Operator**”) pursuant to which the Notes will be cleared in accordance with the Securities Settlement System;
- (4) a master definitions agreement (the “**Master Definitions Agreement**”) with, among others, the Secured Parties, setting out certain definitions, terms and principles that are used for the interpretation and construction of the Transaction Documents; and
- (5) issuer management agreements (the “**Issuer Management Agreements**”) with the Issuer Directors and the Security Agent pursuant to which the Issuer Directors will undertake to act as managing director of the Issuer and to perform certain services in connection therewith.

In addition, shareholder management agreements (the “**Shareholder Management Agreements**”) will be entered into between the Stichting Shareholder, the Shareholder, the Shareholder Director and the Security Agent pursuant to which, *inter alia*, the Shareholder Director will undertake to act as director of the Stichting Shareholder and the Shareholder and to perform certain services in connection therewith.

## TRANSACTION STRUCTURE DIAGRAM



## 9. SUMMARY OF THE NOTES

Certain features of the Notes are summarised below (see further '*Principal Features of the Notes*' below):

Principal Amount	EUR 3,920,000,000
Credit Enhancement	Subordination of the Subordinated Loan
Margin	0.75 per cent.
Interest Accrual	Act/360
Monthly Payment Date	Interest and principal will be payable monthly in arrears on the 15 <sup>th</sup> day of each month, or if such day is not a Business Day, the next succeeding Business Day
Reference floating rate	1 month Euribor
Final Maturity Date	Monthly Payment Date falling in April 2051
Denomination	EUR 250,000
Form	Dematerialised form
Listing	Euronext Brussels
Rating	At least AAAsf by Fitch and AAA(sf) by DBRS
ISIN Code	BE0002275445
Common Code	158880172

## 10. KEY PARTIES AND OVERVIEW PRINCIPAL FEATURES

*The following is an overview of the key transaction parties and the principal features of the issue of the Notes, and should be read in conjunction with detailed information presented elsewhere in this Prospectus. Capitalised terms used but not defined herein have the meaning given thereto elsewhere in this Prospectus.*

### Key Transaction Parties

#### “Issuer”:

Loan Invest NV/SA, *institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht / société d’investissement en créances institutionnelle de droit belge*, acting through its Compartment SME Loan Invest 2017. The Issuer was incorporated as a company with limited liability (*naamloze vennootschap / société anonyme*) existing under the laws of the Kingdom of Belgium, and has its registered office at Koningsstraat 97, 1000 Brussels, registered with the Crossroads Bank for Enterprises under number RPR 0889.054.884, Commercial Court of Brussels.

The Issuer qualifies as a Belgian institutional company for investment in receivables (*institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht / société d’investissement en créances institutionnelle de droit belge*) in accordance with the UCITS Act and has been registered as such with the Federal Public Service Finance (*Federale Overheidsdienst Financiën / Service Public Fédéral Finances*) on 8 May 2007. Compartment SME Loan Invest 2017 of the Issuer has been registered with the Federal Public Service Finance (*Federale Overheidsdienst Financiën / Service Public Fédéral Finances*) on 16 March 2017. Such registration cannot be considered as a judgment as to the opportunity or the quality of the Transaction, nor on the situation of the Issuer or its Compartment SME Loan Invest 2017.

The entire issued share capital of the Issuer is owned by the Shareholder. The Issuer is established to issue notes, such as the Notes, from time to time. Recourse in respect of the Notes will be limited to the SME Receivables and the Issuer’s rights under the Transaction Documents.

The Notes are issued by the Issuer, acting through its Compartment SME Loan Invest 2017. The Noteholders and the other Secured Parties only have recourse to the Pledged Assets of Compartment SME Loan Invest 2017 of the Issuer.

The Issuer may not engage in any other activity than securitisation and related transactions.

See further Section 19 – *The Issuer*.

#### “Seller”:

KBC Bank NV (“**KBC Bank NV**”), a credit institution existing under the laws of the Kingdom of Belgium, with its registered office at Havenlaan 2, 1080 Brussels, registered with the Crossroads Bank for Enterprises under number RPR 0462.920.226, Commercial Court of

Brussels.

KBC Bank NV is licensed as a credit institution in accordance with the Act of 25 April 2014 on the supervision of the credit institutions (*Wet op het statuut en het toezicht op kredietinstellingen / Loi relative au statut et au contrôle des établissements de crédit*) (as may be amended from time to time, the “**Credit Institutions Supervision Act**”).

- “**Originator**”:  
KBC Bank NV
- “**Servicer**”:  
KBC Bank NV
- “**Administrator**”:  
Intertrust Administrative Services B.V.
- “**Security Agent**”:  
Deloitte Bedrijfsrevisoren / Réviseurs d’Entreprises C.V.B.A., a Belgian cooperative company with limited liability (*coöperatieve vennootschap met beperkte aansprakelijkheid / société cooperative à responsabilité limitée*), existing under the laws of the Kingdom of Belgium with its registered office at Gateway building, Luchthaven Nationaal 1 J, 1930 Zaventem, registered with the Crossroads Bank for Enterprises under number RPR 0429.053.863, Commercial Court of Brussels.
- The Security Agent is also appointed (i) as representative (*vertegenwoordiger / représentant*) of the Noteholders in accordance with the UCITS Act, and (ii) as irrevocable agent (*mandataris / mandataire*) of the other Secured Parties. See further *The Security Agent*.
- “**Shareholder**”:  
Loan Invest Securitisation B.V., a Dutch private company with limited liability (*besloten vennootschap*), with its registered office at Prins Bernhardplein 200, 1097 Amsterdam, the Netherlands, registered with the commercial register (*kamer van koophandel en fabrieken voor Amsterdam*) under number 34271179.
- “**Corporate Services Provider**”:  
KBC Bank NV
- “**Back-up Servicer Facilitator**”:  
Intertrust Administrative Services B.V.
- “**Stichting Shareholder**”:  
Stichting Loan Invest, a Dutch foundation (*stichting*) with its registered office at Prins Bernhardplein 200, 1097 Amsterdam, the Netherlands, registered with the commercial register (*kamer van koophandel en fabrieken voor Amsterdam*) under number 34270672.
- “**Issuer Directors**”:  
Irène Florescu and Christophe Tans, or any other duly appointed director of the Issuer.
- “**Shareholder Directors**”:  
Intertrust Management B.V. (“**Intertrust Management B.V.**”), a Dutch private company with limited liability (*besloten vennootschap*), with its registered office at Prins Bernhardplein 200, 1097 Amsterdam, the Netherlands, registered with the commercial register (*kamer van koophandel en fabrieken voor Amsterdam*) under number 33.22.64.15.
- “**Subordinated Loan Provider**”:  
KBC Bank NV

“Swap Counterparty”:	KBC Bank NV
“Account Bank”:	KBC Bank NV
“Domiciliary Agent”:	KBC Bank NV
“Reference Agent”:	KBC Bank NV
“Listing Agent”:	KBC Bank NV
“Securities Settlement System Operator”:	<i>De Nationale Bank van België / La Banque Nationale de Belgique</i> , a public company with limited liability incorporated under the laws of Belgium, with registered office at De Berlaimontlaan 14, 1000 Brussels, registered with the Crossroads Bank for Enterprises under number RPM/RPR 0203.201.340, Commercial Court of Brussels.
“Auditors”:	PricewaterhouseCoopers (PWC), with its registered office at Woluwedal 18, 1932 Zaventem, registered with the Crossroads Bank for Enterprises under number 0429.501.944, Commercial Court of Brussels, represented by Kurt Marichal until the general meeting that approves the annual accounts of 2016. A decision on the reappointment or change of mandate of the Auditors is expected to be taken in June 2017. The decision on the reappointment or change of the mandate of the Auditors will be published in the annexes to the Belgian State Gazette and on the website of the Issuer at <a href="http://www.kbc.be/abs/smeloaninvest2017">www.kbc.be/abs/smeloaninvest2017</a> .

## Principal features of the Notes

**Notes:** The EUR 3,920,000,000 floating rate SME Asset-Backed Notes due April 2051 (the “Notes”) will be issued by the Issuer on 7 April 2017 or on such later date as may be agreed between the Issuer, the Seller and the Manager

**Eligible Holders of the Notes** The Notes may only be acquired by direct subscription, by transfer or otherwise, and may only be held by holders that satisfy the following criteria (“Eligible Holders”):

- (a) they qualify as a Qualifying Investor (*in aanmerking komende belegger / investisseurs éligible*) (as referred to in Article 5, §3/1 of the UCITS Act), acting for their own account;
- (b) they do not constitute investors that, in accordance with annex A, (I), second indent, of the Royal Decree of 3 June 2007 concerning further rules for implementation of MiFID, have registered to be treated as non-professional investors; and
- (c) they are holders of an exempt securities account (“X-account”) with the Securities Settlement System operated by the National Bank of Belgium or (directly or indirectly) with a participant in such system and will use that X-Account for the holding of the Notes. Only investors referred to in article 4 of the Royal Decree of 26 May 1994 can hold an



X-account (“**Tax Eligible Investors**”). A non-exhaustive list of Tax Eligible Investors is set out below.

Each payment of interest on Notes of which the Issuer becomes aware that they are held by a holder that does not qualify as an Eligible Holder or qualifies as an Excluded Holder, will be suspended.

Pursuant to Article 5, §3 and §3/1 of the UCITS Act, Qualifying Investors are the “professional investors” (the “**Professional Investors**”) as set out below. A royal decree may restrict or extend this definition. The Professional Investors are the professional clients listed under Annex A to the royal decree of 3 June 2007 and the eligible counterparties in the meaning of Article 3, §1 of the royal decree of 3 June 2007, namely:

- (a) the Belgian and foreign legal entities that have a license or are regulated in order to be active on the financial markets including:
  - (i) the credit institutions;
  - (ii) the investment firms;
  - (iii) the other financial institutions that have a license or are regulated;
  - (iv) the insurance companies;
  - (v) the collective investment undertakings and their management companies;
  - (vi) the pension funds and their management companies;
  - (vii) the traders in commodities futures and derivated instruments (*grondstoffen termijnhandelaren / intermediaries en matières premières et instruments dérivés sur celles-ci*);
  - (viii) the local companies;
  - (ix) the other institutional investors;
- (b) the other companies than those contemplated in item a above, that satisfy at least two of the following three criteria, on individual basis:
  - (i) total balance sheet of EUR 20 million;
  - (ii) net annual turnover of EUR 40 million; and
  - (iii) equity of EUR 2 million;
- (c) national governments, Belgian state, Communities and Regions, national, regional and foreign authorities; public undertakings in charge of the public debt, central banks,

international and supranational institutions as the World Bank, the IMF, the European Central Bank, the European Investment Bank, and other similar international institutions;

- (d) other institutional investors whom the main activity is the investment in financial instruments, in particular entities in relation to assets securitisation and other financing operations.

The Royal Decree of 26 September 2006 (as amended by the Royal Decree of 26 September 2013) has further modified the definition of “Professional Investors” for the purposes of Article 5, §3/1 of the UCITS Act as follows:

- (a) private individuals are not considered as Professional Investors;
- (b) professional investors that have elected to be treated as non-professional investors, are for the purposes of Article 5, §3/1 of the UCITS Act considered as Professional Investors.

Tax Eligible Investors include *inter alia*:

- (a) Belgian resident companies subject to corporate income tax;
- (b) Belgian qualifying pension funds in the form of an ASBL/VZW;
- (c) semi-public governmental social security institutions or institutions similar thereto;
- (d) corporate investors who are non-residents of Belgium, whether they have a permanent establishment in Belgium or not;
- (e) individual investors who are non-residents of Belgium and who have not allocated the Notes to a professional activity in Belgium.

Tax Eligible Investors do not include, *inter alia*, Belgian resident investors who are individuals or Belgian non-profit organisations, other than those referred to under (b) and (c) above.

The above categories only summarise the detailed definitions contained in Article 4 of the Royal Decree of 26 May 1994, as amended, to which investors should refer to for a precise description of the relevant eligibility rules.

**Excluded holders:**

Notes may not be acquired by a Belgian or a foreign transferee who is not subject to income tax or who is, as far as interest income is concerned, subject to a tax regime that is deemed by the Belgian tax authorities to be significantly more advantageous than the Belgian tax regime applicable to interest income (within the meaning of Articles 54 and 198, §1, 11° of the Belgian Income Tax Code 1992 or any

successor provision).

Furthermore, no Notes may be acquired by a Belgian or foreign transferee that qualifies as an “affiliated company” (within the meaning of Article 11 of the Company Code) of the Issuer, save where such transferee also qualifies as a “financial institution” referred to in Article 56, §2, 2° of the Belgian Income Tax Code 1992.

Notes may also not be acquired by a Belgian or foreign transferee being a resident of, or having an establishment in, or acting, for the purposes of the Notes, through a bank account held in a tax haven jurisdiction, a low-tax jurisdiction or a non-cooperative jurisdiction as referred to in Article 307, §1, fifth indent of the Belgian Income Tax Code 1992 or any successor provision (the “**Excluded Holder**”).

- Issue Price:** The issue price of the Notes will be 100 per cent.
- Form:** The Notes will be issued in the form of dematerialised notes under the Company Code and will be represented exclusively by book entries in the records of the Securities Settlement System and will not be physically delivered. The Notes will be delivered in the form of an inscription on a securities account.
- Denomination:** The Notes will be issued in denominations of EUR 250,000 each.
- Status and Ranking:** The Notes rank *pari passu* without any preference or priority among Notes. See further Section 12 – *Credit Structure*.
- The rights of the Notes, in respect of priority of payment, are set out in Condition 4.2(c).
- Interest:** Interest on the Notes is payable by reference to successive monthly interest periods (each a “**Floating Rate Interest Period**”) and will be payable monthly in arrears in euro. Each Note shall bear interest on its Principal Amount Outstanding on the 15<sup>th</sup> day of each month (or, if such day is not a Business Day, the next succeeding Business Day) in each year (each such day being a “**Monthly Payment Date**”). Each successive Floating Rate Interest Period will commence on (and include) a Monthly Payment Date and end on (but exclude) the next succeeding Monthly Payment Date, except for the first Floating Rate Interest Period which will commence on (and include) the Closing Date and end on (but exclude) the Monthly Payment Date falling in May 2017. The interest will be calculated on the basis of the actual days elapsed in a Floating Rate Interest Period divided by a year of 360 days.
- A “**Business Day**” means a day on which banks are open for business in Brussels, provided that such day is also a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer payment system (“**TARGET2**”) or any successor thereto is operating credit or transfer instructions in respect of payments in euro.
- Interest on the Notes for each Floating Rate Interest Period from the Closing Date will accrue at a rate equal to the sum of the Euro

Interbank Offered Rate (“**Euribor**”) for one (1) month deposits in euro (determined in accordance with Condition 4.4) plus a margin which will be equal to 0.75 per cent. per annum. The interest rate applicable to the Notes will never be less than zero.

**Average Life:**

The estimated weighted average life of the Notes from the Closing Date up to (but excluding) the first Optional Redemption Date will be 1.7 years. The estimated weighted average life of the Notes excluding the optional redemptions will be 4.1 years.

The weighted average life of the Notes given above should be viewed with caution. See *Risk factors*.

**Final Maturity Date:**

Unless previously redeemed as provided below, the Issuer will redeem the Notes at their respective Principal Amount Outstanding on the Monthly Payment Date falling in April 2051 (the “**Final Maturity Date**”).

**Optional Redemption of the Notes:**

On the Monthly Payment Date falling in April 2022 and on each Monthly Payment Date thereafter (each an “**Optional Redemption Date**”), the Issuer will have the option to redeem all (but not some only) of the Notes at their respective Principal Amount Outstanding together with interest accrued but unpaid.

**Mandatory Redemption of the Notes:**

On the first Monthly Payment Date falling in April 2017 and on each Monthly Payment Date thereafter, the Issuer will be obliged to apply the Notes Redemption Available Amount to (partially) redeem the Notes at their respective Principal Amount Outstanding together with interest accrued but unpaid on a *pro rata* basis and *pari passu*.

On each Monthly Payment Date, the Notes Redemption Available Amount will be applied:

- (a) prior to the occurrence of a Sequential Trigger Event:
  - (i) *first*, up to the Maximum Pro Rata Amount Notes, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (ii) *second*, up to the Maximum Pro Rata Amount Subordinated Loan, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid; and
- (b) after the occurrence of a Sequential Trigger Event:
  - (i) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (ii) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.

**Redemption for tax reasons:**

The Notes may be redeemed at the option of the Issuer (which shall be under no obligation to do so) in whole, but not in part, on any Monthly

Payment Date, at their Principal Amount Outstanding, together with interest accrued but unpaid up to and including the date of redemption, if any of the following circumstances arise (and provided that the Issuer has sufficient funds available to discharge all amounts of principal and interest due in respect of the Notes):

- (a) if on the next Monthly Payment Date the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or any other person would be required to deduct or withhold for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed by the Kingdom of Belgium (or any sub-division or authority thereof or therein) from any payment of principal or interest in respect of Notes held by or on behalf of any Noteholder who ceased to be a Tax Eligible Investor, but for any amendment to, or change in, the tax laws or regulations of the Kingdom of Belgium (or of any sub-division or authority thereof or therein having power to tax) or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations after the Closing Date; or
- (b) if on the next Monthly Payment Date, the Issuer, the Swap Counterparty or any other person would be required to deduct or withhold for or on account of any present or future taxes, duties assessments or governmental charges of whatever nature imposed by the Kingdom of Belgium (or any sub-division or authority thereof or therein), or any other sovereign authority having the power to tax, from any payment under the Swap Agreement; or
- (c) if the total amount payable in respect of interest on any of the SME Receivables ceases to be receivable by the Issuer due to withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature in respect of such payments; or
- (d) if, after the Closing Date, the IIR Tax Regulations are changed or applied in a way materially adverse to the Issuer or would no longer apply to the Issuer

**Clean-Up Call Option:**

On each Monthly Payment Date, the Seller or any third party appointed by the Seller has the option (but not the obligation) to repurchase and accept re-assignment of all (but not only part of) the SME Receivables if (i) on the Monthly Calculation Date immediately preceding such Monthly Payment Date the aggregate Principal Amount Outstanding of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes on the Closing Date and (ii) the Issuer has sufficient funds to pay all amounts due in respect of the Notes upon the exercise of such option by the Seller (the “**Clean-Up Call Option**”).

The Issuer has undertaken in the SME Receivables Purchase Agreement to sell and assign the SME Receivables to the Seller or any third party appointed by the Seller in its sole discretion in case of the

exercise of the Clean-Up Call Option to the extent it still holds the SME Receivables upon exercise by the Seller of the Clean-Up Call Option. The purchase price will be calculated as described in the *SME Receivables Purchase Agreement*. The proceeds of such sale shall be applied by the Issuer in accordance with Condition 4.5.

**Optional Redemption in case of Change of Law:**

On each Monthly Payment Date, the Issuer may (but is not obliged to) redeem all of the Notes subject to and in accordance with the Conditions if there is a change in, or any amendment to the laws, regulations, decrees or guidelines of the Kingdom of Belgium, (including in respect of any EU legislation, regulations or guidelines implemented or applicable in the Kingdom of Belgium) or of any authority therein or thereof having legislative or regulatory powers or in the interpretation by a relevant authority or a court of, or in the administration of, such laws, regulations, decrees or guidelines after the Closing Date which would or could affect the Issuer or the Noteholders, as certified by the Security Agent and provided that the Issuer has sufficient funds available to discharge all amounts of principal and interest due in respect of the Notes (an “**Optional Redemption in case of Change of Law**”).

See the detailed provisions contained in Condition 4.5.

**Optional Redemption in case of a Ratings Downgrade Event:**

On each Monthly Payment Date, the Issuer may (but is not obliged to) redeem all of the Notes subject to and in accordance with the Conditions upon the occurrence of a Ratings Downgrade Event, provided that the Issuer has sufficient funds available to discharge all amounts of principal and interest due in respect of the Notes (an “**Optional Redemption in case of a Ratings Downgrade Event**”).

See the detailed provisions contained in Condition 4.5.

**Regulatory Call Option:**

On each Monthly Payment Date, the Seller or any third party appointed by the Seller has the option (but not the obligation) to repurchase all (but not only part of) the SME Receivables upon the occurrence of a Regulatory Change (the “**Regulatory Call Option**”) provided that the Issuer has sufficient funds to pay all amounts due in respect of the Notes upon the exercise of such option by the Seller.

The Issuer has undertaken in the SME Receivables Purchase Agreement to sell and assign the SME Receivables to the Seller, or any third party appointed by the Seller in its sole discretion, in case the Seller exercises the Regulatory Call Option to the extent it still holds the SME Receivables upon exercise by the Seller of the Regulatory Call Option. The purchase price will be calculated as described in the *SME Receivables Purchase Agreement*. If the Seller exercises its Regulatory Call Option, then the Issuer will redeem the Notes by applying the proceeds of the sale of the SME Receivables in accordance with Condition 4.5.

See *SME Receivables Purchase Agreement*.

**Withholding Tax:**

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties

or charges of whatsoever nature, unless the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or any other person is required by applicable law to make any payment in respect of the Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or such other person (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer, the Securities Settlement System Operator, the Domiciliary Agent nor any other person will be obliged to gross up the payments in respect of the Notes or to make any additional payments to any Noteholders in respect of any such withholding or deduction.

In particular, but without limitation, no additional amounts shall be payable in respect of any Note, where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to FATCA.

**Method of Payment:**

Payments of principal and interest will be made in euro to the Securities Settlement System Operator, for the credit of the respective accounts of the Noteholders. See further Section 29 – *Terms and Conditions of the Notes*.

**Use of proceeds:**

The Issuer will use the net proceeds from the issue of the Notes and part of the proceeds of the Subordinated Loan to pay to the Seller the Initial Purchase Price for the SME Receivables, pursuant to the provisions of an agreement dated on or about 31 March 2017 (the “**SME Receivables Purchase Agreement**”) and made between the Seller, the Issuer and the Security Agent. See further Section 0 – *SME Receivables Purchase Agreement*.

Part of the proceeds of the Subordinated Loan will be used on the Closing Date to credit the Reserve Account up to an amount of EUR 56,000,000.

See further Section 22 – *Use of Proceeds*.

**Admission to Trading:**

Application has been made for the Notes to be admitted to trading on Euronext Brussels.

**Ratings:**

It is a condition precedent to issuance that the Notes, on issue, be assigned at least AAAsf by Fitch and AAA (sf) by DBRS.

**Governing Law:**

The Notes will be governed by and construed in accordance with the laws of the Kingdom of Belgium.

**SME Receivables:**

Under the SME Receivables Purchase Agreement, the Issuer will purchase any and all rights of the Seller against certain borrowers (the “**Borrowers**”) under or in connection with certain selected SME Loans (the “**SME Receivables**”). On the Closing Date, the Issuer will accept the transfer by way of assignment of legal title to the SME Receivables. The Issuer will be entitled to the proceeds of the SME

Receivables from the Cut-Off Date.

**Repurchase of SME Receivables:** Under the SME Receivables Purchase Agreement the Seller has undertaken to repurchase and accept re-assignment of an SME Receivable:

- (a) in case any of the representations and warranties given by the Seller in respect of such SME Receivable or its related SME Loan are untrue or incorrect;
- (b) if a Borrower requests a Non-Permitted Variation to a SME Receivable and if the Seller requests that such Non-Permitted Variation be accepted;
- (c) if, upon conversion of a Mortgage Mandate, Floating Charge Mandate or Farmers' Lien Mandate in accordance with the Credit Policies, such Mortgage Mandate, Floating Charge Mandate or Farmers' Lien Mandate is not converted in accordance with the terms and conditions of the SME Receivables Purchase Agreement.

**SME Loans:** The SME Receivables to be sold by the Seller pursuant to the SME Receivables Purchase Agreement will result from investment loans entered into by the Seller and the relevant Borrowers (including individuals and legal persons (*rechtspersonen / personnes morales*) within the framework of a small or medium sized professional enterprise, which may be secured by (i) a first ranking Mortgage, (ii) a lower ranking Mortgage, (iii) a mandate to create Mortgages over Real Estate (the "**Mortgaged Assets**"), (iv) a Floating Charge, or (v) a Floating Charge Mandate, (vi) a Farmers' Lien, (vii) a Farmers' Lien Mandate, or may be unsecured, and entered into by the Seller or its legal predecessors and the relevant Borrowers which meet the criteria set forth in the SME Receivables Purchase Agreement and which will be selected prior to or on the Closing Date for the purpose of the purchase of the relevant SME Receivables in accordance with the SME Receivables Purchase Agreement (the "**SME Loans**").

Where the SME Loans, which take the form of Investment Credits, have been originated under a (revolving) credit facility, the Investment Credit is fully drawn down on the date of the transfer of the SME Receivables to the Issuer.

**Sale of SME Receivables on each Optional Redemption Date:** The Issuer will have the right to sell and assign all but not some of the SME Receivables on each Optional Redemption Date to a third party, which may also be the Seller, at arm's length conditions provided that the Issuer shall apply the proceeds of such sale to redeem the Notes.

**Other Sales of SME Receivables:** In addition, pursuant to the SME Receivables Purchase Agreement, the Seller has the obligation or the right to repurchase certain SME Receivables in certain events and the right to exercise the Clean-Up Call Option and the Regulatory Call Option.

The purchase price of each SME Receivable in the event of such a repurchase or reassignment, other than (i) pursuant to a breach of a



representation and warranty in relation to such SME Receivable or its related SME Loan, or (ii) upon a Non-Permitted Variation, shall be equal to the then Outstanding Principal Amount, together with accrued interest due but unpaid, if any, up to the relevant date of such repurchase or reassignment and reasonable costs relating thereto (including any costs incurred by the Issuer in effecting and completing such repurchase and re-assignment), except that with respect to Defaulted Receivables, the purchase price shall be an amount as calculated by the Servicer in its daily operations representing an amount equal to the Outstanding Principal Amount of such SME Receivable less the estimated losses or, as the case may be, realised losses in relation to such SME Receivable according to the Seller's impairment policy (the "**Optional Repurchase Price**").

The purchase price of each SME Receivable in the event of a sale or repurchase (i) pursuant to a breach of a representation and warranty in relation to such SME Receivable or its related SME Loan or (ii) upon a Non-Permitted Variation, shall be equal to the then Outstanding Principal Amount of such SME Receivable plus accrued interest thereon and costs (including any costs incurred by the Issuer for effecting and completing such repurchase and reassignment) up to (but excluding) the date of completion of the repurchase (the "**Repurchase Price**").

## **Security for the Notes**

### **Parallel Debt Agreement:**

On or before the Closing Date, the Issuer and the Security Agent will enter into a parallel debt agreement (the "**Parallel Debt Agreement**") for the benefit of the Secured Parties under which the Issuer shall, by way of parallel debt, undertake to pay to the Security Agent any amounts equal to any and all amounts due by it to the Secured Parties. Upon receipt by the Security Agent of any amount in payment of the Parallel Debt, the payment obligations of the Issuer to the Secured Parties shall be reduced by an amount equal to the amount so received. The advantage of such Parallel Debt is that the Security Agent is entitled to create and enforce the Security Interests not only on behalf of the Secured Parties but also in its own name.

### **Security for the Notes:**

The Notes and the Parallel Debt will be secured by a first ranking pledge in favour of the Secured Parties, including the Security Agent on behalf of the Noteholders and the other Secured Parties by the Issuer over (i) the SME Receivables, including the Related Security, (ii) the Issuer's claims under or in connection with the Transaction Documents, and (iii) the balances standing to the credit of the Transaction Accounts.

The amounts payable to the Noteholders and the other Secured Parties will be limited to the amounts available for such purpose to the Security Agent which, *inter alia*, will consist of amounts recovered by the Security Agent on the SME Receivables, including the Related Security, and amounts received by the Security Agent as creditor under the Parallel Debt Agreement. Following delivery of an Enforcement Notice, payments to the Secured Parties will be made in accordance with the Priority of Payments upon Enforcement.

See further *Risk Factors* and for a more detailed description see Section 23 – *Description of Security*.

## Cash flow structure

### Issuer Collection Account:

The Issuer shall maintain with the Account Bank an account (the “**Issuer Collection Account**”) to which, *inter alia*, the Seller or the Servicer on its behalf will on each Business Day, (each a “**Collection Date**”) transfer all amounts received by the Seller in connection with the SME Receivables.

### Risk Mitigation Deposit:

In case:

- (a) long term unsecured, unguaranteed and unsubordinated debt obligations of the Seller falls below a rating of A by DBRS; or
- (b) the short term IDR of the Seller falls below a rating of F1 by Fitch and the long term IDR of the Seller falls below a rating of A by Fitch,

(each such event being a “**Risk Mitigation Deposit Trigger Event**”), then the Seller shall as soon as reasonably possible following the occurrence of such Risk Mitigation Deposit Trigger Event, credit to a bank account (the “**Deposit Account**”) to be held in the name of the Issuer with a third party account bank having the Required Minimum Ratings, the Risk Mitigation Deposit Amount.

The funds credited to the Deposit Account may only be applied by the Issuer for the purpose of indemnifying the Issuer against any losses resulting from Commingling Risk.

### Reserve Account:

The Issuer will pay on the Closing Date EUR 56,000,000 from the proceeds of the Subordinated Loan into an account (the “**Reserve Account**”) together with the Issuer Collection Account, the “**Transaction Accounts**”) held with the Account Bank.

The purpose of the Reserve Account will be to enable the Issuer to meet the Issuer’s payment obligations under items (i) up to and including (v) in the Interest Priority of Payments in the event that the Notes Interest Available Amount is not sufficient to meet such payment obligations on a Monthly Payment Date.

The “**Reserve Account Required Amount**” shall on any Monthly Calculation Date be equal to (i) EUR 56,000,000 or (ii) zero, on the Optional Redemption Date whereon the Notes have been or are to be redeemed in full, subject to the Conditions.

### Account Bank Agreement:

The Issuer and the Account Bank will enter into an account bank agreement (the “**Account Bank Agreement**”) on the Closing Date, whereunder KBC Bank NV as the Account Bank will agree to pay a guaranteed rate of interest (the “**Account Interest Rate**”) determined by reference to Eonia minus 0.125 per cent. (with a floor at zero) on the balance standing from time to time to the credit of the Transaction

Accounts.

**Subordinated Loan Agreement:** On or before the Closing Date, the Issuer will enter into a subordinated loan agreement (the “**Subordinated Loan Agreement**”) with the Subordinated Loan Provider for an aggregate amount of EUR 1,736,000,000. The proceeds of the Subordinated Loan will be used to (i) pay part of the Initial Purchase Price for the SME Receivables, and (ii) fund the Reserve Account up to the Reserve Account Required Amount.

**Expenses Subordinated Loan Agreement:** On or before the Closing Date, the Issuer will enter into an expenses subordinated loan agreement (the “**Expenses Subordinated Loan Agreement**”) with the Subordinated Loan Provider for an aggregate amount of EUR 1,000,000. The proceeds of the Expenses Subordinated Loan will be used to pay certain start-up costs and expenses incurred by the Issuer in connection with the issue of the Notes.

**Swap Agreement:** On or before the Closing Date, the Issuer will enter into a 2002 ISDA Master Agreement (including a schedule, credit support annex and a confirmation documenting the transaction entered into thereunder) governed by English law with the Swap Counterparty and the Security Agent (the “**Swap Agreement**”) to hedge the risk between (a) the interest received by the Issuer on the SME Receivables (including Prepayment Penalties) and the interest received by the Issuer on the Transaction Accounts and (b) the floating rates of interest payable by the Issuer on the Notes.

See further Section 12 – *Credit Structure* under *Interest Rate Hedging*.

## **OTHER:**

**Issuer Services Agreement:** Under a SME payment transaction and an issuer services agreement to be entered into on or before the Closing Date (the “**Issuer Services Agreement**”) between the Issuer, the Servicer, the Corporate Services Provider, the Administrator and the Security Agent, (i) the Servicer will agree to provide SME payment transactions and the other services as agreed in the Issuer Services Agreement in relation to the SME Receivables on a day-to-day basis, including, without limitation, (a) the collection of payments of principal, interest and all other amounts in respect of the SME Receivables, and (b) the implementation of arrears procedures including, if applicable, the enforcement of mortgages (see further the section 15 – *SME Loan Underwriting and Servicing* below), (ii) the Administrator will agree to provide certain administration, calculation and cash management services for the Issuer on a day-to-day basis, including without limitation, operation of the Transaction Accounts and all calculations to be made in respect of the Notes pursuant to the Conditions and (iii) the Corporate Services Provider will agree to provide certain corporate and reporting services for the Issuer on a day-to-day basis.

**Issuer Management Agreements:** The Issuer and the Security Agent have entered into management agreements (together the “**Issuer Management Agreements**”) with each relevant Issuer Director, whereunder the relevant Issuer Director

will undertake to act as managing director of the Issuer and to perform certain services in connection therewith.

**Shareholder Management Agreements:**

The Stichting Shareholder, the Shareholder and the Security Agent have entered into shareholder management agreements (together, the “**Shareholder Management Agreements**”, and together with the Issuer Management Agreements, the “**Management Agreements**”) with the Shareholder Director, whereunder, *inter alia*, the Shareholder Director will undertake to act as director of the Shareholder and to perform certain services in connection herewith.

## 11. DOCUMENTS INCORPORATED BY REFERENCE

The incorporation deed and the articles of association (*statuten/statuts*) of the Issuer (the “**Articles of Association**”) which have previously been published shall be incorporated in, and form part of, this Prospectus.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the FSMA in accordance with Article 32 of the Prospectus Act. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Domiciliary Agent and will be available at [www.kbc.be/abs/smeloaninvest2017](http://www.kbc.be/abs/smeloaninvest2017).

## 12. CREDIT STRUCTURE

*The structure of the credit arrangements for the proposed issue of the Notes may be summarised as follows:*

### 12.1 SME Loan Interest Rates

The interest rate of each SME Loan is either a variable rate of interest or a fixed rate of interest. On the Cut-off Date the weighted average interest rate of the SME Loans is expected to be approximately 2.88 per cent. Interest rates vary between individual SME Loans. The range of interest rates is described further in *Description of the SME Loans*.

The actual amount of revenue received by the Issuer under the SME Receivables Purchase Agreement will vary during the life of the Notes as a result of the level of delinquencies, defaults, substitutions, interests, repayments and prepayments in respect of the SME Receivables. Similarly, the actual amounts payable under the Interest Priority of Payments will vary during the life of the transaction as a result of fluctuations in Euribor and possible variations in certain other costs and expenses of the Issuer. The eventual effect of such variations could lead to drawings under the Reserve Account and non-payment of certain items under the Interest Priority of Payments.

### 12.2 Cash Collection Arrangement

Payments by the Borrowers of interest and scheduled principal under the SME Receivables are due on a monthly basis, interest being payable in arrears. Until the assignment of the SME Receivables has been notified to the Borrowers, all payments made by Borrowers will be paid to the Seller.

On each Business Day the Seller or the Servicer on its behalf shall transfer all amounts of principal, interest, Prepayment Penalties and interest penalties received by the Seller in connection with the SME Receivables to the Issuer Collection Account.

Upon the occurrence of certain Notification Events, the Borrowers will be notified of the assignment of the SME Receivables to the Issuer in accordance with Clause 16 of the SME Receivables Purchase Agreement and will be required to make all payments directly to the Issuer Collection Account, unless in the occurrence of certain Notification Events where an appropriate remedy to the satisfaction of the Issuer and the Security Agent is found and implemented within a period of thirty (30) calendar days and to the extent this event would not have a material adverse effect on the interest of the Noteholders.

### 12.3 Transaction Accounts

#### (a) Issuer Collection Account

The Issuer will maintain with the Account Bank the Issuer Collection Account to which all amounts received (i) in respect of the SME Receivables and (ii) from the other parties to the Transaction Documents will be paid.

The Administrator will identify all amounts paid into the Issuer Collection Account by crediting such amounts to ledgers established for such purpose. Payments received in respect of the SME Receivables will be identified as principal or revenue receipts and credited to a principal ledger (the “**Principal Ledger**”) or a revenue ledger (the “**Revenue Ledger**”), as the case may be. In particular, the amounts forming part of the Notes Interest Available Amount will be credited to the Revenue Ledger. The amounts forming part of the Notes Redemption Available Amount will be credited to the Principal Ledger.

If at any time (A) (i) the short-term IDR of the Account Bank is assigned a rating of less than the Fitch Required Minimum Short Term Rating or any of such rating is withdrawn, and (ii) the long-term IDR of the Account Bank is assigned a rating of less than the Fitch Required Minimum Long Term Rating or such rating is withdrawn, or (B) the long-term unsecured unsubordinated and unguaranteed debt obligations of the Account Bank are assigned a rating of less than the DBRS Required Minimum Ratings, the Issuer will be required within thirty (30) calendar days to transfer the balance of the relevant Transaction Accounts to an alternative bank with the Required Minimum Rating or to find a third party, with the Required Minimum Ratings, to guarantee the obligations of the Account Bank.

If DBRS withdraws the DBRS Rating of the Account Bank, reference will be made solely to Fitch Required Minimum Ratings, and such withdrawal by DBRS will not constitute a breach of the DBRS Required Minimum Rating and will not trigger an obligation to transfer, or procure a guarantee in respect of, the Issuer Collection Account and a guarantee in respect of the obligations of the Account Bank (as the case may be) in accordance with the Account Bank Agreement.

If the Transaction Accounts were transferred to an alternative Account Bank, the Issuer may opt to re-transfer the Transaction Accounts to the original Account Bank provided that the obligations of the original Account Bank are guaranteed by a third party with the Required Minimum Ratings as from the time of such re-transfer.

If a third party has granted a guarantee for the obligations of the original Account Bank, the Issuer may opt to terminate such guarantee provided that the Transaction Accounts are transferred to an alternative Account Bank with the Required Minimum Ratings by the time of such termination.

If at the time when a transfer of the relevant Transaction Accounts would otherwise have to be made under the Account Bank Agreement and the Issuer has made a reasonable effort to find a substitute Account Bank, there is no other bank which has the Required Minimum Ratings and which is willing, acting reasonably, to act as account bank under the Transaction Documents and if the Security Agent so agrees, the Transaction Accounts will not need to be transferred until such time as there is a bank which has the Required Minimum Ratings and which is willing, acting reasonably, to act as account bank under the Transaction Documents, whereupon such transfer will be made to the bank meeting such criteria within one (1) month of identification of such bank. The Issuer shall ensure that each Rating Agency is promptly informed of any transfer to an alternative Account Bank.

The Issuer may, upon proposal of the Corporate Service Provider, appoint an investment manager proposed by the Corporate Service Provider, which will have the option on each Collection Date to invest any balance standing to the credit of the Transaction Accounts in:

- (a) euro denominated securities with a maturity not beyond one relevant business day before the next succeeding Monthly Payment Date, with such securities returning principal at maturity, in each case provided that such securities have been assigned:
  - (i) for eligible investments with a maturity of up to 30 days:
    - (A) a rating of at least A or R-1(low) by DBRS where the Notes are rated AAA(sf) by DBRS; or
    - (B) a rating of at least A(low) or R-1(low) by DBRS where the Notes are rated AA(high)(sf) by DBRS,
  - and
  - (ii) a rating of:

- (A) where the Notes are rated AAA(sf), for securities with a maturity up to 30 days, at least F1 or, only if a long-term rating is available, A by Fitch; or
  - (B) where the Notes are rated AA(sf), for securities with a maturity up to 30 days, at least F1 or, only if a long-term rating is available, A- by Fitch; or
  - (C) for securities with a maturity exceeding 30 days, up to 365 days, at least F1+ or, only if a long-term rating is available, AA- by Fitch; or
- (b) guaranteed investment contracts or similar accounts with a maturity not beyond the next succeeding Monthly Payment Date, provided that:
- (i) such investment contracts or accounts are held with a counterparty (A) which has, where the Notes are rated AAA(sf), a short-term IDR of at least F1 or a long-term IDR of at least A, or, where the Notes are rated AA(sf), a short-term IDR of at least F1 or a long-term IDR of at least A-, and (B) whose long-term unsecured unsubordinated and unguaranteed debt obligations are assigned a rating at least equal to the DBRS Required Minimum Ratings, alternative bank with the Required Minimum Rating, and will provide for replacement clauses or similar mitigating clauses in case the counterparty no longer satisfies the rating requirements under (A) or (B); and
  - (ii) the notional amount of such investment or account is unconditionally guaranteed.

each of (a) and (b) being referred to as the **Permitted Investments** .

Payments may be made from the Issuer Collection Account other than on a Monthly Payment Date only (i) to satisfy amounts due to third parties (other than pursuant to the Transaction Documents) and payable in connection with the Issuer's business and (ii) as provided for in the relevant Transaction Documents.

**(c) Reserve Account**

The Issuer will also maintain with the Account Bank the Reserve Account. On the Closing Date, part of the proceeds of the Subordinated Loan will be credited to the Reserve Account up to an amount of EUR 56,000,000.

Amounts credited to the Reserve Account will be available on any Monthly Payment Date to meet items (i) to (v) (inclusive) of the Interest Priority of Payments. Any drawing under the Reserve Account by the Issuer shall only be made on a Monthly Payment Date if and to the extent there is a shortfall in the Notes Interest Available Amount to meet items (i) to (v) (inclusive) in the Interest Priority of Payments in full on that Monthly Payment Date, before drawing on the Reserve Account.

The Reserve Account Required Amount shall on any Monthly Calculation Date be equal to (i) EUR 56,000,000, or (ii) zero, on the Optional Redemption Date whereon the Notes have been or are to be redeemed in full, subject to the Conditions.

To the extent that the balance standing to the credit of the Reserve Account on any Monthly Calculation Date exceeds the Reserve Account Required Amount, such excess shall be drawn from the Reserve Account on the immediately succeeding Monthly Payment Date and shall form part of the Notes Interest Available Amount on that Monthly Payment Date.

After all amounts of interest and principal due in respect of the Notes have been paid and all payments or provisions of the Interest Priority of Payments ranking higher in priority have been



made, any amount standing to the credit of the Reserve Account will be applied to repay or partially repay, as the case may be, the Subordinated Loan.

**(d) Deposit Account**

The Issuer may be required to establish a Deposit Account in accordance with the terms of the SME Receivables Purchase Agreement for the deposit of the Risk Mitigation Deposit Amount (see further *SME Receivables Purchase Agreement –17.9 Risk Mitigation Deposit*).

**12.4 Priority of Payments in respect of interest**

Prior to the delivery of an Enforcement Notice by the Security Agent, the sum of the following amounts referred to under items (a) up to and including (k), calculated as at each Monthly Calculation Date (being the fourth Business Day prior to each Monthly Payment Date) and which have been received or deposited during the Monthly Calculation Period immediately preceding such Monthly Calculation Date or, with respect to the amounts referred to under item (f), on the immediately succeeding Monthly Payment Date, (the sum of items (a) up to and including (k) being hereafter referred to as the “**Notes Interest Available Amount**”):

- (a) as interest, including penalty interest, on the SME Receivables;
- (b) as interest accrued on the Transaction Accounts;
- (c) as Prepayment Penalties under the SME Loans;
- (d) as Net Proceeds on any SME Receivables;
- (e) as amounts to be drawn from the Reserve Account on the immediately succeeding Monthly Payment Date (excluding, for the avoidance of doubt, any amount remaining in the Reserve Account after all amounts of interest and principal due in respect of the Notes have been paid in full and all payments or provisions of the Interest Priority of Payments ranking higher in priority have been made);
- (f) as amounts to be received from the Swap Counterparty under the Swap Agreement on the immediately succeeding Monthly Payment Date, if any, excluding, for the avoidance of doubt, any collateral transferred pursuant to the Swap Agreement;
- (g) as amounts received in connection with a repurchase of SME Receivables pursuant to the SME Receivables Purchase Agreement or any other amounts received pursuant to the SME Receivables Purchase Agreement, to the extent such amounts do not relate to principal;
- (h) as amounts received in connection with a sale of SME Receivables pursuant to the Pledge Agreement to the extent such amounts do not relate to principal;
- (i) as amounts received as post-foreclosure proceeds on the SME Receivables;
- (j) any (remaining) amounts standing to the credit of the Issuer Collection Account to the extent they do not relate to principal; and
- (k) any amounts (provided that these are used solely as indemnity for losses of scheduled interest on the SME Receivables as a result of Commingling Risk) to be used as Notes Interest Available Amount from the funds credited to the Deposit Account in accordance with the provisions of SME Receivables Purchase Agreement and as described under

paragraph *Risk Mitigation Deposit* in the section *SME Receivables Purchase Agreement* below, which are transferred from the Deposit Account to the Issuer Collection Account,

will pursuant to the terms of the Pledge Agreement be applied by the Issuer on the immediately succeeding Monthly Payment Date as follows (in each case only if and to the extent that payments of a higher order of priority have been made in full), (the “**Interest Priority of Payments**”):

- (i) *first*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of any amounts, if any, due and payable to the Issuer Directors in connection with the Issuer Management Agreements;
- (ii) *second*, in or towards satisfaction of fees and expenses due and payable to the Administrator under the Issuer Services Agreement;
- (iii) *third*, in or towards satisfaction of any fees due and payable to the Security Agent under the Pledge Agreement and of any costs, charges, liabilities and expenses incurred by the Security Agent under or in connection with any of the Transaction Documents, including, but not limited to, fees and expenses of any legal advisor, auditor and/or accountant appointed by the Security Agent;
- (iv) *fourth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, (i) of any amounts due and payable to third parties under obligations incurred in connection with the Issuer’s business (other than under the Transaction Documents), including, without limitation, in or towards satisfaction of sums due or provisions for any payment of the Issuer’s liability, if any, to tax and sums due to any Rating Agency and fees and expenses of any legal advisor, auditor and/or accountant appointed by the Issuer, (ii) fees and expenses due to the Domiciliary Agent, the Listing Agent and the Reference Agent under the Agency Agreement, (iii) fees and expenses due to the Servicer under the Issuer Services Agreement and (iv) fees and expenses due and payable to the Corporate Services Provider under the Issuer Services Agreement;
- (v) *fifth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of (i) all amounts of interest due or interest accrued but unpaid in respect of the Notes and (ii) amounts, if any, due but unpaid under the Swap Agreement, (except for any termination payment due or payable as a result of the occurrence of an Event of Default (as defined therein) where the Swap Counterparty is the Defaulting Party or an Additional Termination Event (as defined therein) relating to the credit rating of the Swap Counterparty (as such terms are defined in the Swap Agreement) (a “**Swap Counterparty Default Payment**”) payable under (xi) below but excluding, for the avoidance of doubt, the repayment to the Swap Counterparty of Excess Swap Collateral;
- (vi) *sixth*, in or towards making good any shortfall reflected in the Notes Principal Deficiency Ledger until the debit balance, if any, on the Notes Principal Deficiency Ledger is reduced to zero;
- (vii) *seventh*, in or towards satisfaction of any sums required to replenish the Reserve Account up to the amount of the Reserve Account Required Amount;
- (viii) *eighth*, in or towards satisfaction of interest due or interest accrued but unpaid on the Subordinated Loan in accordance with the terms of the Subordinated Loan Agreement;
- (ix) *ninth*, in or towards making good any shortfall reflected in the Subordinated Loan Principal Deficiency Ledger until the debit balance, if any, on the Subordinated Loan Principal Deficiency Ledger is reduced to zero;

- (x) *tenth*, in or towards satisfaction of any sums required to replenish the Deposit Account up to the amount of the Risk Mitigation Deposit Amount, to the extent the Seller has not credited such sums to the Deposit Account before the relevant Monthly Calculation Date;
- (xi) *eleventh*, in or towards satisfaction of the Swap Counterparty Default Payment payable to the Swap Counterparty under the terms of the Swap Agreement;
- (xii) *twelfth*, in or towards satisfaction of interest due or interest accrued but unpaid in respect of the Expenses Subordinated Loan in accordance with the terms of the Expenses Subordinated Loan Agreement;
- (xiii) *thirteenth*, in or towards satisfaction of principal due and payable but unpaid in respect of the Expenses Subordinated Loan in accordance with the terms of the Expenses Subordinated Loan Agreement;
- (xiv) *fourteenth*, in or towards transfer to the Share Capital Account on the Monthly Payment Date falling in July of amounts payable to the Issuer under the SME Receivables Purchase Agreement; and
- (xv) *fifteenth*, in or towards satisfaction of any payments due in connection with the Deferred Purchase Price to the Seller.

## 12.5 Priority of Payments in respect of principal

Prior to the delivery of an Enforcement Notice by the Security Agent, the sum of the following amounts referred to under items (a) up to and including (h), calculated as at any Monthly Calculation Date, as being received or deposited during the immediately preceding Monthly Calculation Period (the sum of items (a) up to and including (h) hereinafter referred to as the “**Notes Redemption Available Amount**”):

- (a) by means of repayment and prepayment in full of principal under the SME Receivables from any person, but, for the avoidance of doubt, excluding Prepayment Penalties;
- (b) as amounts received in connection with a repurchase of SME Receivables pursuant to the SME Receivables Purchase Agreement and any other amounts received pursuant to the SME Receivables Purchase Agreement to the extent such amounts relate to principal;
- (c) as amounts received in connection with a sale of SME Receivables pursuant to the Pledge Agreement to the extent such amounts relate to principal;
- (d) as amounts to be credited to the Principal Deficiency Ledger under items (vi) and (viii) of the Interest Priority of Payments on the immediately succeeding Monthly Payment Date;
- (e) as partial prepayment in respect of SME Receivables;
- (f) any amounts (provided that these are used solely as indemnity for losses of scheduled principal on the SME Receivables as a result of Commingling Risk) to be used as Notes Redemption Available Amount from the funds credited to the Deposit Account in accordance with the provisions of the SME Receivables Purchase Agreement and as described under *Risk Mitigation Deposit* in the section *SME Receivables Purchase Agreement* below, which are transferred from the Deposit Account to the Issuer Collection Account;

- (g) any part of the Notes Redemption Available Amount calculated on the immediately preceding Monthly Calculation Date which has not been applied towards redemption of the Notes on the preceding Monthly Payment Date; and
- (h) any amount remaining in the Reserve Account after all amounts of interest and principal due in respect of the Notes have been paid in full and all payments or provisions of the Interest Priority of Payments ranking higher in priority have been made,

will, pursuant to the Pledge Agreement, be applied by the Issuer on the Monthly Payment Date immediately succeeding such Monthly Calculation Date as follows (and in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the “**Principal Priority of Payments**”):

- (i) prior to the occurrence of a Sequential Trigger Event:
  - (A) *first*, up to the Maximum Pro Rata Amount Notes, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (B) *second*, up to the Maximum Pro Rata Amount Subordinated Loan, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid; and
- (ii) after the occurrence of a Sequential Trigger Event:
  - (A) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (B) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.

“**Sequential Trigger Event**” means, at any point in time, any of the following events occurring:

- (a) the sum of the outstanding Defaulted Receivables, including written-off loans, since the Closing Date exceeds an amount equal to 3% of the aggregate Outstanding Principal Amount of the SME Receivables at the Closing Date; or
- (b) the sum of the Delinquent Receivables exceeds an amount equal to 5% of the aggregate Outstanding Principal Amount of the SME Receivables; or
- (c) the principal outstanding of the Subordinated Loan falls below 33% of the original principal amount of the Subordinated Loan on the Closing Date.

“**Maximum Pro Rata Amount Notes**” means the amount equal to:

- (a) the Notes Redemption Available Amount multiplied by the outstanding amount of principal under the Notes; divided by
- (b) the sum of (i) the outstanding amount of principal under the Notes and (ii) the outstanding amount of principal under the Subordinated Loan minus the Reserve Account Required Amount.

“**Maximum Pro Rata Amount Subordinated Loan**” means the amount equal to:

- (a) the Notes Redemption Available Amount multiplied by the outstanding amount of principal under the Subordinated Loan minus the Reserve Account Required Amount; divided by

- (b) the sum of (i) the outstanding amount of principal under the Notes and (ii) the outstanding amount of principal under the Subordinated Loan minus the Reserve Account Required Amount.

## 12.6 Priority of Payments upon Enforcement

Following delivery of an Enforcement Notice any amounts payable by the Security Agent under the Pledge Agreement will be applied in the following order of priority (and in each case only if and to the extent payments of a higher priority have been made in full) (the “**Priority of Payments upon Enforcement**”):

- (i) *first*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of any amounts, if any, due and payable to the Issuer Directors in connection with the Issuer Management Agreements;
- (ii) *second*, in or towards satisfaction of fees and expenses due and payable to the Administrator under the Issuer Services Agreement;
- (iii) *third*, in or towards satisfaction of any fees due and payable to the Security Agent under the Pledge Agreement and of any cost, charge, liability and expenses incurred by the Security Agent under or in connection with any of the Transaction Documents, which will include, *inter alia*, the fees and expenses of any legal advisor, auditor and/or accountant appointed by the Security Agent;
- (iv) *fourth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of (i) the fees and expenses of the Domiciliary Agent, the Listing Agent and the Reference Agent incurred under the provisions of the Agency Agreement, (ii) the fees and expenses of the Servicer under the Issuer Services Agreement and (iii) the fees and expenses due and payable to the Corporate Services Provider under the Issuer Services Agreement;
- (v) *fifth*, in or towards satisfaction, *pro rate*, according to the respective amounts thereof, of amounts, if any, due but unpaid to the Swap Counterparty under the Swap Agreement including any amount to be paid by the Issuer upon early termination of the Swap Agreement as determined in accordance with its terms but excluding any Swap Counterparty Default Payment payable under subparagraph (x) below, excluding, for the avoidance of doubt, the repayment to the Swap Counterparty of Excess Swap Collateral;
- (vi) *sixth*, in or towards satisfaction of all amounts of interest due or interest accrued but unpaid in respect of the Notes;
- (vii) *seventh*, in or towards satisfaction of all amounts of principal and any other amount due but unpaid in respect of the Notes;
- (viii) *eighth*, in or towards satisfaction of all amounts of interest due or interest accrued but unpaid in respect of the Subordinated Loan;
- (ix) *ninth*, in or towards satisfaction of all amounts of principal and any other amount due but unpaid in respect of the Subordinated Loan;
- (x) *tenth*, in or towards satisfaction of the Swap Counterparty Default Payment payable to the Swap Counterparty under the terms of the Swap Agreement;
- (xi) *eleventh*, in or towards satisfaction of all amounts of interest due, interest accrued and principal due but unpaid in respect of the Expenses Subordinated Loan; and

- (xii) *twelfth*, in or towards satisfaction of any payments due in connection with the Deferred Purchase Price to the Seller.

## 12.7 Subordinated Loan

On the Closing Date the Seller will make available to the Issuer the Subordinated Loan. The Subordinated Loan will be in an amount of EUR 1,736,000,000 and will up to an amount of EUR 1,680,000,000 be used by the Issuer to pay to the Seller part of the Initial Purchase Price for the SME Receivables, pursuant to the SME Receivables Purchase Agreement.

Part of the proceeds of the Subordinated Loan up to an amount of EUR 56,000,000 will be used by the Issuer to credit the Reserve Account. The remaining part of the proceeds of the Subordinated Loan will be credited to the Issuer Collection Account.

If the Notes Interest Available Amount is not sufficient to pay all the interest due under the Subordinated Loan on a Monthly Payment Date, the unpaid part of the interest due under the Subordinated Loan will be deferred to the next succeeding Monthly Payment Date.

## 12.8 Expenses Subordinated Loan

On the Closing Date the Seller will make available to the Issuer the Expenses Subordinated Loan. The Expenses Subordinated Loan will be in an amount of EUR 1,000,000 and will be used by the Issuer to pay certain initial costs and expenses in connection with the issue of the Notes.

## 12.9 Principal Deficiency Ledger

A “**Principal Deficiency Ledger**” comprising two sub-ledgers (the Notes Principal Deficiency Ledger and the Subordinated Loan Principal Deficiency Ledger) will be established by or on behalf of the Issuer in order to record a Principal Deficiency. On each Monthly Calculation Date, the Monthly Principal Deficiency will be debited to the Subordinated Loan Principal Deficiency Ledger (such debit items, together with the debit balance, if any, on the Subordinated Loan Principal Deficiency Ledger on the immediately preceding Monthly Payment Date being credited at item (ix) of the Interest Priority of Payment, to the extent that any part of the Notes Interest Available Amount is available for such purpose) so long as the debit balance on such ledger is less than EUR 1,736,000,000 (the “**Subordinated Loan Principal Deficiency Limit**”) and thereafter such amount will be debited to the Notes Principal Deficiency Ledger (such debit items, together with the debit balance, if any, on the Notes Principal Deficiency Ledger on the immediately preceding Monthly Payment Date being credited at item (vi) of the Interest Priority of Payments, to the extent that any part of the Notes Interest Available Amount is available for such purpose) so long as the debit balance on such ledger is less than Principal Amount Outstanding of the Notes (the “**Notes Principal Deficiency Limit**”).

“**Principal Deficiency**” means, on any Monthly Calculation Date, the sum of:

- (a) the Monthly Principal Deficiency calculated on such Monthly Calculation Date; and
- (b) the debit balance, if any, on the Principal Deficiency Ledger on the immediately preceding Monthly Payment Date.

“**Monthly Principal Deficiency**” means, on any Monthly Calculation Date, the positive amount by which at such Monthly Calculation Date the aggregate Outstanding Principal Amount of the SME Receivables that have become Defaulted Receivables during the immediately preceding Monthly Calculation Period exceeds the aggregate of all repayments and Net Proceeds relating to defaulted

principal amounts received by the Issuer during the immediately preceding Monthly Calculation Period.

### **12.10 Interest Rate Hedging**

The Eligibility Criteria require that all SME Loans bear a rate of interest which is fixed for an agreed interest period which can either be equal to or shorter than the term of the SME Loan. If the interest period is shorter than the term of the SME Loan, the rate of interest is subject to a reset at the end of the interest period. The interest rate on the Transaction Accounts is a floating rate. The interest rate payable by the Issuer with respect to the Notes is calculated as a margin over Euribor (whereby the interest rate applicable to the Notes will never be lower than zero). The Issuer will hedge its interest rate exposure by entering into the Swap Agreement with the Swap Counterparty.

Under the Swap Agreement, the Issuer will agree to pay on each Monthly Payment Date:

(I) the sum of:

- (a) the aggregate amount of interest actually received by the Issuer and credited to the Issuer's Collection Account in respect of the SME Receivables, during the immediately preceding Monthly Calculation Period; and
- (b) the interest accrued on the Transaction Accounts during the immediately preceding Monthly Calculation Period; and
- (c) the amounts received by the Issuer in respect of Prepayment Penalties under the SME Loans and credited to the Issuer's Collection Account during the immediately preceding Monthly Calculation Period; and
- (d) the amounts received by the Issuer during the immediately preceding Monthly Calculation Period in connection with a repurchase of SME Receivables pursuant to the SME Receivables Purchase Agreement or any other amounts received pursuant to the SME Receivables Purchase Agreement during the immediately preceding Monthly Calculation Period, to the extent such amounts do not relate to principal provided that any such amounts were credited to the Issuer's Collection Account; and
- (e) the amounts received by the Issuer during the immediately preceding Monthly Calculation Period in connection with a sale of SME Receivables pursuant to the Pledge Agreement to the extent such amounts do not relate to principal provided that any such amounts were credited to the Issuer's Collection Account;

*less*

- (f) an excess margin of 0.25 per cent. per annum calculated on a monthly basis and applied to the aggregate outstanding principal amount of SME Receivables, excluding Delinquent Receivables and Defaulted Receivables on the last day of the relevant Monthly Calculation Period; and
- (g) the operating expenses set out in items (i) up to and including (iv) of the Interest Priority of Payments payable during the relevant Monthly Calculation Period,

*multiplied by*

(II)

- (a) the principal outstanding amount of the Notes on the immediately preceding Monthly Payment Date minus the balance of the Notes Principal Deficiency Ledger on the immediately preceding Monthly Payment Date; *divided by*
- (b) the sum of (i) the principal outstanding amount of the Notes on immediately preceding Monthly Payment Date minus the balance of the Notes Principal Deficiency Ledger and (ii) an amount equal to the outstanding amount of the Subordinated Loan on the immediately preceding Monthly Payment Date minus the balance on the Subordinated Loan Principal Deficiency Ledger on the immediately preceding Monthly Payment Date.

In order to facilitate payments by the Issuer of interest amounts due on the Notes, the Swap Counterparty will agree to make a monthly payment to the Issuer on each Monthly Payment Date calculated by applying a floating rate of interest equal to that due on the Notes (meaning the Floating Rate of Interest as set out in Condition 4.4(d) and a margin of 0.75 per cent. per annum) to a notional amount which will be calculated on a monthly basis and will be equal to the principal outstanding amount of the Notes on the immediately preceding Monthly Payment Date minus the balance of the Notes Principal Deficiency Ledgers on the immediately preceding Monthly Payment Date.

## 12.11 Downgrade of Swap Counterparty

### *DBRS rating triggers*

- (a) In the event (such event, an “**Initial DBRS Rating Event**”) that, at any time the longterm, unsecured, unsubordinated and unguaranteed debt obligations of the Swap Counterparty cease to be assigned a public rating, private rating or private assessment of at least as high as A by DBRS (such rating, the “**First Rating Threshold**” ), then the Swap Counterparty shall, at its own cost and as soon as practicable, but in any event no later than thirty (30) Business Days provide collateral in such amount as is set out in the Credit Support Annex to the Swap Agreement, or provide for a guarantee by a third party with a rating at least as high as the First Rating Threshold and in line with DBRS’ policies to maintain the rating on the Notes, or arrange for the transfer of its rights and obligations with respect to the Swap Counterparty to a replacement third party with a rating at least as high as the First Rating Threshold.
- (b) In the event (such event, a “**Subsequent DBRS Rating Event**” ) that, at any time the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Swap Counterparty or, if applicable, its credit support provider or any third party transferee, cease to be assigned a public rating, private rating or private assessment at least as high as BBB by DBRS (such rating, the “**Second Rating Threshold**”), then the Swap Counterparty will, at its own cost:
  - (i) as soon as practicable but in any event within thirty (30) Business Days as of the occurrence of such Subsequent DBRS Rating Event post collateral in accordance with the provisions of Credit Support Annex (or, if at the time such Subsequent DBRS Rating Event occurs, the Swap Counterparty has posted collateral under the Credit Support Annex following an Initial DBRS Rating Event, as the case may be, post additional collateral in accordance with the Credit Support Annex); and
  - (ii) use commercially reasonable efforts as of the occurrence of any such Subsequent DBRS Rating Event to:
    - (A) obtain a guarantee or procure a co-obligor of its rights and obligations with respect to the Swap Agreement from a third party with a rating at least as high as the First Rating Threshold and in line with DBRS’ policies to maintain the rating on the Notes; or



- (B) transfer all of its rights and obligations with respect to the Swap Agreement to a replacement third party with a rating at least as high as the First Rating Threshold.
- (c) The Issuer and the Security Agent shall use their reasonable endeavours to co-operate with the Swap Counterparty in connection with any transfer of the rights and obligations of the Swap Counterparty under the Swap Agreement pursuant to any downgrade as set out above.

*Fitch rating triggers*

- (a) Pursuant to the Swap Agreement, if, at any time, an Initial Fitch Rating Event occurs, the Swap Counterparty will at its own cost either:
  - (i) within thirty (30) calendar days of such occurrence:
    - (A) transfer all of its rights and obligations under the Swap Agreement to a replacement third party with a rating at least as high as the Fitch Required Minimum Ratings; or
    - (B) procure that a third party that has the Fitch Required Minimum Ratings, unconditionally guarantees the obligations of the Swap Counterparty under the Swap Agreement; or
    - (C) take such other action as will result in the ratings of the Notes then outstanding being restored to or maintained at the level they were at immediately prior to occurrence of the Initial Fitch Rating Event, or
  - (ii) within fourteen (14) calendar days of such occurrence and pending compliance with the action under (A), (B) or (C) above, post collateral to the Issuer in the Swap Collateral Account in accordance with the terms of the Swap Agreement.
- (b) Pursuant to the Swap Agreement, if, at any time, a Subsequent Fitch Rating Event occurs, the Swap Counterparty will, at its own cost, within thirty (30) days of such occurrence (or, in the case of (i) or pending compliance with the actions under (ii), within fourteen (14) calendar days of such occurrence):
  - (i) post collateral to the Issuer in the Swap Collateral Account in accordance with the terms of the Swap Agreement; and
  - (ii) use commercially reasonable efforts to:
    - (A) transfer all of its rights and obligations under the Swap Agreement to a replacement third party with a rating at least as high as the Fitch Required Minimum Ratings; or
    - (B) procure that a third party that has the Fitch Required Minimum Ratings, unconditionally guarantees the obligations of the Swap Counterparty under the Swap Agreement; or
    - (C) take such other action as will result in the ratings of the Notes then outstanding being restored to or maintained at the level they were at immediately prior to occurrence of the Initial Fitch Rating Event,

in each case in accordance with and subject to the provisions of the Swap Agreement.

For the avoidance of doubt, if the Swap Counterparty has taken one of the measures (other than the transfer of its rights and obligations to a third party) set out in sub-clauses (a) and (b) above, it may at any time and in the alternative take one of the other actions listed the relevant sub-clause. In the event that the Swap Counterparty has posted collateral pursuant to the Swap Agreement in accordance with sub-clauses (a) or (b) above and later takes one of the alternative actions listed in such sub-clauses above, any collateral so posted by the Swap Counterparty to the Issuer will be returned to the Swap Counterparty pursuant to the terms of the Swap Agreement. This will not however affect the obligations of the Swap Counterparty to post collateral in accordance with the Swap Agreement with respect to the rating issued to the Swap Counterparty at such time by Fitch.

For the purposes of items (a) and (b) above:

**“Initial Fitch Rating Event”** means that no Relevant Entity has the Fitch Required Minimum Ratings;

**“Fitch Required Minimum Ratings”** means: (i) a short-term IDR of at least F1 by Fitch (the **Fitch Required Minimum Short Term Rating**); or (ii) a long term IDR of at least A by Fitch (the **Fitch Required Minimum Long Term Rating**);

**“Fitch Subsequent Required Ratings”** means that the long-term IDR of an entity is rated at least “BBB-” by Fitch or the short-term IDR of an entity is rated at least “F3” by Fitch;

**“Relevant Entity”**) means the Swap Counterparty or the guarantor of the Swap Counterparty (if any);

**“Subsequent Fitch Rating Event”** means that no Relevant Entity has the Fitch Subsequent Required Ratings;

## 12.12 Swap Collateral Account

If any collateral in the form of cash is provided by the Swap Counterparty to the Issuer, the Administrator will, upon request from the Issuer, use reasonable efforts to assist the Issuer to open a separate account with a bank (other than the Account Bank or the Swap Counterparty) with the Required Minimum Ratings in which such cash provided by the Swap Counterparty will be credited. If any collateral in the form of securities is provided, the Administrator will, upon request from the Issuer, use reasonable efforts to assist the Issuer to open a custody account with a bank (other than the Account Bank or the Swap Counterparty) with the Required Minimum Ratings in which such securities provided by the Swap Counterparty will be credited. No payments or deliveries may be made in respect of such accounts (any such account, a **“Swap Collateral Account”**) other than to return Excess Swap Collateral to the Swap Counterparty (which shall be paid outside of the Interest Priority of Payments) and to satisfy all or part of any termination amount payable by the Swap Counterparty to the Issuer on termination of the swap transaction, as more particularly described in the Swap Agreement.

**“Excess Swap Collateral”** means an amount equal to the value of any collateral transferred to the Issuer by the Swap Counterparty under the Swap Agreement that is in excess of the Swap Counterparty’s liability to the Issuer thereunder (i) as at the termination date of the transaction entered into under such Swap Agreement or (ii) as at any other date of valuation in accordance with the terms of the Swap Agreement.

## 12.13 Sale of SME Receivables

Under the terms of the Pledge Agreement, the Issuer will have the right to sell and assign all but not some of the SME Receivables on each Optional Redemption Date to a third party, which may also

be the Seller, at arm's length conditions, provided that the Issuer shall apply the proceeds of such sale, to the extent relating to principal, to redeem the Notes in accordance with Condition 4.5(e).

In addition, pursuant to the SME Receivables Purchase Agreement, the Issuer has the obligation to sell and assign to the Seller and the Seller has the obligation or the right to repurchase certain SME Receivables in certain events and the right to exercise the Clean-Up Call Option or the Regulatory Call Option provided that, in the case of the Regulatory Call Option and the Clean-Up Call Option, the Issuer has sufficient funds to pay all amounts due in respect of the Notes upon the exercise of such option by the Seller.

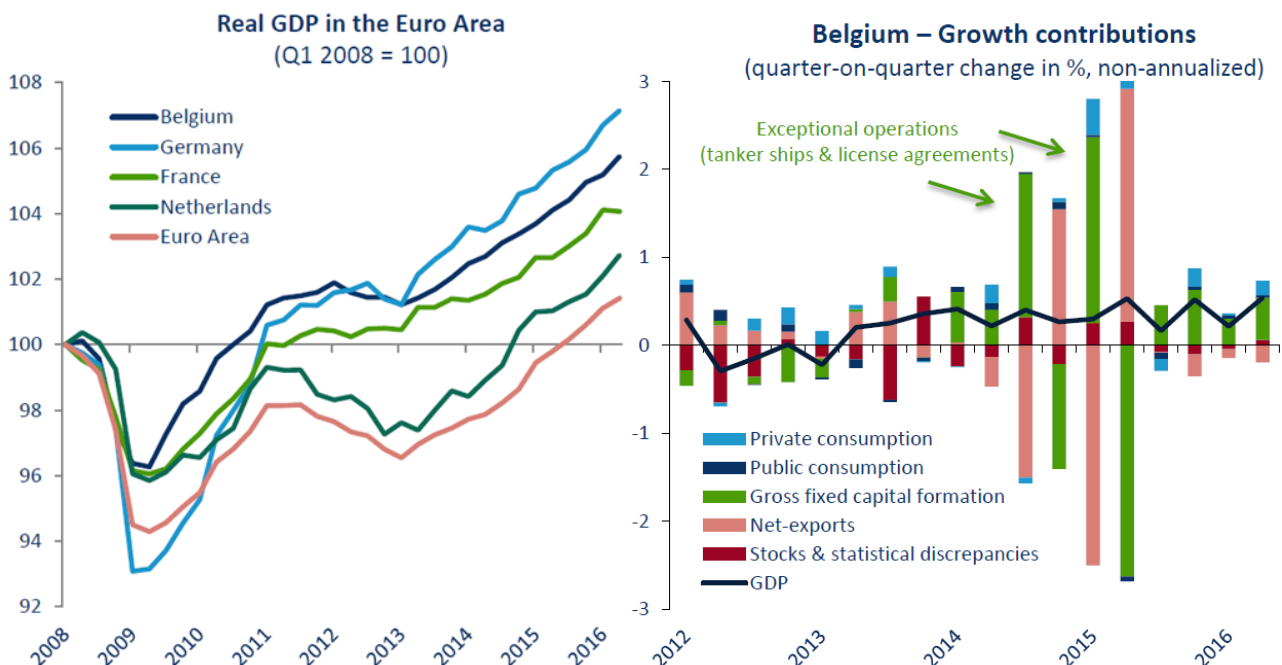
The purchase price of the SME Receivables in the event of a repurchase or reassignment other than (i) pursuant to a breach of representation and warranty in relation to such SME Receivable or its related SME Loan or (ii) upon a Non-Permitted Variation shall be equal to the Optional Repurchase Price.

The purchase price of each SME Receivable in the event of a repurchase or reassignment (i) pursuant to a breach of representation and warranty in relation to such SME Receivable or its related SME Loan and (ii) upon the occurrence of a Non-Permitted Variation, shall be equal to the Repurchase Price.

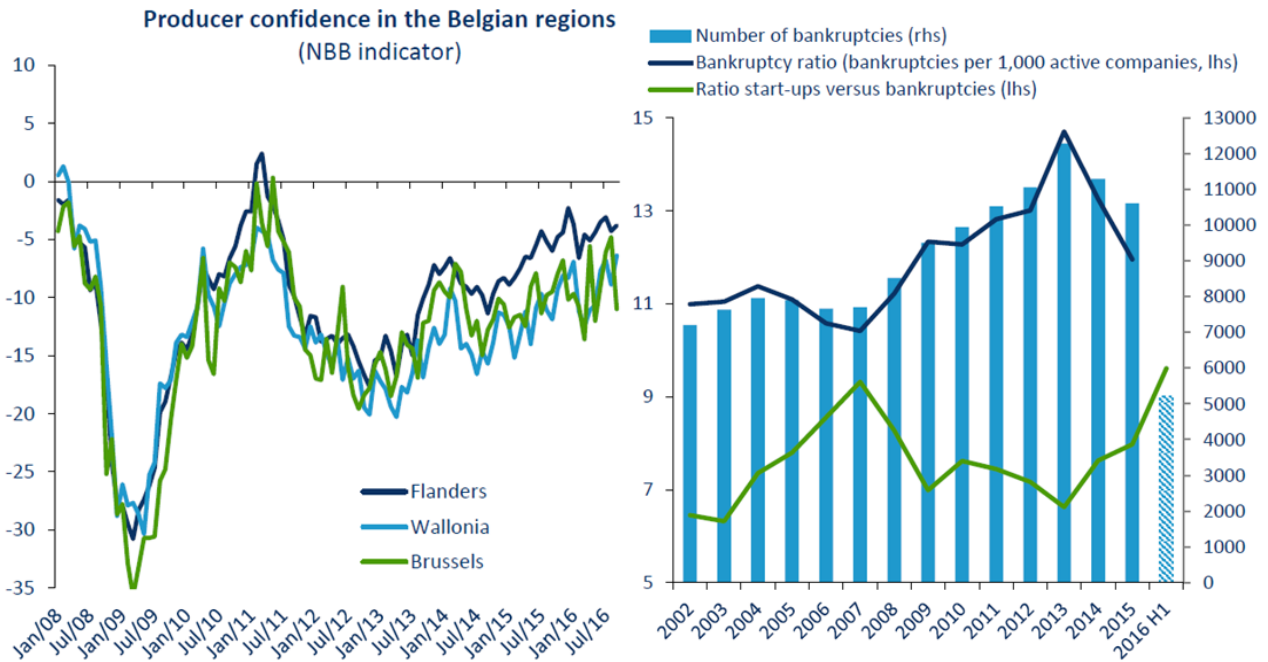
### 13. OVERVIEW OF BELGIAN MARKET FOR SME LOANS

#### 13.1 Belgium Economic Environment

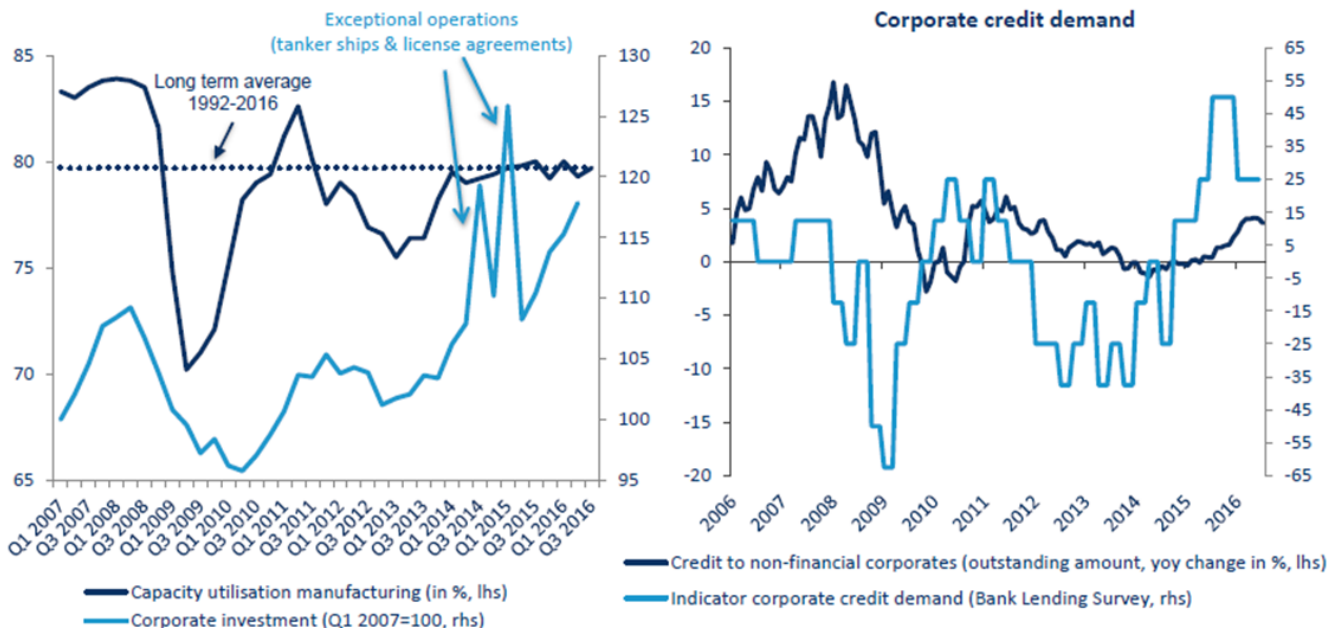
Belgian economy has recovered relatively quickly from the post-2008 recession, reaching pre-crisis GDP levels halfway 2010. Over 2009-2014 SME added value increased annually by 3.4%, compared to 1.2% for large corporates.



Producer confidence is steadily improving, yet it has not reached its first half 2011 level. Flemish confidence has recently outpaced the Brussels and Walloon regions confidence levels. Corporate and SME performance is improving, with structural decreases in number of bankruptcies and net new start-ups picking up for the third year in a row.



Corporate credit demand is on the rise since early 2015, as reflected by the year on year change in outstanding credit amount and by the Lending Survey indicator (NBB). This increase in demand can be matched with increased corporate capital expenses since 2015.



### 13.2 SME's in Belgium

In 2014 there were 591,132 SME's (~ up to 50 employees) in Flanders, 289,821 SME's in Wallonia and 120,550 in Brussels. Overall the number of SME's in Belgium structurally keeps increasing, with a 23% increase between 2005 and 2014. Company size in terms of employees and of added value contribution are roughly in line with the European average. However, there is a higher contribution of micro companies (up to 9 employees) and a smaller share of large corporates ( $\geq 250$  employees).

$\geq 250$ employees	50 to 249 employees	20 to 49 employees	10 to 19 employees	0 to 9 employees
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<b>Value added according to company size (2014)</b>					
EU (28 countries)	42.6%	18.6%	10.3%	7.6%	20.9%
Belgium	38.0%	18.5%	12.0%	7.6%	23.9%
<b>People employed according to company size (2014)</b>					
EU (28 countries)	33.4%	16.8%	10.9%	9.1%	29.8%
Belgium	30.2%	15.1%	11.5%	8.5%	34.6%

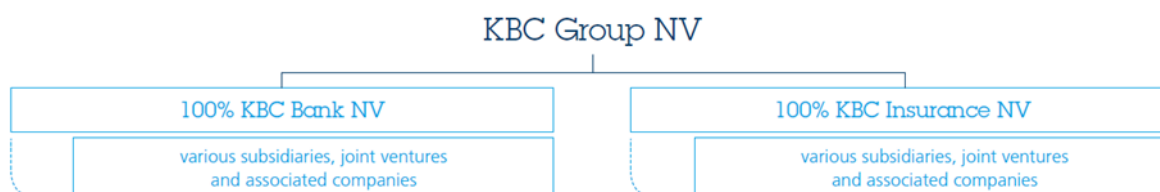
## 14. THE SELLER – KBC BANK NV

### 14.1 Creation

KBC Bank NV (“**KBC Bank**”), a wholly-owned subsidiary of KBC Group NV, was established in Belgium in 1998 as a bank (with number BE-0462.920.226) for an unlimited duration and operates under the laws of Belgium. KBC Bank’s LEI code is 6B2PBRV1FCJDMR45RZ53. KBC Bank's registered office is at Havenlaan 2, B-1080 Brussels, Belgium and KBC Bank’s telephone number is (+32) (0)2 429 83 00. KBC Bank is a wholly-owned subsidiary of KBC Group NV (KBC Group NV together with its subsidiaries, “**KBC Group**” or “**KBC**”).

In short, KBC Bank was initially formed through the merger of the banking operations of the Almanij Kredietbank group and CERA Bank group (“**CERA**”). The merger combined the operations of four Belgian banks: Kredietbank, CERA, Bank van Roeselare and CERA Investment Bank. KBC Bank is registered as a credit institution with the National Bank of Belgium (“**NBB**”).

A simplified schematic of KBC Group's legal structure is provided below. KBC Bank and KBC Insurance NV each have a number of subsidiaries. A list of the subsidiaries of KBC Bank and KBC Insurance NV is available on the website at [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the “Documents Incorporated By Reference” section. KBC Bank including all companies in the scope of consolidation will henceforth be called “KBC Bank Group” in this chapter.



As at the end of June 2016, the share capital of KBC Bank was EUR 8,948 million and consisted of 915,228,482 ordinary shares, one of which is held by its sister company KBC Insurance NV and the remainder are held by KBC Group NV. KBC Group NV's shares are listed on Euronext Brussels. An overview of the shareholding of KBC Group NV is available on the website at [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the “Documents Incorporated By Reference” section. The core shareholders of KBC Group NV are KBC Ancora, CERA, MRBB and the other core shareholders.

KBC Bank, as full subsidiary of KBC Group NV, also has, besides its banking activities, a holding function for a wide range of group companies, mainly banking and other financial entities in Central and Eastern Europe and in other selected countries, such as Ireland. In its capacity of holding company, KBC Bank is affected by the cash flows from dividends received from these group companies. KBC Bank also functions as funding provider for a number of these group companies.

The major other subsidiary of KBC Group NV is KBC Insurance NV. KBC Bank co-operates closely with KBC Insurance NV, amongst others, in relation to distribution of insurance products.

## 14.2 KBC Group strategy

KBC Bank's strategy is fully embedded in the strategy of its parent company, KBC Group NV. A summary is given below of the strategy of the KBC Group, where KBC Bank is essentially responsible for the banking business and KBC Insurance NV for the insurance business.

On 17 June 2014, KBC Group organised an Investor Day, at which occasion (among other things) KBC Group presented an update of its strategy and targets. The presentations and press release of the Investor Day are available on the website at [www.kbc.com](http://www.kbc.com). These documents shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the "Documents Incorporated By Reference" section. Below follows a summary:

- KBC Group wants to build on its strengths and be among Europe's best-performing, retail-focused financial institutions. It will achieve this aim by further strengthening its bank-insurance business model for retail, SME and mid-cap clients in its core markets in a highly cost-efficient way. The model has reached different stages of implementation in the different core countries. In Belgium, the bank and the insurance company already act as a single operational unit, achieving both commercial and non-commercial synergies. In its other core countries (the Czech Republic, Slovak Republic, Hungary and Bulgaria), KBC Group is targeting at least integrated distribution.
- Having both banking and insurance activities integrated within one group creates added value for both clients and KBC Group. Going forward, KBC Group will put further emphasis on the seamless fulfilment of client needs through its bank-insurance offering in the core countries, allowing it to create sustainable, long-term client relationships and to diversify its income streams.
- KBC Group will focus on sustainable and profitable growth within a solid risk, capital and liquidity framework. Profitability will take priority over growth or increasing market shares. Risk management is already fully embedded in KBC Group's strategy and decision-making process and KBC Group wishes to secure the independence of the embedded risk framework through closer monitoring by the Group CRO and by reporting to the Board of Directors of each business entity.
- In recent years, KBC Group has invested heavily in its various distribution channels, i.e. its bank branches and insurance agencies, client contact/service centres, websites and mobile apps. KBC Group wants to create added value for its clients by accurately meeting their needs in terms of financial products and services. Therefore, everything at KBC is based on the client's needs and not on its banking or insurance products and services. To ensure this happens, KBC analyses a raft of information in its databases. KBC wants to allow clients to decide for themselves whether they want a more personalised approach and the resultant offering. It is also the client who chooses how and when these products and services are provided and through which distribution channel. That is why the different channels are accorded equal status at KBC and need to seamlessly complement and reinforce each other. Because KBC Group is strongly embedded in its local markets, and clients' needs are defined by their local environment, each core country will make the necessary changes and investments in its own way and at its own pace.
- The seamless integration of the distribution channels creates a dynamic and client-driven distribution model. The client is at the centre of what KBC Group does. Everything starts from their needs. This will be supported by a performance and client-driven corporate culture that will be implemented throughout the group, with the focus on building long-term client bank-insurance relationships.
- KBC Group has no plans to significantly expand beyond its current geographical footprint. In its core markets (Belgium, the Czech Republic, Hungary, Slovak Republic, Bulgaria, and Ireland) it will

strengthen its bank insurance presence through organic growth or through acquisitions, if attractive opportunities arise (and based on clear and strict financial criteria).

- The profit, capital and liquidity targets, which the group aims to achieve at the highest level, can be found here. In December 2016, KBC Group has been informed by the European Central Bank of its new minimum capital requirements, leading to a combined overall fully loaded CET1 requirement for KBC (under the Danish Compromise) of 10.40%.

The profit, capital and liquidity targets, which the group aims to achieve at the highest level, are as follows:

Financial targets		By
CAGR total income ('13-'17) <i>(excl. MTM valuation of ALM derivatives)</i>	≥ 2.25%	2017
CAGR bank-insurance gross income ('13-'17)	≥ 5%	2017
Cost/income ratio	≤ 53%	2017
Combined ratio	≤ 94%	2017
Common equity tier-1 ratio (fully loaded, Danish compromise)	≥ 10.4%**	2019
Total capital ratio <i>(fully loaded, Danish compromise)</i>	≥ 17%	2017
NSFR	≥ 105%	2014
LCR	≥ 105%	2014
Dividend payout ratio <i>(incl. coupon paid on AT1)</i>	≥ 50%	2016

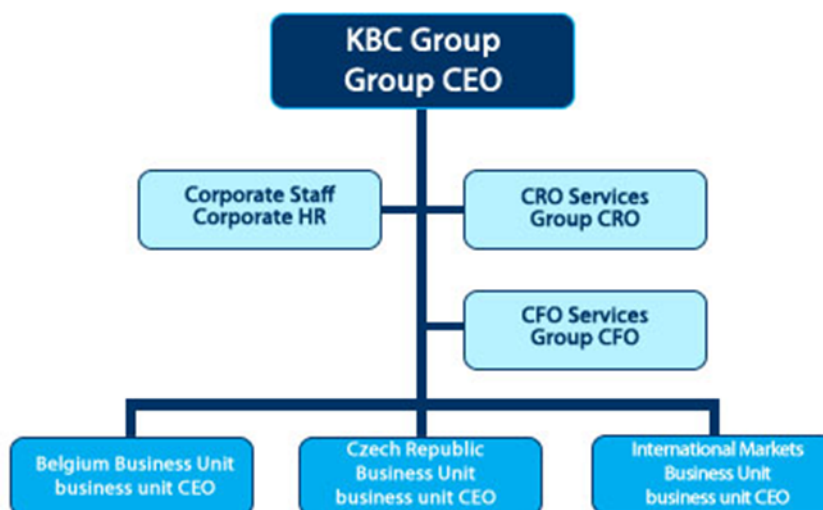
\* 2013: adjusted result

\*\* and additional pillar 2 guidance (P2G) of 1.0% CET1

A definition of the above-mentioned ratios can be found in the glossaries in the Annual Reports of KBC Bank and KBC Group.

### 14.3 Management structure

KBC Group’s strategic choices are fully reflected in the group structure, which consists of a number of new business units and support services and which are presented in simplified form as follows:



The management structure essentially comprises:

- (i) The three business units. These business units focus on local business and should contribute to sustainable profit and growth:
  - Belgium;
  - Czech Republic;
  - International Markets: contains the other core Central and Eastern European countries (Slovak Republic, Hungary and Bulgaria) and Ireland.
- (ii) The pillars ‘CRO Services’ and ‘CFO Services’ (act as an internal regulator, and must above all support the business units), and ‘Corporate Staff’ and ‘Corporate HR’.

Each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with the CEO, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) constitute the executive committee.

### 14.4 Short presentation of KBC Bank Group

Shareholders of KBC Bank (30 June 2016)	Number of shares
KBC Group NV	915,228,481
KBC Insurance NV	1
<b>Total</b>	<b>915,228,482</b>

The shareholdership of KBC Group NV (parent company of KBC Bank) is available on the website at [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the “Documents Incorporated By Reference” section.



## Network

<b>Network (as at 31 December 2016)</b>	
Bank branches in Belgium	716
Bank branches in Central and Eastern Europe (Czech Republic, Slovak Republic, Hungary and Bulgaria)	715
Bank branches in the rest of the world (incl. rep. offices)	25*

\* including branches of KBC Bank and KBC Bank Ireland.

## Income Statement

The table below sets out highlights of the information extracted from KBC Bank's consolidated income statement for each of the two years ended 31 December 2014 and 31 December 2015, and each of the half-year periods ended 30 June 2015 and 30 June 2016, respectively:

<b>Highlights of the consolidated income statement KBC Bank (in millions of EUR)</b>	<b>Full year 2014</b>	<b>Full year 2015</b>	<b>First half 2015</b>	<b>First half 2016</b>
Net interest income	3,648	3,675	1,860	1,824
Dividend income	14	19	13	12
Net result from financial instruments at fair value through profit or loss	195	224	238	252
Net realised result from available-for-sale assets	49	82	52	119
Net fee and commission income	1,822	1,945	1 047	854
Other net income	5	200	93	57
<b>TOTAL INCOME</b>	<b>5,734</b>	<b>6,145</b>	<b>3,302</b>	<b>3,118</b>
Operating expenses	-3,311	-3,388	-1,810	-1,854
Impairment	-472	-650	-219	-55
Share in results of associated companies and joint-ventures	22	21	12	11
<b>RESULT BEFORE TAX</b>	<b>1,973</b>	<b>2,128</b>	<b>1,285</b>	<b>1 220</b>
Income tax expense	-504	291	-302	-217
<b>RESULT AFTER TAX</b>	<b>1,469</b>	<b>2,419</b>	<b>983</b>	<b>1,003</b>
Attributable to minority interest	157	180	88	80
Attributable to equity holders of the parent	1,312	2,239	895	923

The financial highlights for 1H2016, compared to 1H2015, are:

- KBC Bank Group granted more loans in Belgium (+4%), the Czech Republic (+10%), Slovakia (+15%) and Bulgaria (+12%), while clients increased their deposits with KBC Bank Group in all our countries: Belgium (+6%), the Czech Republic (+9%), Hungary (+13%), Slovakia (+16%), Bulgaria (+8%) and Ireland (+11%).
- In spite of the negative impact of low interest rates, net interest income was down just 2% year-on-year, thanks to positive elements such as lower funding costs and higher lending-related income. The bank's net interest margin stood at 1.95%, down 13 basis points year-on-year.

- Net fee and commission income was down 18%, due mainly to lower asset management-related fees.
- The sale of our Visa Europe shares resulted in one-off additional income of 99 million euros (pre-tax), or 84 million euros (after tax).
- At 1 854 million euros, costs went up 2% year-on-year, due mainly to a higher amount of bank taxes being paid. Disregarding these taxes, costs remained unchanged year-on-year. The cost/income ratio stood at 59% year-to-date. After evenly spreading the bank taxes and excluding specific items, the cost/income ratio came to 56%.
- The year-to-date cost of credit amounted to an excellent but unsustainably low 0.07% of the loan portfolio.
- The liquidity position remained solid, and – with a common equity ratio of 13.6% (fully loaded) – the capital base remained strong.

Ratios are defined in KBC Bank’s annual and half-yearly reports, available on [www.kbc.com](http://www.kbc.com). These documents shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the “Documents Incorporated By Reference” section.

### ***Balance Sheet***

The table below sets out highlights of the information extracted from KBC Bank’s consolidated balance sheet statement as at 31 December 2014, 31 December 2015 and 30 June 2016:

<b>Highlights of the consolidated balance sheet, KBC Bank (in millions of EUR)</b>	<b>31-12-2014</b>	<b>31-12- 2015</b>	<b>30-06-2016</b>
Total assets	211,116	217,626	230,270
Loans and advances to customers	125,550	129,206	131,650
Securities (equity and debt instruments)	50,175	51,613	52,776
Deposits from customers and debt securities	163,647	170,873	176,770
Risk weighted assets (Basel III)	80,232	79,758	79,730
Total equity	13,336	13,490	13,520
of which parent shareholders' equity	11,676	11,888	11,890

### **14.5 Ratings of KBC Bank NV**

<b>Long-term credit ratings (as at the date of the Base Prospectus)</b>	
Fitch	A
Moody's	A1
Standard and Poor's	A

***Ratings can change. Various ratings exist. Investors should look at [www.kbc.com](http://www.kbc.com) for the most recent ratings and for the underlying full analysis of each rating agency to understand the meaning of each rating.***

Each such credit rating agency<sup>1</sup> is established in the European Union and is registered under Regulation (EC) No 1060/2009 and listed on the “List of Registered and Certified CRA’s” as published by ESMA in accordance with Article 18(3) of Regulation (EC) No 1060/2009.

#### 14.6 Main companies which are subsidiaries of KBC Bank or in which it has significant holdings as of 31 December 2016

Company	Registered office	Ownership percentage of KBC Bank	Activity (simplified)
CBC Banque SA	Brussels – BE	100.00	Credit institution
CIBANK AD	Sofia – BG	100.00	Credit institution
ČSOB a.s. (Czech Republic)	Prague – CZ	100.00	Credit institution
ČSOB a.s. (Slovak Republic)	Bratislava – SK	100.00	Credit institution
KBC Asset Management NV	Brussels – BE	51.86	Asset management
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Ireland Plc	Dublin – IE	100.00	Credit institution
KBC Commercial Finance NV	Brussels – BE	100.00	Factoring
KBC Credit Investments NV	Brussels – BE	100.00	Investment firm
IIB Finance Ireland	Dublin – IE	100.00	Lending
KBC Financial Products (group)	Various locations	100.00	Shares and derivatives trading
KBC IFIMA SA	Luxemburg - LU	100.00	Issuance of bonds
KBC Investments Ltd	London - GB	100.00	Stock exchange brokers
KBC Lease (group)	Various locations	100.00	Leasing
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt.	Budapest – HU	100.00	Credit institution

A full list of companies belonging to KBC Bank Group is provided in its annual report.

#### 14.7 General description of activities of KBC Bank Group (i.e. KBC Bank including all companies in the scope of consolidation)

KBC Bank Group is a multi-channel bank that caters primarily to private persons, small and medium-sized companies (SMEs) and midcaps.

Its geographic focus is on Europe. In its “home” (or “core”) markets Belgium, Czech Republic, Slovak Republic, Hungary, Bulgaria and Ireland, KBC Bank Group has important and (in some cases) even leading positions. The KBC Bank Group is also present in Ireland and in certain other countries where the primary focus is on supporting the corporate clients of the home markets.

KBC Bank Group's core business is retail and private bank-insurance (including asset management), although it is also active in providing services to corporations and market activities. Across its home markets, KBC Bank Group is active in a large number of products and activities, ranging from the plain vanilla deposit, credit, asset management and insurance businesses (via its sister company, KBC Insurance NV), to specialised activities such as, but not exclusively, payments services, dealing room activities (money and debt market activities), brokerage and corporate finance, foreign trade finance, international cash management, leasing, etc.

<sup>1</sup> A list of credit rating agencies registered under Regulation (EC) No 1060/2009 and listed on the “List of Registered and Certified CRA's” is published on the ESMA website (<http://esma.europa.eu/page/List-registered-and-certified-CRAs>).

## 14.8 Principal markets and activities

### Activities in Belgium

Market position of the bank network in Belgium, end 2016	
Market share (own KBC Bank estimates)	Banking products* 21% Investment funds 33%
Bank branches	716

\* Average of the share in credits and the share in deposits

KBC Bank Group has a network of over 700 bank branches in Belgium (KBC Bank branches in Flanders, CBC Banque branches in Wallonia and KBC Brussels branches in the Brussels region). The branches focus on providing clients in Belgium with a broad area of credit (including mortgage loans), deposit, investment fund and other asset management products, insurance products (in co-operation with KBC Bank's sister company, KBC Insurance NV) and other specialised financial banking products and services. KBC Bank Group's bricks-and-mortar networks in Belgium are supplemented by electronic channels, such as ATMs, telephones and the Internet (including a mobile banking app). KBC Bank and CBC Banque serve, based on their own estimates, approximately 3.2 million clients.

KBC Group considers itself to be an integrated bank-insurer. Certain shared and support services are organised at group level, serving the entire group, and not just the bank or insurance businesses separately. It is KBC Group's aim to continue to actively encourage the cross-selling of bank and insurance products. The success of KBC Group's integrated bank-insurance model is in part due to the co-operation that exists between the bank branches and the insurance agents, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of the insurance agents, the call centre and the head office departments at KBC Insurance NV.

End of 2016, the KBC Bank Group had (see table), based on its own estimates, a 21% share of traditional banking activities in Belgium. Over the past few years, KBC Bank has built up a strong position in investment funds too, and has a share of market of some 33%.

KBC Bank Group believes in the power of a physical presence through a branch and agency network that is close to its clients. At the same time, however, it expects the importance of online and mobile bank-insurance to grow further and it is constantly developing new applications in these areas. This includes the various mobile banking apps for smartphones and tablets, which are being continuously improved and expanded. KBC-Online is also providing clients with information and facilities to perform their own banking and/or insurance transactions.

In KBC Group's financial reporting, the Belgian activities are combined into a single Belgium Business Unit. The results of the Belgium Business Unit essentially comprise the activities of KBC Bank, and its Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group (Belgium) and KBC Securities.

Focus on the future:

- New technologies are considered an important means to focus even more on client-centric solutions. In this regard, various initiatives to enhance client centricity have been launched or are planned. For example, a new responsive and convenient bank-insurance platform (Touch) was launched, and the Start it @kbc initiative for people starting up a business has proven to be a success and is growing steadily.
- The KBC Group used to be active in Brussels under the 'KBC' and 'CBC' brands. However, the decision has been taken to more efficiently exploit the full – but currently untapped – potential of

Brussels. As of 2015, a new separate ‘KBC Brussels’ was launched, reflecting the specific cosmopolitan character of Brussels and the needs of its population. Retail and SME clients receive a single, unified bank-insurance product and service offering and existing KBC/CBC branches are being repositioned.

- In Wallonia, CBC – with its autonomous operational and commercial model and strong embeddedness in the local economy – has recorded solid and constant year-on-year gross revenue growth. It also boasts strong solvency and liquidity positions, and has significant market shares in the professional sector, in the agricultural sector and in the retail client sector. Building on these strong fundamentals, CBC wishes to further mine the growth potential in selected market segments in banking and insurance. As of 2015, CBC is increasing its footprint in Wallonia and enhances its availability and service offering. CBC will open a number of new bank branches and relocate existing ones.

## Activities in Central and Eastern Europe

Market position of the bank network in the home countries of Central and Eastern Europe, end 2016			Czech Republic	Slovak Republic	Hungary	Bulgaria
Market share (own KBC Bank estimates)	Banking products*		20%	11%	10%	3%
	Investment funds		23%	7%	15%	-
Bank	branches	Total	287**	125	207	96

\* Average of the share in credits and the share in deposits

\*\* CSOB Bank+ Era.

In the Central and Eastern European region, the KBC Bank Group focuses on four home countries, being the Czech Republic, Hungary, Slovak Republic and Bulgaria. The main KBC Bank Group Central and Eastern European entities in those home markets are CIBANK (in Bulgaria), ČSOB (in the Slovak Republic), ČSOB (in the Czech Republic), and K&H Bank (in Hungary).

In its four home countries, KBC Bank Group caters to over 4.5 million customers. This customer base, along with KBC Group’s insurance customers in the region (via KBC Insurance NV subsidiaries), make KBC Group one of the larger financial groups in the Central & Eastern European region. The KBC Bank Group companies focus on providing clients with a broad area of credit (including mortgage loans), deposit, investment fund and other asset management products, insurance products (in co-operation with KBC Insurance NV’s subsidiaries in each country) and other specialised financial banking products and services. Just as in Belgium, the bricks-and-mortar networks in Central and Eastern Europe are supplemented by electronic channels, such as ATMs, telephone and the Internet.

KBC Group’s bank-insurance concept has over the past few years been exported to its Central and Eastern European entities. In order to be able to do so, KBC Group has built up a second home market in Central and Eastern Europe in insurance (via KBC Insurance NV). KBC Group has an insurance business in every Central and Eastern European home country: in the Czech Republic, the Group’s insurer is ČSOB Pojist’ovňa, in the Slovak Republic it is ČSOB Poist’ovňa, in Hungary it is K&H Insurance and in Bulgaria it is DZI Insurance. Contrary to the situation of KBC Bank in Belgium, the KBC Group’s insurance companies in Central and Eastern Europe operate not only via tied agents (and bank branches) but also via other distribution channels, such as insurance brokers and multi-agents.

The KBC Bank Group’s estimated market share (the average of the share of the lending market and the deposit market, see table) amounted to 20% in the Czech Republic, 11% in the Slovak Republic, 10% in Hungary, and 3% in Bulgaria (rounded figures). KBC Bank Group also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 23% in the Czech Republic, 7% in Slovak Republic, and 15% in Hungary).

In KBC Bank Group's financial reporting, the Czech activities are separated in a single Czech Republic Business Unit, whereas the activities in the other Central and Eastern European countries, together with Ireland (see further) are combined into the International Markets business unit. The Czech Republic Business Unit hence comprises all KBC Bank Group's activities in the Czech Republic, consisting primarily of the activities of the ČSOB group (under the ČSOB, Era, Postal Savings Bank, Hypoteční banka, Patria and ČMSS brands) and ČSOB Asset Management. The International Markets Business Unit comprises the activities conducted by entities in the other (non-Czech) Central and Eastern European core countries, namely ČSOB in the Slovak Republic, K&H Bank in Hungary and CIBank in Bulgaria, plus KBC Bank Ireland's Irish operations.

Focus on the future:

- The Czech Republic Business Unit's ambition is to create value for its clients by moving from a primarily channel-driven to a client-driven solution, based on the creation of an integrated model, which brings together clients, third parties and bank-insurance. New types of non-financial, service-oriented products will be integrated to create superior client satisfaction and provide added value for clients. On the one hand, ČSOB will increasingly focus on reducing complexity (in products, IT, organisation, bank/distribution network, head office and branding) to generate cost-efficiency benefits. On the other, the business unit will further enhance and accelerate bank-insurance in a number of ways, including introducing an advanced and flexible pricing model, developing combined bank-insurance products, and strengthening the insurance sales force. ČSOB wishes to maintain growth in the areas where it traditionally has been very strong, such as corporate loans and mortgages. On top of that, ČSOB will mine the currently undertapped potential in the attractive SME loans market by focusing on sustainable client relationships. In the consumer finance market, too, ČSOB is aiming to increase its current market share, while observing an acceptable cost of risk.
- In the International Markets Business Unit, K&H (Hungary) and ČSOB Slovakia intend to transform their branch-centric model to a hybrid distribution model. K&H plans to further support the Hungarian economy and grow its market shares in all key segments, with continuous improvements in efficiency and profitability. In Slovakia, business income is expected to increase considerably, especially in retail asset classes (home loans, consumer finance, SMEs and leasing). CIBANK (Bulgaria) is following the same path as K&H and ČSOB, but with slower dynamics due to a less mature market. The bank-insurance partnership between DZI and CIBANK has grown strongly over the past few years and they plan to extend this partnership by further developing products and distribution channels.

On 1 July 2015, ČSOB Leasing and Volksbank Leasing International concluded an agreement for ČSOB Leasing to acquire all the shares of Volksbank Leasing Slovakia and its insurance brokerage subsidiary, Volksbank Sprostredkovateľska. Volksbank Leasing Slovakia is a universal leasing company in the Slovak Republic with a market share of approximately 6% and a balance sheet total of approximately EUR 170 million. The deal has no material impact on KBC Group's earnings and capital.

On 30 December 2016, KBC Group announced that it and the National Bank of Greece (NBG), the Greek parent company of United Bulgarian Bank (UBB), reached agreement for KBC to acquire ownership of:

- UBB (99.9%), the fourth-largest bank in Bulgaria in terms of assets with a 8% market share as at the end of September 2016 (11% market share in retail, 8% market share in corporate); and
- Interlease (100%), the third-largest provider of leasing services in Bulgaria with a 13% market share,

for a total consideration of 610 million euros. KBC will use internal sources/available funds to pay the acquisition price in cash.

Closing of the transaction is subject to regulatory approval from the Bulgarian National Bank (BNB) and the Financial Supervision Commission of the Republic of Bulgaria (FSC), authorisation by the National Bank of

Belgium (NBB) / the European Central Bank (ECB) and anti-trust approval. The parties involved in the transaction expect the deal to close during the second quarter of 2017 at the latest.

KBC has been present in the Bulgarian banking sector since 2007 through its subsidiary CIBANK. The combination of UBB and CIBANK will result in the creation of the third-largest banking group in Bulgaria in terms of assets, with a market share of approximately 11%. KBC has also been present in the Bulgarian insurance sector through its subsidiary DZI Insurance, active in both life and non-life insurance. Together, UBB-CIBANK and DZI will become the largest bank-insurance group in Bulgaria, one of KBC's core markets, boasting strong macroeconomic fundamentals while still featuring a high degree of under penetration of financial services compared to developed, Western European markets.

### *Activities in the rest of the world*

A number of companies belonging to KBC Bank Group are also active in, or have outlets in, countries outside the home markets, among which KBC Bank, which has a network of foreign branches and KBC Bank Ireland. See also the list of main companies (under Section 6: Main companies which are subsidiaries of KBC Bank Group or in which it has significant holdings as of 31 December 2016) or the full year-end list on the website at [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the "Documents Incorporated By Reference" section.

The loan portfolio of KBC Bank Ireland stood at about EUR 13 billion at the end of December 2016, circa 86% of which relates to mortgage loans. At the end of December 2016, some 43% (EUR 5.7 billion) of the total Irish loan portfolio was impaired (of which EUR 2.8 billion more than 90 days past due). For the impaired loans, some EUR 2.5 billion (specific and portfolio-based) impairments have been booked. In addition to the ongoing management of the problem real estate portfolio, the group started work in 2013 on transforming and developing KBC in Ireland into an important retail bank (see below). The Group estimates its share of the Irish retail market in 2017 at 7%. It caters for around 0.2 million clients there. In 2016, the contribution of KBC Bank Ireland to KBC Bank's net result was EUR 184 million compared to EUR 13 million in 2015. A full profit and loss scheme for Ireland is available in KBC Bank's segment reporting<sup>2</sup>.

Focus on the future:

In February 2017, the Board of Directors of KBC Group decided on its strategy in relation to the Irish market:

- KBC Group confirms its long standing commitment of almost 40 years to the Irish market. Ireland will become one of the group's core markets, alongside Belgium, Czech Republic, Bulgaria, Slovakia and Hungary. As a consequence, KBC Bank Ireland will strive to achieve at least 10% market share in retail and micro SME segments and will plan to develop bank-insurance similar to other core markets of KBC Group.
- KBC Group will pursue a fully-fledged sustainable growth strategy based on implementation of a 'Digital First' customer-centric strategy.
- KBC Bank Ireland will accelerate its efforts and investments in expertise and resources to evolve fully into a digital-first customer-centric bank, while continuing to carefully and efficiently manage its legacy portfolio for maximum recovery. The bank will facilitate 'always-on 24/7 accessibility' in terms of distribution and service.

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<sup>2</sup> Segment reporting based on the management structure in the Financial Statements of the annual and semi-annual reports, available on [www.kbc.com](http://www.kbc.com). These documents are not incorporated by reference in, or form part of, this Prospectus.

- The bank will continue to attract retail and micro SME customers. The banking product offering will include day-to-day banking services, as well as access to credit and savings and investments. Recognising ever changing consumer trends the bank will cater also for the new emerging digital savvy consumer in the future.
- Insurance products (life and non-life) will continue to be offered through partnerships and collaboration. KBC Bank Ireland will continue to cultivate its current relationships with insurance product providers.
- To digitalise and innovate faster, KBC Bank Ireland will intensify its collaboration with KBC Group entities and leverage proven innovations and learnings from other KBC core markets. KBC Bank Ireland also has a unique business model with its integrated distribution model (with online and mobile supported by a contact centre and physical hubs), from which other KBC Group core countries can learn.
- Through its integrated distribution business model, KBC Bank Ireland will be given the support to innovate. For example, distributing its products through non-captive channels, on behalf of and to the benefit of its own growth and that of the entire KBC Group. Moreover, the bank's new core banking system with an open architecture will allow KBC Bank Ireland to tap into opportunities offered by the fintech community and provide services from and to other market players, thus broadening the value proposition to its own customers and playing a frontrunner role for KBC Group.

The foreign branches of KBC Bank are located mainly in Western Europe, Southeast Asia and the U.S. and focus on serving customers that already do business with KBC Bank's Belgian or Central and Eastern European network. In the past years, many of the other (niche) activities of these branches have been built down, stopped or sold, and the pure international credit portfolio has been scaled down.

In KBC Bank Group's financial reporting, KBC Bank Ireland is included in the International Markets Business Unit, the foreign branches of KBC Bank are part of the Belgium Business Unit.

The three business units (Belgium, Czech Republic and International Markets) are supplemented by the Group Centre. The Group Centre includes the operational costs of the holding activities of the group, certain capital and liquidity management-related costs, costs related to the holding of participations and the results of the remaining companies or activities earmarked for divestment or in run-down. It also includes results related to the legacy businesses (CDOs, divestment results; both immaterial since 2015) and the valuation of own credit risk.

In July 2015, KBC Asset Management agreed to sell its 49% stake in Union KBC AM to Union Bank of India. This did not have any material impact on KBC Banks's earnings and capital.

## **14.9 Competition**

All of KBC Bank Group's operations face competition in the sectors they serve.

Depending on the activity, competitor companies include other commercial banks, saving banks, loan institutions, consumer finance companies, investment banks, brokerage firms, insurance companies, specialised finance companies, asset managers, private bankers, investment companies, e-commerce companies etc.

In both Belgium and Central and Eastern Europe, KBC Bank Group has an extensive network of branches and KBC Bank Group believes most of its companies have a strong name brand recognition in their respective markets.

In Belgium, KBC Bank Group is perceived as belonging to the top three (3) financial institutions. For certain products or activities, KBC Bank Group estimates it has a leading position (e.g. in the area of investment



funds). The main competitors in Belgium are BNP Paribas Fortis, Belfius and ING, although for certain products, services or markets, other financial institutions may also be important competitors.

In its Central and Eastern European home markets, KBC Bank Group is one of the important financial groups, occupying significant positions in banking. In this respect, KBC Bank Group competes, in each of these countries, against local financial institutions, as well as subsidiaries of other large foreign financial groups (such as Erste Bank, Unicredit and others).

In the rest of the world, KBC Bank Group's presence mainly consists of a limited number of branches and subsidiaries. In this case, KBC Bank Group faces competition both from local companies and international financial groups.

#### **14.10 Staff**

In 2016, KBC Bank Group had, on average and on a consolidated basis, about 28,000 employees (full time or equivalent), the majority of who were located in Belgium (largely in KBC Bank) and Central and Eastern Europe. In addition to consultations at works council meetings and at meetings with union representatives and with other consultative bodies, KBC Bank Group also works closely in other areas with employee associations. There are various collective labour agreements in force.

#### **14.11 Risk management**

Mainly active in banking, insurance and asset management, KBC Group is exposed to a number of typical risks such as – but certainly not exclusively – credit risk, market risk, movements in interest rates and exchange rates, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations and customer litigation as well as the economy in general.

Risk management in KBC Group is effected group-wide. As a consequence, the risk management for KBC Bank is embedded in KBC Group risk management and cannot be seen separately from it.

A description of risk management is available in the 2015 risk report, available on the website at [www.kbc.com](http://www.kbc.com)<sup>3</sup>. This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the “Documents Incorporated By Reference” section.

#### **Risk governance**

Below follows a description of credit risk, market risk (trading & non-trading activities), liquidity risk and operational risk. A selection of figures on credit risk, asset and liability management (ALM) and market risk in trading activities are provided further on.

- Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance, a borrower), due to that party's insolvency, inability or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk which is the risk for adverse changes in credit ratings.
- Market risk in trading activities is defined as the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) due to changes in the level or in the volatility of market prices, e.g. interest rates, exchange rates, equity or commodity prices. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book are all included in ALM exposure.

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<sup>3</sup> [https://www.kbc.com/system/files/doc/investor-relations/Results/JVS\\_2015/Risk\\_Report\\_2015.pdf](https://www.kbc.com/system/files/doc/investor-relations/Results/JVS_2015/Risk_Report_2015.pdf).

- Market risk in non-trading activities (also known as Asset and Liability Management) is the process of managing the Group's structural exposure to market risks. These risks include interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk.
- Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses. The principal objective of KBC Bank Group's liquidity management is to be able to fund such needs and to enable the core business activities of KBC Bank Group to continue to generate revenue, even under adverse circumstances.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, human error or from sudden external events, whether man-made or natural. Operational risks exclude business, strategic and reputational risks.

KBC Group's risk governance framework defines the responsibilities and tasks required to manage value creation and the associated risks. In recent years, KBC Group's risk management framework underwent significant changes with regard to governance and structure. The goal of these changes was to further improve KBC Group's ability to deal decisively with major economic events in the future by creating an adjusted and comprehensive integrated model that aligns all dimensions of risk, capital and value management.

### Credit risk

The main source of credit risk is the loan & investment portfolio of KBC Bank Group. A snapshot of this portfolio is shown in the table below.

### Loan & investment portfolio

As far as the banking activities are concerned, the main source of credit risk is the loan and investment portfolio. The loan & investment portfolio is mainly the result of what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the KBC Group's bank entities. The table below excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with inter-professional transactions, international trade finance (documentary credit, etc.) and government bonds.

### Loan & investment portfolio of KBC Bank Group\*

	31 December 2013	31 December 2014	31 December 2015	30 June 2016
<b>Total loan portfolio (in billions of euro)</b>				
Amount granted .....	161	166	174	177
Amount outstanding .....	135	139	143	146
<b>Loan &amp; investment portfolio breakdown by business unit (as a % of the portfolio of credit granted)</b>				
Belgium .....	64%	64%	65%	65%
Czech Republic .....	13%	14%	14%	15%
International Markets .....	19%	18%	18%	17%
Group Centre (IFRS 5 scope) .....	4%	4%	3%	3%
Total .....	100%	100%	100%	100%
<b>Loan &amp; investment portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)</b>				
Non-financial services .....	11%	11%	11%	11%
Retail and wholesale trade .....	8%	8%	8%	8%

	31 December 2013	31 December 2014	31 December 2015	30 June 2016
Real estate (risk) .....	8%	7%	7%	7%
Construction .....	4%	4%	4%	4%
<b>Impaired loans (in millions of euro or %)</b>				
Amount outstanding .....	13,871	13,692	12,305	11,419
Specific loan impairments .....	5,521	5,709	5,517	5,200
Portfolio-based loan impairments .....	284	215	229	255
<b>Credit cost ratio, per business unit</b>				
Belgium .....	0.37%	0.23%	0.19%	0.07%
Czech Republic .....	0.26%	0.18%	0.18%	0.09%
International Markets .....	4.48%	1.06%	0.32%	0.03%
Group Centre .....	2.40%	1.17%	0.54%	0.29%
Total .....	1.21%	0.41%	0.30%	0.07%
Total (including entities classified as 'disposal groups' under IFRS 5) .....	1.21%	0.42%	0.23%	0.07%
<b>Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of euro or %)</b>				
Impaired loans that are more than 90 days past due .....	8,086	7,676	6,936	6,387
Specific loan impairments .....	4,046	4,384	4,183	3,927
Non-performing ratio, per business unit .....				
Belgium .....	2.5%	2.2%	2.2%	2.0%
Czech Republic .....	3.1%	2.9%	2.5%	2.2%
International Markets .....	19.2%	19.0%	16.0%	14.8%
Group Centre .....	8.5%	6.3%	6.1%	5.3%
Total .....	6.0%	5.5%	4.8%	4.4%
<b>Cover ratio (Specific loan loss impairment)/(impaired loans)</b>				
Total .....	40%	42%	45%	46%
Total, excluding mortgage loans .....	47%	51%	53%	53%

\* Excluding KBC Bank Deutschland (classified as a 'disposal group' under IFRS 5 in 2013, sold in 2014). In 2013, KBC Bank Deutschland (see the relevant remark at the start of this section) accounted for 3.3 billion euros' worth of credit granted, 2.3 billion euros of which was outstanding.

The normal loan portfolio is split into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) reflecting the probability of default (**PD**). An internal rating ranging from PD 10 to PD 12 is assigned to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. At this stage the credit facility is classified as dubious and transferred to a separate accounting system. PD class 11 is assigned to obligors that are more than 90 days past due (in arrears or overdrawn), yet are still performing and do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD class 11 or PD class 12. Default status is fully aligned with non-performing status and with impaired status. PD Class 10 to 12 are therefore referred to as "defaulted" and "impaired". Likewise, "performing" status is fully aligned with "non-defaulted" and "non-impaired" status.

For the purpose of this transaction, we have defined the Defaulted Receivables as receivables that have PD class 12 and are booked as dubious.

Loans to large corporations are reviewed at least once a year, with the internal rating being updated as a minimum. If the ratings are not updated in time, a capital add-on is imposed. Loans to small and medium sized enterprises and to private individuals are reviewed periodically. During this review, any new information that is available (such as arrears, financial data or a significant change in the risk class) will be

taken into account. This monthly exercise can trigger a more in-depth review or may result in action being taken towards the client.

For credit linked to defaulted borrowers in PD classes 10 to 12, the impairment losses are recorded based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis and on a statistical basis for smaller credit facilities. In addition, for non-defaulted credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis, using a formula based on the IRB Advanced models used internally, or an alternative method if a suitable IRB Advanced model is not yet available. The “credit cost ratio” is defined as net changes in specific and portfolio-based impairment for credit risks divided by the average outstanding loan portfolio.

### **Other credit risks**

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the KBC Bank Group. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk, such as short-term commercial transactions (this activity involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and only entails exposure to financial institutions. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries), the counterparty risk of inter-professional transactions (refers to placements and the pre-settlement risk of derivatives), trading book securities – issuer risk (refers to the potential loss on default by the issuer of the trading securities) and the government securities in the investment portfolio of banking entities. Information on these risks can be found in the 2015 annual report of KBC Bank.

### **Structured credit exposure KBC Group (CDOs and other ABS)**

The total net portfolio amount (i.e. excluding de-risked positions) of structured credit products (consisting predominantly of European residential mortgage-backed securities) decreased by EUR 0.1 billion compared to December 2014, standing at EUR 1.6 billion as at 31 December 2015. Redemptions were slightly higher than new investments to the tune of EUR 0.1 billion. In 2013, KBC Group decided to lift the strict moratorium on investments in ABS and to allow treasury investments in liquid, high-quality, non-synthetic European ABS, which are also accepted as eligible collateral by the ECB. This allows for further diversification in the investment portfolios. The moratorium on investments in synthetic securitisations or re-securitizations continues to exist.

Standing at more than EUR 25 billion in 2008, KBC Group has fully scaled down its CDO portfolio with the last action taken in September 2014 by collapsing the last two remaining CDOs originated by KBC Financial Products. These collapses ended the guarantee agreement with the Belgian State for KBC Group and completely eliminates the group's exposure to MBIA. KBC Group is, however, the counterparty to and issuer of a further EUR 0.2 billion worth of CDO notes issued by KBC Financial Products and held by third-party investors that will remain outstanding until November 2017. Negligible movements may yet be recorded in KBC Group's income statement in the coming quarters based on changes in the value of the CDO notes.

### **Asset and Liability Management (market risks in non-trading activities)**

The main technique KBC uses to measure interest rate risks is the 10 basis point value (BPV). The 10 BPV measures the extent to which the value of the portfolio would change if interest rates were to go up by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). KBC also uses other techniques such as the gap analysis, the duration approach, the scenario analysis and stress testing (both from a regulatory capital perspective and from a net income perspective). More details are available in the 2015 annual report of KBC Bank.

**BPV (10 basis points) of the ALM-book of KBC Bank Group (in millions of euro) (unaudited figures, except for those ‘As at 31 December’)**

Average of 1Q 2012 .....	-52
Average of 2Q 2012 .....	-49
Average of 3Q 2012 .....	-49
Average of 4Q 2012 .....	-47
As at 31 December 2012 .....	-39
Average of 1Q 2013 .....	-33
Average of 2Q 2013 .....	-28
Average of 3Q 2013 .....	-21
Average of 4Q 2013 .....	-22
As at 31 December 2013 .....	-22
Average of 1Q 2014 .....	-55
Average of 2Q 2014 .....	-61
Average of 3Q 2014 .....	-71
Average of 4Q 2014 .....	-57
As at 31 December 2014 .....	-57
Average of 1Q 2015 .....	-60
Average of 2Q 2015 .....	-40
Average of 3Q 2015 .....	-28
Average of 4Q 2015 .....	-25
As at 31 December 2015 .....	-25
Average of 1Q 2016 .....	-18
Average of 2Q 2016 .....	-30

## Market risk management

The KBC Bank Group is exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, the Slovak Republic and Hungary, as well as via a minor presence in the UK and Asia. The traditional dealing rooms, with the dealing room in Belgium accounting for the lion’s share of the limits and risks, focus on trading in interest rate instruments, while activity on the FX markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

The market risk and regulatory capital in the four legacy business lines of KBC Investments Limited (formerly KBC Financial Products), namely the CDO, fund derivatives, reverse mortgages and insurance derivatives businesses have been reduced in recent years<sup>4</sup>. This is especially the case for the fund derivatives, reverse mortgages and insurance derivatives businesses. Where the market risk regulatory capital charges represent only 1% of the total, the reverse mortgages and insurance derivatives businesses were transferred to KBC Bank NV in December 2015 due to the closing of some subsidiaries). These legacy business lines continue to be monitored and wound down by dedicated teams. Regarding the CDO business – and as mentioned in other parts of this report – KBC Group has now fully scaled down its CDO portfolio. Other than the position pertaining to the remaining EUR 0.2 billion (per 31 December 2015) of CDO notes held by investors which is located in the trading books of KBC Investments Limited. Consequently, the market risk regulatory capital for this position is recorded under the re-securitisation column (EUR 15 million per 31 December 2015) in the ‘Trading regulatory capital requirements’ table.

<sup>4</sup> With respect to the CDO, there is a decrease of the market risk regulatory capital (from EUR 14,589,226 per 31 December 2015 to EUR 3,322,978 per 30 June 2016). A decrease can be noticed also for the market risk regulatory capital for fund derivatives (from USD 24,973 per 31 December 2015 to USD 24,373 per 30 June 2016) and for reverse mortgages and insurance derivatives (from USD 2,367,496 per 31 December 2015 to USD 2,294,631 per 30 June 2016).

The table below shows the Historical Value-at-Risk (HVaR; 99% confidence interval, ten-day holding period, historical simulation) for the linear and non-linear exposure of all the dealing rooms of KBC Group (KBC Securities was included from April 2013 onwards). To allow a year-on-year comparison, the HVaR for KBC Investments Limited (relating to KBC's discontinued CDO business) is also shown.

As of October 2013, the HVaR for KBC Investment Limited's credit derivatives had fallen to zero due to a series of trades with external counterparties that generated an exact match of the offsetting positions in the scope of KBC Investment Limited's VaR model (perfect Back-to-Back positions). As a result, and due to the above-mentioned inclusion of KBC Securities in the HVaR for KBC Bank, all trading activity for KBC Group measured by HVaR has been included in the "KBC Bank" figure from that point on, and thus this figure represents the HVaR for KBC Group.

More details are available in the 2015 annual report of KBC Bank.

#### Market risk HVaR (Ten-day holding period, in millions of euro)

	KBC Bank	KBC Investments Limited
Average, 1Q 2013 .....	37	1
Average, 2Q 2013 .....	37	1
Average, 3Q 2013 .....	34	1
Average, 4Q 2013 .....	29	-
<i>End of period</i> .....	28	-
<i>Maximum in year</i> .....	50	5
<i>Minimum in year</i> .....	26	0
Average, 1Q 2014 .....	24	-
Average, 2Q 2014 .....	19	-
Average, 3Q 2014 .....	15	-
Average, 4Q 2014 .....	15	-
<i>End of period</i> .....	15	-
<i>Maximum in year</i> .....	29	-
<i>Minimum in year</i> .....	11	-
Average, 1Q 2015 .....	14	-
Average, 2Q 2015 .....	15	-
Average, 3Q 2015 .....	15	-
Average, 4Q 2015 .....	16	-
<i>End of period</i> .....	18	-
<i>Maximum in year</i> .....	21	-
<i>Minimum in year</i> .....	12	-
Average, 1Q 2016 .....	16	-
Average, 2Q 2016 .....	15	-

#### Regulatory capital charges for market risk

National regulators have authorised KBC Bank, KBC Investments, and ČSOB (Czech Republic) to use their respective VaR models to calculate regulatory capital requirements for part of their trading activities. ČSOB (Czech Republic) has also received approval from the local regulator to use its VaR model for capital requirement purposes. These models are also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of the SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. This period of stress is based on recent history and it is calibrated regularly.

The resulting capital requirements for trading risk are shown in the table below. The regulatory capital requirements for the trading risk of local KBC entities that did not receive approval from their respective regulator to use an internal model for capital calculations, as well as the business lines not included in the HVaR calculations, are measured according to the Standardised approach. This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk). As mentioned higher, the re-securitisation regulatory capital for 2015 (15 million euros) emanates from the counterposition for the 0.2 billion euros of CDO notes held by investors (the counterposition is located in the trading books of KBC Investments Limited).

#### Trading Regulatory Capital Requirements by risk type for the KBC Group (in millions of euro)

		Interest rate risk	Equity risk	FX risk	Commodity risk	Re- securitisation	Total
31-12-2014							
Market risks assessed by internal model	HVaR	38	2	11	-	-	126
	SVaR	56	3	17	-	-	
Market risks assessed by the Standardised Approach		27	4	14	3	19	68
Total		120	9	43	3	19	194
31-12-2015							
Market risks assessed by internal model	HVaR	68	3	9	-	-	192
	SVaR	84	2	26	-	-	
Market risks assessed by the Standardised Approach		18	5	16	2	15	56
Total		171	10	50	2	15	248

#### 14.12 Recent events

Detailed information is set out in KBC Group's and KBC Bank's press releases and financial reports, all of which are available on [www.kbc.com](http://www.kbc.com). For the avoidance of doubt, the information available on the KBC website, [www.kbc.com](http://www.kbc.com), shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the "Documents Incorporated By Reference" section.

Note: Mid-September 2016, in redefining its strategy towards sustainability, KBC Group communicated how it deals with a number of social and sustainability themes. This transparency is part of the extended sustainability policy applying throughout the group and enshrined in a number of guiding principles. These can be viewed at [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the "Documents Incorporated By Reference" section.

#### 14.13 Banking supervision and regulation

##### Introduction

KBC Bank, a credit institution governed by the laws of Belgium, is subject to detailed and comprehensive regulation in Belgium, and is supervised by the European Central Bank (**ECB**). The ECB exercises its prudential supervisory powers by means of application of EU rules and national (Belgian) legislation. The supervisory powers conferred to the ECB include, amongst others, the granting and withdrawal of authorisations to and from credit institutions, the assessment of acquisitions and disposals of qualifying holdings in credit institutions, ensuring compliance with the rules on equity, liquidity, statutory ratios and the carrying out of supervisory reviews (including stress tests) for credit institutions. Pursuant to Regulation (EU) n°468/2014 of 16 April 2014 establishing a framework for cooperation within the Single Supervisory Mechanism between the ECB and national competent authorities, a joint supervisory team has been established for the prudential supervision of KBC Bank (and KBC Group NV). This team is composed of

staff members from the ECB and from the national supervisory authority (in casu the National Bank of Belgium (**NBB**)) and working under the coordination of an ECB staff member.

The Financial Services and Markets Authority (**FSMA**), an autonomous public agency, is in charge of supervision of conduct of business rules for financial institutions and financial market supervision.

EU directives have had and will continue to have a significant impact on the regulation of the banking business in the EU, as such directives are implemented through legislation adopted in each Member State, including Belgium. The general objective of these EU directives is to promote a unified internal market for banking services and to improve standards of prudential supervision and market efficiency through harmonisation of core regulatory standards and mutual recognition among EU Member States of regulatory supervision and, in particular, licensing.

### **Supervision and regulation in Belgium**

The banking regime in Belgium is governed by the Law of 25 April 2014 on the legal status and supervision of credit institutions (the **Banking Law**). The Banking Law replaces the Law on the legal status and supervision of credit institutions of 22 March 1993 and implements various EU directives, including, without limitation, Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (**CRD**) and, where applicable, Regulation (EU) n° 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (**CRR**, together with CRD, **CRD IV**), and Directive 2014/59 of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (**BRRD**). CRD IV applies in Belgium since 1 January 2014, subject to certain requirements being phased in over a number of years, as set out therein. The provisions of the Banking Law which implement the BRRD have fully entered into force on 16 July 2016.

The Banking Law sets forth the conditions under which credit institutions may operate in Belgium and defines the regulatory and supervisory powers of the ECB and the NBB. The main objective of the Banking Law is to protect public savings and the stability of the Belgian banking system in general.

### **Supervision of credit institutions**

- (1) All Belgian credit institutions must obtain a license from the ECB before they may commence operations. In order to obtain a license and maintain it, each credit institution must fulfil numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder holding 10% or more (directly or indirectly, alone, together with affiliated persons or in concert with third parties) of the capital or the voting rights of the institution must be of "*fit and proper*" character to ensure proper and prudent management of the credit institution. The ECB therefore requires the disclosure of the identity and participation of any shareholder with a 10% or greater capital or voting interest. If the ECB considers that the participation of a shareholder in a credit institution jeopardizes its sound and prudent management, it may suspend the voting rights attached to this participation and, if necessary, request that the shareholder transfers to a third party its participation in the credit institution. Prior notification to and non-opposition by the ECB is required each time a person intends to acquire shares in a credit institution, resulting either in the direct or indirect ownership of a qualified holding of the capital or voting rights (i.e. 10% or more), or in an increase of such qualified holding thereby attaining or surpassing 20%, 30% or 50%, or when the credit institution would become his subsidiary. Furthermore, a shareholder who wishes to directly or indirectly sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the ECB thereof. The Belgian credit institution itself is obliged to notify the ECB of any such transfer when it becomes aware thereof. Moreover, every shareholder acquiring, decreasing or increasing its holding (directly or indirectly, alone, together with affiliated persons or in concert with third parties) to 5% or more of voting rights or capital



without reaching the qualifying holding threshold of 10%, must notify the ECB thereof within ten (10) working days.

- (2) The Banking Law requires credit institutions to provide detailed periodic financial information to the ECB and, under certain circumstances, the FSMA. The ECB also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. The ECB sets the minimum capital adequacy ratios applicable to credit institutions. The ECB may also set other ratios, for example, with respect to the liquidity and gearing of credit institutions. It also sets the standards regarding solvency, liquidity, risk concentration and other limitations applicable to credit institutions and the publication of this information. The NBB may in addition impose capital requirements for capital buffers (including countercyclical buffer rates and any other measures aimed at addressing systemic or macro-prudential risks). In order to exercise its prudential supervision, the ECB may require that all information with respect to the organisation, the functioning, the position and the transactions of a credit institution be provided to it. Further, the ECB supervises, among other things, the management structure, the administrative organization, the accounting and the internal control mechanisms of a credit institution. In addition, the ECB may conduct on-site inspections (with or without the assistance of NBB staff). The comprehensive supervision of credit institutions is also exercised through Statutory Auditors who co-operate with the supervisor in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the ECB. Within the context of the European System of Central Banks, the ECB issues certain recommendations regarding monetary controls.
- (3) The Banking Law has introduced a prohibition in principle on proprietary trading. However, certain proprietary trading activities are excluded from this prohibition. Permitted proprietary trading activities (including certified market-making, hedging, treasury management, and long-term investments) are capped, and these types of activities must comply with strict requirements on reporting, internal governance and risk management.
- (4) The Banking Law establishes a range of instruments to tackle potential crises of credit institutions at three stages:
  - (a) Preparation and prevention

Credit institutions have to draw up recovery plans, setting out the measures they would take to restore their financial position in the event of a significant deterioration. These recovery plans must be updated at least annually or after a change to the legal or organisational structure of the institution, its business or its financial position, which could have a material effect on, or necessitates a change to, the recovery plans. In its review of the recovery plan, the ECB pays particular attention to the appropriateness of the capital and financing structure of the institution in relation to the degree of complexity of its organisational structure and its risk profile.

The Single Resolution Board (**SRB**) will have to prepare a resolution plan for each significant Belgian credit institution, laying out the actions it may take if it were to meet the conditions for resolution (as set out in (c) below). The Resolution College of the NBB has the same powers with regard to the non-significant Belgian credit institutions. If the SRB/Resolution College identifies material impediments to resolvability during the course of this planning process, it can require a credit institution to take appropriate measures, including changes to corporate and legal structures.

(b) Early intervention

The ECB and the NBB dispose of a set of powers to intervene if a credit institution faces financial distress (e.g. when a credit institution is not operating in accordance with the provisions of the Banking Law or CRD IV), but before its financial situation deteriorates irreparably. These powers include the ability to dismiss the management and appoint a special commissioner, to convene a meeting of shareholders to adopt urgent reforms, to suspend or prohibit all or part of the credit institution's activities (including a partial or complete suspension of the execution of current contracts), to order the disposal of all or part of the credit institution's shareholdings, and finally, to revoke the license of the credit institution.

(c) Resolution

In relation to credit institutions falling within the scope of the Single Supervisory Mechanism, such as KBC Bank (and KBC Group NV), the SRB is the resolution decision-making authority since 1 January 2016. Pursuant to Regulation (EU) No 806/2014 of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund, the SRB replaced national resolution authorities (such as the Resolution College of the NBB) for resolution decisions with regard to significant credit institutions.

The resolution authority can decide to take resolution measures when the three following circumstances are cumulatively present: (i) the determination has been made by the resolution authority that a credit institution is failing or is likely to fail; (ii) there is no reasonable prospect that other private sector measures or supervisory intervention can be taken to prevent the failure of the institution, and (iii) resolving the credit institution is better from a public interest perspective than winding up the institution.

The resolution tools are: (i) the sale of (a part of) the assets/liabilities or the shares of the credit institution without the consent of shareholders, (ii) the transfer of business to a temporary structure ("*bridge bank*"), (iii) the separation of clean and toxic assets and the transfer of toxic assets to an asset management vehicle and (iv) bail-in. Each decision will be subject to prior judicial control.

The fourth resolution tool, i.e. the bail-in tool, entered into force on 1 January 2016. It was implemented into Belgian law by the Royal Decree of 18 December 2015 amending the Banking Law. Bail-in is a mechanism to write down the liabilities (subordinated debt, senior debt and eligible deposits) or to convert debt into equity, as a means of restoring the institution's capital position. The bail-in tool applies to existing debt instruments as well.

The resolution authority is also empowered (and in certain circumstances required) to write down or convert capital instruments (such as Common Equity Tier 1-, Additional Tier 1- and Tier 2-instruments), before or together with the use of any resolution tools, if it determines that a credit institution becomes non-viable, that the conditions for the exercise of the resolution tools are fulfilled and/or that a credit institution has asked for public support.

The applicability of the resolution tools and measures to credit institutions that are part of a cross-border group are regulated by the Royal Decree of 26 December 2015 implementing the Banking Law, which entered into force on 1 January 2016.

## **Bank governance**

The Banking Law also puts a lot of emphasis on the solid and efficient organisation of credit institutions and introduces to that effect *inter alia* a dual governance structure at management level, specialised advisory committees within the Board of Directors (Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee), independent control functions, and strict remuneration policies (including limits on the amount of variable remuneration, the form and timing for vesting and payment of variable remuneration, as well as claw-back mechanics).

The Banking Law makes a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general and risk policy, which is entrusted to the Board of Directors. According to the Banking Law, KBC Bank has an Executive Committee of which each member is also a member of the Board of Directors.

Pursuant to the Banking Law, the members of the Executive Committee and the Board of Directors need to permanently have the required professional reliability and appropriate experience. The same goes for the responsible persons of the independent control functions. The fit and proper standards have been further elaborated by the NBB in a circular of 17 June 2013.

The NBB Governance Manual for the Banking Sector (the **Governance Manual**) contains recommendations to assure the suitability of shareholders, management and independent control functions and the appropriate organisation of the business.

As required by the Banking Law and the Governance Manual, KBC has drafted a Group Internal Governance Memorandum (the **Governance Memorandum**), which sets out the corporate governance policy applying to KBC Group and its subsidiaries and of which the governance memorandum of KBC Bank forms part. The corporate governance policy of a credit institution must meet the principles set out in the law and the Governance Manual. The most recent version of the Governance Memorandum was approved on 17 December 2015 by the Board of Directors of KBC Group NV, KBC Bank NV and KBC Insurance NV and has been sent to the NBB.

KBC Bank also has a Corporate Governance Charter which has been published on the website [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the "Documents Incorporated By Reference" section.

### **Solvency supervision**

Capital requirements and capital adequacy ratios are provided for in the CRR, transposing the Basel III regulation into European law. CRR requires that credit institutions must comply with several minimum solvency ratios. These ratios are defined as Common Equity Tier 1, Tier 1 or Total capital divided by risk weighted assets. The absolute minimum is a Common Equity Tier 1 ratio of 4.5%. Risk weighted assets are the sum of all assets and off-balance sheet items weighted according to the degree of credit risk inherent in them. The solvency ratios also takes into account market risk with respect to the bank's trading book (including interest rate and foreign currency exposure) and operational risk in the calculation of the weighted risk. On top of the capital requirements defined by the solvency ratios, the regulation imposes a capital conservation buffer and in certain cases a systemic risk buffer and/or a countercyclical buffer.

Solvency is also limited by the leverage ratio, which compares Tier 1 capital to non-risk weighted assets.

In the context of its supervisory authority, the ECB has imposed the following capital requirement for KBC Group: an own funds requirement of an overall CRD IV fully loaded Common Equity Tier 1 capital ratio (based on the Danish compromise method as approved by NBB on 21 January 2014) of at least 10.5%. Besides, the following liquidity coverage requirement applies: 70% as from 1 January 2016, 80% as from 1 January 2017 and 100% as from 1 January 2018 (according to Delegated Regulation 2015/61 of 10 October 2014 supplementing the CRR with regard to liquidity coverage requirement for Credit

Institutions). The liquidity coverage requirement is equal to the ratio of a credit institution's liquidity buffer to its net liquidity outflows over a 30 calendar day stress period. In addition, under Article 205 of the Belgian Banking Law (which implements Article 119 of CRD IV in relation to mixed financial holding companies), KBC Group is required to maintain at all times an own funds requirement of an overall fully loaded Common Equity Tier 1 capital ratio (building block method) of at least 10.5%.

The payment of dividends by Belgian credit institutions is not limited by Belgian banking regulations, except indirectly through capital adequacy and solvency requirements when capital ratios fall below certain thresholds. The pay-out is further limited by the general provisions of Belgian company law.

### **Large exposure supervision**

European regulations ensure the solvency of credit institutions by imposing limits on the concentration of risk in order to limit the impact of failure on the part of a large debtor. For this purpose, credit institutions must limit the amount of risk exposure to any single counterparty to 25% of the total capital. European regulations also require that the credit institutions establish procedures to contain concentrations on economic activity sectors and geographic areas.

### **Money laundering**

Belgium has implemented Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing by amending the Law of 11 January 1993 (as amended from time to time). This legislation contains a preventive system imposing a number of obligations in relation to money laundering and the financing of terrorism. These obligations are related, among other things, to the identification of the client, special attention for unusual transactions, internal reporting, processing and compliance mechanisms with the appointment of a compliance officer and employee training requirements. When, after investigation, a credit or financial institution suspects money laundering to be the purpose of a transaction, it must promptly notify an independent administrative authority, the Financial Intelligence Unit. This Unit is designated to receive reports on suspicious transactions, to investigate them and, if necessary, to report to the criminal prosecutors to initiate proceedings. The NBB has issued guidelines for credit and financial institutions and supervises their compliance with the legislation. Belgian criminal law specifically addresses criminal offences of money-laundering (Article 505, paragraphs 1 to 4 of the Criminal Code) and sanctions them with a jail term of a minimum of 15 days and a maximum of 5 years and/or a penalty of a minimum of EUR 26 and a maximum of EUR 100,000 (to be multiplied by 6) or, for legal entities, a fine of a minimum of EUR 500 and a maximum of EUR 200,000 (to be increased with the additional penalty or, in other words, to multiplied by 6).

### **Consolidated supervision – supplementary supervision**

KBC Bank is subject to consolidated supervision by the ECB on the basis of the consolidated financial situation of KBC Group NV, which covers, among other things, solvency as described above, pursuant to Articles 165 and following of the Banking Law. As a subsidiary of a mixed financial holding company (KBC Group NV) and part of a financial conglomerate, KBC Bank is also subject to the supplementary supervision of the ECB, according to Directive 2011/89/EU of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate (implemented in Articles 185 and following of the Banking Law). The supplementary supervision relates to, among other things, solvency, risk concentration and intra-group transactions and to enhanced reporting obligations.

The consolidated supervision and the supplementary supervision will be aligned as much as possible, as described in Article 170 of the Banking Law.

### **KBC Asset Management**

As from June 2005, the status of KBC Asset Management has been changed from "*investment firm*" to a "*management company of undertakings for collective investment in transferable securities (UCITS)*" (**UCITS-management company**). Its activities are, inter alia, the management of UCITS and the management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis. KBC Asset Management is subject to detailed, comprehensive regulation in Belgium, supervised by the FSMA.

The UCITS-management company regime in Belgium is governed by the "Law on certain forms of collective management of investment portfolios" of 3 August 2012, as amended from time to time (**Law of 3 August 2012**). The Law of 3 August 2012 implements European Directive 2001/107/EC of 21 January 2002 relating to UCITS, as amended from time to time. The Law of 3 August 2012 regulates management companies and sets forth the conditions under which UCITS-management companies may operate in Belgium; furthermore, it defines the regulatory and supervisory powers of the FSMA.

The regulatory framework concerning supervision on UCITS-management companies is mostly similar to the regulation applicable to investment firms. The Law of 3 August 2012 contains, *inter alia*, the following principles:

- certain minimum paid-up capital requirements and rules relating to changes affecting capital structure;
- obligation for management companies to carry out their activities in the interests of their clients or of the UCITS they manage (e.g. creation of Chinese walls);
- obligation to provide, on a periodical basis, a detailed financial statement to the FSMA;
- supervision by the FSMA; and
- subjection to the control of Statutory Auditors.

#### **14.14 Material contracts**

KBC Bank has not entered into any material contracts outside the ordinary course of its business which could result in any member of KBC Bank Group being under an obligation or entitlement that is material to KBC Bank's ability to meet its obligations to its creditors.

#### **14.15 Recent events**

Detailed information is set out in KBC Group's and KBC Bank's press releases and financial reports, all of which are available on [www.kbc.com](http://www.kbc.com). For the avoidance of doubt, the information available on the KBC website, [www.kbc.com](http://www.kbc.com), shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the "Documents Incorporated By Reference" section.

Mid-September 2016, in redefining its strategy towards sustainability, KBC Group communicated how it deals with a number of social and sustainability themes. This transparency is part of the extended sustainability policy applying throughout the group and enshrined in a number of guiding principles. These can be viewed at [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the "Documents Incorporated By Reference" section.

#### **14.16 Trend information**

Global growth and inflation dynamics have gained momentum recently. Especially the revival of the manufacturing sector after its slump in 2015-2016 is remarkable. The strong support of new (export) orders points to solid internal and external demand. Moreover, it suggests that the improvements in the hard data are

here to stay, at least in the short-term. On top of that, also sentiment indicators for the services sector confirm the favourable growth environment.

In the euro area, real Gross Domestic Product (GDP) growth in the euro area for the fourth quarter of 2016 remained constant at 0.4% compared to the previous quarter (quarter-on-quarter). Solid private and government consumption (both +0.4% qoq) were major contributors to the growth figure. Also investments reported strong results (+0.6% qoq), recovering from the sharp dip in the third quarter of 2016. The data that are already known for this year suggest that growth will be somewhat higher than in 2016.

Meanwhile, optimism in the US economy continues. Sentiment indicators are reaching multi-year highs with the manufacturing sector showing considerable strength. Also sentiment in the services industry, still the most important for the US economy, showed resilience. The high readings of the business activity and new orders components point to persistent momentum. However, hard data didn't fully reflect this optimism surge. Real GDP growth in the fourth quarter reached a solid but rather modest 0.5% qoq. Furthermore, data on personal spending came in on the soft side. However, given the continued rise in personal income, the healthy savings rate and the high level of consumer confidence, we expect private consumption to remain the main growth contributor throughout the coming quarters.

As expected, global headline inflation is accelerating sharply, supported by the base effects of energy and commodity prices. This trend is, however, transitory. Once base effects fade out, we expect headline inflation to converge towards more subdued levels around core inflation. For the US, this is going in the direction of the central bank's 2% target. For the euro area on the contrary, core inflation stays stubbornly soft around 1% for now. This is only half the ECB's medium term inflation target. We don't expect it to reach the ECB's target within the horizon of 2017-2018.

Our view on the ECB monetary policy is that its Quantitative Easing will be continued as scheduled at a monthly pace of €60 billion until December 2017. In the second half of 2017 at the latest, the ECB will announce its policy intentions after the end of its Asset Purchase Programme. Real tapering will start at the beginning of 2018 and the Asset Purchase Programme of the ECB will be completely phased out around mid-2018. The first raise of the deposit rate will only come several months after the Asset Purchase Programme is ended. According to our view, a first rate hike by the ECB is unlikely before 2019.

Given the solid performance of the US economy, we expect three Fed rate hikes in 2017 and three more in 2018. In this context, the USD environment remains supportive. The monetary policy divergence between the Federal Reserve and the ECB will cause some further USD appreciation against the EUR in the coming months. In our view, the USD appreciation will however not continue in 2018. Although the difference in monetary policy will still exist, the anticipation on the ECB tapering and several months later the first ECB rate hike, will prevent the USD from strengthening further against the EUR. The USD will probably remain broadly flat against the EUR during 2018.

We expect US long-term sovereign interest rates to increase further at a gradual pace in the coming months. As the correlation with US yields is still high, also the German 10 year government bond yield will rise. Intra-European Monetary Union spreads have come down again recently. Hence, the uncertainty surrounding the elections in the euro area seems to be translating into more volatility rather than a sustained gradual rise of the spreads. We expect this volatility to persist until the election uncertainties fade.

#### **14.17 Management of KBC Bank**

The Board of Directors of KBC Bank has the powers to perform everything that is necessary or useful to achieve the corporate purpose of KBC Bank, with the exception of those powers of which, pursuant to the law and the Articles of Association, solely another body is empowered to perform.

The corporate purpose of KBC Bank is set out in Article 2 of its Articles of Association. It includes the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue and all acts that contribute directly or indirectly thereto.

To the extent these laws and regulations apply to KBC Bank, KBC Bank complies with the laws and regulations of Belgium regarding corporate governance.

Pursuant to Article 24 of the Banking Law and Article 524bis of the Belgian Companies Code, the Board of Directors of KBC Bank has conferred powers on the Executive Committee to perform the acts referred to in Article 522 of the Belgian Companies Code and Article 18 of the Articles of Association of KBC Bank. However, this transfer of powers relates neither to the definition of general policy, nor to the powers which are reserved to the Board of Directors by law. The Board of Directors is responsible for the supervision of the Executive Committee. KBC Bank is not aware of any potential conflicts of interest between the duties to KBC Bank of the Members of the Board of Directors of KBC Bank detailed below and their private interests or other duties.

Members of the Board of Directors of KBC Bank are as follows:

Name and business address	Position	Expiry date of current term of office	External offices
LEYSEN Thomas Dennenlaan 9a 2020 Antwerpen Belgium	Chairman	2019	Chairman of the Board of Directors of Umicore NV Non-executive Director of Corelio NV Non-executive Director of Booischoot NV Chairman of the Board of Directors of KBC Verzekeringen NV Chairman of the Board of Directors of KBC Group NV Executive Director of Tradicore NV Non-executive Director of Mediahuis NV
GIJSENS Lucien KBC Bank NV Havenlaan 2 1080 Brussel Belgium	Executive Director	2019	Member of the Executive Committee of KBC Groep NV Executive Director of KBC Verzekeringen NV Chairman of the Board of Directors of K&H Biztosító Zrt Non-executive Director of Ceskoslovenska Obchodna Banka a.s. (SR) Member of the Board of CSOB Poist'ovna a.s. Non-executive director of K&H Bank Zrt Non-executive Director of CIBANK EAD Non-executive Director of KBC Bank Ireland Plc. Non-executive director of DZI-General Insurance JSC Non-executive director of DZI Life Insurance JSC Non-executive director of KBC Asset Management NV Member of the Management Board of KBC Bank NV Dublin Branch Non-executive director of KBC Securities NV Non-executive director of KBC Start it Fund NV

HOLLOWS John KBC Bank NV Havenlaan 2 1080 Brussel Belgium	Executive Director	2017	Executive Director of KBC Verzekeringen NV Member of the Executive Committee of KBC Groep NV CEO (non-director) of Ceskoslovenska Obchodni Banka a.s. (CR)
POPELIER Luc KBC Bank NV Havenlaan 2 1080 Brussel Belgium	Executive Director	2017	Executive Director of KBC Verzekeringen NV Executive Director of KBC Groep NV Non-executive Director of KBC Credit Investments NV
THIJS Johan KBC Bank NV Havenlaan 2 1080 Brussel Belgium	Executive Director/CEO	2017	Executive Director/CEO of KBC Verzekeringen NV Non-executive Director of Febelfin Executive Director/CEO of KBC Groep NV Non-executive Director of VOKA
VAN RIJSEGGHEM Christine KBC Bank NV Havenlaan 2 1080 Brussel Belgium	Executive Director	2018	Executive Director KBC Groep NV Executive Director KBC Verzekeringen NV Non-executive Director of K&H Bank Zrt Non-executive Director of CIBANK EAD Non-executive Director of KBC Bank Ireland Plc. Non-executive Director of Ceskoslovenska Obchodni Banka a.s. (CR) Non-executive Director of Ceskoslovenska Obchodna Banka a.s. (SR) Member of the Management Board of KBC Bank NV Dublin Branch
ARISS Nabil 16, Chiddingstone Street London SW6 3TG United Kingdom	Independent Director	2018	
DE BECKER Sonja MRBB CVBA Diestsevest 40 3000 Leuven Belgium	Non-executive Director	2020	Non-executive Director of Gimv-Agri+ Investment Fund Non-executive Director of KBC Groep NV Non-executive Director of M.R.B.B. CVBA – Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of Agri Investment Fund CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director of Acerta CVBA Non-executive Director of SBB Accountants en Belastingconsulenten BV CVBA
DEPICKERE Franky Mgr. Ladeuzeplein 15 3000 Leuven Belgium	Non-executive Director	2019	Executive Director of FWR Consult CVBA Executive Director of Cera CVBA Executive Director of Cera Beheersmaatschappij NV Executive Director of BRS Microfinance Coop CVBA Non-executive Director of CBC BANQUE SA Non-executive Director of KBC Groep NV Non-executive Director of KBC Verzekeringen NV



			<p>Executive Director of Almancora Beheersmaatschappij NV</p> <p>Non-executive Director of International Raiffeisen Union e.V.</p> <p>Non-executive Director of Ceskoslovenska Obchodni Banka a.s. (CR)</p> <p>Member of the management of KBC Ancora commanditaire vennootschap op aandelen</p> <p>Non-executive Director of Euro Pool System International BV</p>
DISCRY Luc Mgr. Ladeuzeplein 15 3000 Leuven Belgium	Non-executive Director	2018	<p>Non-executive Director of KBC Verzekeringen NV</p> <p>Non-executive Director of KBC Groep NV</p>
WITTEMANS Marc MRBB cvba Diestsevest 40 3000 Leuven Belgium	Non-executive Director	2018	<p>Non-executive Director of KBC Groep NV</p> <p>Non-executive Director of Acerta CVBA</p> <p>Non-executive Director of Acerta Consult CVBA</p> <p>Non-executive Director of SBB Accountants en Belastingconsulenten CVBA</p> <p>Executive Director of M.R.B.B. CVBA - Maatschappij voor Roerend Bezit van de Boerenbond</p> <p>Non-executive Director of Aktiefinvest CVBA</p> <p>Non-executive Director of KBC Verzekeringen NV</p> <p>Non-executive Director Acerta Public NV</p> <p>Non-executive Director of Shéhérazade Développement CVBA</p> <p>Non-executive Director of SBB Bedrijfsdiensten CVBA</p>
FALQUE Daniel Bovenbosstraat 78 3053 Haasrode Belgium	Executive Director	2020	<p>Non-executive Director of CBC Banque SA</p> <p>Executive Director of KBC Verzekeringen NV</p> <p>Member of the Executive Committee of KBC Group NV</p> <p>Non-executive Director of Union Wallonne des Entreprises asbl</p> <p>Non-executive Director of BVB</p>
MORLION Lode Weststraat 18 8647 Lo-Reninge Belgium	Non-executive Director	2020	<p>Non-executive Director of Financieringsvereniging Gaselwest Figga</p> <p>Non-executive Director of Cera Beheersmaatschappij NV</p> <p>Non-executive Director of Woonmaatschappij Ijzer en Zee CVBA</p> <p>Non-executive Director of KBC Verzekeringen NV</p> <p>Non-executive Director of KBC Groepe NV</p> <p>Non-executive Director of M&amp;D Invest NV</p>
VAN KERCKHOVE Ghislaine Wegvoeringstraat 62 9230 Wetteren Belgium	Non-executive Director	2020	<p>Non-executive Director of KBC Groep NV</p> <p>Non-executive Director of KBC Verzekeringen NV</p>

MAGNUSSON Bo Uddvägen 17 81 30 Lidingö Sweden	Independent Director	2020	Non-executive Director of Carnegie Holding AB Non-executive Director of Carnegie Investment Bank AB Non-executive Director of SBAB AB Non-executive Director of Sveriges Sakerstallda obligationer Non-executive Director of Rikshem AB Non-executive Director of Rikshem Intressenter AB Non-executive Director of Bmag AB
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#### 14.18 Members of the Audit Committee

The Audit Committee has been set up by the Board of Directors and has – with some limited legal exceptions – an advisory role. The Audit Committee, among other things, supervises the integrity and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting.

The powers and composition of the Audit Committee, as well as its way of functioning, are extensively dealt with in the Corporate Governance Charter of KBC Bank which is published on [www.kbc.com](http://www.kbc.com). This document shall not be incorporated by reference in, or form part of, this Prospectus, unless otherwise specified in the “Documents Incorporated By Reference” section.

The members of the Audit Committee of KBC Bank are also members of its Board of Directors and are:

- Nabil Ariss;
- Bo Magnusson;
- Marc Wittemans.

#### 14.19 Members of the Risk and Compliance Committee

The Risk and Compliance Committee has been set up by the Board of Directors and has an advisory role.

The Risk and Compliance Committee, among other things, provides advice to the Board of Directors about the current and future risk tolerance and risk strategy.

The powers and composition of the Risk and Compliance Committee, as well as its way of functioning, are extensively dealt with in the Corporate Governance Charter of KBC Bank.

The members of the Risk and Compliance Committee of KBC Bank are also members of its Board of Directors and are:

- Nabil Ariss;
- Franky Depickere;
- Bo Magnusson.

#### 14.20 Statutory Auditors

Until 27 April 2016, the auditor of KBC Bank was Ernst & Young Bedrijfsrevisoren BCVBA (*erkend revisor/révisieur agréé*), represented by P. Vanderbeek and/or C. Weymeersch, with offices at De

Kleetlaan 2, B-1831 Diegem, Brussels (**Ernst & Young**). The financial statements of the Issuer have been audited in accordance with ISA by Ernst & Young for the year ending 31 December 2014 and as of and for the year ending 31 December 2015 and resulted, in each case, in an unqualified opinion. During the relevant period, Ernst & Young had no material interest in the Issuer.

On 27 April 2016, PricewaterhouseCoopers Bedrijfsrevisoren BCVBA (*erkend revisor/réviseur agréé*), represented by R. Jeanquart and G. Joos, with offices at Woluwedal 18, B-1932 Sint-Stevens-Woluwe, Belgium (**PwC**), has been appointed as auditor of KBC Bank for the financial years 2016-2018. PwC has no material interest in the Issuer.

Both Ernst & Young and PwC are members of the *Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*.

The reports of the auditors of the Issuer are incorporated by reference in the form and context in which they are incorporated by reference, with the consent of the auditors.

#### **14.21 Litigation**

This section concerns material litigation to which KBC Bank or any of its companies (or certain individuals in their capacity as current or former employees or officers of KBC Bank or any of its companies) are party. It describes all claims, quantified or not, that could lead to the impairment of the company's reputation or to a sanction by an external regulator or governmental authority, or that could present a risk of criminal prosecution for the company, the members of the board or the management.

Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, the management does not believe that the liabilities arising from these claims will adversely affect KBC Bank's consolidated financial position or results, given the provisions that, where necessary, have been set aside for these disputes.

#### **Judicial inquiries and criminal proceedings**

- (i) From late 1995 until early 1997, Kredietbank NV, the predecessor of KBC Bank and KB Consult NV ("**KB Consult**") were involved in the sale of "cash companies" to various purchasers. A "cash company" is characterised by the fact that a substantial majority of the assets consist of accounts receivable, fixed financial assets, cash and other highly liquid assets. KB Consult acted as an intermediary between the seller and the purchaser of the cash companies. The involvement of KBC Bank differed from sale to sale, but generally related to the handling of payments and the granting of loans. The transfer of a cash company is in principle a legal transaction. However, in March 1997, KB and KBC Bank Consult discovered that certain purchasers of these cash companies failed to reinvest such companies' cash in qualifying assets and to file tax returns for the cash companies they purchased in order to thereby defer the taxes owed by such companies. KB and KBC Bank and KBC Consult immediately took the necessary measures to preclude any further involvement with these parties. The activities of KB Consult were subsequently wound up.

KBC Bank and KB Consult were summoned or involved separately or jointly to court in 28 legal actions. This resulted in 28 lawsuits of which 25 are still pending before the courts. In three lawsuits the claims of the Belgian State were dismissed and the judgments are definite. Most of these claims are linked to the criminal case before the Court of First Instance in Bruges. As a consequence, these civil claims are stayed awaiting a decision in the criminal proceedings. A provision of EUR 27,2 million (status as at 31 December 2016) has been constituted to cover the potential impact of any liability with respect to these actions.

KB Consult was placed under suspicion by an investigating magistrate in December 2004. In addition to KB Consult KBC Bank and KBC Group were also summoned before the Chambers

section of the Court of First Instance in Bruges on 25 February 2009. The charges against the aforesaid KBC entities only relate to the use of false documents. On 9 November 2011 a judgment ordered KBC Bank and KB Consult to be prosecuted together with 21 other parties indicted of various crimes with regard to tax fraud. The claim against KBC Group was dismissed. An appeal was lodged against this dismissal by the Prosecutor and two civil parties. On 27 October 2015 the court confirmed the dismissal. The proceedings before the court of first instance in Bruges are scheduled for a hearing on 12 April 2017 on the admissibility of the prosecution and on the limitation period.

- (ii) In 2003, an important case of fraud perpetrated by an employee, Atilla Kulcsár, involving about EUR 140.6 million, came to light at K&H Equities in Hungary. Orders and portfolio statements of clients were forged. Many clients suffered substantial losses in their portfolio as a result of unauthorised speculation and the misappropriation of funds. On 28 August 2008 a Budapest court sentenced Atilla Kulcsár to eight years imprisonment and a fine of 230 million forints. The court acquitted Tibor E. Rejtő, former CEO of K&H Bank, who had also been charged with embezzlement as an accomplice. Other persons involved were sentenced to severe punishments.

The Public Prosecutor and all the persons who had been found guilty filed an appeal before the Court of Appeal. On May 27, 2010, the Court of Appeal annulled the first instance court verdict and ordered a complete retrial. In the new trial before the first instance court a verdict was rendered on 29 December 2015: beside several other accused persons Atilla Kulcsár was found guilty and sentenced to six and a half years in prison, Tibor E. Rejtő was again acquitted. The prosecutor appealed. In January 2017 the second instance court prosecutor's office withdrew the appeal against 6 accused including Mr. Tibor E. Rejtő. Consequently the first instance acquittal of these persons became final and binding. The second instance criminal court has been appointed (the Appeal Court of Debrecen) and the first hearing is scheduled to start in March 2017.

All claims have been settled, either amicably or following an arbitral decision.

### **Other litigation**

- (iii) In March 2000, the Belgian State, Finance Department, summoned Rebeo (currently Almafin Real Estate Services) and Trustimmo, two former subsidiaries of former Almafin, currently KBC Real Estate, a Belgian subsidiary of KBC Bank, before the civil court in Brussels, together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company), for not paying approximately EUR 16.7 million in taxes due by Broeckdal Vastgoedmaatschappij. In November 1995, this company had been converted into a cash company and sold to Mubavi België (currently BeZetVe), a subsidiary of Mubavi Nederland (a Dutch real estate investment group). According to the Belgian State, Finance Department, Mubavi België did not make real investments and failed to file proper tax returns. A criminal investigation is pending. However Broeckdal Vastgoedmaatschappij contested the tax claims and in December 2002 commenced a lawsuit before the civil court in Antwerp against the Belgian State, Finance Department.

The civil lawsuit pending in Brussels has been suspended pending a final judgment in the tax lawsuit in Antwerp. An adjusted provision of EUR 31.2 million (at 31 December 2016) has been reserved to cover the potential impact of liability with respect to these actions.

In July 2003, Broeckdal Vastgoedmaatschappij, Mubavi België and Mubavi Nederland summoned KBC Bank, KB Consult, Rebeo and Trustimmo before the commercial court in Brussels in order to indemnify them against all damages the former would suffer if the tax claims were approved by the court in Antwerp. In March 2005, Mubavi Nederland was declared bankrupt by the court of 's-Hertogenbosch in the Netherlands.

In November 2005, KBC Bank, KB Consult, Rebeo and Trustimmo and the four former directors of Broeckdal Vastgoedmaatschappij summoned the auditor of Broeckdal Vastgoedmaatschappij, Deloitte & Touche, before the civil court in Brussels in order to indemnify them for any amount they should be ordered to pay as a result of the aforementioned claims. In November 2008 Mubavi België (currently BeZetVe) was also declared bankrupt by the commercial court in Antwerp.

On November 2, 2010 Broeckdal Vastgoedmaatschappij was declared dissolved by the commercial court in Antwerp and the liquidation of the company was closed by judgment of 13 September 2011 by the same court.

- (iv) KBC Bank and subsidiaries such as K&H Bank and CSOB SK received numerous complaints about CDO notes issued by KBC Financial Products that were sold to private banking and corporate clients and which have now been downgraded. Such clients have been asking for their notes to be bought back at their original value.

KBC Bank decided to examine all CDO related files with respect to private banking and retail clients on a case-by-case basis and to settle the disputes as much as possible out of court.

In Belgium settlements were reached with clients in KBC Bank Private Banking and Retail Banking.

As a result of complaints, some Corporate Banking files were also examined. Subsequently negotiations started in the files where a decision to propose a settlement was taken and in a limited number of files settlements were reached. Only a few lawsuits are on-going. In nine cases the courts rendered judgments in favour of KBC. Two cases are currently pending in degree of appeal.

In Hungary a marketing brochure was used which could be misinterpreted as a guarantee on a secondary market and contained a possibly misleading comparison with state bonds. In more than 94% of the files, a settlement has been reached. A limited number of clients started a lawsuit. Most of the lawsuits were terminated by a settlement out of court; a few number of remaining court cases were lost and settled; all court proceedings are finished.

On 10 December 2009, the Hungarian Competition Authority (HCA) passed a resolution whereby K&H was ordered to pay a fine of HUF 40,000,000 (approximately per EUR 150,000) based on the violation of the Hungarian Act on the prohibition of unfair and restrictive market practices in relation to K&H's trade in CDO bonds. The appeal filed by K&H against the HCA resolution was rejected by the Budapest Metropolitan Court. K&H Bank submitted a revision claim before the Supreme Court which approved in May 2012 the second level decision.

In CSOB SK a similar approach as in Belgium was followed and in all cases of CDO investments with Private Banking and Retail clients, settlements were reached. No lawsuit in respect of CDO investments is pending.

- (v) Lazare Kaplan International Inc. is a U.S. based diamond company (LKI). Lazare Kaplan Belgium NV is LKI's Belgian affiliate (LKB). LKI and LKB together are hereinafter referred to as LK. Since 2008, LKB has been involved in a serious dispute with its former business partners, DD Manufacturing NV and KT Collection BVBA (Daleyot), Antwerp based diamond companies belonging to Mr. Erez Daleyot. This dispute relates to a joint venture LK and Daleyot set up in Dubai (called Gulfdiam).

LKB and Daleyot became entangled in a complex litigation in Belgium, each claiming that the other party is their debtor. Daleyot initiated proceedings before the Commercial Court of Antwerp claiming the non-payment of commercial invoices for an amount of (initially) approximately USD 9 million. LKB launched a counter claim claiming the non-payment of commercial invoices for (initially) an amount of approximately USD 38 million.

The dispute has escalated to the degree that LK is directly involving Antwerpse Diamantbank NV (“ADB”) and KBC Bank by launching legal claims against ADB in Belgium (Antwerp) and against both ADB and KBC in the USA (New York) alleging that LK was swindled out of some USD 140 million by DD Manufacturing and other Daleyot entities in cooperation with ADB. This development was triggered by the fact that, at the end of 2009, ADB terminated LK’s credit facilities and started proceedings before the Commercial Court in Antwerp.

Essentially, all legal proceedings initiated by LK against ADB and/or KBC Bank in Belgium and the USA only relate to the dispute between ADB and LKI with regard to the termination of the credit facility and the recovery of all the monies LKI owes under the terminated credit facility.

The merger between KBC Bank and ADB by absorption of the latter that took place on 1 July 2015 entails that KBC, whether in its own name or in its capacity as legal successor to ADB, remains the only counterparty in all proceedings against Lazare Kaplan. However, for the sake of clarity further reference is made to ADB on the one hand and KBC on the other hand since all proceedings were initiated before the merger.

### *Legal Proceedings*

#### *A. Belgian Proceedings (overview per court entity)*

##### *Commercial Court of Antwerp*

Proceedings initiated by ADB against LKI in order to recover the monies owed to it under the terminated credit facility (approximately USD 45 million in capital).

LKB voluntarily intervened and claimed an amount of USD 350 million from ADB. LKI launched a counterclaim of USD 500 million (including the USD 350 million of LKB) against ADB.

LK appealed against the latest decision of the Commercial Court by which a briefing round was scheduled. On July 15, 2016 LKI issued a summons against Ernst&Young to intervene in the proceedings before the Court of Appeals and to indemnify LKI in case LKI would be convicted to satisfy KBC’s claims. A hearing before the Court of Appeals was held on September 26, 2016. On October 24, 2016, the Court of Appeals declared the appeal of LKI and LKB inadmissible given the fact that the decision of the Commercial Court regarding the briefing round was not appealable in the first place. Furthermore, the Court granted KBC’s counterclaim for damages based on the reckless and vexatious character of the appeal and ordered LKI and LKB jointly to pay an amount of 5,000 euro in damages to KBC. Consequently, the case will be brought again for the Commercial Court of Antwerp. KBC has taken procedural measures to reactivate the case, i.e. to set a procedural calendar for the filing of briefs and a new hearing date.

##### *Commercial Court of Antwerp*

LK filed four separate winding-up petitions against certain Daleyot entities. LK also involved both ADB and ABN Amro in this proceeding in order to declare the court decision to be taken opposable vis-à-vis ADB en ABN. On 23 June 2015, the Court decided that the proceedings against DDM Holding, K.T.Collection & Kertalor Holding became meaningless given the commencement of the voluntary liquidation proceedings of the Daleyot related entities. By decision of 15 September 2015 the Commercial Court of Antwerp declared K.T.Collection bankrupt.

On 26 May 2015, the proceedings against DD Manufacturing were postponed sine die. On 5 November 2015, DD Manufacturing is declared bankrupt. DD Manufacturing appealed against this decision. On 18 February 2016, the Court of Appeal dismissed the appeal.

*Commercial Court of Antwerp*

LK launched proceedings against ADB and certain Daleyot entities. This claim is aiming at having certain transactions of the Daleyot entities declared null and void or at least not opposable against LK.

LK also filed a damage claim against ADB for a provisional amount of USD 60 million based on the alleged third party complicity of ADB. This case is still pending.

*Commercial Court of Antwerp*

Lazare Kaplan filed a proceeding against ADB and KBC claiming an amount of approx. 77 million USD, based on the alleged misbehavior of the banks regarding the granting and maintaining of the credit facilities to the Daleyot entities. In its last court brief Lazare Kaplan claims an additional amount of approx. 5 million USD. A court hearing was set for 11 October 2016. However, on LKI's request the court granted an additional briefing round. A hearing took place on 31 January 2017. Parties are waiting for a judgement.

*Commercial Court of Antwerp*

LKB initiated proceedings against KBC claiming that the bank acted as de facto director of the bankrupted Daleyot entities. LKB filed a damage claim against KBC for a provisional amount of USD 90 million. Moreover, LKB contests KBC's claim and preferential position in the bankruptcy proceedings of DD Manufacturing and KT Collections (Daleyot entities). The liquidators of both bankrupted companies also received these writ of summons in order to declare the decisions to be taken by the commercial court opposable vis-à-vis the liquidators. An introductory hearing was held on 29 September 2016. Parties agreed on a briefing schedule. The Court will set a hearing for pleadings.

*President of the Commercial Court of Antwerp*

LKB launched proceedings against ADB, DD Manufacturing, KT Collection and Erez Daleyot before the President of the Commercial Court of Antwerp. LKB applies to the court for a.o. a sequestration of paintings, pledged by Erez Daleyot in favor of ADB concerning the DD Manufacturing and KT collection credit files. LKB also requests the court to impose penalty payments of an amount of 50.000 EUR. By decision dated 7 July 2015, the Commercial Court referred the case to the Court of First Instance of Antwerp since the Commercial Court lacks jurisdiction over Lazare Kaplan's claim.

*Court of First Instance of Antwerp*

Proceedings launched by LK against KBC, ADB and Erez Daleyot, his wife and certain Daleyot entities. This claim is aiming at having the security interests granted in favor of either KBC or ADB declared null and void or at least not opposable against LK. LK also filed a claim against ADB for a provisional amount of USD 120 million and against ADB en KBC together for a provisional amount of USD 60 million based on the alleged third party complicity of ADB. The Court postponed the case several times. A hearing is set for 23 March 2017.

*B. US Proceedings*

*District Court Southern District of New York*

Claim of USD 500 million initiated by LKI against both ADB and KBC, based on the so-called RICO-act; this claim is in fact a non-cumulative duplicate of the one brought before the Commercial

Court in Belgium. After the District Court granted ADB's and KBC's motions to dismiss, the Court of appeals referred the case back to the District Court because the first decision of the District Court was not legally well-founded. Later on, the District Court ruled that reciprocal discovery is appropriate. LKI also requested the Court to impose on ADB an obligation to produce certain non-privileged documents. A court hearing took place on 5 May 2015. During this hearing LKI repeated its deposition request addressed to several ADB officers and lawyers. By decision of 31 July 2015, the Court allowed some depositions in advance of a hearing on the forum selection clauses. All depositions took place. By letter dated 22 February 2016, LKI requested the District Court a pre-motion conference to discuss a motion for sanctions against KBC. LKI claimed that the sworn declarations made by some of KBC's employees to the District Court were false and misleading. Moreover, LKI alleged that KBC concealed documents from the Court.

LKI sought a Court order sanctioning KBC by 1) holding that the Court has jurisdiction over the RICO-claim; 2) directing parties to proceed immediately with the merits discovery and 3) awarding Lazare it reasonable costs, attorneys' fees and expenses. KBC strongly disputed these new allegations. On 4 March 2016 followed the Court's order denying Lazare Kaplan's requests for a pre-motion conference and to file a motion for sanctions against KBC. The Court directed the parties to file a joint status report by April 1, 2016. On 1 April 2016 and as instructed by the Court, parties filed a joint status report regarding the status of any depositions or open discovery, and any other issues to be resolved prior to the scheduling of the New Moon hearing (i.e. an evidentiary hearing on the question whether the Court has territorial jurisdiction over LKI's claim). On 26 September 2016 parties held a status conference before the Court and the Court set the New Moon hearing set for 14 February 2017. The Court set aside three days.

On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments Ltd before the bankruptcy court in New York to recover approximately USD 110 million worth of transfers made to KBC entities. The basis for this claim were the subsequent transfers that KBC had received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that lies on Picard/SIPA is that KBC should have been aware of the fraud perpetrated by Madoff. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd.). Therefore, the trustee's recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought. The amount has now been increased to USD 196 million.

On November 22, 2016, Judge Bernstein issued a Memorandum Decision Regarding Claims to Recover Foreign Subsequent Transfers, including the transfers that the Trustee seeks to recover from KBC (the "Decision"). In the Decision, Judge Bernstein concluded that the Trustee's claims based on foreign transfers should be dismissed out of concern for international comity. A dismissal order is expected in the first quarter of 2017. The trustee can appeal from that judgment to the United States Court of Appeals for the Second Circuit.



## 15. SME LOAN UNDERWRITING AND SERVICING

### 15.1 Underwriting

#### (a) Distribution

All credit requests pass through the KBC front offices network which is responsible for the registration of qualitative and complete credit requests in the credit application systems for commercial credits.

Managing a credit relationship with the client within KBC is based on the following principles:

- Proactive capturing of the client credit needs
- Collecting all relevant client information
- Determining the clients earnings potential

Within BU Belgium contact with professional, SME and corporate clients is initiated by Customer Support Retail and Businesses (retail banking in Flemish and Brussels region), Corporate Banking (which has a defined global footprint) or by CBC (retail and corporate banking in Walloon region). KBC does not originate banking products such as loans through third party or independent intermediaries. In addition to its “bricks and stones” network KBC has a wide range of online and mobile access platforms, reflecting its strategy to be a fully capable multi-channel banking and insurance services provider.

- Retail Banking consists of 605 retail and 21 private banking branches, which are grouped in 6 regions. Client approach is done through segments (private customers, SME’s), client groups (youth, starters, ...) and specific domains (Agriculture, Social Profit, ...).
- Corporate Banking consists of 12 business centres grouped in 4 regions located in Belgium and 6 foreign branches (US / UK / FR / NL / GER / Asia Pacific). Customer profile is primarily based on financial and geographical differentiators:
  - Belgian enterprise groups annual (group) turnover +15 mio EUR
  - Belgian enterprise groups with international footprint and/or specialised needs
  - International groups active in Belgium

#### (b) Loan origination process



#### **Step 1: Risk analysis**

Each credit request starts with translating the clients’ needs in terms of product, term, repayment schedule, pricing and costs, collateral and guarantees, conditions and covenants. KBC primary lending criterion is the clients’ debt repayment capacity. Several types of collateral can be requested to cope with potential negative

economic evolutions, however the presence of sufficient collateral should never substitute the primary criterion of sufficient operating cash flow.

A comprehensive risk profile of the client is assembled for each credit request, reflecting amongst others the probability of default and the expected loss given default. KBC applies a uniform rating scale for all its SME and Corporate exposure ranging from PD1 to PD9 for performing exposures.

	PD		Rating	Average PD
0.00%	To (*)	0.10%	1	0.07%
0.10%	To (*)	0.20%	2	0.14%
0.20%	To (*)	0.40%	3	0.28%
0.40%	To (*)	0.80%	4	0.57%
0.80%	To (*)	1.60%	5	1.13%
1.60%	To (*)	3.20%	6	2.26%
3.20%	To (*)	6.40%	7	4.53%
6.40%	To (*)	12.8%	8	9.05%
12.8%	To (*)	100.00%	9	18.10%

Three different PD-models are used to calculate the probability of default of a professional client: the Retail SME, Corporate SME or Large Corporate model. Which model is used for a certain borrower is based on certain financial differentiators. Calculation of risk parameters such as probability of default, exposure at default and loss given default is strongly automated and model based. The possibility to overrule model input or output by front office users is very limited and subject to strict monitoring procedures, based on clearly defined principles and thresholds.

A borrower analysis is done with different degrees of granularity depending on the nature of the request. The analysis focuses on KBC commercial strategy towards the borrower, the borrowers business profile, shareholder structure, analysis of qualitative and quantitative performance drivers.

Underwriting processes are generally more automated within Retail Banking. There is a strong emphasis on client risk assessment engines which capture both internal (e.g. overruns and arrears) and external (e.g. social security arrears) risk signals. Outcome can be that granting credit to the client is excluded.

KBC applies the principle of risk based pricing for all credit requests, either through the use of return on allocated capital (Raroc) minima for Corporate borrowers or through risk differentiated tariff tables for Retail SME's.

All collateral should be evaluated during credit origination as part of the credit decision, with access to all available collateral information and according to the applicable valuation policies. Collateral valuation rules are specific and conservative.

## **Step 2: Credit acceptance process**

KBC has an extensive and up-to-date framework of credit policies and guidelines, which reflects its risk appetite, governance procedures and CSR guidelines. This framework can lead to either restricted or excluded lending towards certain borrower types or activities. For each lending request the intended goal of

the credit has to be assessed and has to be in line with the economic and social goal of the borrower and with the overall ethical, tax and legal framework.

An independent advice is made when necessary, either by a local advisor or a Group advisor. The adviser focuses on all risk aspects relating to the request and on its compliance with KBC's credit policy and overall policy guidelines.

The credit approval process can be fully automated, individual or by committee decision. Automated decisions are based on a statistical score card and are limited to specific credit types with a maximum requested amount of EUR 100,000 and a maximum tenor of 5 years. Individual decisions are limited to a maximum requested amount of EUR 400,000. Embedded within the front office credit application are system enforced dual controls on whether an individual decision is allowed (for example what is appropriate delegation authority, is there sufficient repayment capacity and are there negative client risk signals). Credit committees always exist of at least two people – reflecting the 4-eyes principle – and can be composed of front office and/or head office representatives depending on the applicable decision level. Core delegation amounts for individual and committee decisions must be multiplied or halved depending on the outcome of a PD/LGD matrix.

Core Decision levels	Depending on PD/LGD risk matrix		
Based on client group risk amount			
<b>Retail Banking</b>			
	x2	x1	/2
Retail cluster	6.000.000	3.000.000	1.500.000
Local Credit Committee	60.000.000	30.000.000	15.000.000
Group Credit Committee	> 60.000.000	> 30.000.000	> 15.000.000
<b>Corporate Banking</b>			
	Process level I	Process level II	Process level III
BC / SB Committee	6.000.000	3.000.000	1.500.000
Local Credit Sub Committee B	20.000.000	12.500.000	5.000.000
Local Credit Sub Committee A	40.000.000	25.000.000	10.000.000
Local Credit Committee	60.000.000	35.000.000	15.000.000
General Manager Credit Committee	110.000.000	65.000.000	35.000.000
Credit Committee	200.000.000	150.000.000	75.000.000
Executive Credit Committee	> 200.000.000	> 150.000.000	> 75.000.000
			Process level IV
			0
			2.500.000
			5.000.000
			7.500.000
			20.000.000
			50.000.000
			> 50.000.000

### **Step 3: Credit contract**

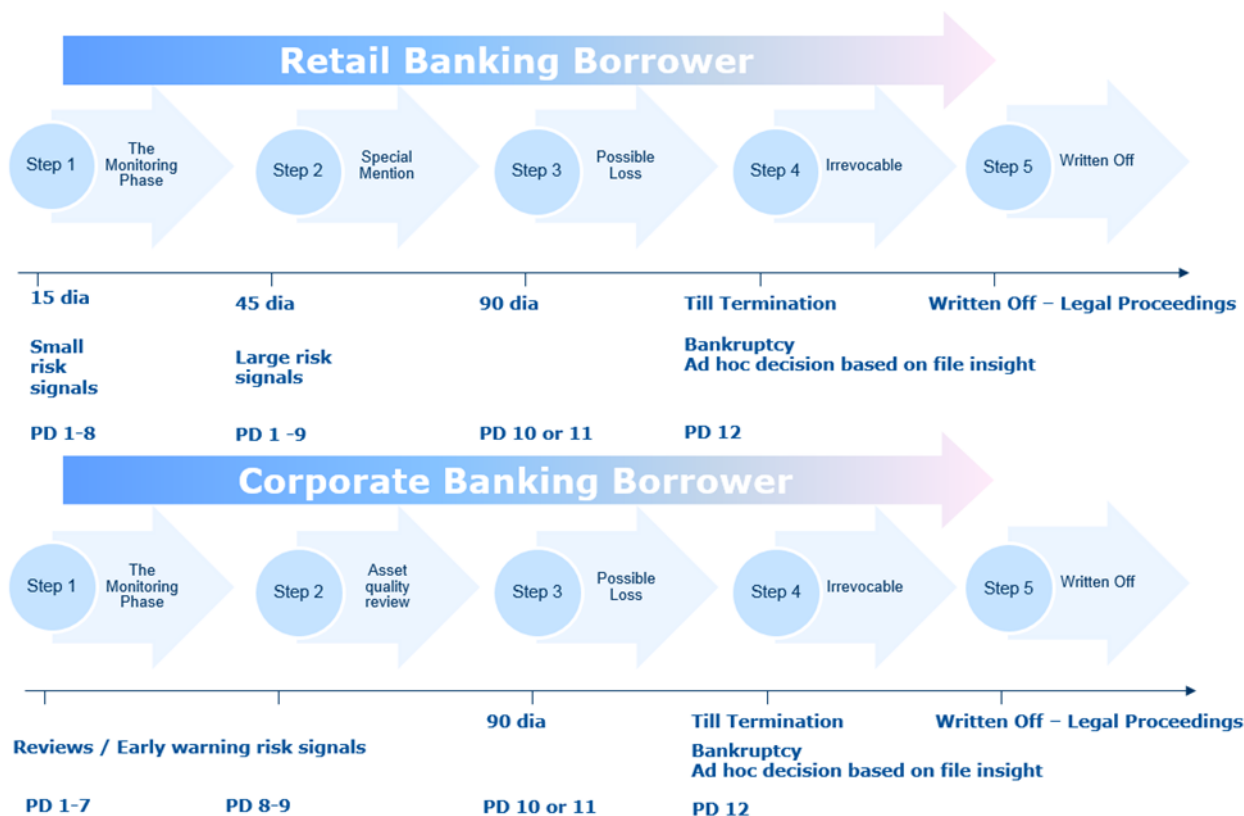
Drafting of credit documentation can be fully automated or may require manual drafting at Head Office, depending on the complexity of the loan and/or the collateral type.

### **Step 4: Loan disbursement**

Loan disbursement is not allowed before several prescribed checks are done and before collateral agreements become active (collateral agreements are signed, registered in the register office, insurance policies are concluded, etc.). Drawdowns can only occur on KBC current accounts.

## **15.2 Collection, monitoring and bad debt management**

### **(a) Monitoring: phases**



**(b) Bad debt management**

**Default definitions**

KBC applies PD classes 10 to 12 for its defaulted exposures. A client facility is considered to be in default:

- PD10 corresponds with “unlikely to pay”. This status refers to situations in which:
  - The bank perceives a significant deterioration in creditworthiness
  - The credit obligation is put on a non-accrued status
  - An account specific impairment or charge-off is made for the client/facility
  - The credit is sold at a material loss
  - The consent of forbearance measures (under certain conditions)
  - The bank has filed for the clients bankruptcy or the client has sought/has been placed in bankruptcy
- PD11 corresponds with “>90 days in arrears”
- PD12 corresponds with “irrecoverable”, which can only occur when the facility is terminated by the bank or when repossession of the security has been sentenced by an irreversible court order.

(i) Debt monitoring: review procedures and arrears management

Credit review in Retail Banking is done according to a risk based procedure. The majority of the retail clients are automatically rerated in monthly PD batches. Review procedure in retail is based on ranked risk signals, commitments, past review dates and LGD Irrecoverable. These in turn can trigger three types of control procedures: attention task, risk evaluation by the Cluster or risk evaluation by Head Office.

Within Corporate Banking a periodical approach is used where the review of each borrower must be carried out at regular intervals (at least once a year) or earlier based on specific circumstances or warning signals. This assessment must always include a PD rating- assessment on the basis of the most recent financials. Files with borrowers in PD8 or PD9 are reviewed according to the Asset Quality Review procedure (AQR) on a biannual basis.

All borrowers have a bank account with KBC. Payments are generally made by automatic debit from these accounts. Loan management and risk monitoring start after the release of the funds and can include follow up by the local branches and/or head office.

Within the Monitoring phase the borrower is contacted personally in view of making arrangements to clear the arrears or to set off the arrears against credit balances on his accounts, to negotiate additional or convert existing guarantees. At the same time a dunning procedure is started up with a friendly reminder sent at 15 days past due up to a notice of non-payment after 35 days arrears. The operational management and decision authority remain in the local branches.

Only portfolio based impairment provisions are made for the performing portfolio.

(ii) Debt monitoring: intensive care

The involvement of the Intensive Care department is obligatory as soon as a borrower becomes PD10 or PD11 and enters the Possible Loss phase (step 3). KBC intensive care departments aim to normalize the credit situation and re-enter a performing status when possible. However an exit strategy will be decided if need be, based on a thorough analysis of the economic situation of the client and the overall credit/collateral situation with KBC and other financial institutions. Depending on the client, the outstanding amount and complexity, the distressed file will either be managed on a portfolio or a customized basis. Co-involvement of the branches is often required to ensure maximum continuity in the management of the distressed file.

For files managed by the Corporate Banking network all provisions are calculated on an individual basis. Provisions for impaired Retail Banking files are automatically calculated for exposures below EUR 1,250,000 and are individually calculated for exposures in excess of this threshold. Provisions are permanently evaluated and updated.

(iii) Debt monitoring: debt recovery

As soon as a borrower is assigned with a PD12 rating, the distressed file is handled by the debt recovery departments unconditionally. There is no longer any involvement of the branch or the relationship manager, the file is now the sole discretion of the Debt Recovery department. The aim is now to have a maximum recovery at the lowest possible cost. File managers have an own portfolio of individual files that they manage until the file can be closed.

## 16. PORTFOLIO OVERVIEW

The summary below relates to a Provisional Portfolio as of 28 February 2017. The final portfolio of SME Loans will be substantially the same, but subject to minor shifts in the percentages.

## 16.1 Summary Statistics

Summary				
Date	Number of debtors	Number of loans	Outstanding balance	Average outstanding balance / borrower
28/02/2017	31,094	54,062	5,600,729,669.64	180,122.52

## 16.2 Date of Origination

The distribution of SME Loans (both by current balance and number of Loans) across the date of origination of their current balance is set out in Table 2 just below.

*Table '02' – Origination date*

Origination date				
Origination date	Outstanding	% Outstanding balance	Number of loans	% Number of loans
2003	35,323,884.11	0.63%	367	0.68%
2004	70,681,111.71	1.26%	521	0.96%
2005	139,864,684.57	2.50%	1,353	2.50%
2006	185,497,093.31	3.31%	1,480	2.74%
2007	250,891,786.17	4.48%	2,164	4.00%
2008	315,049,945.81	5.63%	2,794	5.17%
2009	291,237,225.62	5.20%	2,524	4.67%
2010	366,111,852.91	6.54%	2,874	5.32%
2011	470,505,765.75	8.40%	3,362	6.22%
2012	492,189,481.27	8.79%	4,724	8.74%
2013	352,015,379.15	6.29%	4,100	7.58%
2014	498,624,268.93	8.90%	6,492	12.01%
2015	756,298,798.16	13.50%	8,968	16.59%
2016	1,280,912,648.91	22.87%	11,375	21.04%
2017	95,525,743.26	1.71%	964	1.78%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.3 Final Maturity Date

The distribution of SME Loans (both by current balance and number of Loans) across Final Maturity Date is set out in Table 3.

*Table '03' – Final maturity date*

Final maturity date				
Maturity date	Outstanding	% Outstanding balance	Number of loans	% Number of loans
2015 < maturity date <= 2020	919,707,367.05	16.42%	28,454	52.63%
2020 < maturity date <= 2025	1,716,381,430.70	30.65%	14,481	26.79%
2025 < maturity date <= 2030	1,725,530,326.30	30.81%	7,498	13.87%
2030 < maturity date <= 2035	1,014,974,495.36	18.12%	3,109	5.75%
2035 < maturity date <= 2040	204,364,400.43	3.65%	494	0.91%
2040 < maturity date <= 2045	18,851,649.80	0.34%	23	0.04%
2045 < maturity date <= 2050	920,000.00	0.02%	3	0.01%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.4 Initial Maturity

The distribution of SME Loans (both by current balance and number of Loans) across their Initial Maturity is set out in Table 4.

*Table '04' – Initial maturity*

Initial maturity (months)				
Initial maturity	Outstanding	% Outstanding balance	Number of loans	% Number of loans
0 < initial maturity <= 60	935,431,964.29	16.70%	26,945	49.84%
60 < initial maturity <= 120	1,376,029,949.58	24.57%	12,645	23.39%
120 < initial maturity <= 180	1,857,615,050.57	33.17%	9,433	17.45%
180 < initial maturity <= 240	1,281,931,891.46	22.89%	4,729	8.75%
240 < initial maturity <= 300	131,292,090.46	2.34%	277	0.51%
300 < initial maturity <= 360	18,359,135.27	0.33%	32	0.06%
360 < initial maturity <= 420	69,588.01	0.00%	1	0.00%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.5 Seasoning

The distribution of SME Loans (both by current balance and number of Loans) across their seasoning is set out in Table 5.

*Table '05' – Seasoning*

Seasoning (months)				
Seasoning	Outstanding	% Outstanding balance	Number of loans	% Number of loans
0 < seasoning <= 60	4,382,528,009.45	78.25%	43,406	80.29%
60 < seasoning <= 120	1,040,590,094.25	18.58%	9,055	16.75%
120 < seasoning <= 180	177,611,565.94	3.17%	1,601	2.96%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.6 Interest Rate

The distribution of the SME Loans (both by current balance and number of Loans) across their Interest Rate is set out in Table 6.

*Table '06' – Interest rate*

Interest rate				
Interest rate	Outstanding	% Outstanding balance	Number of loans	% Number of loans
0 < interest rate <= 0.5	11,190,911.32	0.20%	41	0.08%
0.5 < interest rate <= 1	155,290,230.14	2.77%	664	1.23%
1 < interest rate <= 1.5	555,061,475.60	9.91%	3,561	6.59%
1.5 < interest rate <= 2	1,381,788,674.51	24.67%	13,469	24.91%
2 < interest rate <= 2.5	823,995,550.18	14.71%	9,051	16.74%
2.5 < interest rate <= 3	629,793,645.86	11.24%	7,677	14.20%
3 < interest rate <= 3.5	418,488,473.14	7.47%	4,647	8.60%
3.5 < interest rate <= 4	414,744,765.82	7.41%	3,837	7.10%
4 < interest rate <= 4.5	322,099,010.83	5.75%	2,976	5.50%
4.5 < interest rate <= 5	424,325,869.55	7.58%	3,647	6.75%
5 < interest rate <= 5.5	282,847,832.99	5.05%	2,608	4.82%
5.5 < interest rate <= 6	152,642,588.51	2.73%	1,495	2.77%
6 < interest rate <= 6.5	19,792,882.87	0.35%	263	0.49%
6.5 < interest rate <= 7	5,322,578.34	0.10%	86	0.16%
7 < interest rate <= 7.5	192,643.06	0.00%	15	0.03%
7.5 < interest rate <= 8	1,345,598.19	0.02%	14	0.03%
8 < interest rate <= 8.5	214,342.09	0.00%	4	0.01%
8.5 < interest rate <= 9	32,579.92	0.00%	2	0.00%
9.5 < interest rate <= 10	586,683.50	0.01%	4	0.01%
10 < interest rate <= 10.5	973,333.22	0.02%	1	0.00%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.7 Interest Rate Type

The distribution of SME Loans (both by current balance and number of Loans) across types of Interest rate reset is set out in Table 7.

*Table '07' – Interest Payment Frequency*

Interest payment frequency				
Interest payment frequency	Outstanding	% Outstanding balance	Number of loans	% Number of loans
Monthly	4,756,832,122.40	84.93%	49,472	91.51%
Quarterly	447,506,734.55	7.99%	1,084	2.01%
Semi annually	84,997,047.67	1.52%	397	0.73%
Annual	311,318,765.02	5.56%	3,108	5.75%
Bullet	75,000.00	0.00%	1	0.00%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.8 Interest Rate Reset Date

The distribution of SME Loans (both by current balance and number of Loans) across their reset date is set out in Table 8.

*Table '08' - Reset date*

Interest rate review code				
Interest reset period	Outstanding	% Outstanding balance	Number of loans	% Number of loans
Annual	467,801,361.61	8.35%	3,268	6.04%
Not apply	3,251,924,375.95	58.06%	39,376	72.83%
Other	1,881,003,932.08	33.58%	11,418	21.12%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>



## 16.9 Repayment Type

The distribution of SME Loans (both by current balance and number of Loans) across their repayment type is set out in Table 9.

*Table '09' - Principal payment type*

Principal payment type				
Principal payment type	Outstanding	% Outstanding balance	Number of loans	% Number of loans
Linear	1,883,084,193.75	33.62%	16,568	30.65%
French	3,584,250,097.08	64.00%	37,330	69.05%
Bullet	133,395,378.81	2.38%	164	0.30%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.10 Principal Payment Frequency

The distribution of SME loans (both by current balance and number of Loans) across the principal payment frequency is set out in Table 10.

*Table '10' - Principal payment frequency*

Principal payment frequency				
Principal payment frequency	Outstanding	% Outstanding balance	Number of loans	% Number of loans
Monthly	4,765,074,326.43	85.08%	49,360	91.30%
Quarterly	369,287,158.58	6.59%	1,052	1.95%
Semi annually	76,058,548.29	1.36%	396	0.73%
Annual	327,395,734.74	5.85%	3,176	5.87%
Bullet	62,913,901.60	1.12%	78	0.14%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.11 Current balance

The distribution of Loans by amounts and current balance and number of Loans is set out in Table 11.

*Table '11' - Loan amount*

<b>Current balance</b>				
<b>Current balance</b>	<b>Outstanding</b>	<b>% Outstanding balance</b>	<b>Number of loans</b>	<b>% Number of loans</b>
0 < current balance <= 250000	2,501,514,787.04	44.66%	48,978	90.60%
250000 < current balance <= 500000	1,146,834,556.66	20.48%	3,333	6.17%
500000 < current balance <= 750000	525,760,708.14	9.39%	870	1.61%
750000 < current balance <= 1000000	328,297,175.86	5.86%	374	0.69%
1000000 < current balance <= 1250000	161,596,545.78	2.89%	145	0.27%
1250000 < current balance <= 1500000	133,395,766.88	2.38%	98	0.18%
1500000 < current balance <= 1750000	79,947,943.18	1.43%	49	0.09%
1750000 < current balance <= 2000000	80,496,216.42	1.44%	43	0.08%
2000000 < current balance <= 2250000	76,000,250.39	1.36%	36	0.07%
2250000 < current balance <= 2500000	42,627,074.15	0.76%	18	0.03%
2500000 < current balance <= 2750000	47,030,671.98	0.84%	18	0.03%
2750000 < current balance <= 3000000	63,089,278.24	1.13%	22	0.04%
3000000 < current balance <= 3250000	28,239,680.99	0.50%	9	0.02%
3250000 < current balance <= 3500000	23,770,639.39	0.42%	7	0.01%
3500000 < current balance <= 3750000	36,788,072.56	0.66%	10	0.02%
3750000 < current balance <= 4000000	31,664,861.97	0.57%	8	0.01%
4000000 < current balance <= 4250000	21,008,048.36	0.38%	5	0.01%
4250000 < current balance <= 4500000	26,647,790.10	0.48%	6	0.01%
4500000 < current balance <= 4750000	32,252,196.67	0.58%	7	0.01%
4750000 < current balance <= 5000000	44,231,519.99	0.79%	9	0.02%
5250000 < current balance <= 5500000	5,400,000.00	0.10%	1	0.00%
5500000 < current balance <= 5750000	5,580,000.00	0.10%	1	0.00%
5750000 < current balance <= 6000000	17,921,590.88	0.32%	3	0.01%
6750000 < current balance <= 7000000	6,943,000.00	0.12%	1	0.00%
7250000 < current balance <= 7500000	7,312,500.00	0.13%	1	0.00%
9750000 < current balance <= 1000000	19,950,178.78	0.36%	2	0.00%
10500000 < current balance <= 107500	32,046,662.30	0.57%	3	0.01%
10750000 < current balance <= 110000	21,816,666.68	0.39%	2	0.00%
13000000 < current balance <= 132500	13,144,736.76	0.23%	1	0.00%
16000000 < current balance <= 162500	16,250,000.00	0.29%	1	0.00%
23000000 < current balance <= 232500	23,170,549.49	0.41%	1	0.00%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 16.12 The Industry Breakdown

The distribution of SME Loans (both by current balance and number of Loans) across industry is set out in Table 12.

*Table '12' - Industry*

Industry				
Industry	Outstanding	% Outstanding balance	Number of loans	% Number of loans
Services	1,510,536,846.73	26.97%	13,798	25.52%
Distribution	856,269,678.81	15.29%	8,638	15.98%
Real estate	812,231,865.77	14.50%	3,538	6.54%
Agriculture, farming, fishing	743,804,801.60	13.28%	9,862	18.24%
Building & construction	383,728,058.89	6.85%	6,838	12.65%
Horeca	268,632,877.81	4.80%	2,618	4.84%
Finance and insurance	260,296,037.29	4.65%	1,528	2.83%
Automotive	152,062,396.64	2.72%	1,906	3.53%
Food producers	109,393,578.11	1.95%	799	1.48%
Shipping	76,683,840.55	1.37%	911	1.69%
Metals	70,482,541.09	1.26%	243	0.45%
Traders	50,621,111.29	0.90%	604	1.12%
Timber & wooden furniture	47,066,027.57	0.84%	463	0.86%
Authorities	44,375,478.59	0.79%	32	0.06%
Electricity	36,940,368.62	0.66%	76	0.14%
Chemicals	31,611,083.83	0.56%	208	0.38%
Machinery & heavy equipment	23,145,421.21	0.41%	325	0.60%
IT	20,566,297.69	0.37%	277	0.51%
Textile & apparel	20,288,943.85	0.36%	264	0.49%
Electrotechnics	19,486,557.01	0.35%	201	0.37%
Sector unknown	18,600,792.45	0.33%	443	0.82%
Media	15,642,674.39	0.28%	255	0.47%
Beverages	11,633,301.91	0.21%	52	0.10%
Consumer products	6,028,244.40	0.11%	79	0.15%
Paper & pulp	4,031,403.58	0.07%	43	0.08%
Telecom	2,880,975.65	0.05%	32	0.06%
Water	2,270,301.65	0.04%	10	0.02%
Aviation	1,105,021.83	0.02%	15	0.03%
Oil, gas & other fuels	313,140.83	0.01%	4	0.01%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

### 16.13 Region

The distribution of Loans (both by current balance and number of Loans) across the Belgian regions set out in Table 15.

*Table '15' – Regions*

Region				
Region	Outstanding	% Outstanding balance	Number of loans	% Number of loans
Flanders	4,874,877,251.01	87.04%	48,890	90.43%
Wallonië	262,367,058.96	4.68%	2,561	4.74%
Brussels	463,485,359.67	8.28%	2,611	4.83%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

### 16.14 Borrower PD class

The distribution of SME Loans (both by current balance and number of Loans) across the PD scale is set out in Table 16.

*Table '16' – PD*

<b>Borrower PD class</b>				
<b>PD</b>	<b>Outstanding</b>	<b>% Outstanding balance</b>	<b>Number of loans</b>	<b>% Number of loans</b>
01	155,674,399.09	2.78%	3,339	6.18%
02	541,974,204.06	9.68%	9,459	17.50%
03	364,749,263.29	6.51%	5,986	11.07%
04	1,709,064,856.37	30.52%	13,636	25.22%
05	1,193,880,924.22	21.32%	8,996	16.64%
06	815,341,124.41	14.56%	5,946	11.00%
07	490,864,437.32	8.76%	3,890	7.20%
08	166,730,713.87	2.98%	1,401	2.59%
09	162,449,747.01	2.90%	1,409	2.61%
<b>Grand Total</b>	<b>5,600,729,669.64</b>	<b>100.00%</b>	<b>54,062</b>	<b>100.00%</b>

## 17. SME RECEIVABLES PURCHASE AGREEMENT

Under the SME Receivables Purchase Agreement the Issuer, acting through its Compartment SME Loan Invest 2017, will purchase any and all rights of the Seller against certain borrowers (the “**Borrowers**”) under or in connection with certain selected SME Loans (the “**SME Receivables**”). On the Closing Date the Issuer will accept the transfer by way of assignment of legal title to the SME Receivables. The assignment of the SME Receivables from the Seller to the Issuer will not be notified to the Borrowers, except in special events as further described hereunder (“**Notification Events**”). The Issuer will be entitled to all proceeds in respect of the SME Receivables as of the Cut-Off Date.

Pursuant to the SME Receivables Purchase Agreement, KBC Bank NV as Seller has covenanted that it will retain a material net economic interest of not less than 5 per cent. in the Transaction in accordance with Article 405, paragraph (1) sub-paragraph (d) of the CRR and Article 51, paragraph (1) sub-paragraph (d) and Article 52 of the AIFM Regulation. As at the Closing Date, such interest will be comprised of an interest in the first loss tranche as required by Article 405, paragraph (1) sub-paragraph (d) of the CRR and Articles 51, paragraph (1) sub-paragraph (d) and 52 of the AIFM Regulation. Any change to the manner in which such interest is held will be notified to investors through the Investor Reports.

### 17.1 Sale – Purchase Price

The purchase price for the SME Receivables shall consist of

- (a) an initial purchase price (the “**Initial Purchase Price**”), being the aggregate Outstanding Principal Amount of all SME Receivables at the Cut-off Date (which will be an amount of approximately EUR 5,600,000,000, which shall be payable on the Closing Date; and
- (b) a deferred purchase price, which shall, with respect to each financial year, be equal to the net profit of the Issuer over that financial year (after taxes and calculated without taking into account the Deferred Purchase Price), less an amount required for the Issuer to have a final distributable profit as set forth in the SME Receivables Purchase Agreement (the “**Deferred Purchase Price**”).

The “**Outstanding Principal Amount**” means, at any moment in time, the principal balance (*hoofdsom / montant principal*) of a SME Receivable resulting from a SME Loan at such time.

In respect of the Deferred Purchase Price, the following amounts shall be payable:

- (a) on each Monthly Payment Date the Issuer shall pay to the Seller a deferred purchase price instalment (each a “**Deferred Purchase Price Instalment**”) equal to the Deferred Purchase Price Available Amount, less, with respect to each Deferred Purchase Price Instalment to be paid on a Monthly Payment Date, the amounts, if any, paid on that Monthly Payment Date in accordance with paragraph (b) and (c) below;
- (b) on the Monthly Payment Date falling in July of each financial year, the Issuer shall, with respect to the immediately preceding financial year (the “**Preceding Financial Year**”) pay to the Seller an amount equal to the positive difference, if any, between:
  - (i) the Deferred Purchase Price for the Preceding Financial Year; and
  - (ii) the aggregate amount of all Deferred Purchase Price Instalments paid on the Monthly Payment Dates in the Preceding Financial Year and on the Monthly Payment Date falling in January of the current financial year;

up to a maximum amount equal to the Deferred Purchase Price Available Amount for that Monthly Payment Date; and

- (c) if the aggregate of the payments pursuant to paragraphs (a) and (b) above made in respect of a financial year is less than the amount of the Deferred Purchase Price for that financial year, then such difference will be deferred to the next Monthly Payment Date on which the Issuer will have sufficient Notes Interest Available Amount available to pay such difference;
- (d) if the aggregate of the payments under paragraph (a) above made in respect of a financial year exceeds the amount of the Deferred Purchase Price for that financial year, the Seller will on the Monthly Payment Date falling in July of the immediately following financial year, pay such excess to the Issuer together with interest thereon at the rate of the one (1) month EURIBOR applicable to the immediately preceding Interest Period. If such excess is due with respect to the last financial year during which Notes are outstanding, the Seller will pay such amount into the Issuer Collection Account on the last Monthly Payment Date of such financial year.

**“Deferred Purchase Price Available Amount”** means, on any Monthly Payment Date, an amount equal to:

- (i) prior to delivery of an Enforcement Notice, the positive difference, if any, between the Notes Interest Available Amount as calculated on each Monthly Calculation Date and the sum of all amounts payable by the Issuer as set forth in the Interest Priority of Payments under (i) up to and including (xiv); or, as the case may be,
- (ii) following delivery of an Enforcement Notice, the amount remaining after all the payments as set forth in the Priority of Payments upon Enforcement under (i) up to and including (xi) (see Credit Structure above) on such date have been made.

The sale of the SME Receivables shall include, and the Issuer shall be fully entitled to, all ancillary items (*bijhorigheden / accessoires*) of such SME Receivables and in particular, but not limited to:

- (a) the Outstanding Principal Amount of the SME Receivables on the Cut-off Date;
- (b) all amounts of principal in respect of the SME Receivables due but unpaid on the Cut off Date;
- (c) all rights and title of the Seller in and under the SME Loans including for the avoidance of doubt, but not limited to:
  - (i) the right to demand, sue for, recover, receive and give receipts for all principal moneys payable or to become payable under the SME Receivables or the unpaid part thereof and the interest and Prepayment Penalties to become due thereon;
  - (ii) the benefit of and the right to sue on all covenants with the Seller in each SME Receivable and the right to exercise all powers of the Seller in relation to each SME Receivable;
  - (iii) the right to demand, sue for, recover, receive and give receipts for all prepayment indemnities (*wederbeleggingsvergoeding / indemnité de emploi*) or fees to the extent they relate to the SME Receivables; and
  - (iv) the right to exercise all express and implied rights and discretions of the Seller in, under or to the SME Receivables and each and every part thereof (including, if any,

the right, subject to and in accordance with the terms respectively set out therein, to set and to vary the amount, dates and number of payments of interest and principal applicable to the SME Receivables);

- (d) all rights and title of the Seller to the Related Security insofar as it relates to the SME Receivables;
- (e) the benefit of any Mandate granted as security for the SME Receivables to have a (additional) Mortgage, Floating Charge or Farmers' Lien created in accordance with the provisions of the SME Receivables Purchase Agreement;
- (f) all rights, title, interest and benefit of the Seller in any Hazard Insurance Policy or Debt Insurance Policy in so far as it relates to the SME Receivables including but without limitation the right to receive the proceeds of any claim thereunder;
- (g) all documents, computer data and records on or by which each of the above is recorded or evidenced, to the extent that they relate to the above, such as, but not limited to, the Contract Records;
- (h) all causes and rights of action against any notary public in connection with the execution of the SME Loans, the researches, opinions, certificates or confirmations in relation to any SME Loan or Related Security or otherwise affecting the decision of the Seller to offer to make or to accept any SME Loan;
- (i) all causes and rights of action against any valuer/appraiser in connection with the investigation and appraisal of any property, any researches, opinions certificates or confirmations in relation to any SME Receivable or Related Security or otherwise affecting the decision of the Seller to offer to make or to accept any SME Receivable or Related Security relating thereto;
- (j) all causes and rights of action against any Mortgage Registrar, such as, without limitation, all rights of action mentioned in the articles 128, 130 and 132 of the Mortgage Act, with respect to any transcription (*overschrijving / transcription*), inscription (*inschrijving / inscription*) or marginal inscription (*kantmelding / inscription en marge*) of any right relating to the Mortgaged Assets; and
- (k) all causes and rights of action against any broker, lawyer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with any of the above, or affecting the decision of the Seller to offer to make or to accept any of the above,

it being understood that any Related Security with an all sums nature will continue to secure any other amounts owed by the relevant Borrower to the Seller in accordance with the terms and conditions set out in section 17.2 (*All Sums Security Interests*) and 17.3 (*Mandates*) below.

## **17.2 All Sums Security Interests**

- (a) Some SME Receivables may be secured by:
  - (i) an All Sums Mortgage in accordance with Article 81*bis* of the Mortgage Act;
  - (ii) an All Sums Floating Charge in accordance with the law of 25 October 1919 on business pledges (“**Business Pledge Act**”); or

- (iii) an All Sums Farmers' Lien in accordance with the law of 15 April 1884 on farmers' loans (*landbouwlening / prêts agricoles*).
- (b) The Seller may hold Existing Loans and will be entitled to make Further Loans to a Borrower, which are or will be secured by the same Mortgage, Floating Charge or Farmers' Lien, as the case may be, as the SME Receivables transferred to the Issuer.
- (c) If there are Existing Loans which are secured by the same Mortgage, the Seller and the Issuer would by law rank equally with respect to the proceeds of the enforcement of such Mortgage (see further *Risk Factors – SME Loans – Shared Security*), unless otherwise agreed between the Seller and the Issuer.
- (d) If there are Further Loans granted which are secured by the same Mortgage, the proceeds of such Mortgage shall be distributed pursuant to the rules set out in Articles 81*quater*, §2 and 81*quinquies* of the Mortgage Act and the SME Receivables Purchase Agreement, *i.e.*, the Issuer, acting through its Compartment SME Loan Invest 2017, shall fully rank in priority to the Seller.
- (e) In relation to SME Receivables which are secured by an All Sums Floating Charge or All Sums Farmers' Lien, contractually agreed distributions of proceeds derived from all sums securities are *ex officio* enforceable against third parties other than the Borrower according to article 5 of the Mobilisation Act, unless the latter has been notified thereof.
- (f) The SME Receivables Purchase Agreement provides, among other things, that:
  - (i) in respect of any Shared Security securing both a SME Receivable and Seller Loans, all sums owed by any Borrower to the Seller under a Seller Loan and all the rights and remedies of the Seller in respect of a Seller Loan will at all times be subject and subordinated to any sums owed by the Borrower to the Issuer in relation to all sums received out of the enforcement of the Shared Security;
  - (ii) as long as any part of the sums owed to the Issuer under a SME Receivable is or might become outstanding and until all these sums are irrevocably paid in full, all sums received out of the enforcement of the Shared Security will be distributed to the Issuer in priority of the Seller by payment into the Issuer Collection Account, unless the Issuer and the Security Agent otherwise agree; and
  - (iii) the Seller undertakes that, as long as any part of the sums owed to the Issuer under a SME Receivable is or might become outstanding and until all these sums are irrevocably paid in full, it will not be entitled to receive for its own account any of the proceeds of enforcement of the Shared Security.
- (g) In addition, the SME Receivables Purchase Agreement will contain certain arrangements regarding the acceleration of a SME Receivable or a Seller Loan and the enforcement of Shared Security securing both a SME Receivable and Sellers Loans.

### **17.3 Mandates**

- (a) The SME Receivables may have the benefit of a Mandate that permits:
  - (i) the creation of a Mortgage on the Mortgaged Assets either as an All Sums Mortgage or as a Mortgage that secures all advances made under a credit opening (*kredietopening/ouverture de credit*);



- (ii) the creation of a Floating Charge either as an All Sums Floating Charge or as a Floating Charge that secures all advances made under a credit opening (*kredietopening/ouverture de credit*); or
- (iii) the creation of a Farmers' Lien either as an All Sums Farmers' Lien or as a Farmers' Lien that secures all advances made under a credit opening (*kredietopening/ouverture de credit*).

Accordingly, the Seller and the Issuer may have a shared interest in all or some of the Mandates.

- (b) With respect to the exercise of Mandates, the SME Receivables Purchase Agreement provides that:
  - (i) if the SME Receivable to which a Mandate relates is secured by a Mortgage, Floating Charge or Farmers' Lien for an aggregate secured amount of at least 100 per cent. of the Outstanding Principal Amount of the SME Receivable plus 10 per cent. of such amount in accessories (*toebehoren / accessoires*) plus three years of interest, such Mandate may be exercised in order to create a Mortgage, Floating Charge or Farmers' Lien in favour of the Seller only; and
  - (ii) if the SME Receivable to which a Mandate relates is secured by a Mortgage, Floating Charge or Farmers' Lien for an aggregate secured amount that is lower than 100 per cent. of the Outstanding Principal Amount of the SME Receivable plus 10 per cent. of such amount in accessories (*toebehoren / accessoires*) plus three years of interest, such Mandate may only be exercised in order to create a Mortgage, Floating Charge or Farmers' Lien in accordance with the following principles:
    - (A) it will be created for the benefit and in the name of the Seller and the Issuer;
    - (B) it will secure all existing and future debts and obligations which the Borrower owes or may owe to the Seller or to the Issuer;
    - (C) so that all other secured debts will be contractually subordinated to the SME Receivable owing to the Issuer.
- (c) The SME Receivables Purchase Agreement contains a covenant of the Seller to register at its own cost the Floating Charges and the Farmers' Liens in the new National Register for Pledges within a period of 12 months after the entry into force of the Law on Movable Security Rights.

#### **17.4 Representations and Warranties**

##### **(a) Representations and Warranties relating to the Seller**

Pursuant to the SME Receivables Purchase Agreement, the Seller will represent and warrant for the benefit of the Issuer and the Security Agent on the date of the SME Receivables Purchase Agreement, on the Closing Date and each Collection Date that:

- (a) it is a company with limited liability (*naamloze vennootschap / société anonyme*), duly organised and validly existing under the laws of Belgium with full power and authority to execute and deliver, and to perform all of its obligations under the SME Receivables Purchase Agreement and all necessary corporate authority has been obtained and corporate action has been taken and all necessary consents and approvals obtained, for it to sign and perform the transactions contemplated by the SME Receivables Purchase Agreement;

- (b) it is duly licensed as a credit institution by the NBB under the Credit Institutions Supervision Act and it is duly licensed by the FSMA (or has received from the FSMA a temporary license) as a provider of mortgage credit under the Code of Economic Law;
- (c) it (i) is not in a situation of cessation of payments within the meaning of Belgian insolvency laws, (ii) has not resolved to enter into *vereffening / liquidation*, (iii) has not filed for bankruptcy (*faillissement / faillite*) or for stay of payment (*uitstel van betaling / sursis de paiement*), (iv) has not been adjudicated bankrupt or annulled as legal entity, nor (v) has any corporate action been taken or is pending in relation to any of the above;
- (d) it is not subject to any reorganisation measures (*mesures d'assainissement / saneringsmaatregelen*) within the meaning of Article 3 § 1, 56° of the Credit Institutions Supervision Act or winding-up procedures (*procédures de liquidation / liquidatieprocedures*) within the meaning of Article 3 § 1, 59° of the Credit Institutions Supervision Act;
- (e) the SME Receivables Purchase Agreement constitutes legal and valid obligations binding on it and enforceable in accordance with its terms;
- (f) it is not in breach of or in default under any agreement to an extent or in a manner which has or which could have a material adverse effect on it or on its ability to perform its obligations under the SME Receivables Purchase Agreement;
- (g) no Notification Event has occurred or will occur as a result of the entering into or performance of the SME Receivables Purchase Agreement;
- (h) the information that may reasonably be relevant for the transaction envisaged in the SME Receivables Purchase Agreement and that has been supplied by it to the Issuer and the Security Agent in connection with the SME Receivables Purchase Agreement is to the best of its knowledge true, complete and accurate in all material respects and it is not aware of any facts or circumstances that have not been disclosed to the Issuer and the Security Agent which might if disclosed adversely affect the decision of the Issuer and the Security Agent to enter into the transaction envisaged in the SME Receivables Purchase Agreement; and
- (i) no litigation, arbitration or administrative proceeding has been instituted, or is pending, or, to the best of its belief, threatened which might have a material adverse effect on it or on its ability to perform its obligations under the SME Receivables Purchase Agreement.

**(b) Representations and Warranties relating to the SME Loans and the SME Receivables**

Pursuant to the SME Receivables Purchase Agreement, the Seller will on the date of the SME Receivables Purchase Agreement and on the Closing Date make the following representations and warranties in relation to the SME Loans and the SME Receivables for the benefit of the Issuer and the Security Agent.

- (a) Valid existence – SME Loan Characteristics
  - (i) The SME Receivables and Related Security exist and are valid, legally binding and enforceable obligations of the relevant Borrowers, or as the case may be, the relevant Insurance Company or third party provider of additional collateral.
  - (ii) The SME Loans are granted with respect to investments related to the enterprise of the Borrower.

- (iii) The Borrowers of the SME Loans:
    - (A) in case of individuals, are resident in Belgium; and
    - (B) in case of companies, have their principal place of business (*voornaamste vestiging/établissement principal*) in Belgium.
  - (iv) Each SME Loan was granted by the Seller or, as the case may be, its legal predecessor in its ordinary course of business as a loan with respect to investments related to the enterprise of the Borrower.
  - (v) The SME Loans are tailor-made term loans with a standardised amortisation plan granted by the Seller or, as the case may be, its legal predecessor as the original lender to a small or medium sized enterprise or corporate enterprise as an advance under a Credit Facility, subject to a fixed or variable interest rate, which is usually secured (“**Investment Credits**”).
  - (vi) Each SME Loan is being repaid by way of direct debit of the Borrower’s account with the Seller on the Cut-Off Date.
  - (vii) No SME Loan is an intercompany loan granted by the Seller to one of its Affiliated Entities.
- (b) Governing legislation
- (i) Each SME Loan and relating Related Security is governed by Belgian law and no SME Loan or relating Related Security expressly provides for the jurisdiction of any court or arbitral tribunal other than Belgian courts or tribunals.
  - (ii) No SME Loan is subject to any consumer protection legislations (in particular the provisions on consumer credit set out in Book VII, Title 4, Chapter 1 of the Code of Economic Law and on mortgage credit set out in Book VII, Title 4, Chapter 2 of the Code of Economic Law).
  - (iii) Each SME Loan is granted solely for professional or commercial purposes.
- (c) Free from third-party rights
- (i) Each SME Loan has been granted by the Seller for its own account or if applicable, by the original lender.
  - (ii) The Seller has exclusive, good and marketable title to and has the absolute property right over each SME Loan and SME Receivable and the other rights, interests and entitlements sold pursuant to the SME Receivables Purchase Agreement.
  - (iii) The SME Loans, the SME Receivables and Related Security are free and clear of any encumbrances, liens, charges, pledges, pre-emption rights, options or other rights or security interests of any nature whatsoever in favour of, or claims of, third parties, and of any attachments (*derdenbeslag / saisie-arrêt*).
  - (iv) The Seller has not assigned, transferred, pledged, disposed of, dealt with or otherwise created or allowed to arise or subsist any security interest or other adverse right or interest in respect of its right, title, interest and benefit in or to any of the SME Loans, SME Receivables or Related Security and of the rights relating thereto

or any of the property, rights, titles, interests or benefits sold or assigned pursuant to the SME Receivables Purchase Agreement or pledged pursuant to the Pledge Agreement, in any way whatsoever other than pursuant to the SME Receivables Purchase Agreement or the Pledge Agreement.

(v) The SME Loans can be easily segregated and identified for ownership and collateral security purposes.

(d) Fully disbursed SME Loans

The proceeds of each SME Loan (including any brokers' fees) have been fully disbursed and the Seller has no further obligation to make further disbursement relating to the SME Loan.

(e) No set-off or other defence

(i) None of the SME Loans and Related Security is subject to any reduction resulting from any valid and enforceable *exceptie / exception* or *verweermiddel / moyen de défense* (including *schuldbetrijving / compensation*) available to the relevant Borrower, Insurance Company or third party collateral provider and arising from any act or omission on the part of, or event or circumstance attributable to, the Seller prior to the execution of the SME Receivables Purchase Agreement (except any *exceptie* or *verweermiddel* based on the provisions of Article 1244, paragraph 2 of the Belgian Civil Code or the provisions of Belgian insolvency laws).

(ii) No pledge, lien or counterclaim (except commercial discounts as applicable) or other security interest has been created or arisen or now exists between the Seller and any Borrower or Insurance Company which would entitle such Borrower to reduce the amount of any payment otherwise due under its SME Loan.

(iii) The Standard Loan Documentation does not contain any express provisions giving the Borrower a contractual set-off right.

(f) No subordination

The Seller has not entered into any agreement, which would have the effect of subordinating the right to the payment under any of the SME Loans to any other indebtedness or other obligations of the Borrower.

(g) No limited recourse

The Seller has not entered into any agreement, which would have the effect of limiting the rights in respect of the SME Loan to any assets of the Borrower for the payment thereof.

(h) No abstraction

No bills of exchange, promissory notes or '*grossen*' to order have been issued or subscribed in connection with any amounts owing under any SME Loan.

(i) No waiver

The Seller has not knowingly waived or acquiesced in any breach of any of its rights under or in relation to a SME Loan or any Related Security, provided that the Permitted Variations made in accordance with the Transaction Documents shall not constitute a breach of this warranty.

(j) Performing loan

- (i) No event has occurred and has not been cured prior to the Closing Date, entitling the Seller to accelerate the repayment of such SME Loan.
- (ii) On the Cut-Off Date, no SME Loan is in arrears.
- (iii) No notice of prepayment of all or any part of the SME Loan has been received by the Seller.

(k) Litigation

The Seller has not received written notice of any litigation or claim calling into question in any material way the Seller's title to any SME Loan or Related Security.

(l) Insolvency

The Seller has not received written notice, nor is otherwise aware, that any Borrower is bankrupt, has entered into or has filed for a rescheduling or repayments (*betalingsfaciliteiten / facilités de paiements*), judicial reorganisation (*gerechtelijke reorganisatie / reorganisation judiciaire*) or a moratorium (*uitstel van betaling / sursis de paiement*), or has applied for a collective reorganisation of its debts (*collectieve schuldenregeling / règlement collectif*) pursuant to the law of 5 July 1998, or is in a situation of cessation of payments or has otherwise become insolvent nor has the Seller any reason to believe that any Borrower is about to enter into, or to file for, any of the above situations or procedures.

(m) Incapacity

The Seller has not received notice of the death or any other incapacity of any Borrower, to the extent a Borrower is an individual.

(n) No Withholding Tax

Neither the Seller nor the Borrower is required to make any withholding or deduction for or on account of tax in respect of any payment in respect of the SME Loans.

(o) Assignability of the SME Receivables

- (i) Each SME Receivable, secured by the Related Security or unsecured, may be validly assigned to the Issuer and each SME Receivable may be validly pledged by the Issuer in accordance with the Pledge Agreement.
- (ii) The Standard Loan Documentation specifically provides that the SME Receivables may be assigned.
- (iii) Each SME Receivable, secured by Related Security or unsecured, is legally entitled of being transferred by way of sale, and their transfer by way of sale is not subject to any contractual or legal restriction, other than the notification to the Borrower for the purpose of rendering the assignment enforceable against the Borrower.
- (iv) No sale of a SME Receivable in the manner herein contemplated will be recharacterised as any other type of transaction and the sale of all SME Receivables will be effective to pass to the Issuer full and unencumbered title thereto and benefit thereof, and no further act, condition or thing will be required to be done in

connection therewith to enable the Issuer to require payment of each SME Receivable or the enforcement of each SME Receivable in any court other than, for the purpose of rendering the sale enforceable against the Borrower, the giving of notice to the Borrower of the sale of such SME Receivable by the Seller to the Issuer.

- (v) Upon the sale of any SME Receivables such SME Receivables will no longer be available to the creditors of the Seller on its liquidation.

(p) Valid Mortgage

Where an SME Receivable is secured by a Mortgage:

- (i) Each Mortgage exists and constitutes a valid and subsisting mortgage over the relevant Mortgaged Asset and each Mortgage shall continue to secure the relevant SME Receivable following assignment of such SME Receivable.
- (ii) All steps necessary with a view to perfecting the Seller's title to each Mortgage were duly taken at the appropriate time or are in the process of being taken without undue delay on the part of the Seller and those within its control.
- (iii) As at the date of origination of the SME Loan the immovable property over which such Mortgage has been granted existed or was under construction and the Seller has received no notice nor has it any reason to believe that it does not exist.
- (iv) Subject to (iv) above, each Mortgage relating to an SME Receivable relates to a Mortgaged Asset situated in Belgium.

(q) Valid Floating Charge

Where an SME Receivable is secured by a Floating Charge:

- (i) Each Floating Charge exists and constitutes a valid and subsisting floating charge over the business of the relevant Borrower and each Floating Charge shall continue to secure the relevant SME Receivable following assignment of such SME Receivable.
- (ii) All steps necessary with a view to perfecting the Seller's title to each Floating Charge were duly taken at the appropriate time or are in the process of being taken without undue delay on the part of the Seller and those within its control.
- (iii) The parts of the business of a Borrower subject to a Floating Charge or Floating Charge Mandate will at all times be located in Belgium at a place where such Borrower is allowed to operate its business.

(c) Valid Farmers' Lien

Where an SME Receivable is secured by a Farmers' Lien:

- (i) Each Farmers' Lien exists and constitutes a valid and subsisting farmers' lien (*landbouwvoorrecht/privilege agricole*) over the relevant assets of the relevant Borrower and each Farmers' Lien shall continue to secure the relevant SME Receivable following assignment of such SME Receivable.

- (ii) All steps necessary with a view to perfecting the Seller's title to each Farmers' Lien were duly taken at the appropriate time or are in the process of being taken without undue delay on the part of the Seller and those within its control.
- (iii) The assets of a Borrower subject to a Farmers' Lien or Farmers' Lien Mandate will at all times be located in Belgium.

(r) Mandate

Where an SME Receivable has the benefit of a Mortgage Mandate, a Floating Charge Mandate or a Farmers' Lien Mandate, as the case may be:

- (iv) Each attorney appointed under a Mortgage Mandate and as long as such attorney, if a legal person, exists, or, if a private person, is alive, has the power under the Mortgage Mandate to create a mortgage in favour of the Issuer and the Seller.
- (v) Each attorney appointed under a Floating Charge Mandate and as long as such attorney, if a legal person, exists, or, if a private person, is alive, has the power under the Floating Charge Mandate to create a floating charge in favour of the Issuer and the Seller.
- (vi) Each attorney appointed under a Farmers' Lien Mandate and as long as such attorney, if a legal person, exists, or, if a private person, is alive, has the power under the Farmers' Lien Mandate to create a farmers' lien in favour of the Issuer and the Seller.

(s) Related Security

The Seller has not received notice of any material breach of the terms of any Related Security.

(t) The Mortgaged Assets

- (i) Prior to providing a SME Loan that is secured by a Mortgage or a Mortgage Mandate to a Borrower, the Seller instructed the notary public to conduct a search on origin and validity of the Borrower's title to the Mortgaged Asset and such search did not disclose anything material which would cause the Seller, acting reasonably, not to proceed with such SME Loan on the proposed terms.
- (ii) To the best of the Seller's knowledge, the Seller has not received any notice requiring the compulsory acquisition (*expropriation / onteigening*) of such Mortgaged Asset.

(u) The Seller's compliance with laws

The Seller has, in relation to the origination, the servicing and the assignment of the SME Loans and SME Receivables, complied in all material respects with all relevant banking, consumer protection, privacy, money laundering and other laws.

(v) Servicing

Except for the Servicer, no other person has been granted or conveyed the right to service any SME Loan and/or to receive any consideration in connection therewith, unless agreed otherwise between the parties hereto.

(w) Selection process

The Seller has not taken any action in selecting the SME Loans which, to the Seller's knowledge, would result in delinquencies or losses on the SME Loans being materially in excess of the average delinquencies or losses on the Seller's total portfolio of loans of the same type.

(x) Originating and Standard Loan Documentation

(i) Prior to making each SME Loan the Seller carried out or caused to be carried out all investigations, searches and other actions and made such enquiries as to the Borrower's status and obtained such consents (if any) as would a reasonably prudent lender and nothing which would cause any such a lender to decline to proceed with the initial loan on the proposed terms was disclosed.

(ii) Prior to making each SME Loan, the Seller's lending criteria laid down in the Credit Policies or, as the case may be, the lending criteria of the Seller applicable at the time or the lending criteria of the relevant original lender, were satisfied so far as applicable subject to such waivers as might be exercised by a reasonably prudent mortgage lender.

(iii) Each SME Loan has been granted and each of the Related Security has been created, subject to the general terms and conditions and materially in the forms of the Standard Loan Documentation (so far as applicable) and any amendment to the terms of the SME Loans has been made substantially in accordance with the Credit Policies or the then prevailing credit policies of the Seller or the original lender.

(y) Proper Accounts and Records

Each SME Loan and Related Security is properly documented in the Contract Records relating to such SME Loan. The relevant transactions, payments, receipts, proceedings and notices relating to such SME Loan and such Contract Records are properly recorded in the Contract Records and in the possession of the Seller or held to its order.

(z) Data protection and privacy laws

(i) The Seller and the databases it maintains, in particular with regard to the SME Loans and the Borrowers, fully comply with the data protection and privacy laws and regulations.

(ii) The current Standard Loan Documentation, including the General Banking Terms & Conditions and the Privacy Statement, of the Seller refers to the finality of the processing of the personal data resulting from the Transaction.

(iii) As regards the SME Loans that are governed by the previous standard loan documentation, the Seller has notified the Borrowers under such Loans of the change to the original finality of the processing of the personal data resulting from the Transaction.

(aa) Credit Policies

The Seller's Credit Policies are those of a reasonably prudent lender and servicer.

(bb) Missing Data



As for any SME Loans where the Seller confirms that no actual or no complete data are available, the characteristics of those SME Loans are substantially the same as the ones under the Credit Policies.

(cc) Financial Criteria

- (i) The interest rate on each SME Loan was market conform at its Origination Date.
- (ii) On the Cut-Off Date the Outstanding Principal Amount of each SME Receivable as of its Cut-Off Date, plus the nominal amount of the principal comprised in all the Instalments that fell due under the SME Receivable on or before, but have not been paid by, its Cut-Off Date, is not more than EUR 25,000,000.
- (iii) Each SME Receivable, except for SME Receivables providing for a bullet repayment, is repayable by monthly, quarterly, semi-annual or annual Instalments.
- (iv) Each SME Receivable is denominated exclusively in euro (this includes SME Loans historically denominated in Belgian frank).
- (v) On the Cut-Off Date, no SME Receivable is a Disputed SME Receivable.
- (vi) No SME Receivable has an initial maturity in excess of thirty (30) years.
- (vii) In respect of each SME Loan, at least one Instalment has been received.
- (viii) On the Cut-Off Date, no SME Receivable has an Outstanding Principal Amount that is higher than EUR 25,000,000.
- (ix) On the Cut-Off Date, the annual turnover of each Borrower is lower than or equal to EUR 50,000,000.
- (x) On the Cut-Off Date, the number of employees of each Borrower is lower than or equal to 250.
- (xi) The Borrower of an SME Receivable is not assigned an internal rating of 10 or higher in according with the internal rating models of KBC Bank NV.

(dd) Specific SME Loan Information

The items of information provided to Fitch and DBRS in respect of the SME Loans and the Related Security related to the SME Receivables, as specifically identified in the SME Receivables Purchase Agreement, are true and correct in all material respects.

## 17.5 Eligibility Criteria

All representations and warranties, as set out under section 18.4(b) above, shall be considered to constitute the eligibility criteria relating to the SME Loans or, as the case may be, the SME Receivables (the “**Eligibility Criteria**”). The Eligibility Criteria pertain to the SME Receivables and SME Loans on the Cut-Off Date.

## 17.6 Repurchases, Call Options and Permitted Variations

### (a) Repurchase

If at any time after the Closing Date any of the representations and warranties relating to a SME Loan or a SME Receivable proves to have been untrue or incorrect, the Seller shall within thirty (30) calendar days of receipt of written notice thereof from the Issuer remedy the matter giving rise thereto and if such matter is not capable of being remedied or is not remedied within the said period of thirty (30) calendar days, the Seller shall on the next succeeding Collection Date, repurchase and accept re-assignment of such SME Receivable and Related Security.

All SME Receivables to be repurchased by the Seller pursuant to the preceding paragraph shall be repurchased for a price equal to the then Outstanding Principal Amount of such SME Receivables plus accrued interest thereon and costs (including any costs incurred by the Issuer for effecting and completing such repurchase and reassignment) up to (but excluding) the date of completion of the repurchase (the “**Repurchase Price**”).

In addition, if, upon conversion of a Mortgage Mandate or Floating Charge Mandate, as the case may be, with respect to a SME Receivable in accordance with the Credit Policies, such Mortgage Mandate or Floating Charge Mandate, as the case may be, was not exercised in accordance with the terms and conditions of the SME Receivables Purchase Agreement, the Issuer will have the right (exercisable upon its own initiative or at the direction of the Security Agent) to require the Seller to repurchase such SME Receivable.

The purchase price for the SME Receivables so repurchased and reassigned shall be equal to the then Outstanding Principal Amount together with accrued interest due but unpaid, if any, up to the relevant date of such repurchase or reassignment and reasonable costs relating thereto (including any costs incurred by the Issuer in effecting and completing such repurchase and re-assignment), except that with respect to Defaulted Receivables, the purchase price shall be an amount as calculated by the Servicer in its daily operations representing an amount equal to the Outstanding Principal Amount of such SME Receivable less the estimated losses or, as the case may be, realised losses in relation to such SME Receivable according to the Seller’s impairment policy (the “**Optional Repurchase Price**”).

**(b) Clean-Up Call Option**

On each Monthly Payment Date the Seller or any third party appointed by the Seller may, but is not obliged to, repurchase and accept re-assignment of all (but not only part of) the SME Receivables if (i) on the Monthly Calculation Date immediately preceding such Monthly Payment Date the aggregate Principal Amount Outstanding of all Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of all Notes as of the Closing Date and (ii) the Issuer has sufficient funds to pay all amounts due in respect of the Notes upon the exercise of such option by the Seller (the “**Clean-Up Call Option**”).

The Issuer has undertaken in the SME Receivables Purchase Agreement to sell and assign the SME Receivables to the Seller or any third party appointed by the Seller in its sole discretion in case of the exercise of the Clean-Up Call Option, to the extent it holds the SME Receivables upon exercise by the Seller of the Clean-Up Call Option.

All SME Receivables to be so repurchased by the Seller shall be repurchased for a price equal to the Optional Repurchase Price.

**(c) Regulatory Call Option**

On each Monthly Payment Date the Seller has the Regulatory Call Option to repurchase the SME Receivables upon the occurrence of a Regulatory Change provided that the Issuer has sufficient funds to pay all amounts due in respect of the Notes upon the exercise of such option by the Seller. A “**Regulatory Change**” will be a change published after the Closing Date (i) in the Basel Capital

Accords promulgated by the Basel Committee on Banking Supervision (the “**Basel Accords**”) or in the international, European or Belgian regulations, rules and instructions (which includes the solvency regulation of the NBB or the ECB as applicable) (the “**Bank Regulations**”) applicable to the Seller (including any change in the Bank Regulations enacted for purposes of implementing a change to the Basel Accord) or a change in the manner in which the Basel Accords or such Bank Regulations are interpreted or applied by the Basel Committee on Banking Supervision or by any relevant competent international, European or national body (including the NBB or any relevant international, European or other competent regulatory or supervisory authority) which, in the opinion of the Seller, has the effect of adversely affecting the rate of return on capital of the Seller or increasing its cost or reducing its benefit with respect to the transaction contemplated by the Notes or (ii) in the eligible collateral framework of the European Central Bank as a result of which the Notes no longer qualify or to a lesser degree as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem.

The Issuer has undertaken in the SME Receivables Purchase Agreement to sell and assign the SME Receivables to the Seller or any third party appointed by the Seller in its sole discretion in case of the exercise of the Regulatory Call Option, to the extent it holds the SME Receivables at the time of exercise by the Seller of the Regulatory Call Option.

All SME Receivables to be so repurchased by the Seller shall be repurchased for a price equal to the Optional Repurchase Price.

**(d) Permitted Variations**

Upon request of a Borrower to change the terms and conditions of or in relation to a SME Receivable or any rights in relation thereto, the Servicer shall be entitled to change such terms and conditions or rights if all the following conditions are satisfied (a “**Permitted Variation**”)

- (a) no Enforcement Notice has been given by the Security Agent that remains in effect at the date of the relevant variation;
- (b) the repayment type of the SME Receivable shall not be changed;
- (c) the variation would not cause the SME Loan or SME Receivable to no longer comply with all the Eligibility Criteria;
- (d) if the variation relates to the variation of the interest rates applicable to a SME Receivable, the interest rate after such variation is market conform and not lower than the prevailing interest rate at the moment of such variation, it being understood that the fixed or floating nature of the interest rate will not be altered after such variation;
- (e) the Outstanding Principal Amount of the SME Receivable shall not be reduced otherwise than as a result of an effective payment of principal;
- (f) if the variation results from a discharge (*ontlasting / décharge*) in connection with a divorce (*echtscheiding / divorce*) or from a discharge of a personal guarantor (*persoonlijke borg / garantie personelle*):
  - (i) such variation shall be considered by the Servicer acting as a reasonably prudent lender (*bonus pater familias*);
  - (ii) all underwriting criteria as set out in the Credit Policies remain satisfied following the acceptance of such variation;

- (g) the final redemption date of such varied SME Receivable would as a consequence of the variation not be extended beyond more than four (4) years beyond the first Monthly Payment Date falling after the date on which the variation was requested,

provided that the SME Receivables in respect of which the variations under paragraph (d) and (g) above apply may not exceed, at any point in time, an amount equal to 5 per cent. of the aggregate Outstanding Principal Amount of all SME Receivables at the Closing Date.

A proposed variation that does not meet the conditions set out above, is a “**Non-Permitted Variation**”.

For the avoidance of doubt:

- (a) the waiver by the Servicer of any Prepayment Penalty in connection with the voluntary prepayment of any SME Receivable, is a Non-Permitted Variation; and
- (b) the power of the Servicer to agree to a Permitted Variation is subject to a request to that effect being made by the relevant Borrower.

The Servicer shall keep a note of any variation, amendment or waiver with respect to a SME Receivable.

The Issuer or the Security Agent shall be entitled to terminate the powers of the Servicer to make Permitted Variations with three (3) months prior notice, provided another procedure or powers are put into place to deal with variations without any additional cost or expense for the Servicer. Such new procedure and powers will have no adverse impact on the then current ratings assigned to the Notes.

**(e) Non-Permitted Variations**

If the proposed variation is a Non-Permitted Variation and provided that the Non-Permitted Variation has been requested by the Borrower of the relevant SME Receivable:

- (a) the Seller, or the Servicer on its behalf, must promptly inform the Issuer, the Administrator and the Security Agent, and
- (b) if and to the extent that the Seller requests that such Non-Permitted Variation is accepted, it being understood that the Seller may not request the approval of a Non-Permitted Variation in respect of any Defaulted Receivable, the Seller shall repurchase and accept re-assignment of the relevant SME Receivable at a price equal to the Repurchase Price.

**17.7 Notification Events**

If:

- (a) a default is made by the Seller in the payment on the due date of any amount due and payable by the Seller under the SME Receivables Purchase Agreement or under any Transaction Document to which it is or will be a party and such failure is not remedied within ten (10) calendar days after notice thereof has been given by the Issuer or the Security Agent to the Seller; or
- (b) the Seller fails duly to perform or comply with any of its obligations under the SME Receivables Purchase Agreement or under any Transaction Document to which it is or will be a party and, if such failure is capable of being remedied, such failure is not remedied

within ten (10) Business Days after notice thereof has been given by the Issuer or the Security Agent to the Seller, it being understood that if the conversion of a Mortgage Mandate, a Floating Charge Mandate or Farmers' Lien Mandate, as the case may be, with respect to a SME Receivable was not exercised in accordance with the terms and conditions of the SME Receivables Purchase Agreement, repurchase of the relevant SME Receivable further to the SME Receivables Purchase Agreement will be considered an appropriate remedy; or

- (c) any representation or warranty made by the Seller in the SME Receivables Purchase Agreement, other than those relating to the SME Loans and the SME Receivables (which the Seller consequently repurchases), or under any of the Transaction Documents to which the Seller is or will be a party, proves to have been, and continues to be after the expiration of any applicable grace period, untrue or incorrect in any material respect; a representation or warranty will be considered to be untrue or incorrect in a material respect if it affects the validity of the obligations of the Seller under the Transaction Documents; or
- (d) an order being made or an effective resolution being passed for the winding up (*ontbinding / dissolution*) of the Seller except a winding up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Security Agent in writing or by an Extraordinary Resolution of the Noteholders; or
- (e) the Seller, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (d) above, ceases or, through an official action of the board of directors of the Seller, threatens to cease to carry on business or the Seller is unable to pay its debts as and when they fall due or the value of its assets falling to less than the amount of its liabilities or otherwise becomes insolvent; or
- (f) (i) any steps have been taken or legal proceedings have been instituted or threatened against the Seller for the bankruptcy (*faillissement / faillite*), stay of payment (*uitstel van betaling/sursis de paiement*) or for any analogous insolvency proceedings under any applicable law, or (ii) an administrator, receiver or like officer (including an ad hoc administrator (*voorlopig bewindvoerder / administrateur provisoire*) and an enterprise mediator (*ondernemingsbemiddelaar / médiateur d'entreprise*)) has been appointed in respect of the Seller or any of its assets; or
- (g) at any time it becomes unlawful for the Seller to perform all or a material part of its obligations under any of the Transaction Documents to which it is or will be a party; or
- (h) any action is taken by any authority, court or tribunal, which results or may result in the revocation of the license of the Seller to act as a credit institution within the meaning of the Law of 25 April 2014 on the status and supervision of credit institutions (the “**Credit Institutions Supervision Act**”); or
- (i) the Seller becomes subject to any reorganisation measure (*mesures d'assainissement / saneringsmaatregelen*) within the meaning of Article 3 § 1, 56° of the Credit Institutions Supervision Act, or winding-up procedures (*procédures de liquidation / liquidatieprocedures*) within the meaning of Article 3 § 1, 59° of the Credit Institutions Supervision Act; or
- (j) at any time,
  - (i) the long-term, unsecured and unsubordinated debt obligations of the Seller cease to be rated at least as high as BBB(L) by DBRS or BBB- by Fitch or such rating is withdrawn; or

- (ii) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Seller cease to be rated as high as F3 by Fitch or such rating is withdrawn; or
- (k) the service of an Enforcement Notice by the Security Agent occurs;

then the Seller, shall forthwith (i) notify in writing the relevant Borrowers of the SME Loans and any other relevant parties indicated by the Issuer and/or the Security Agent, including the Insurance Companies or other third party providers of additional collateral, of the assignment of the SME Receivables and the Related Security to the Issuer and (ii) instruct the relevant Borrowers of the SME Loans, including the Insurance Companies and any other relevant parties indicated by the Issuer and/or the Security Agent, including other third party providers of additional collateral to pay any amounts due directly to the Issuer Collection Account or, at its option, the Issuer shall be entitled to make such notifications and to give such instructions itself or on behalf of the Seller, unless in respect of:

- (A) an event referred to under (b), (c), (g) and (k) (but in relation to the event referred to under (k), only to the extent such events are based on items (b), (c), and (g) of the Notification Events) above, where, if and to the extent this event would not have a material adverse effect on the interest of the Noteholders, the notification and instruction referred to above shall not be made provided that an appropriate remedy to the satisfaction of the Issuer and the Security Agent is found and implemented within a period of thirty (30) calendar days and provided that the current ratings assigned to the Notes will not be adversely affected as a consequence thereof; and
- (B) an event as referred to under (j) above, if the Issuer has given an irrevocable notice to the Security Agent and the Rating Agencies of its intention to redeem the Notes early in accordance with the provisions on Optional Redemption in case of a Ratings Downgrade Event and provided that following such notice (i) the Issuer shall give notice to the Noteholders and the Security Agent in accordance with the Conditions and (ii) the Issuer redeems the Notes in whole in accordance with the Conditions on the first Monthly Payment Date following the notice by the Issuer of its intention to redeem the Notes early in accordance with the provisions on Optional Redemption in case of a Ratings Downgrade Event;
- (C) an event referred to under (f) above, in which case the Issuer shall, assisted by either the Seller or the Administrator (determined by the choice of the Issuer), (i) notify in writing the relevant Borrowers of the SME Loans and any other relevant parties indicated by the Issuer and/or the Security Agent, including the Insurance Companies or other third party providers of additional collateral, of the assignment of the SME Receivables and the Related Security to the Issuer and (ii) instruct the relevant Borrowers of the SME Loans and any other relevant parties indicated by the Issuer and/or the Security Agent, including the Insurance Companies or other third party providers of additional collateral to pay any amounts due directly to the Issuer Collection Account.

If the notification to the Borrowers and any other relevant parties indicated by the Issuer and/or the Security Agent, as set forth above, must be given at a time when the Transaction Accounts must be transferred to an alternative account bank pursuant to the terms of the Account Bank Agreement, the notification shall be effected in two steps by the Seller or the Issuer (or the Administrator on its behalf) (as applicable) where the notification sub (i) above of the assignment of the SME Receivables is given forthwith as set forth above and where the notification sub (ii) above relating to the payment instructions is given as soon as the Transaction Accounts will have been transferred to the relevant alternative account bank and appropriate back-up servicing arrangements have been put in place.

The SME Receivables Purchase Agreement contains arrangements for the relevant information regarding the Borrowers to be held under escrow and to be accessible by the Issuer and the Security Agent upon the service of an Enforcement Notice by the Security Agent, for purposes of the required notifications.

### 17.8 Right of first refusal

The SME Receivables Purchase Agreement provides for a right of first refusal for the Seller, if the Issuer decides in its sole discretion to sell the SME Receivables in the context of an Optional Redemption in case of a Ratings Downgrade Event. The conditions of this right of first refusal are as further set out in the SME Receivables Purchase Agreement.

### 17.9 Risk Mitigation Deposit

In case:

- (1) long term unsecured, unguaranteed and unsubordinated debt obligations of the Seller falls below a rating of A by DBRS; or
- (2) the short term IDR of the Seller falls below a rating of F1 by Fitch and the long term IDR of the Seller falls below a rating of A by Fitch,

(each such event being a “**Risk Mitigation Deposit Trigger Event**”), then the Seller shall as soon as reasonably possible following the occurrence of such Risk Mitigation Deposit Trigger Event, credit to a bank account (the “**Deposit Account**”) to be held in the name of the Issuer with a third party account bank having the Required Minimum Ratings, the Risk Mitigation Deposit Amount.

The “**Risk Mitigation Deposit Amount**” shall be an amount as determined by the Administrator as follows:

- (i) Upon the first occurrence of a Risk Mitigation Deposit Trigger Event, the Risk Mitigation Deposit Amount shall be equal to the higher of (x) zero and (y) the aggregate amount of the first scheduled interest and principal payment becoming due and payable on each SME Loan on or immediately following the occurrence of the Risk Mitigation Deposit Trigger Event.
- (ii) On the first calendar day of each month following the month in which the Risk Mitigation Deposit Trigger Event occurred (the “**Adjustment Date**”) and provided no Notification Event has occurred, the Risk Mitigation Deposit Amount shall be adjusted and be equal to the higher of (x) zero and (y) the sum of:
  - (A) the aggregate amount of the first scheduled interest and principal payment becoming due and payable on each Loan on or immediately following such Adjustment Date; and
  - (B) an amount obtained by multiplying the aggregate Outstanding Principal Amount of all SME Receivables as at such Adjustment Date by the Average Prepayment Rate (applied on a period of one month).

To the extent the balance on the Deposit Account exceeds the Risk Mitigation Deposit Amount calculated on the Adjustment Date, the Administrator will immediately (and in any event no later than five (5) Business Days following the Adjustment Date) release the amount in excess to the Seller. To the extent the balance on the Deposit Account is less than the Risk Mitigation Deposit Amount calculated on the Adjustment Date, the Administrator will notify the Seller thereof and the Seller will immediately (and in any event no later than

five (5) Business Days following the notification of the adjusted Risk Mitigation Deposit Amount by the Administrator) credit such shortfall to the Deposit Account.

- (iii) As from the time a Notification Event has occurred, the Risk Mitigation Deposit Amount will become fixed and may no longer be adjusted in accordance with paragraph (ii) above and will, as a result, become fixed. Furthermore, as from the time a Notification Event has occurred, the Risk Mitigation Deposit Amount may no longer be released (other than to the Issuer for the purpose of indemnifying the Issuer for Commingling Risk (as set out below) unless the Notes have been fully and finally repaid.

The Risk Mitigation Deposit Amount as determined by the Administrator for each first calendar day of the month following the occurrence of a Risk Mitigation Deposit Trigger Event (and as long as the Risk Mitigation Deposit Trigger Event continues) will be reported by the Administrator in the Investor Report. The funds credited to the Deposit Account will not be included as Notes Redemption Available Amount and/or Notes Interest Available Amount and will not form part of the Priority of Payments, unless if used to mitigate Commingling Risk in which case the Issuer will be required to add such funds to the Notes Interest Available Amount and/or Notes Redemption Available Amount, as the case may be. The Risk Mitigation Deposit Amount will not serve as general credit enhancement to the Issuer and can only be used by the Issuer to mitigate Commingling Risk. The Issuer will transfer the interest received on the Deposit Account to the Seller.

The funds credited to the Deposit Account may only be applied by the Issuer for the purpose of indemnifying the Issuer against any losses resulting from the fact that following an insolvency of the Seller the recourse the Issuer would have against the Seller for amounts paid into the accounts held with the Seller at such time would be an unsecured claim against the insolvent estate of the Seller for moneys due at such time (“**Commingling Risk**”)(See also Section 1.17 – Commingling Risk).

In such event, the Issuer (or the Administrator on behalf of the Issuer) will transfer the relevant amounts from the Deposit Account to the Transaction Account.

Unless applied in order to indemnify Commingling Risk, the funds credited to the Deposit Account shall remain credited to the Deposit Account until (the earlier of):

- (a) the Seller no longer being subject to any Risk Mitigation Deposit Trigger Event; or
- (b) a full and final repayment of the Notes on the Final Maturity Date (or such other date upon which the Notes are to be redeemed in full).

If any of the above conditions under (a) or (b) is fulfilled, the Administrator will immediately release the funds credited to the Deposit Account to the Seller (including, for the avoidance of doubt, any amounts as might be credited to this Deposit Account at a later date).



## 18. ISSUER SERVICES AGREEMENT

### 18.1 Services

In the Issuer Services Agreement, the Servicer will agree to provide payment transactions and other services to the Issuer on a day-to-day basis in relation to the SME Loans and the SME Receivables, including, without limitation, the collection and recording of payments of principal, interest and other amounts in respect of the SME Loans and the SME Receivables.

The Servicer will be obliged to administer the SME Loans and the SME Receivables at the same level of skill, care and diligence as it administers SME Loans in its own portfolio.

In the Issuer Services Agreement, the Administrator will agree to provide certain administration, calculation and cash management services to the Issuer, including (a) the direction of amounts received by the Seller to the Issuer Collection Account, (b) the operation of the Transaction Accounts, (c) drawings (if any) to be made by the Issuer from the Reserve Account, (d) all payments to be made by the Issuer under the Swap Agreement and under the other Transaction Documents, (e) all payments to be made by the Issuer under the Notes in accordance with the Agency Agreement and the Conditions and (f) all calculations to be made pursuant to the Conditions under the Notes and (g) the production of all information necessary for the Issuer in order to perform its obligations under the ECB regulation No 1075/2013 of 18 October 2013 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions (recast). The Administrator will also provide the Swap Counterparty with all information (to the extent available) necessary in order for the Swap Counterparty to perform its role as Calculation Agent under the Swap Agreement.

In the Issuer Services Agreement, the Corporate Services Provider will agree to provide certain administrative, reporting and corporate services to the Issuer, including, without limitation, the keeping of all books and registers of the Issuer and preparation of the Monthly Calculation Reports and the monthly Investor Report.

### 18.2 Termination

The appointment of the Servicer, the Administrator and/or the Corporate Services Provider (each a “**Service Provider**”) under the Issuer Services Agreement may be terminated by the Issuer (with the consent of the Security Agent) or by the Security Agent in certain circumstances, including but not limited to:

- (a) a Service Provider shall have failed to pay or transfer any amount when due in accordance with this Agreement and such failure continues unremedied for a period of ten (10) calendar days after the date of the written notice from the Issuer to the relevant Service Provider requiring the same to be remedied;
- (b) a default (other than a failure to pay) is made by a Service Provider in the performance or observance of any of its other covenants and obligations under this Agreement, which in the reasonable opinion of the Issuer or the Security Agent is materially prejudicial to the interests of the Issuer or the Noteholders and (except where such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned shall be required) such default continues unremedied for a period of ten (10) Business Days after the date of the written notice from the Issuer to the relevant Service Provider requiring the same to be remedied;
- (c) any corporate action or any steps have been taken or legal proceedings have been instituted or threatened against a Service Provider, as the case may be,

- (i) under any reorganisation procedure (saneringsmaatregelen / mesures d'assainissement) within the meaning of Article 3, §1, 56° of the Credit Institutions Supervision Act, or winding-up procedures (liquidatieprocedures / procédures de liquidation) within the meaning of Article 3, §1, 59° of the Credit Institutions Supervision Act for its entering into redress measures (herstelmaatregelen/mesures de redressement) within the meaning of Book II, Title VI of the Credit Institutions Supervision Act;
  - (ii) for any insolvency proceedings under any applicable law;
  - (iii) for its bankruptcy or composition or reorganisation, as applicable;
  - (iv) for the appointment of a receiver or a similar officer of its or any or all of its assets; or
- (d) (a Service Provider is in a situation as set out in Article 244, §1 of the Credit Institutions Supervision Act relating to the conditions for the application of a resolution mechanism (afwikkelingsmaatregel / mesures de resolution);
  - (e) the licence of a Service Provider as credit institution is revoked in accordance with Article 233 of the Credit Institutions Supervision Act;
  - (f) a Service Provider has ceased or, its Board of Directors has taken any official action which threatens to cease to carry on its business which would be likely to adversely and materially affect its ability to perform its obligations under this Agreement;
  - (g) a Service Provider is unable to pay its debts or the value of its assets has fallen less than the amount of its liabilities or it has become insolvent;
  - (h) a beneficiary of an encumbrance has taken possession of all or a substantial part of the undertaking or assets of a Service Provider; or
  - (i) if it becomes unlawful under any applicable law for a Service Provider to perform any material part of its Services.

Upon termination of the appointment of the Servicer, the Administrator and/or the Corporate Services Provider under the Issuer Services Agreement, the Issuer (as the case may be, with the assistance of the Security Agent, the Servicer, the Administrator, the Back-up Servicer Facilitator and/or the Corporate Services Provider, and whenever a Protection Notice or Enforcement Notice has been served, the Security Agent in consultation with the Issuer) shall use its best efforts to appoint a substitute servicer (within 60 calendar days), administrator and/or corporate services provider and such substitute servicer, administrator, and/or corporate services provider shall enter into an agreement with the Issuer and the Security Agent substantially on the terms of the Issuer Services Agreement, provided that such substitute servicer, administrator and/or corporate services provider shall have the benefit of a fee at a level to be then determined. Any such substitute servicer, administrator and/or corporate services provider is obliged to, among other things, (i) have experience of administering SME Loans in Belgium and (ii) hold all required licences under applicable law therefore. The Issuer shall, promptly following the execution of such agreement, pledge its interest in such agreement in favour of the Secured Parties, including the Security Agent on behalf of the Noteholders and the other Secured Parties, on the terms of the Pledge Agreement, *mutatis mutandis*, to the satisfaction of the Security Agent.

The Issuer Services Agreement may, *inter alia*, be terminated by the Servicer, the Administrator or the Corporate Services Provider upon the expiry of not less than twelve (12) months' notice of termination given by respectively the Servicer, the Administrator and/or the Corporate Services Provider to each of the Administrator, the Servicer and the Corporate Services Provider respectively and the Issuer and the Security Agent provided that – *inter alia*:

- (a) the Security Agent consents in writing to such termination, which consent shall not be unreasonably withheld;
- (b) a substitute servicer, administrator or corporate services provider shall be appointed on substantially the same terms as the terms of the Issuer Services Agreement, such appointment to be effective not later than the date of termination of the Issuer Services Agreement;
- (c) the substitute service provider has experience in delivering the relevant services and must hold all required licenses under applicable law therefore;
- (d) there will be no adverse impact on the then current rating assigned to the Notes;
- (e) the termination shall not become effective and the relevant Service Provider shall not be released from its obligations under this Agreement until such substitute service provider has entered into such new agreement; and
- (f) the Issuer shall promptly following the execution of the agreement with the substitute service provider pledge its interest in such agreement in favour of the Security Agent, on the terms of the Pledge Agreement, *mutatis mutandis*, to the satisfaction of the Security Agent.

## 19. THE ISSUER

The Issuer has been established as a special purpose vehicle for the purpose of issuing securities, including the Notes.

### 19.1 Name and Status

The Issuer is a company with limited liability (*naamloze vennootschap / société anonyme*) incorporated under the name Loan Invest NV/SA, *institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht / société d'investissement en créances institutionnelle de droit belge* in accordance with the UCITS Act.

The registered office of the Issuer is located at Koningsstraat 97, 1000 Brussels and its telephone number is +32 2 209 22 00. The Issuer is registered with the Crossroads Bank for Enterprises under number RPR 0889.054.884. The LEI code of the Issuer is 635400VLKUYLHJTXS840.

The Issuer is subject to the rules applicable to *institutionele vennootschappen voor belegging in schuldvorderingen naar Belgisch recht / sociétés d'investissement en créances institutionnelle de droit belge*, as set out in the UCITS Act.

The Issuer has been registered with the Federal Public Service Finance (*Federale Overheidsdienst Financiën / Service Public Fédéral Finances*) on 8 May 2007 as an *institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht / société d'investissement en créances institutionnelle de droit belge* and its Compartment SME Loan Invest 2017 has been registered with the Federal Public Service Finance (*Federale Overheidsdienst Financiën / Service Public Fédéral Finances*) on 16 March 2017 as a compartment of an *institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht / société d'investissement en créances institutionnelle de droit belge*. This registration cannot be considered as a judgement as to the opportunity or the quality of the Transaction, nor on the situation of the Issuer or Compartment SME Loan Invest 2017.

The Issuer has been licensed by the FSMA on 12 June 2007 as a mortgage loan institution in accordance with Article 43 of the Belgian Law of 4 August 1992 on mortgage credits (*Wet van 4 augustus 1992 op het hypothecair krediet/Loi du 4 août 1992 relative au crédit hypothécaire*) and has since 1 November 2015 automatically been granted a temporary license as a provider of mortgage credit under the Code of Economic Law. The Issuer has notified the FSMA on 22 February 2017 of the creation of Compartment SME Loan Invest 2017 in accordance with Article VII.160, §4, second limb of the Code of Economic Law. The Issuer will apply for a permanent license as a provider of mortgage credit under the Code of Economic Law by the deadline provided by law.

The Issuer is a public company within the meaning of Article 438 of the Company Code.

### 19.2 Incorporation

The Issuer was incorporated on 24 April 2007 for an unlimited period of time.

A copy of the deed of incorporation and the Articles of Association of the Issuer will be available for public inspection at the registered office of the Issuer and the specified office of the Domiciliary Agent. The Issuer has the corporate power and capacity to issue the Notes, to acquire the SME Receivables and to enter into and perform its obligations under the Transaction Documents.

### 19.3 Share Capital and Shareholding

The Issuer has an issued share capital of EUR 69,500 represented by 100 registered shares without nominal value, which are fully paid up. Initially, all shares were allocated to Category I, representing Compartment Home Loan Invest 2007. By an amendment of the Articles of Association of the Issuer on 12 August 2008, 10 shares of Category I of the Issuer have been reallocated to a new category of shares, Category II, representing Compartment Home Loan Invest 2008. By an amendment of the Articles of Association of the Issuer on 5 March 2009, 10 shares of Category I of the Issuer have been reallocated to a new category of shares, Category III, representing Compartment Home Loan Invest 2009. By an amendment of the Articles of Association of the Issuer on 24 May 2011, 10 shares of Category I of the Issuer have been reallocated to a new category of shares, Category IV, representing Compartment Home Loan Invest 2011. By an amendment of the Articles of Association of the Issuer on 22 March 2016, 10 shares of Category I of the Issuer have been reallocated to a new category of shares, Category V, representing Compartment Home Loan Invest 2016. At the same time Compartment Home Loan Invest 2008, Compartment Home Loan Invest 2009 and Compartment Home Loan Invest 2011 were dissolved and liquidated and the corresponding shares were reallocated to Compartment Home Loan Invest 2007. As a result of the amendment of the Articles of Association of the Issuer on 22 March 2016, 90 shares are allocated to Category I, representing Compartment Home Loan Invest 2007 and 10 shares are allocated to Category V, representing Compartment Home Loan Invest 2016. By an amendment of the Articles of Association of the Issuer on 9 March 2017, 10 shares of Category I of the Issuer have been reallocated to a new category of shares, Category VI, representing Compartment SME Loan Invest 2016.

All shares (Category I, Category V and Category VI) of the Issuer are held by Loan Invest Securitisation B.V. Loan Invest Securitisation B.V. is a private company with limited liability (*besloten vennootschap*) incorporated under the laws of the Netherlands on 5 April 2007 (the “**Shareholder**”). The corporate object of the Shareholder is to invest in securities, including debt securities or rights of participation, in collective investment undertakings under Dutch or foreign law or in securitisation structures, as well as to finance collective investment undertakings or securitisation structures provided that the Shareholder only obtains financing (i) in Belgium with Qualifying Investors, or (ii) in any other country (other than Belgium). The sole managing director of the Shareholder is as of 5 April 2007, Intertrust Management B.V. (the “**Shareholder Director**”). All shares of the Shareholder are held by Stichting Loan Invest. The Shareholder is the founder of the Issuer within the meaning of Article 450 of the Company Code.

Stichting Loan Invest is a foundation (*stichting*) incorporated under the laws of the Netherlands on 29 March 2007 (the “**Stichting Shareholder**”). The corporate object of the Stichting Shareholder is, *inter alia*, to incorporate, acquire and to hold shares in the share capital of the Shareholder and to exercise all rights attached to such shares. The sole managing director of Stichting Loan Invest is Intertrust Management B.V.

The sole shareholder of Intertrust Management B.V. is Intertrust (Netherlands) B.V.

The objectives of Intertrust Management B.V. are (a) advising of and mediation by financial and related transactions, (b) finance company, and (c) management of legal entities.

The Shareholder Director has entered into a management agreement with each of the Stichting Shareholder and the Shareholder and the Security Agent. In these management agreements (the “**Shareholder Management Agreements**”) the Shareholder Director agrees and undertakes to, *inter alia*, (i) do all that an adequate managing director or director should do or should refrain from doing, and (ii) refrain from taking any action detrimental to the obligations under any of the Transaction Documents or the then current ratings assigned to the Notes. The shares in the Issuer can only be validly transferred to a qualifying investor (*in aanmerking komende belegger / investisseur éligible*) within the meaning of Article 5, §3/1 of the UCITS Act. In addition, the Articles of Association

provide for a specific share transfer procedure, requiring the consent of the Issuer's board of directors. If the registered shares issued by the Issuer are acquired by a holder that does not qualify as a qualifying investor within the meaning of Article 5, §3/1 of the UCITS Act, the Issuer will refuse to register such transfer in its share register.

#### **19.4 Corporate Purpose and Permitted Activity**

The corporate purpose of the Issuer consists exclusively in the investment of financial means, which are exclusively collected with qualifying investors for the purposes of Article 5, §3/1 of the UCITS Act, in receivables that are assigned to it by third parties.

The securities issued by the Issuer can only be acquired by those qualifying investors.

The Issuer may carry out all activities and take all measures that can contribute to the realisation of its corporate purpose, such as e.g., but not exclusively, to issue financial instruments whether or not negotiable, contract loans or credit agreements in order to finance its portfolio of receivables or to manage payment default risks on the receivables and pledge the receivables it holds in its portfolio and its other assets. The Issuer may hold additional or temporary term investments, liquidities and securities. The Issuer may purchase, issue or sell all sorts of financial instruments, purchase or sell options relating to financial instruments, interest instruments or currencies, as well as enter into swaps, interest swaps or term contracts relating to currencies or interest and negotiate options on such contracts, provided that the transaction serves to cover a risk linked to one or more assets on its balance sheet.

Outside the scope of the securitisation transactions carried out by it and outside the investments permitted by law, the Issuer may not hold any assets, enter into any agreements or engage in any other activities. It may not engage personnel.

Any amendment of the corporate purpose of the Issuer requires a special majority of eighty (80) per cent. of the voting rights.

The Compartment SME Loan Invest 2017 of the Issuer has been set up with as purpose the collective investment of financial means collected in accordance with the Articles of Association in a portfolio of selected SME Receivables.

#### **19.5 Compartments**

The Articles of Association authorise the Issuer's board of directors to create several compartments within the meaning of Article 271/11, § 4 of the UCITS Act. The notarial deed confirming such decision of the board of directors amends the Articles of Association. The UCITS Act does not further specify the procedure that must be followed in this respect.

Pursuant to the Articles of Association, the Issuer's board of directors may create new compartments either by (i) issuing new shares, or (ii) reallocating the existing shares.

Upon incorporation of the Issuer, all shares of the Issuer were allocated to Category I, representing Compartment Home Loan Invest 2007. By a notarial deed of amendment to the Articles of Association, 10 existing shares of Category I (relating to Compartment Home Loan Invest 2007) were reallocated to a new Category II (relating to Compartment Home Loan Invest 2008).

Furthermore, a new chapter, relating to Compartment Home Loan Invest 2008, was included in the Articles of Association.

In addition, by notarial deed of amendment of 5 March 2009 to the Articles of Association, 10 existing shares of Category I (relating to Compartment Home Loan Invest 2007) were reallocated to a new Category III (relating to Compartment Home Loan Invest 2009), and a new chapter, relating to Compartment Home Loan Invest 2009 was included in the Articles of Association.

By notarial deed of amendment of 24 May 2011 to the Articles of Association, 10 existing shares of Category I (relating to Compartment Home Loan Invest 2007) were reallocated to a new Category IV (relating to Compartment Home Loan Invest 2011), and a new chapter, relating to Compartment Home Loan Invest 2011 was included in the Articles of Association.

By notarial deed of amendment of 22 March 2016 to the Articles of Association, 10 existing shares of Category I (relating to Compartment Home Loan Invest 2007) were reallocated to a new Category V (relating to Compartment Home Loan Invest 2016), and a new chapter, relating to Compartment Home Loan Invest 2016 was included in the Articles of Association. At the same time Compartment Home Loan Invest 2008, Compartment Home Loan Invest 2009 and Compartment Home Loan Invest 2011 were dissolved and liquidated and the corresponding shares were reallocated to Compartment Home Loan Invest 2007. As a result of the amendment of the Articles of Association of the Issuer on 22 March 2016, 90 shares are allocated to Category I, representing Compartment Home Loan Invest 2007 and 10 shares are allocated to Category V, representing Compartment Home Loan Invest 2016.

By notarial deed of amendment of 9 March 2017 to the Articles of Association, 10 existing shares of Category I (relating to Compartment Home Loan Invest 2007) were reallocated to a new Category VI (relating to Compartment SME Loan Invest 2017), and a new chapter, relating to Compartment SME Loan Invest 2017 was included in the Articles of Association.

The Pledged Assets and all liabilities of the Issuer relating to the Notes and the Transaction Documents will be exclusively allocated to Compartment SME Loan Invest 2017. The parties involved in future securitisation transactions of the Issuer, or involved in the securitisation transactions of the Issuer acting through its Compartment Home Loan Invest 2007, will not have any recourse to the Pledged Assets. Unless expressly provided otherwise, all appointments, rights, title, assignments, obligations, covenants and representations, assets and liabilities, relating to the issue of the Notes will be exclusively allocated to Compartment SME Loan Invest 2017 and will not extend to other transactions or other compartments of the Issuer or any assets of the Issuer other than those allocated to Compartment SME Loan Invest 2017 under the Transaction Documents.

The creation of Compartments means that the Issuer is internally split into subdivisions and that each such subdivision, a Compartment, legally constitutes a separate group of assets to which corresponding liabilities are allocated.

The liabilities allocated to a Compartment are exclusively backed by the assets of such Compartment.

## **19.6 Administrative, Management and Supervisory Bodies**

### **(a) Board of directors**

The board of directors of the Issuer ensures the management of the Issuer. Pursuant to Article 14 of its Articles of Association, the board of directors of the Issuer consists of two directors. The Issuer current board of directors consists of the following persons:

- (1) Christophe Tans; and
- (2) Irène Florescu,

(the “**Issuer Directors**”).

The current term of office of the Issuer Directors expires in 2023.

Companies of which Irène Florescu has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years are CULTURA 2006 PS GRANJA SCRL, INTERTRUST (BELGIUM) NV, INTERTRUST CORPORATE SERVICES NV, INTERTRUST SERVICES NV, PHIDIAS MANAGEMENT NV, SDK INVESTMENTS SA, SEC ADBM PS, SEC DVG PS, SEC IPE PS, SEC JVE PS, STICHTING HOLDING B-CARAT II PS, STICHTING HOLDING ESMEE PS, STICHTING HOLDING SAKIA PS, STICHTING PUBLINVEST PS, HANRO BVBA and INTERTRUST FINANCIAL SERVICES BVBA, STICHTING VESTA PS, NEWBELCO SA.

Companies of which Christophe Tans has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years are ABN AMRO BEHEERSMAATSCHAPPIJ 2 NV, ABN AMRO LEASE BELGIE NV, BACHELIER PS, CASINO FRANCE INTERNATIONAL SA, CULTURA 2006 PS, DELNOVEST NV, FIMKO NV, GELASE SA, GERBO SOCIETE D’INVESTISSEMENTS SA, GRANJA SCRL, HEKO HOLDING NV, HILLBRO HOLDING NV, I-CAP BELGIUM NV, INTERTRUST (BELGIUM) NV, INTERTRUST CORPORATE SERVICES NV, INTERTRUST SERVICES NV, KORO HOLDING NV, KROWAL NV, LOCH LOMOND FOUNDATION PS, NEW AFFINITY SA, PHIDIAS MANAGEMENT NV, QUANTESSE PS, RIDAVO NV, SEC ADBM PS, SEC DVG PS, SEC IPE PS, SEC JVE PS, SONNAT SA, STICHTING HOLDING BASS PS, STICHTING HOLDING B-CARAT I PS, STICHTING HOLDING B-CARAT II PS, STICHTING HOLDING BELGIAN LION PS, STICHTING HOLDING ESMEE PS, STICHTING HOLDING RECORD LION PS, STICHTING HOLDING SAKIA PS, STICHTING JPA PROPERTIES PS, STICHTING PUBLINVEST PS, STICHTING PUBLINVEST PS, STICHTING VESTA PS, TONKO NV, VERO NV, VICTORIA BELINVEST SA, YVKO HOLDING NV, APPAREL HOLDINGS SPRL, AURIAN MANAGEMENT II SPRL, BELEGGINGSMAATSCHAPPIJ GIEVER BVBA, CASTLE ROCK HOLDINGS SPRL, CITIC CAPITAL FUTURE HOLDINGS SPRL, EVERE REAL ESTATE SPRL, HILLBRO BVBA, INTERTRUST FINANCIAL SERVICES BVBA, KOFRAN SPRL, MANOIR IPENROOY BVBA, MELICO BVBA, REC DE II SPRL, SPE III AVIGNON SPRL, SPE III EOLIS SPRL, SPE III RUNWAY SPRL, SPE III SPILLIAERT SPRL, SPE III STEVENS SPRL, SPE III VOLTA SPRL, TARAZONA B.V. BVBA, TREFONDINVEST BVBA, TRIBECA B.V. BVBA, VAN HAAFTEN BEHEER SPRL, WEALTH ROCK HOLDINGS SPRL, NEWBELCO SA, OMEGA PHARMA NV, OMEGA PHARMA INVEST NV.

None of the Issuer Directors have been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies), nor have they been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years.

The Issuer Directors did not receive any remuneration during the last full financial year.

The business offices of the directors are located at:

Koningsstraat 97 (4th floor)  
1000 Brussels

**(b) Other administrative, management or supervisory bodies**

The Issuer has no other administrative, management or supervisory bodies other than the board of directors. The board of directors will delegate some of its management powers to the Administrator



and the Corporate Services Provider for the purpose of assisting it in the management of the affairs of the Issuer but it will retain overall responsibility for the management of the Issuer, in accordance with the UCITS Act. For more information about the Administrator, see below *Related Party Transactions – the Administrator*. For more information about the Corporate Services Provider, see below *Related Party Transactions – the Corporate Services Provider*.

**(c) Conflict of interest**

None of the Issuer Directors has any conflict of interest between its duties as director and its other duties or private interests.

None of the Issuer, the Shareholder or the Stichting Shareholder have a conflict of interest with any of its directors with respect to the entering into the Transaction Documents.

**(d) Issuer Management Agreement**

Each of the Issuer Directors has entered into a management agreement with the Issuer and the Security Agent. In these management agreements (the “**Issuer Management Agreements**”) each of the Issuer Directors agrees and undertakes to, *inter alia*, (i) act as managing director of the Issuer and to perform certain services in connection therewith, and (ii) refrain from taking any action detrimental to the obligations under any of the Transaction Documents or the then current ratings assigned to the Notes. In addition each of the Issuer Directors agrees in the relevant Issuer Management Agreements that it will not enter into any agreement in relation to the Issuer acting through its Compartment SME Loan Invest 2017 other than the Transaction Documents to which it is a party, without the prior written consent of the Security Agent, provided that there will be no adverse effect on the then current ratings assigned to the Notes. The Issuer Management Agreements do not provide for additional benefits upon termination.

## **19.7 Shareholders’ Meeting**

The shareholders’ meeting has the power to take decisions on matters for which it is competent pursuant to the Company Code. In addition, the Articles of Association provide that if as a result of a conflict of interest of one or more directors with respect to a decision to be taken by the board of directors of the Issuer, such decision cannot be validly taken due to the applicable legal provisions with respect to conflicts of interests in public companies, the matter will be submitted to the shareholders’ meeting and the shareholders’ meeting will have the power to take a decision on such matter.

The annual shareholders’ meeting will be held each year on the second Tuesday of the month of June at 11.00 AM (Central European Time) at the registered office of the Issuer. The shareholders’ meetings are held at the Issuer’s registered office. A general meeting may be convened at any time and must be convened whenever this is requested by shareholders representing one-fifth of the share capital or, as the case may be, representing one fifth of the capital attributed to a particular Compartment.

Shareholders’ meetings are convened upon convening notice of the board of directors. Such notices contain the agenda as well as the proposals of resolutions and are made in accordance with the Company Code. Copies of the documents to be provided by law are provided with the convening notice.

A shareholder may be represented at a meeting of shareholders by a proxyholder. In order to be valid, the proxy must state the agenda of the meeting and the proposed resolutions, a request for instruction for the exercise of the voting right for each item on the agenda and the information on how the proxyholder must exercise his voting right in the absence of restriction of the shareholders.

The shareholders' meeting may validly resolve irrespective of the number of shares present or represented, unless otherwise provided by law. Any resolution is validly adopted at the majority of the votes. Amendments to the Articles of Association require a majority of seventy-five (75) per cent. of the votes (and a majority of eighty (80) per cent. for the amendment of the corporate purpose).

Pursuant to Article 646 §2 of the Company Code, the Shareholder will, as long as it remains the sole shareholder of the Issuer, exercise the powers vested with the shareholders' meeting.

## **19.8 Changes to the Rights of Holders of Shares**

The board of directors is authorised to create various categories of shares, where each category coincides with a separate part or Compartment of the assets of the Issuer. The board of directors can make use of this authorisation and decide to create a Compartment by reallocating existing shares in different categories, in compliance with the equality between shareholders, or by issuing new shares. The rights of the holders of shares and of creditors with respect to a Compartment or that arise by virtue of the creation, the operation, or the liquidation of a Compartment are limited to the assets of such compartment.

Upon creation of a Compartment via (re)allocation of existing shares or via the issue of new shares, the board of directors shall ensure that the shares of that compartment, except with the prior written consent of all shareholders of the category concerned, are assigned to the shareholders in the same proportion as in the other compartments.

## **19.9 Share Transfer Restrictions**

Given the specific purpose of the Issuer and Article 3, 7° of the UCITS Act, the shares in the Issuer can only be held by qualifying investors within the meaning of Article 5, §3/1 of the UCITS Act. Each transfer in violation of the share transfer restrictions contained in Article 10 of the articles of association of the Issuer is null and is not enforceable against the Issuer. In addition:

- (1) if shares are transferred to a transferee who does not qualify as a qualifying investor within the meaning of Article 5, §3/1 of the UCITS Act, the Issuer will not register such transfer in its share register; and
- (2) as long as shares are held by a shareholder who does not qualify as a qualifying investor within the meaning of Article 5, §3/1 of the UCITS Act, the payment of any dividend in relation to the shares held by such shareholder will be suspended.

Share transfers are further subject to authorisation by the board of directors. If a proposed transfer of shares is not authorised by the board of directors, the board of directors will have to propose one or more alternative transferees for the shares.

The shares may not be pledged or be the subject matter of another right *in rem* other than the property interest, unless approved by the board of directors.

## **19.10 Corporate Governance**

The Issuer complies with the relevant corporate governance requirements of the Company Code.

In accordance with Article 526*bis* of the Company Code, companies whose securities are admitted to trading on a regulated market must establish an audit committee. Article 526*bis*, § 7 of the Company Code contains an exemption from this obligation for any company the sole business of which is to act as issuer of asset-backed securities as defined in Article 2(5) of Commission Regulation (EC) No

809/2004. In that case, the relevant company must explain to the public the reasons for which it considers it not appropriate to have an audit committee or an administrative or supervisory body entrusted to carry out the functions of an audit committee.

The Issuer's sole business consists of the issuance of asset-backed securities as defined in Article 2(5) of the Commission Regulation (EC) No 809/2004 and the Issuer does not consider it appropriate to establish an audit committee. The Issuer refers in this respect to the recitals of the European Directive in relation to statutory audits of annual accounts, where it is stated that where a collective investment undertaking functions merely for the purpose of pooling assets, the establishment of an audit committee is not always appropriate. This is because the financial reporting and related risks are not comparable to those of other public-interest entities.

In addition, the Issuer operates in a strictly defined regulatory environment and is subject to specific governance mechanisms. In this regard, the Issuer refers to its corporate purpose, limiting its activities to the issue of negotiable financial instruments for the purpose of acquiring receivables. Furthermore, the Issuer points out that, with respect to the main tasks to be carried out by an audit committee, such as the monitoring of the financial reporting process and of the statutory audit of the annual and consolidated accounts, it will enter into an Issuer Services Agreement pursuant to which the Corporate Services Provider and the Administrator will provide certain reporting, calculation and monitoring services.

The Issuer will include a declaration as to the reasons why it does not consider it appropriate to establish an audit committee (as set out above) in the annual report with respect to its annual accounts.

#### **19.11 Accounting Year**

The Issuer's accounting year ends on 31 December of each year. The first accounting year of the Issuer started on 24 April 2007 and ended on 31 December 2008.

Compartment Home Loan Invest 2007 of the Issuer started operations in July 2007, Compartment Home Loan Invest 2008 of the Issuer started operations in November 2008, Compartment Home Loan Invest 2009 started operations in March 2009 and Compartment Home Loan Invest 2011 started operations in October 2011. Compartment Home Loan Invest 2008, Compartment Home Loan Invest 2009 and Compartment Home Loan Invest 2011 were dissolved and liquidated on 22 March 2016. Compartment Home Loan Invest 2016 of the Issuer started operations in April 2016. Compartment SME Loan Invest 2017 of the Issuer was created on 9 March 2017 and the Issuer, acting through its Compartment SME Loan Invest 2017, has not commenced operations other than the Transaction.

The financial statements as of 31 December 2015 of the Issuer, acting through its Compartment Home Loan Invest 2007 and Compartment Home Loan Invest 2016 have been approved by the shareholders' meeting held on have been approved by the shareholders' meeting of 14 June 2016.

#### **19.12 The Auditor**

BCVBA PwC Bedrijfsrevisoren, with its registered office at Woluwedal 18, 1932 Sint-Stevens-Woluwe, registered with the Crossroads Bank for Enterprises under number 0429.501.944, Commercial Court of Brussels, represented by Kurt Marichal, is appointed as auditor of the Issuer until the general meeting of 2019.

#### **19.13 Tax Position of the Issuer**

- (1) Registration tax

Contributions to the capital of the Issuer are not subject to registration tax and are subject only to a nominal fixed fee of EUR 50.

(2) Withholding tax on moneys collected by the Issuer

All interest payments made by any Borrower to the Issuer are exempt from Belgian withholding tax.

(3) Corporate income tax

The Issuer is subject to corporate income tax at the ordinary rate of currently 33.99 per cent. (inclusive of the 3 per cent. crisis surcharge). However its tax base is notional: it is only taxed on disallowed expenses and abnormal or gratuitous benefits received by it. The Issuer does not anticipate incurring substantial disallowed expenses or receiving any such abnormal or gratuitous benefits.

(4) Value added tax ("VAT")

The Issuer qualifies in principle as a VAT taxpayer but is fully exempt from VAT in respect of its operations. Any input VAT incurred by the Issuer (at the current rate of 21 per cent.) is, therefore, not recoverable under the VAT legislation.

Services supplied to the Issuer by the parties to the Transaction Documents, including the Auditor, or other parties under the Transaction Documents will, in general, be subject to VAT. However, fees paid in respect of the management of the Issuer (including its administration and the organisation and management of its financing instruments) and its assets (including the receipt of payments on behalf of the Issuer and the forced collection of receivables), as well as transactions with respect to receivables (with the exception of the forced collection thereof), securities and liquid assets should be exempt from Belgian VAT. See, however, section 7.10 above in relation to the VAT treatment of management services supplied to a VBS/SIC.

## 19.14 Capitalisation

The following table shows the capitalisation of the Issuer as of the Closing Date as adjusted to give effect to the issue of the Notes:

### Share Capital

Issued Share Capital	euro 69,500
<i>Compartment Home Loan Invest 2007</i>	euro 6,950
<i>Compartment Home Loan Invest 2016</i>	euro 6,950
<i>Compartment SME Loan Invest 2017</i>	euro 6,950

### Borrowings

#### *Compartment SME Loan Invest 2017*

Notes	euro 3,920,000,000
Subordinated Loan	euro 1,736,000,000
Expenses Subordinated Loan	euro 1,000,000

## **19.15 Information to Investors – Availability of Information**

### **(a) Investor Reports**

The Corporate Services Provider will prepare monthly reports to be approved by the Administrator and addressed to the Security Agent, the Rating Agencies and the Domiciliary Agent on or about each Monthly Payment Date. Such reports will contain an overview of the retention of the material net economic interest by the Seller, as confirmed to the Issuer for each monthly Investor Report.

The Investor Reports will be made available for inspection at [www.kbc.be/abs/smeloaninvest2017](http://www.kbc.be/abs/smeloaninvest2017) and will be made available upon request free of charge to any person at the office of the Domiciliary Agent.

In addition, the Corporate Services Provider, the Administrator and the Auditor will assist the Issuer in the preparation of the annual reports to be published in order to inform the Noteholders.

### **(b) Notices**

For Notices to the Noteholders, see Condition 4.13.

### **(c) Other information**

In addition, the Issuer is required to make available certain other information, in particular information in respect of important facts that are not known to the public and that, due to their impact on the assets, financial situation or general state of the Issuer, could influence the price of the relevant Notes (privileged information as defined in the law of 2 August 2002 on the supervision of the financial sector and financial services) and any other mandatory information such as described in the royal decree of 14 November 2007, as amended from time to time, on the obligations of issuers of financial instruments which are admitted to trading on a Belgian regulated market (including information as to modifications to the conditions, rights or guarantees attached to the Notes).

Furthermore, the Issuer will be required to provide certain information to the NBB for statistical purposes.

## **19.16 Financial Information Concerning the Issuer**

### **(a) Financial position**

Compartment Home Loan Invest 2007 of the Issuer started operations in July 2007, Compartment Home Loan Invest 2008 of the Issuer started operations in November 2008, Compartment Home Loan Invest 2009 started operations in March 2009, Compartment Home Loan Invest 2011 started operations in October 2011 and Compartment Home Loan Invest 2016 of the Issuer started operations in April 2016.

Compartment SME Loan Invest 2017 was created on 9 March 2017 and the Issuer, acting through its Compartment SME Loan Invest 2017, has not commenced operations other than the Transaction.

The financial statements as of 31 December 2015 of the Issuer, acting through its Compartment Home Loan Invest 2007 and Compartment Home Loan Invest 2016 have been approved by the shareholders' meeting of 14 June 2016.

Pursuant to Article 27, § 2, (c) of the Prospectus Act, the FSMA has by decision of 28 March 2017 granted an exemption with respect to the obligation to provide historical financial information (under items 3 and 20.1 of Annex I, items 8.2 and 8.2 bis of Annex VII and item 8.1 of Annex XV of

Regulation (EC) 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements) in relation to Compartment SME Loan Invest 2017 of the Issuer. This exemption also applies to any related information requirements where such information relates to Compartment Home Loan Invest 2007 or Compartment Home Loan Invest 2016.

**(b) Dividend policy**

Pursuant to Article 30 of the Articles of Association of the Issuer, the profit of the Issuer will be attributed to each Compartment on the basis of the profit realised by each respective Compartment. The profit attributed to Compartment SME Loan Invest 2017 may (after constitution of the legal reserve) either be distributed as dividend to the Shareholder of Compartment SME Loan Invest 2017 or reserved for later distribution or for the cover of risk of default of payment of the SME Receivables.

**(c) Investment policy**

The Issuer has as such no borrowing or leverage limits. Pursuant to its Articles of Association, the Issuer may however only invest in receivables that are assigned to it by third parties as well as in temporary investments. The Issuer may not hold other assets than those necessary for the realisation of its corporate purpose.

Compartment SME Loan Invest 2017 of the Issuer has been set up with as purpose the collective investment of financial means collected in accordance with the Articles of Association in a portfolio of selected SME Receivables.

**(d) Valuation rules**

The Issuer will apply the following valuation rules:

(i) Assets

*Claims*

The class of ‘*Claims*’ contains the SME Loans in portfolio that were sold by KBC Bank NV to Compartment SME Loan Invest 2017 of Loan Invest NV/SA for an Initial Purchase Price and a Deferred Purchase Price. The SME Loans will be recognised in the balance sheet at historic cost, minus the recognised write-downs on the SME Loans. The historic cost consists of the Initial Purchase Price which Compartment SME Loan Invest 2017 of Loan Invest NV/SA paid for the SME Loans. The Deferred Purchase Price is determined by the results of Compartment SME Loan Invest 2017 of Loan Invest NV/SA after all other obligations have been met and will be recognised at the moment of determination of the result. The Deferred Purchase Price is recognised under the heading “other financial costs” of the profit and loss account.

Regarding the credit risks, a prudent valuation policy is being pursued. Defaulted loans will be written off at a 100% as soon as they occur.

*Liquid assets*

By liquid assets the nominal credit amounts on the current accounts held with financial institutions are meant. These credit amounts mainly consist of:

- cash flows on loans already received and not applied for the payment of the compensation to investors;
- the reserve fund.

*Accrual accounts*

Under the class of asset accrual accounts are included:

- the pro rata of charges that were made in the past accounting period and that should be attributed to the following accounting period;
- the pro rata of revenues that will only be collected in the course of the following accounting period but that relate to the past accounting period.

(ii) Liabilities

*Debts*

The liabilities arising from the Notes are recognised in the balance sheet in the amount made available, less any repayments effected.

The reimbursement of the Notes takes place by means of incoming cash flows resulting from the redemption or early termination of the SME Receivables. The expected reimbursements of the Notes in the next accounting period are recognised under the heading, '*Liabilities of more than one year which become due within one year*'.

Subordinated liabilities are valued analogously to other liabilities, irrespective of whether they are represented by securities. Included under subordinated liabilities is a subordinated loan provided by KBC Bank NV to Compartment SME Loan Invest 2017 of Loan Invest NV/SA.

Under the class of '*Other liabilities*' all liabilities in relation to payment of a compensation to the management, the payment of dividends, current accounts with related companies and other accounts provided by the minimum chart of accounts (M.A.R.) are included.

The SME Loans purchased by the Issuer carry a floating rate or a fixed rate of interest payable on a monthly, quarterly, semi-annual or yearly basis, whereas the Notes carry a floating interest rate payable on a monthly basis. In order to match these cash flows, Compartment SME Loan Invest 2017 of Loan Invest NV/SA has concluded an interest rate swap with KBC Bank NV.

*Accrual accounts*

Under the class of liability accrual accounts are included:

- the pro rata charges that will only be paid in the course of the following accounting period but that relate to the past accounting period;
- the pro rata revenues that were collected in the past accounting period but that relate to the following accounting period.

## 19.17 Negative Statements

Compartment Home Loan Invest 2007 of the Issuer started operations in July 2007, Compartment Home Loan Invest 2008 of the Issuer started operations in November 2008, Compartment Home Loan Invest 2009 started operations in March 2009, Compartment Home Loan Invest 2011 started operations in October 2011 and Compartment Home Loan Invest 2016 of the Issuer started operations in April 2016. Compartment Home Loan Invest 2008, Compartment Home Loan Invest 2009 and Compartment Home Loan Invest 2011 have in the meantime been dissolved and liquidated.

Compartment SME Loan Invest 2017 was created on 9 March 2017 and the Issuer, acting through its Compartment SME Loan Invest 2017, has not commenced operations other than the Transaction

The Issuer has not been involved in any governmental, legal or arbitration proceedings (including proceedings which are pending or threatened of which the Issuer is aware), during a period since its incorporation, which may have or have had in the recent past significant effects on the Issuer or its financial position or profitability.

Pursuant to Article 27, § 2, (c) of the Prospectus Act, the FSMA has by decision of 28 March 2017 granted an exemption with respect to the obligation to provide historical financial information (under items 3 and 20.1 of Annex I, items 8.2 and 8.2 bis of Annex VII and item 8.1 of Annex XV of Regulation (EC) 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements) in relation to Compartment SME Loan Invest 2017 of the Issuer. This exemption also applies to any related information requirements where such information relates to Compartment Home Loan Invest 2007 or Compartment Home Loan Invest 2016.



## **20. RELATED PARTY TRANSACTIONS – MATERIAL CONTRACTS**

### **20.1 The Seller**

#### **(a) Name and Status**

The SME Receivables have been originated by the Seller or its legal predecessors.

For a description of the Seller, see further *KBC Bank NV*.

#### **(b) SME Receivables Purchase Agreement**

Under the SME Receivables Purchase Agreement, the Issuer will purchase any and all relevant rights of the Seller against certain borrowers (the “**Borrowers**”) under or in connection with certain selected SME Loans (the “**SME Receivables**”). On the Closing Date, the Issuer will accept the transfer by way of assignment of legal title to the SME Receivables. The Issuer will be entitled to the proceeds of the SME Receivables from the Cut-Off Date.

For a description of the SME Receivables Purchase Agreement, see further in the section entitled *SME Receivables Purchase Agreement*.

### **20.2 The Administrator**

#### **(a) Name and status**

Pursuant to the Issuer Services Agreement, the Issuer has appointed Intertrust Administrative Services B.V., a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*), with its registered office at Prins Bernhardplein 200, 1097 Amsterdam, the Netherlands, registered with the commercial register (*kamer van koophandel en fabrieken voor Amsterdam*) under number 33.21.02.70 as the Administrator. Its phone number is +31 (0)20 577 1177 and fax number +31 (0)20 577 1188. E-mail: [securitisation@intertrustgroup.com](mailto:securitisation@intertrustgroup.com) Corporate websites: [www.intertrustcapitalmarkets.com](http://www.intertrustcapitalmarkets.com)

#### **(b) Issuer Services Agreement**

Under the Issuer Services Agreement, the Administrator will agree to provide certain administration, calculation and cash management services for the Issuer.

For a description of the Issuer Services Agreement, see further in the section entitled *Issuer Services Agreement*.

#### **(c) Remuneration**

With respect to the duties and responsibilities as Administrator from the Closing Date and during the Transaction, the Issuer shall pay EUR 2,500 as one-off set-up fee for the Compartment SME Loan Invest 2017 and EUR 2,500 as one-off set-up fee for the administration and on a quarterly basis in advance an amount of EUR 4,150 (*i.e.*, EUR 16,600 on an annual basis) (exclusive of VAT and 6% office disbursements). This fee is subject to certain assumptions and may in certain cases be adjusted in consultation with the Issuer and the Security Agent. In addition, the Issuer will reimburse to the Administrator all reasonable out-of pocket costs, expenses and charges properly incurred by the Administrator in connection with the services and the preparation, execution, delivery, administration, modification or amendment in respect of its rights, obligations and responsibilities under the agreement.

**(d) Replacement**

In certain events, the Issuer (with the prior consent of the Security Agent) or the Security Agent will terminate the appointment of the Administrator with effect from a date (no earlier than the date of the notice) specified in the notice provided that the effective date of such termination shall be no earlier than the effective date of the appointment of a substitute administrator.

The appointment of a substitute administrator is subject to the following conditions:

- (1) the prior notification to the Rating Agencies of the appointment of a substitute administrator;
- (2) such substitute administrator must be approved by the Security Agent;
- (3) such substitute administrator must have experience in delivering the relevant services and must hold all required licences under applicable law therefore;
- (4) there will be no adverse impact on the then current ratings assigned to the Notes;
- (5) the termination shall not become effective and the Administrator shall not be released from its obligations under the Issuer Services Agreement until such substitute administrator has entered into such new agreement; and
- (6) the Issuer shall promptly following the execution of the agreement with the substitute administrator pledge its interest in such agreement in favour of the Secured Parties, including the Security Agent on behalf of the Noteholders and the other Secured Parties, on the terms of the Pledge Agreement, *mutatis mutandis*, to the satisfaction of the Security Agent.

**20.3 The Corporate Services Provider**

**(a) Name and status**

Pursuant to the Issuer Services Agreement, the Issuer has appointed KBC Bank NV as Corporate Services Provider.

For a description of the Seller, see further *KBC Bank NV*.

**(b) Issuer Services Agreement**

Under the Issuer Services Agreement, the Corporate Services Provider will agree to provide certain administration, corporate and reporting services for the Issuer.

For a description of the Issuer Services Agreement, see further in the section entitled *Issuer Services Agreement*.

**(c) Remuneration**

With respect to the duties and responsibilities as Corporate Services Provider from the Closing Date and during the Transaction, the Issuer shall pay on a quarterly basis in arrears an amount of EUR 4,500 (*i.e.*, EUR 18,000 on an annual basis) (exclusive of VAT). In addition, the Issuer will reimburse to the Corporate Services Provider all reasonable out-of pocket costs, expenses and charges properly incurred by the Corporate Services Provider in connection with the services and the preparation, execution, delivery, administration, modification or amendment in respect of its rights, obligations and responsibilities under the agreement.

**(d) Replacement**

In certain events, the Issuer (with the prior consent of the Security Agent) or the Security Agent will terminate the appointment of the Corporate Services Provider with effect from a date (no earlier than the date of the notice) specified in the notice provided that the effective date of such termination shall be no earlier than the effective date of the appointment of a substitute corporate services provider.

**20.4 The Security Agent**

**(a) Name and status**

Deloitte Bedrijfsrevisoren / Réviseurs d'entreprises (the "**Security Agent**") a *coöperatieve vennootschap met beperkte aansprakelijkheid / société coopérative à responsabilité limitée* incorporated under the laws of Belgium on 30 May 1986 with registered office at Gateway building, Luchthaven Nationaal 1 J, 1930 Zaventem and registered with the Crossroads Bank for Enterprises under number RPR 0429.053.863, Commercial Court of Brussels is appointed as representative of the Noteholders and as agent of the Secured Parties on terms and subject to the conditions set out in the Pledge Agreement. The Security Agent is appointed as representative (*vertegenwoordiger / représentant*) of the Noteholders in accordance with the UCITS Act.

**(b) Pledge Agreement**

For a description of the Pledge Agreement, see further in the section entitled *Security Agent*.

**(c) Remuneration**

With respect to duties and responsibilities carried out up to and including the Closing Date, a one off fee based on an average hourly rate of EUR 250 per man hour of effective service, exclusive of VAT, estimated at EUR 18,000 (exclusive of VAT) will be payable by the Issuer to the Security Agent.

With respect to the duties and responsibilities as Security Agent from the Closing Date and during the Transaction, the remuneration of the Security Agent shall be calculated at the applicable current billing rate per hour of its services with a floor of EUR 5,000 per annum, exclusive of VAT.

**(d) Replacement**

In certain events, the Issuer shall by written notice to the Security Agent, the other Secured Parties and the Rating Agencies terminate the powers delegated to the Security Agent under the Pledge Agreement and the Transaction Documents with effect from a date (no earlier than the date of the notice) specified in the notice and appoint a substitute security agent selected by the Issuer which shall act as security agent until a new security agent is appointed by the general meeting of Noteholders, which shall promptly be convened by the Issuer.

In addition, the Noteholders shall be entitled to terminate the appointment of the Security Agent by an Extraordinary Resolution notified to the Issuer and the Security Agent, provided that (i) in the same resolution a substitute security agent is appointed, and (ii) such substitute security agent meets all legal requirements to act as security agent and representative and accepts to be bound by the terms of the Transaction Documents in the same way as its predecessor.

Such termination shall also terminate the appointment and power of attorney by the other Secured Parties. The other Secured Parties hereby irrevocably agree that the substitute security agent shall,

from the date of its appointment, act as attorney (*mandataris/mandataire*) of the other Secured Parties on the terms and conditions set out in these Conditions and the Transaction Documents.

The Security Agent shall not be discharged from its responsibilities under the Pledge Agreement until a suitable substitute security agent, which has been accepted by the Issuer and the Noteholders (such approval not being unreasonably withheld), is appointed.

## **20.5 The Servicer**

### **(a) Name and Status**

The Seller has been appointed as Servicer.

For a description of the Seller, see further *KBC Bank NV*.

### **(b) The Issuer Services Agreement**

Pursuant to the Issuer Services Agreement the Seller has been appointed as Servicer and, in this capacity as Servicer, will agree to provide payment transactions and the other services as agreed in the Issuer Services Agreement in relation to the SME Receivables.

For a description of the Issuer Services Agreement, see further in the section entitled *Issuer Services Agreement*.

### **(c) Remuneration**

In consideration of the Servicer's agreement to carry out certain services as agreed in the Issuer Services Agreement, the Issuer shall pay monthly in arrears on each Monthly Payment Date to the Servicer a servicing fee of 0.05 per cent. per annum calculated over the aggregate Outstanding Principal Amount of all SME Receivables as at the immediately preceding Monthly Calculation Date.

### **(d) Replacement**

In certain events, the Issuer (with the prior consent of the Security Agent) or the Security Agent will terminate the appointment of the Servicer with effect from a date (no earlier than the date of the notice) specified in the notice provided that the effective date of such termination shall be no earlier than the effective date of the appointment of a substitute servicer (which has experience in delivering the relevant services and holds all required licences under applicable law therefore).

The Issuer has appointed Intertrust Administrative Services B.V. as Back-up Servicer Facilitator. The Back-up Servicer Facilitator shall assist the Issuer in appointing (within 60 calendar days) a third party substitute servicer in the event the Servicer needs to be replaced upon termination of its appointment by the Issuer following the occurrence of one of the servicing termination events listed in the Issuer Services Agreement.

The Issuer shall:

- (1) promptly notify the Rating Agencies of the appointment of a substitute service provider; and
- (2) promptly following the execution of the agreement with the substitute service provider pledge its interest in such agreement in favour of the Security Agent, on the terms of the Pledge Agreement, *mutatis mutandis*, to the satisfaction of the Security Agent.

**(e) Conflict of Interest**

The Servicer may have a conflict of interest resulting from its responsibilities as Servicer for the Issuer pursuant to the Issuer Services Agreement, on the one hand, and its concern to preserve its commercial relations with the Borrowers, on the other hand. This conflict of interest risk is mitigated by the terms of the Issuer Services Agreement. The Issuer Services Agreement provides, among other things, that the Servicer must at all times act in such a manner as would be reasonable to expect from a reasonably prudent professional of high standing in providing services similar to the services provided by the Servicer. In addition, the Issuer Services Agreement contains certain specific undertakings to protect the interests of the Issuer.

**20.6 The Account Bank**

**(a) Name and status**

KBC Bank NV acts as the Account Bank under the Account Bank Agreement entered into between the Issuer, the Account Bank and the Security Agent.

KBC Bank NV currently has a long-term debt credit rating of A from DBRS and A from Fitch.

Pursuant to the Account Bank Agreement, the balances standing to the credit of each of the Transaction Accounts shall carry the Account Interest Rate (the “**Account Interest Rate**”). The Account Interest Rate shall be the rate of interest determined by reference to Eonia minus 0.125 per cent. (with a floor at zero) and notified by the Account Bank on the basis of actual days elapsed and a 360 day year.

For a description of the Seller, see further *KBC Bank NV*.

**(b) Account Bank Agreement**

For a description of the Account Bank Agreement, see further in the section entitled *Credit Structure – Transaction Accounts*.

**(c) Replacement of the Account Bank**

In certain events, the Issuer may (but, if prior to the date on which the Notes are redeemed or written off in full, only with the prior written consent of the Security Agent), by not less than thirty (30) Business Days’ written notice terminate the Account Bank Agreement with immediate effect from the expiry of such notice.

- (1) If at any time the short-term IDR of the Account Bank is assigned a rating of less than the Fitch Required Minimum Short Term Rating or such rating is withdrawn and the long-term IDR of the Account Bank is assigned a rating of less than the Fitch Required Minimum Long Term Rating or such rating is withdrawn; or
- (2) if at any time the long-term unsecured unsubordinated and unguaranteed debt obligations of the Account Bank are assigned a rating of less than the DBRS Required Minimum Rating,

the Issuer and the Account Bank shall within thirty (30) calendar days (A) transfer the balance of the relevant Transaction Accounts to an alternative bank with the Required Minimum Ratings, or (B) find a third party with the Required Minimum Ratings to guarantee the obligations of the Account Bank.

If DBRS withdraws the DBRS Rating of the Account Bank, reference will be made solely to Fitch Required Minimum Ratings, and such withdrawal by DBRS will not constitute a breach of the DBRS Required Minimum Rating and will not trigger an obligation to transfer, or procure a guarantee in respect of, the Issuer Collection Account and a guarantee in respect of the obligations of the Account Bank (as the case may be) in accordance with the Account Bank Agreement.

If the Transaction Accounts were transferred to an alternative Account Bank, the Issuer may opt to re-transfer the Transaction Accounts to the original Account Bank provided that the obligations of the original Account Bank are guaranteed by a third party with the Required Minimum Ratings at the time of such re-transfer.

If a third party has granted a guarantee for the obligations of the original Account Bank, the Issuer may opt to terminate such guarantee provided that the Transaction Accounts are transferred to an alternative Account Bank with the Required Minimum Ratings by the time of such termination.

If at the time when a transfer of the relevant Transaction Accounts would otherwise have to be made under the Account Bank Agreement, there is no other bank which has the Required Minimum Ratings and which is willing, acting reasonably, to act as account bank under the Transaction Documents and if the Security Agent so agrees, the Transaction Accounts will not need to be transferred until such time as there is a bank which has the Required Minimum Ratings and which is willing, acting reasonably, to act as account bank under the Transaction Documents, whereupon such transfer will be made to the bank meeting such criteria within one (1) month of identification of such bank.

## **20.7 The Domiciliary Agent – the Listing Agent – the Reference Agent**

### **(a) Name and Status**

KBC Bank NV has been appointed as Domiciliary Agent, Listing Agent and Reference Agent (together referred to as “**Agents**”) pursuant to the Agency Agreement dated on or about the Closing Date.

KBC Bank NV currently has a long-term debt credit rating of A from DBRS and A from Fitch.

### **(b) Activities**

A description of the overall activities of the Domiciliary Agent is given in the section entitled *KBC Bank NV*.

### **(c) Agency Agreement**

Under the Agency Agreement, the Domiciliary Agent will undertake to ensure the payment of the sums due on the Notes and perform all other obligations and duties imposed on it by the Conditions and the Agency Agreement.

In addition, the Domiciliary Agent will perform the tasks described in the Clearing Agreement dated on or about the Closing Date, which comprise *inter alia* providing the Securities Settlement System Operator with information relating to the issue of the Notes, the Prospectus and other documents required by law.

The Listing Agent will cause an application to be made to Euronext Brussels NV/SA for the admission to trading of the Notes. The Reference Agent shall determine the Floating Rate of Interest of the Notes applicable to each Floating Rate Interest Period, the Interest Amount and the relevant

Monthly Payment Date, all subject to and in accordance with the Conditions and the Agency Agreement.

**(d) Remuneration**

The Issuer shall pay or procure the payment of such commissions in respect of the services of the Domiciliary Agent, the Listing Agent and the Reference Agent under this Agreement under the Agency Agreement as shall be agreed between the Issuer and the Domiciliary Agent. The Issuer shall not be concerned with the apportionment of payment among the Agents.

**(e) Replacement of the Domiciliary Agent, Listing Agent or Reference Agent**

The Issuer and each Agent may at any time, subject to prior written notice, terminate the appointment of a relevant Agent under the Agency Agreement. In addition, in certain events, the Issuer may terminate the appointment of an Agent forthwith, subject to the prior approval of the Security Agent.

The termination of the appointment of an Agent (whether by the Issuer or by the resignation of the Agent) shall not be effective unless upon the expiry of the relevant notice there is:

- (1) a Domiciliary Agent that will at all times be a participant in the Securities Settlement System;
- (2) a Domiciliary Agent that has its specified offices in a European city which, so long as the Notes are listed on Euronext Brussels, shall be Brussels;
- (3) a Listing Agent; and
- (4) a Reference Agent.

**20.8 The Rating Agencies**

DBRS Ratings Limited and Fitch Ratings S.A.S. have been requested to rate the Notes.

**20.9 The Swap Counterparty**

**(a) Name and status**

The Seller (as the Swap Counterparty) will enter into a Swap Agreement in order to provide a hedge against the risk of possible variance between the rates of interest on the SME Receivables and the Transaction Accounts and the floating rates applicable to the Notes.

For a description of the Seller, see further *KBC Bank NV*.

**(b) Swap Agreement**

(i) Description

For a description of the Swap Agreement, see further in the section entitled *Credit Structure – 10. Interest Rate Hedging*.

(ii) Termination of the Swap Agreement

The swap transaction under the Swap Agreement will terminate on the earlier of (a) the Final Maturity Date and (b) the date on which the Notes have been redeemed in full in accordance with the

Conditions (other than a redemption in full in accordance with Condition 4.5(e) Optional Redemption Call, Condition 4.5(f) Optional Redemption Call for Tax Reasons, Condition 4.5(g) Optional Redemption in case of Change in Tax Law, Condition 4.5(h) Optional Redemption in case of Regulatory Call, Condition 4.5(i) Optional Redemption in case of Ratings Downgrade Event or Condition 4.5(b) Clean Up Call).

The swap transaction under the Swap Agreement may also be terminated in other circumstances, including but not limited to the following, each as more specifically defined in the Swap Agreement:

- (1) if there is a failure to pay amounts due under the Swap Agreement and any applicable grace period has expired;
- (2) if certain insolvency events occur with respect to a party;
- (3) if a breach of a provision of the Swap Agreement by the Swap Counterparty is not remedied within the applicable grace period;
- (4) if a change in law results in the obligations of one of the parties becoming illegal;
- (5) if the Swap Counterparty is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Swap Agreement and described above (see section entitled *Credit Structure – 10.2 Downgrade of Swap Counterparty*); and
- (6) if an Enforcement Notice is served upon the Issuer by the Security Agent.

Upon an early termination of the swap transaction under the Swap Agreement, the Issuer or Swap Counterparty may be liable to make a termination payment to the other. The termination payment will be calculated and made in euro. The amount of any termination payment will be based on one or more firm quotations sought from leading dealers as to the costs of entering into a swap with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if no prior quotation is accepted and no firm quotations remain capable of being accepted at the relevant price or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that become due and payable prior to the date of termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Noteholders.

(iii) Transfer of the Swap Agreement

The Swap Counterparty may by notice to the Security Agent and the Issuer and subject to certain conditions specified in the Swap Agreement, transfer its obligations under the Swap Agreement to another entity.

## **20.10 The Subordinated Loan Provider**

### **(a) Name and Status**

The Seller will act as Subordinated Loan Provider.

For a description of the Seller, see further *KBC Bank NV*.

### **(b) The Subordinated Loan Agreement**



Pursuant to the Subordinated Loan Agreement, the Seller, as Subordinated Loan Provider, will agree to make a subordinated loan to the Issuer, the proceeds of which will be used to (i) pay part of the Initial Purchase Price, and (ii) credit the Reserve Account up to the Reserve Account Required Amount. The remaining part of this subordinated loan will be credited to the Issuer Collection Account.

The Subordinated Loan will bear interest from (and including) the Closing Date up to (but excluding) the first Optional Redemption Date at a rate which is equal to the higher of (i) zero and (ii) the lower of:

- (i) 1,75% per annum; and
- (ii) the sum of one (1) month EURIBOR plus a margin of 100 bps per annum.

If the Notes Interest Available Amount is not sufficient to pay all the interest due under the Subordinated Loan on a Monthly Payment Date, the unpaid part of the interest due under the Subordinated Loan will be deferred to the next succeeding Monthly Payment Date.

### **(c) The Expenses Subordinated Loan Agreement**

Pursuant to the Expenses Subordinated Loan Agreement, the Seller, as Subordinated Loan Provider, will agree to make a subordinated loan to the Issuer, the proceeds of which will be used to pay certain initial costs and expenses in connection with the issue of the Notes.

The Expenses Subordinated Loan will bear interest from (and including) the Closing Date until the Expenses Subordinated Loan (and all approved interest thereon) will be paid in full at a rate which is equal to the higher of (i) zero and (ii) the lower of:

- (iii) 1,75% per annum; and
- (iv) the sum of one (1) month EURIBOR plus a margin of 100 bps per annum.

## **20.11 The Back-up Servicer Facilitator**

Pursuant to the Issuer Services Agreement, the Issuer has appointed Intertrust Administrative Services B.V., a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*), with its registered office at Prins Bernhardplein 200, 1097 Amsterdam, the Netherlands, registered with the commercial register (*kamer van koophandel en fabrieken voor Amsterdam*) under number 33.21.02.70 as the Back-Up Servicer Facilitator. Its phone number is +31 (0)20 577 1177 and fax number +31 (0)20 577 1188. E mail: [securitisation@intertrustgroup.com](mailto:securitisation@intertrustgroup.com)  
Corporate websites: [www.intertrustcapitalmarkets.com](http://www.intertrustcapitalmarkets.com).

The Back-up Servicer Facilitator shall assist the Issuer in appointing (within 60 calendar days) a third party substitute servicer in the event the Servicer needs to be replaced upon termination of its appointment by the Issuer following the occurrence of one of the servicing termination events listed in the Issuer Services Agreement.

## **20.12 The Securities Settlement System Operator**

Pursuant to the Clearing Agreement, the Securities Settlement System Operator will provide clearing services for the Issuer.

### **20.13 Security**

A description of the security is given in the section entitled *Description of Security*.

## **21. MAIN TRANSACTION EXPENSES**

### **21.1 Administrator**

With respect to the duties and responsibilities as Administrator from the Closing Date and during the Transaction, the Issuer shall pay EUR 2,500 as one-off set-up fee for the Compartment SME Loan Invest 2017 and EUR 2,500 as one-off set-up fee for the administration on a quarterly basis in advance an amount of EUR 4,150 (*i.e.*, EUR 16,600 on an annual basis) (exclusive of Dutch VAT and 6% office disbursements). This fee is subject to certain assumptions and may in certain cases be adjusted in consultation with the Issuer and the Security Agent. In addition, the Issuer will reimburse to the Administrator all reasonable out-of pocket costs, expenses and charges properly incurred by the Administrator in connection with the services and the preparation, execution, delivery, administration, modification or amendment in respect of its rights, obligations and responsibilities under the agreement.

### **21.2 Corporate Services Provider**

With respect to the duties and responsibilities as Corporate Services Provider from the Closing Date and during the Transaction, the Issuer shall pay on a quarterly basis in arrears an amount of EUR 4,500 (*i.e.*, EUR 18,000 on an annual basis) (exclusive of VAT). In addition, the Issuer will reimburse to the Corporate Services Provider all reasonable out-of pocket costs, expenses and charges properly incurred by the Corporate Services Provider in connection with the services and the preparation, execution, delivery, administration, modification or amendment in respect of its rights, obligations and responsibilities under the agreement.

### **21.3 Security Agent**

With respect to duties and responsibilities carried out up to and including the Closing Date, a one off fee based on an average hourly rate of EUR 250 per man hour of effective service, exclusive of VAT, estimated at EUR 18,000 (exclusive of VAT will be payable by the Issuer to the Security Agent.

With respect to the duties and responsibilities as Security Agent from the Closing Date and during the Transaction, the remuneration of the Security Agent shall be calculated at the applicable current billing rate per hour of its services with a floor of EUR 5,000 per annum, exclusive of VAT.

### **21.4 Servicer**

In consideration of the Servicer's agreement to carry out certain services as agreed in the Issuer Services Agreement, the Issuer shall pay monthly in arrears on each Monthly Payment Date to the Servicer a servicing fee of 0.05 per cent. per annum calculated over the aggregate Outstanding Principal Amount of all SME Receivables as at the immediately preceding Monthly Calculation Date.

### **21.5 Domiciliary Agent, Listing Agent and Reference Agent**

On each Monthly Payment Date, the Issuer shall pay to the Domiciliary Agent an amount of EUR 1,250 (*i.e.* EUR 5,000 on an annual basis) for commissions, fees and expenses in respect of the services of the Domiciliary Agent.

### **21.6 Other Senior Expenses Payable by the Issuer**

The Issuer shall in addition pay the following ongoing expenses:

- (1) to the Auditors;
- (2) to the Issuer Directors, expenses or other amounts in connection with the Issuer Management Agreements;
- (3) to the NBB, fees as provided under the Clearing Agreement, which will be payable as long as any of the Notes are outstanding;
- (4) to the FSMA, an annual fee calculated in accordance with Belgian law and regulations;
- (5) and others, provided that they are justified and duly documented.

## **22. USE OF PROCEEDS**

The net proceeds of the Notes to be issued on the Closing Date will be EUR 3,920,000,000.

The net proceeds of the issue of the Notes will be applied on the Closing Date to pay part of the Initial Purchase Price for the SME Receivables purchased under the SME Receivables Purchase Agreement. The remaining part of the proceeds of the Notes (if any) will be credited to the Reserve Account.

The net proceeds of the Subordinated Loan will be used to (i) pay the remaining part of the Initial Purchase Price for the SME Receivables in the amount of up to EUR 1,680,000,000, and (ii) credit the Reserve Account up to EUR 56,000,000. The remaining part of the proceeds of the Subordinated Loan will be credited to the Issuer Collection Account.

The proceeds of the Expenses Subordinated Loan, in the amount of EUR 1,000,000 will be used by the Issuer to pay certain initial costs and expenses in connection with the issue of the Notes.

### 23. DESCRIPTION OF SECURITY

In the Parallel Debt Agreement the Issuer will irrevocably and unconditionally undertake to pay to the Security Agent an amount equal to the aggregate amount due (*verschuldigd / dû*) by the Issuer (the “**Parallel Debt**”):

- (1) to the Noteholders under the Notes;
- (2) as expenses or other amounts to the Issuer Directors under the Issuer Management Agreements;
- (3) as fees and expenses to the Servicer, or if applicable the Back-up Servicer Facilitator, under the Issuer Services Agreement;
- (4) as fees and expenses to the Administrator under the Issuer Services Agreement;
- (5) as fees and expenses to the Corporate Services Provider under the Issuer Services Agreement;
- (6) as fees and expenses to the Domiciliary Agent, the Listing Agent and the Reference Agent under the Agency Agreement;
- (7) to the Swap Counterparty under the Swap Agreement (excluding the return of Excess Swap Collateral);
- (8) to the Account Bank under the Account Bank Agreement;
- (9) to the Seller under the SME Receivables Purchase Agreement; and
- (10) to the Subordinated Loan Provider under the Subordinated Loan and the Expenses Subordinated Loan,

(together with the Security Agent, the “**Secured Parties**”).

The Parallel Debt constitutes a separate and independent obligation of the Issuer and constitutes the Security Agent’s own separate and independent claim to receive payment of the Parallel Debt from the Issuer. Upon receipt by the Security Agent of any amount in payment of the Parallel Debt, the payment obligations of the Issuer to the Secured Parties shall be reduced by an amount equal to the amount so received.

To the extent that, following the delivery of an Enforcement Notice, the Security Agent irrevocably and unconditionally receives any amount in payment of the Parallel Debt, the Security Agent shall distribute such amount among the Secured Parties in accordance with the Priority of Payments upon Enforcement. The amounts due to the Secured Parties, will be the sum of:

- (1) amounts recovered by it on the SME Receivables and the other Pledged Assets, and
- (2) the amounts received in connection with the Pledge Agreement and penalty provided in the SME Receivables Purchase Agreement insofar such penalty relates to the SME Receivables and the other Pledged Assets, and
- (3) the *pro rata* part of amounts received from any of the Secured Parties, as received or recovered by any of them pursuant to the Parallel Debt Agreement,

- (4) **less** any amounts already paid by the Security Agent to the Secured Parties pursuant to the Pledge Agreement, and
- (5) **less** the *pro rata* part of the costs and expenses of the Security Agent (including, for the avoidance of doubt, any costs of, *inter alia*, any legal advisor, auditor or accountant appointed by the Security Agent).

In addition, the Security Agent has been designated as representative of the Noteholders, in compliance with Article 271/12, §1 first to seventh indent of the UCITS Act which states that the representative (the Security Agent) may bind all Noteholders and represent them vis-à-vis third parties or in court, in accordance with the terms of its mission. The representative may act in courts and represent the Noteholders in any bankruptcy or judicial reorganisation, as applicable, or similar insolvency proceedings without having to reveal the identity of the Noteholders it represents. The Security Agent, acting in its capacity as representative of the Noteholders, acts in the sole benefit of the Noteholders.

The Security Agent has been designated as agent on behalf of the Secured Parties in accordance with article 5 of the Collateral Law.

The Security Agent has also been appointed as irrevocable agent (*mandataris / mandataire*) of the other Secured Parties. In relation to any duties, obligations and responsibilities of the Security Agent to the other Secured Parties in its capacity as agent of the other Secured Parties in relation to the Pledged Assets and under or in connection with the Transaction Documents, the Security Agent and the other Secured Parties agree and the Issuer concurs, that the Security Agent shall discharge these duties, obligations and responsibilities by performing and observing its duties, obligations and responsibilities as representative of the Noteholders in accordance with the provisions of the Pledge Agreement, the Transaction Documents and the Conditions.

The Issuer shall grant on the Closing Date a first ranking pledge (*pand in eerste rang / gage en premier rang*) to the Secured Parties, including the Security Agent on behalf of the Noteholders and the other Secured Parties (the “**Pledge Agreement**”) over:

- (1) the SME Receivables, secured by the Related Security, acquired by the Issuer pursuant to the SME Receivables Purchase Agreement;
- (2) all moneys and proceeds payable or to become payable under, in respect of, or pursuant to the Transaction Accounts and the right to receive payment of such moneys and proceeds and all payments made, including all sums of money that may at any time be credited to any Transaction Account together with all interest accruing from time to time on such money and the debts represented by any Transaction Account as well as all other rights, title, interest and benefit under or in respect of the Transaction Accounts; and
- (3) all rights, title, interest and benefit of the Issuer under or pursuant to the Transaction Documents to which the Issuer is a party (other than the Pledge Agreement), including without limitation, its rights under the (A) SME Receivables Purchase Agreement, (B) the Issuer Services Agreement, (C) the Issuer Management Agreements, (D) the Account Bank Agreement and (E) the Swap Agreement.

The Pledge Agreement provides that the pledge on the SME Receivables and Related Security will not be notified to the Borrowers or other relevant parties, except if a Notification Event occurs or if an Enforcement Notice is given. Prior to notification of the pledge to the Borrowers, the pledge on the SME Receivables will be an undisclosed pledge.

The pledge created pursuant to the Pledge Agreement over the rights referred to in paragraph (2) and (3) above will be acknowledged by the relevant obligors and will therefore be a disclosed pledge.

The Pledge Agreement is subject to Belgian law. Under Belgian law, upon enforcement of the Security Interests, the Security Agent, in its capacity as pledgee and acting on its own behalf and on behalf of the other Secured Parties, will be permitted to collect any moneys payable in respect of the SME Receivables, any moneys payable under the Transaction Documents pledged to it and any moneys standing to the credit of the Transaction Accounts and to apply such moneys in satisfaction of obligations of the Issuer which are secured by the Pledge Agreement. The Security Agent will also be permitted to apply to the president of the Commercial Court (*Rechtbank van Koophandel / Tribunal de Commerce*) for authorisation to sell the Pledged Assets (with the exception of the Transaction Accounts, which can be realised in accordance with the terms of the Pledge Agreement only).

In addition to other methods of enforcement permitted by law, Article 271/12, § 2 of the UCITS Act also permits all Noteholders (acting together) to request the president of the Commercial Court to attribute to them the Pledged Assets in payment of an amount estimated by an expert. In accordance with the terms of the Pledge Agreement, only the Security Agent shall be permitted to exercise these rights.

The security rights described above shall serve as security for the benefit of the Secured Parties, including each of the Noteholders but, *inter alia*, amounts owing to the Subordinated Loan Provider will rank in priority of payment after amounts owing to the Noteholders. See *Credit Structure* above.



## 24. THE SECURITY AGENT

### 24.1 Name and Status

Deloitte Bedrijfsrevisoren / Réviseurs d'Entreprises (the “**Security Agent**”) is a *coöperatieve vennootschap met beperkte aansprakelijkheid / société coopérative à responsabilité limitée* incorporated under the laws of Belgium on 30 May 1986 with registered office at Gateway building, Luchthaven Nationaal 1 J, 1930 Zaventem and registered with the Crossroads Bank for Enterprises under number RPR 0429.053.863, Commercial Court of Brussels.

### 24.2 Powers, Authorities and Duties

The Security Agent, acting in its own name and on behalf of the Secured Parties shall have the power:

- (1) to accept the Security Interests on behalf of the Noteholders and the other Secured Parties;
- (2) upon service of an Enforcement Notice, to proceed against the Issuer to enforce the performance of the Transaction Documents and to enforce the Security Interests on behalf of the Secured Parties;
- (3) to collect all proceeds in the course of enforcing the Security Interests;
- (4) to apply or to direct the application of the proceeds of enforcement in accordance with the Conditions, the provisions of the Pledge Agreement and the Parallel Debt Agreement;
- (5) to instruct the Domiciliary Agent (or any substitute domiciliary agent appointed in accordance with the provisions of the Agency Agreement) to open a bank account with an Eligible Institution for the purposes of depositing the proceeds of enforcement and to give all directions to the Eligible Institution and/or the Domiciliary Agent (or its substitute) to administer such account, and to receive a power of attorney given by the Domiciliary Agent to administer such account;
- (6) to exercise all other powers and rights and perform all duties given to the Security Agent under the Transaction Documents; and
- (7) generally, to do all things necessary in connection with the performance of such powers and duties.

“**Eligible Institution**” means a credit institution within the meaning of the Belgian law of 25 April 2014 on the supervision of the credit institutions.

In addition, the Parallel Debt Agreement provides that the Security Agent is the beneficiary of the Parallel Debt.

The Security Agent has also been designated as representative of the Noteholders, in compliance with Article 271/12, §1 first to seventh indent of the UCITS Act which states that the representative (the Security Agent) may bind all Noteholders and represent them vis-à-vis third parties or in court, in accordance with the terms of its mission. The representative may act in courts and represent the Noteholders in any bankruptcy or judicial reorganisation, as applicable, or similar insolvency proceedings without having to reveal the identity of the Noteholders it represents. The representative must act in the sole benefit of the Noteholders.

The Security Agent has also been appointed as irrevocable agent (*mandataris / mandataire*) of the Secured Parties (other than the Noteholders). In relation to any duties, obligations and responsibilities of the Security Agent to these other Secured Parties in its capacity as agent of these other Secured Parties in relation to the Pledged Assets and under or in connection with the Transaction Documents, the Security Agent and these other Secured Parties agree and the Issuer concurs, that the Security Agent shall discharge these duties, obligations and responsibilities by performing and observing its duties, obligations and responsibilities as representative of the Noteholders in accordance with the provisions of the Pledge Agreement, the Transaction Documents and the Conditions.

The Security Agent may delegate the performance of any of the foregoing powers to any persons (including any legal entity) whom it may designate. Notwithstanding any sub-contracting or delegation of the performance of its obligations under the Pledge Agreement, the Security Agent shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of the obligations of the Security Agent under the Pledge Agreement and shall be jointly and severally liable for the performance or non-performance or the manner of performance of any sub-contractor, agent or delegate and such sub-contracting or delegation shall not affect the Security Agent's obligations under the Pledge Agreement.

**(a) Protection Notice**

The Security Agent may in accordance with Clause 10(e) of the Pledge Agreement serve a protection notice as a result of which no payments shall be made from the Transaction Accounts without the prior consent of the Security Agent, provided that such will not alter the relevant Priority of Payments (the "**Protection Notice**").

**(b) Variations**

The Security Agent may on behalf of the Noteholders and without the consent of the Noteholders or the other Secured Parties, at any time and from time to time, concur with the Issuer or any other person in making any modification:

- (1) to the Transaction Documents which in the opinion of the Security Agent is of a formal, minor, or technical nature or is to correct a manifest error or to comply with the mandatory provisions of Belgian law; or
- (2) to the Transaction Documents which in the opinion of the Security Agent is not materially prejudicial to the interests of the Noteholders, provided that the then current ratings of the Notes will not be adversely affected by any such modification, authorisation or waiver (it being understood that the fact that the then current rating of the Notes will not be adversely affected does not address whether such modification is in the best interest of, or prejudicial to, some or all of the Noteholders),

it being understood that any modification of a Transaction Document must be approved by each party thereto.

Any such modification shall be binding on the Noteholders.

In no event may such modification be a Basic Terms Modification. The Security Agent shall not be bound to give notice to the Noteholders of any modifications to the Transaction Documents agreed pursuant to this paragraph. The Issuer shall cause notice of any such modification to be also given to the Rating Agencies, the Administrator, the Servicer, the Corporate Services Provider and the Domiciliary Agent.

If in the Security Agent's opinion it is not sufficiently established that the proposed amendment or variation can be approved by it in accordance with this paragraph, it will determine in its full discretion whether to submit the proposal to a duly convened meeting of Noteholders or to refuse the proposed amendment or variation, or, in case of a Basic Term Modification, to ask for an approval of such Basic Term Modification by an Extraordinary Resolution.

**(c) Waivers**

The Security Agent may, without the consent of the Noteholders and the other Secured Parties or the Issuer, without prejudice to its rights in respect of any further or other breach, condition, event or act from time to time and at any time, but only if and in so far as in its opinion the interests of the Noteholders will not be materially prejudiced thereby, (i) authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any proposed or actual breach of any of the covenants or provisions contained in or arising pursuant to the Pledge Agreement, the Notes or any of the Transaction Documents, or (ii) determine that any breach, condition, event or act which constitutes (and/or which, with the giving of notice or the lapse of time and/or the Security Agent making any relevant determination and/or issuing any relevant certificate would constitute), but for such determination, an Event of Default shall not, or shall not be subject to specified conditions, be treated as such for the purposes of the Pledge Agreement. Any such authorisation, waiver or determination pursuant to this clause shall be binding on the Noteholders and if, but only if, the Security Agent shall so require, notice thereof shall be given to the Noteholders and any Rating Agency.

**(d) Reliance**

In determining whether or not any power, trust, authority, duty or discretion or any change, event or occurrence under or in relation to the Conditions or any of the Transaction Documents will be materially prejudicial to the interests of Noteholders, the Security Agent shall be able to rely on, and act on any advice or opinion of or any certificate obtained from a valuer, accountant, banker, broker, securities company or other company other than the Rating Agencies whether obtained by itself or the Issuer and it shall not be liable for any loss occasioned by such action, save where such loss is due to its Gross Negligence, wilful misconduct or fraud. Concurrently, the Security Agent may, along with any other relevant factors, have regard for whether the then current rating of the Notes would not be adversely affected by such exercise.

**(e) Conflicts of interest**

In connection with the exercise of its powers, authorities and discretions, the Security Agent shall have regard to the interests of all Noteholders as a class and shall not have regard to the consequence of such exercise for individual Noteholders.

The Security Agent shall take account of the interests of the Secured Parties to the extent that there is no conflict amongst them. To the extent that:

- (1) an actual conflict exists or is likely to exist between the interests of the Secured Parties in relation to any material action, decision or duty of the Security Agent under or in relation to the Pledge Agreement and the Conditions; and
- (2) any of the Transaction Documents and the Conditions give the Security Agent a material discretion in relation to such action, decision or duty;

the Security Agent shall always have regard to the interests of the Noteholders in priority to the interests of the other Secured Parties.

Further, to the extent that:

- (i) an actual conflict exists or is likely to exist between the interests of the Issuer, the Secured Parties and the interests of KBC Bank NV in its capacity as Seller in relation to any material action, decision or duty of the Security Agent under or in relation to the Pledge Agreement and any other Transaction Document; and
- (ii) the Pledge Agreement and any other Transaction Document gives the Security Agent a material discretion in relation to such action, decision or duty,

then the Security Agent shall have regard to the interests of the Issuer and the Secured Parties (other than KBC Bank NV in its capacity as Seller) in priority to the interests of the Seller.

**(f) No obligation to act**

All the parties to the Pledge Agreement agree that the Security Agent shall not be bound to take any action under its powers or duties other than those referred to under paragraph (1), (3) and (5) of *Powers, authorities and duties* and under *Variations*, unless:

- (1) it shall have been directed to do so by an Extraordinary Resolution of the holders of the Notes then outstanding; or
- (2) it shall have been requested to do so by the holders of not less than fifty (50) per cent. in Principal Amount Outstanding of the Notes then outstanding and held by External Investors; or
- (3) it shall have been requested to do so by the holders of not less than ten (10) per cent. in Principal Amount Outstanding of the Notes then outstanding; and
- (4) it shall in all cases have been indemnified to its satisfaction against all liability, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith, save where these are due to its own Gross Negligence, wilful misconduct or fraud.

**(g) Restrictions on the Secured Parties to act**

As representative of the Noteholders and the other Secured Parties, only the Security Agent may pursue the remedies available under general law or under the Transaction Documents against the Issuer and the Pledged Assets and, other than as permitted in the Pledge Agreement and Condition 4.10, no Secured Party (other than the Security Agent) shall be entitled to proceed directly against the Issuer and the Pledged Assets.

Only the Security Agent may enforce the Security Interests and no other Secured Party shall be entitled to enforce such security or proceed against the Issuer to enforce the performance of any of the provisions of the Pledge Agreement, unless the Security Agent, having become bound to take such steps as provided in the Pledge Agreement, fails to do so within a reasonable period (thirty (30) calendar days being deemed for this purpose to be a reasonable period) and such failure shall be continuing.

**(h) Accountability, Indemnification and Exoneration of the Security Agent**

If so requested in advance by the board of directors of the Issuer, the Security Agent shall report to the general meeting of Noteholders on the performance of its duties under the Pledge Agreement and the Transaction Documents provided such request is notified by registered mail no later than ten (10)

Business Days prior to the relevant general meeting of Noteholders. The board of directors of the Issuer shall require such report if so requested by those Noteholders who have requested that such general meeting be convened.

The Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Security Agent and providing for its indemnification in certain circumstances, including provisions relieving the Security Agent from taking enforcement proceedings or enforcing the Security Interests unless indemnified to its satisfaction.

The Security Agent shall not be liable to the Issuer or any of the Secured Parties (other than the Security Agent) in respect of any loss or damage which arises out of the exercise, or the attempted exercise of, or the failure to exercise any of its powers or any loss resulting there from, except that the Security Agent shall be liable for such loss or damage that is caused by its Gross Negligence, wilful misconduct or fraud.

The Security Agent shall not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Pledged Assets, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Servicer or any agent or related company of the Servicer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Security Agent.

The Security Agent shall have no liability for any breach of or default under its obligations under the Transaction Documents if and to the extent that such breach is caused by any failure on the part of the Issuer or any of the Secured Parties (other than the Security Agent) to duly perform any of their material obligations under any of the Transaction Documents. In the event that the Security Agent is rendered unable to duly perform its obligations under the Transaction Documents by any circumstances beyond its control (*overmacht / force majeure*), the Security Agent shall not be liable for any failure to carry out its obligations under the Transaction Documents which are thus affected by the event in question and, for so long as such circumstances continue, its obligations under the Transaction Documents which are thus affected will be suspended without liability for the Security Agent.

The Security Agent shall not be responsible for monitoring the compliance by any of the other party (including the Issuer and the Servicer) with their obligations under the Transaction Documents. The Security Agent may, until it has actual knowledge or express notice to the contrary, assume the Issuer and the Servicer are observing and performing all their obligations under any of the Transaction Documents and in any notices or acknowledgements delivered in connection with any such Transaction Documents.

The Security Agent shall not be responsible for ensuring that any Security Interest is created by, or continues to be managed by, the Issuer, the Security Agent, or any other person in such a manner as to create or maintain sufficient control to obtain the type of Security Interest described in the Pledge Agreement in relation to the assets of the Issuer which are purported to be secured thereby, provided that it complies with the provisions of the Transaction Documents.

Except if such meeting is convened by the Security Agent, but only to the extent that any defect has arisen directly from the Security Agent's Gross Negligence, wilful misconduct or fraud, the Security Agent shall not be liable for acting upon any resolution purporting to have been passed at any meeting of Noteholders in respect whereof minutes have been made and signed even though subsequent to its acting it may be found that there was some defect in the constitution of the meeting or passing of the resolution or that for any reason the resolution was not valid or binding upon the Noteholders.

If the Security Agent has acted upon such resolution, each Noteholder shall forthwith on demand indemnify the Security Agent for its *pro rata* share in any liability, loss or expense incurred or expected to be incurred by the Security Agent in any way relating to or arising out of its acting as Security Agent in respect of that resolution, except to the extent that the liability or loss arises directly from the Security Agent's Gross Negligence, wilful misconduct or fraud. The liability shall be divided between the Noteholders *pro rata* according to the respective Principal Amount Outstanding of the Notes held by each of them respectively.

**(i) Instructions and indemnity**

Whenever the interests of the Noteholders are or can be affected in the opinion of the Security Agent, the Security Agent may - if indemnified to its satisfaction - take legal action on behalf of the Noteholders and represent the Noteholders in any bankruptcy (*faillissement / faillite*), liquidation (*vereffening / liquidation*) or judicial reorganisation (*gerechtelijke reorganisatie / réorganisation judiciaire*), as applicable and any other legal proceedings initiated against the Issuer or any other party to a Transaction Document.

The Security Agent can under no circumstances, including the situation wherein Noteholders' instruction or approval cannot be obtained for whatever reason, be required to act without it being remunerated and indemnified or secured to its satisfaction.

The Security Agent shall be indemnified by the Issuer and held harmless, in respect of any and all liabilities and expenses incurred by it or by anyone appointed by it or to whom any of its functions may be delegated by it in carrying out its functions.

**(j) Replacement of the Security Agent**

In certain events, the Issuer shall by written notice to the Security Agent, the other Secured Parties and the Rating Agencies, terminate the powers delegated to the Security Agent under the Pledge Agreement and the Transaction Documents with effect from a date (to be no earlier than the date of the notice) specified in the notice and appoint a substitute security agent selected by the Issuer which shall act as security agent until a new security agent is appointed by the general meeting of Noteholders, which shall promptly be convened by the Issuer.

In addition, the Noteholders shall be entitled to terminate the appointment of the Security Agent by an Extraordinary Resolution notified to the Issuer and the Security Agent, provided that (i) in the same resolution a substitute security agent is appointed, and (ii) such substitute security agent meets all legal requirements to act as security agent and representative and accepts to be bound by the terms of the Transaction Documents in the same way as its predecessor.

Such termination shall also terminate the appointment and power of attorney by the other Secured Parties. The other Secured Parties hereby irrevocably agree that the substitute security agent shall from the date of its appointment act as attorney (*mandataris / mandataire*) of the other Secured Parties on the terms and conditions set out in these Conditions and the Transaction Documents.

The Security Agent shall not be discharged from its responsibilities under the Pledge Agreement until a suitable substitute security agent, which has been accepted by the Issuer and the Noteholders (such approval not being unreasonably withheld) is appointed.

## 25. TAXATION IN BELGIUM

This section provides a general description of the main Belgian tax issues and consequences of acquiring, holding, redeeming and/or disposing of the Notes. This summary provides general information only and is restricted to the matters of Belgian taxation stated herein. It is intended neither as tax advice nor as a comprehensive description of all Belgian tax issues and consequences associated with or resulting from any of the above-mentioned transactions. Prospective acquirers are urged to consult their own tax advisors concerning the detailed and overall tax consequences of acquiring, holding, redeeming and/or disposing of the Notes.

The summary provided below is based on the information provided in this Prospectus and on Belgium's tax laws, regulations, resolutions and other public rules with legal effect, and the interpretation thereof under published case law, all as in effect on the date of this Prospectus and with the exception of subsequent amendments with retroactive effect.

### 25.1 General Rule

Any taxes which may be due relating to payments of interest and/or principal in respect of the Notes will be borne by the beneficiary of those payments.

If the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or any other person is required to make any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatever nature in respect of any payment in respect of the Notes, the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or that other person shall make such payment after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer, the Securities Settlement System Operator, the Domiciliary Agent nor any other person will be obliged to gross up the payment in respect of the Notes or make any additional payments to holders of Notes in respect of such withholding or deduction.

### 25.2 Belgian Withholding Tax

Under current Belgian withholding tax legislation, all interest payments in respect of the Notes (which include any amount paid in excess of the initial issue price upon the redemption of the Notes by the Issuer) will be subject to Belgian withholding tax on the gross amount of the interest, currently at the rate of 30%. Tax treaties may provide for a lower rate subject to certain conditions.

However, under Belgian domestic law, payments by or on behalf of the Issuer of interest on the Notes may be made without deduction of withholding tax for Notes held by Tax Eligible Investors (as defined below) in an exempt account (an “**X-Account**” ) with the Securities Settlement System, as defined and organised by the Act of 6 August 1993, as amended, and its implementing decrees or with a Participant in the Securities Settlement System. In addition, transfers of Notes between two X-Accounts do not give rise to any adjustments on account of Belgian withholding tax.

Tax Eligible Investors include *inter alia*:

- (1) Belgian resident companies subject to corporate income tax;
- (2) Belgian qualifying pension funds in the form of an ASBL/VZW;
- (3) semi-public governmental social security institutions or institutions similar thereto;
- (4) corporate investors who are non-residents of Belgium, whether they have a permanent establishment in Belgium or not; and

- (5) individual investors who are non-residents of Belgium and who have not allocated the Notes to a professional activity in Belgium.

Tax Eligible Investors do not include, *inter alia*, Belgian resident investors who are individuals or Belgian non-profit organisations, other than those referred to under (b) and (c) above.

The above categories only summarise the detailed definitions contained in Article 4 of the Royal Decree of 26 May 1994, as amended, to which investors should refer to for a precise description of the relevant eligibility rules.

Upon opening an X-Account with the Securities Settlement System or a Participant therein, a Tax Eligible Investor is required to provide a statement of its tax eligible status on a form approved by the Belgian Minister of Finance. There are no ongoing declaration requirements for Tax Eligible Investors save that they need to inform the Securities Settlement System Participants of any change of the information contained in the statement of their tax eligible status. However, Securities Settlement System Participants are required to provide to the Securities Settlement System Operator annually with listings of investors who have held an X-Account during the preceding calendar year.

These identification requirements do not apply to Notes held by Tax Eligible Investors through Euroclear or Clearstream Luxembourg or their sub-participants outside of Belgium, provided that these institutions or sub-participants only hold X-Accounts and are able to identify the accountholder.

In the event of any changes made in the laws or regulations governing the exemption for Tax Eligible Investors, neither the Issuer nor any other person will be obliged to make any additional payment in the event that the Issuer, the Securities Settlement System Operator or its Securities Settlement System Participants are required to make any withholding or deduction in respect of the payments due on the Notes.

### **25.3 Income Tax**

(a) Belgian Resident Corporations

Noteholders who are Belgian resident corporations, subject to Belgian corporate income tax, are liable to corporate income tax, currently at the rate of 33.99%, on the income of the Notes and capital gains realised upon the disposal of the Notes. Capital losses realised upon the disposal of the Notes will normally be tax deductible.

(b) Belgian Resident Legal Entities

This paragraph applies only to Belgian resident legal entities subject to the income tax on legal entities which are Tax Eligible Investors and therefore eligible to hold their Notes in an X-Account (e.g. Belgian qualifying pension funds organised in the form of a ASBL/VZW).

For Noteholders who are Belgian resident legal entities, the withholding tax on interest will constitute the final tax in respect of such income. As no withholding tax will be levied on the payment of interest due to the fact that the Belgian legal entities hold the Notes through an X-Account with the Securities Settlement System, they will have to declare the interest and pay the applicable withholding tax to the Belgian Treasury.

Belgian legal entities are not liable to income tax on capital gains realised upon the disposal of the Notes (except for that part of the sale price attributable to the *pro rata* interest component).

(c) Non-Residents of Belgium



Noteholders who are non-residents of Belgium for Belgian tax purposes and are not holding the Notes through a Belgian establishment and do not invest the Notes in the course of their Belgian professional activity will not incur or become liable for any Belgian tax on income or capital gains (save as the case may be, in the form of withholding tax) by reason only of the acquisition, ownership or disposal of the Notes.

#### **25.4 Tax on stock exchange transactions**

No tax on stock exchange transactions (*taks op de beursverrichtingen/taxe sur les opérations de bourse*) will be due on the issuance of the Notes.

Any transfer for consideration of the Notes on the secondary market will trigger a tax on stock exchange transactions if (i) executed in Belgium through a professional intermediary, or (ii) deemed to be executed in Belgium, which is the case if the order is directly or indirectly made to a professional intermediary established outside of Belgium, either by private individuals with habitual residence in Belgium, or legal entities for the account of their seat or establishment in Belgium.

The tax will be due on each sale and acquisition separately, currently at the rate of 0.09%, with a maximum of EUR 1,300 per party and per transaction. A separate tax is due by each party to the transaction, and both taxes are collected by the professional intermediary. However, if the intermediary is established outside of Belgium, the tax will in principle be due by the ordering private individual or legal entity, unless that individual or entity can demonstrate that the tax has already been paid. Professional intermediaries established outside of Belgium can, subject to certain conditions and formalities, appoint a Belgian representative for tax purposes, which will be liable for the tax on stock exchange transactions in respect of the transactions executed through the professional intermediary.

An exemption is available for non-residents acting for their own account (subject to delivery of an affidavit confirming their non-resident status), and for certain professional intermediaries, insurance companies, pension funds and undertakings for collective investment, acting for their own account.

## 26. DEMATERIALISED NOTES

The Notes will be issued in the form of dematerialised notes under the Company Code and cannot be physically delivered. They will be represented exclusively by book entries in the records of the Securities Settlement System.

Access to the Securities Settlement System is available through its Securities Settlement System Participants whose membership extends to certain banks, stock brokers (*beursvennootschappen / sociétés de bourse*), SIX SIS Ltd, Monte Titoli, Euroclear France and Euroclear and Clearstream, Luxembourg.

Each of the persons appearing from time to time in the records of the Securities Settlement System as the Noteholder will be entitled to receive any payment made in respect of that Note in accordance with the respective rules and procedures of the Securities Settlement System. Such persons shall have no claim directly against the Issuer in respect of payment due on the Notes.

The Issuer and the Domiciliary Agent will not have any responsibility for the proper performance by the Securities Settlement System or its Securities Settlement System Participants of their obligations under their respective rules and operating procedures.

## **27. ADMISSION TO TRADING AND DEALING ARRANGEMENTS**

### **27.1 Total amount and denomination**

The Issuer's Board of Directors has resolved to issue 15,680 Notes.

The Notes are Notes with each a nominal amount of EUR 250,000.

### **27.2 Admission to trading**

Application has been made for an admission to trading of the Notes on Euronext Brussels.

### **27.3 Clearing**

The Notes will be accepted for clearance through the Securities Settlement System under the ISIN number BE0002275445 and common code 158880172.

Access to the Securities Settlement System is available through those of its Securities Settlement System Participants whose membership extends to securities such as the Notes.

Securities Settlement System Participants include certain banks, stock brokers (*beursvennootschappen / sociétés de bourse*), and Euroclear Bank NV/SA ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). Accordingly, the Notes will be eligible to clear through, and therefore accepted by, SIX SIS Ltd, Monte Titoli, Euroclear France, Euroclear and Clearstream, Luxembourg and investors can hold their Notes on securities accounts in SIX SIS Ltd, Monte Titoli, Euroclear France, Euroclear and Clearstream, Luxembourg.

Transfers of interests in the Notes will be effected between Securities Settlement System Participants in accordance with the rules and operating procedures of the Securities Settlement System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the Securities Settlement System Participants through which they hold their Notes.

The Domiciliary Agent will perform the obligations of domiciliary agent included in the Clearing Agreement, including, without limitation, providing the Securities Settlement System Operator the information required by law, publishing notices required in connection with any redemption of the Notes and notifying, on behalf of the Issuer, the Securities Settlement System Operator and the Swap Counterparty of the Interest Amounts and amounts of principal relating to each Note.

The Issuer and the Domiciliary Agent will not have any responsibility for the proper performance by the Securities Settlement System or its Securities Settlement System Participants of their obligations under their respective rules and operating procedures.

## **28. GENERAL**

### **28.1 Expenses of the Admission to Trading**

#### **(a) Euronext**

Costs are:

- per tranche of EUR 25,000,000: EUR 250 with a maximum of EUR 2,500;
- plus EUR 500 per listing year.

The maximum amounts to EUR 15,000.

The costs are to be paid as of the moment of listing.

#### **(b) NBB**

- Handling charges: EUR 2,750;
- Financial service, custody and various: an annual fee of EUR 3,000 plus an amount equal to 0.005 per cent multiplied by original amount of the Notes (capped at EUR 5,000 per annum); and
- Administration Notes repayment at maturity: EUR 250

### **28.2 Post Issuance Information**

On each Monthly Payment Date, the Corporate Services Provider will prepare the Investor Report and will submit it for approval to the Administrator. The Investor Report will consist of a duly completed report comprising information regarding, among other things, the performance of the SME Receivables in respect of the preceding Monthly Calculation Period and an overview of the retention of the material net economic interest by the Seller in the form set out in Schedule 5 of the Issuer Services Agreement.

The Investor Reports will be made available by the Administrator for inspection at [www.kbc.be/abs/smeloaninvest2017](http://www.kbc.be/abs/smeloaninvest2017) and will be made available free of charge to the Noteholders at the office of the Domiciliary Agent.

In addition, the Issuer is required to make available certain other information, in particular information in respect of important facts that are not known to the public and that, due to their impact on the assets, financial situation or general state of the Issuer, could influence the price of the relevant Notes (privileged information as defined in the law of 2 August 2002 on the supervision of the financial sector and financial services) and any other mandatory information such as described in the royal decree of 14 November 2007, as amended from time to time, on the obligations of issuers of financial instruments which are admitted to trading on a Belgian regulated market (including information as to modifications to the conditions, rights or guarantees attached to the Notes).

Furthermore, the Issuer will be required to provide certain information to the NBB for statistical purposes.

### **28.3 Documents on Display**

For the life of the Prospectus, copies of (i) the Articles of Association of the Issuer and (ii) all reports, letters, and other documents, valuations and statements prepared by any expert at the Issuer's request, any part of which is included or referred to in this Prospectus, may be inspected at the office of the Domiciliary Agent (KBC Bank NV).

## 29. TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions (the “Conditions”) of the Notes. The Conditions are subject to amendment and the final form thereof will appear in the Pledge Agreement.*

### 1. GENERAL

The issue of the EUR 3,920,000,000 floating rate Asset-Backed Notes due 2051 (the “Notes”) was authorised by a resolution of the board of directors of Loan Invest NV/SA, *institutionele vennootschap voor belegging in schuldvorderingen / société d’investissement en créances institutionnelle* (the “Issuer”) passed on or about 22 March 2017. The Notes are issued in accordance with an agency agreement to be entered into on or before the Closing Date (the “Agency Agreement”) (which expression includes such agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) between the Issuer, KBC Bank NV (the “Domiciliary Agent”, the “Listing Agent” and the “Reference Agent”) and Deloitte Bedrijfsrevisoren / Réviseurs d’Entreprises C.V.B.A. (the “Security Agent”) as security agent for, among others, the holders for the time being of the Notes (the “Noteholder”).

The Issuer is organised into separate Compartments and new Compartments may be constituted. The Notes, the Pledged Assets (as defined below) and the Transaction Documents (as defined below) are exclusively allocated to Compartment SME Loan Invest 2017 of the Issuer and the rights thereunder against the Issuer will not be recoverable from any other Compartment or any assets of the Issuer other than those allocated to its Compartment SME Loan Invest 2017.

On the Closing Date, a portfolio of receivables resulting from investment loans within the framework of a small or medium sized professional enterprises in Belgium (the “SME Receivables”) will be sold by KBC Bank NV (the “Seller”) to the Issuer acting through its Compartment SME Loan Invest 2017.

The Notes are secured by the security created pursuant to, and on the terms set out in, an agreement concerning the appointment of the Security Agent and establishing security over the assets relating to Compartment SME Loan Invest 2017 (the “Pledge Agreement”), and an agreement for the creation of parallel debt (the “Parallel Debt Agreement”) to be entered into on or before the Closing Date between, among others, the Issuer and the Security Agent. Pursuant to the Agency Agreement, provision is made for, among other things, the payment of principal and interest in respect of the Notes and the determination of the rate of interest payable on the Notes and the admission to trading of the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of:

- (a) the Agency Agreement;
- (b) the Parallel Debt Agreement;
- (c) the Pledge Agreement;
- (d) the issuer services agreement (the “Issuer Services Agreement”) to be entered into on or before the Closing Date between, among others, the Issuer, the Administrator and the Seller, acting as Servicer and as Corporate Services Provider;

- (e) the account bank agreement (the “**Account Bank Agreement**”) to be entered into on or before the Closing Date between, among others, the Issuer and the Seller acting as Account Bank;
- (f) the SME receivables purchase agreement (the “**SME Receivables Purchase Agreement**”) between the Seller and the Issuer to be entered into on or before the Closing Date;
- (g) the subordinated loan agreement (the “**Subordinated Loan Agreement**”) between the Seller as the Subordinated Loan Provider and the Issuer to be entered into on or before the Closing Date;
- (h) the expenses subordinated loan agreement (the “**Expenses Subordinated Loan Agreement**”) between the Seller and the Subordinated Loan Provider and the Issuer to be entered into on or before the Closing Date;
- (i) the clearing agreement (the “**Clearing Agreement**”) to be entered into on or before the Closing Date between the Issuer and the Securities Settlement System Operator;
- (j) the master definitions agreement (the “**Master Definitions Agreement**”) to be entered into on or before the Closing Date between, among others, the Issuer, the Seller and the Security Agent;
- (k) the interest rate swap agreement (the “**Swap Agreement**”) to be entered into on or before the Closing Date between the Issuer and the Seller, acting as Swap Counterparty;
- (l) the issuer management agreements (the “**Issuer Management Agreements**”) to be entered into on or before the Closing Date between the Issuer and the Issuer Directors; and
- (m) the shareholder management agreements (the “**Shareholder Management Agreements**”) to be entered into on or before the Closing Date between the Stichting Shareholder, the Shareholder and the Shareholder Director.

The Issuer and KBC Bank NV (the “**Arranger**” and the “**Manager**”) will enter into a subscription agreement on or before the Closing Date (the “**Subscription Agreement**”).

The SME Receivables Purchase Agreement, the Issuer Services Agreement, the Agency Agreement, the Pledge Agreement, the Parallel Debt Agreement, the Subscription Agreement, the Swap Agreement, the Account Bank Agreement, the Clearing Agreement, the Expenses Subordinated Loan Agreement, the Subordinated Loan Agreement, the Master Definitions Agreement, the Issuer Management Agreements, the Shareholder Management Agreements and all agreements, forms and documents executed pursuant to or in relation to such documents collectively, will be referred to as the “**Transaction Documents**”. The issue of the Notes and the other transactions contemplated in the Transaction Documents shall be referred to as the “**Transaction**”.

Copies of the Agency Agreement, the Pledge Agreement, the Parallel Debt Agreement, the Clearing Agreement and the other Transaction Documents are available for inspection at the specified offices of the Domiciliary Agent. By subscribing for or otherwise acquiring the Notes, the Noteholders will be deemed to have knowledge of, accept and be bound by all the provisions of the SME Receivables Purchase Agreement, the Issuer Services Agreement, the Agency Agreement, the Pledge Agreement, the Parallel Debt Agreement, the Subscription Agreement, the Swap Agreement, the Account Bank Agreement, the Clearing Agreement, the Expenses Subordinated Loan Agreement, the Subordinated Loan Agreement, the Master Definitions Agreement, the Management Agreements and all other Transaction Documents.

## 2. DEMATERIALISED NOTES

The Notes, each in the denomination of EUR 250,000, are issued in the form of dematerialised notes under the Company Code and cannot be physically delivered. They will be represented exclusively by book entries in the records of the X/N securities and cash clearing system operated by the National Bank of Belgium or any of its successors (the “**Securities Settlement System**”).

The Notes are accepted for clearance through the Securities Settlement System, in accordance with the applicable clearing regulations of the National Bank of Belgium and with the Act of 6 August 1993 on transactions in certain securities (*Wet betreffende de transacties met bepaalde effecten / Loi relative aux opérations sur certaines valeurs mobilières*) and the corresponding royal decrees of 26 May 1994 and 14 June 1994.

Each of the persons appearing from time to time in the records of the Securities Settlement System as the holder of a Note will be entitled to receive any payment made in respect of that Note in accordance with the respective rules and procedures of the Securities Settlement System. Such persons shall have no claim directly against the Issuer in respect of payment due on the Notes.

Transfers of interests in the Notes will be effected between Securities Settlement System Participants in accordance with the rules and operating procedures of the Securities Settlement System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the Securities Settlement System Participants through which they hold their Notes.

Each person who is for the time being shown in the records of the Securities Settlement System Operator as the holder of a particular principal amount of Notes will be entitled to be treated by the Issuer, the Domiciliary Agent and the Security Agent as the holder of such principal amount of Notes, but without prejudice to the application of the provisions of the Company Code on dematerialisation including without limitation Article 471 thereof.

The Issuer and the Domiciliary Agent will not have any responsibility for the proper performance by the Securities Settlement System or the Securities Settlement System Participants of their obligations under their respective rules and operating procedures.

The Notes may only be acquired and held by Eligible Holders (see below *Holding and Transfer Restrictions*). Each payment of interest on Notes of which the Issuer becomes aware that they are held by a holder that does not qualify as an Eligible Holder will be suspended.

If at any time the Notes are transferred to another clearing system, not operated or not exclusively operated by the National Bank of Belgium, these provisions shall apply *mutatis mutandis* to such successor clearing system and a successor clearing system operator or any additional clearing system and additional clearing system operator (any such clearing system, an “**Alternative Clearing System**”).

## 3. HOLDING AND TRANSFER RESTRICTIONS

The Notes may only be acquired, by direct subscription, by transfer or otherwise and may only be held by holders who satisfy the following criteria (“**Eligible Holders**”):

- (i) they qualify as qualifying investors (*in aanmerking komende beleggers / investisseurs éligibles*) within the meaning of Article 5, §3/1 of the UCITS Act (“**Qualifying Investors**”), acting for their own account;
- (ii) they do not constitute investors that, in accordance with annex A, (I), second indent, of the Royal Decree of 3 June 2007 concerning further rules for implementation of the directive on



markets in financial instruments (“**Mifid**” ), have registered to be treated as non-professional investors; and

- (iii) they are holders of an exempt securities account (“**X-account**” ) with the Securities Settlement System operated by the National Bank of Belgium or (directly or indirectly) with a participant in such system and will use that X-Account for the holding of the Notes.

A list of for the time being Qualifying Investors is attached as Annex I.

Notes may not be acquired by a Belgian or foreign transferee who is not subject to income tax or who is, as far as interest income is concerned, subject to a tax regime that is deemed by the Belgian tax authorities to be significantly more advantageous than the Belgian tax regime applicable to interest income (within the meaning of Articles 54 and 198, §1 11° of the Belgian Income Tax Code 1992 or any successor provision) or by a transferee who is a resident of, or has an establishment in, or acts, for the purposes of the Notes, through a bank account held on, a tax haven jurisdiction, a low-tax jurisdiction or a non-cooperative jurisdiction within the meaning of Article 307, §1, fifth indent of the Belgian Income Tax Code 1992 or any successor provision (the “**Excluded Holder**”).

Any acquisition of a Note by, or transfer of a Note to, a person who is not an Eligible Holder or to a person who is an Excluded Holder shall be void and not binding on the Issuer and the Security Agent. If a Noteholder ceases to be an Eligible Holder or becomes an Excluded Holder, it is obliged to report this to the Issuer and it will promptly transfer the Notes it holds to a person that qualifies as an Eligible Holder and that does not qualify as an Excluded Holder. Each payment of interest on Notes of which the Issuer becomes aware that they are held by a holder that does not qualify as an Eligible Holder or that qualifies as an Excluded Holder, will be suspended.

By subscribing or otherwise acquiring the Notes, the Noteholders certify that they are an Eligible Holder, and that they will only sell, transfer or otherwise assign the Notes to prospective Noteholders that qualify as Eligible Holders.

#### **4. TERMS AND CONDITIONS OF THE NOTES**

Except as expressly provided otherwise, all Conditions apply exclusively to the Notes as allocated to Compartment SME Loan Invest 2017 of the Issuer and all appointments, rights, title, assignments, obligations, covenants, representations, assets and liabilities generally in relation to this transaction are exclusively allocated to, or binding on, Compartment SME Loan Invest 2017 and will not be recoverable against any other compartments of the Issuer or any assets of the Issuer other than those allocated to Compartment SME Loan Invest 2017.

By subscribing to or otherwise acquiring the Notes, the Noteholders (i) shall be deemed to have knowledge of, accept and be bound by the Conditions; (ii) acknowledge and accept that the Notes are allocated to Compartment SME Loan Invest 2016; (iii) acknowledge that they are Eligible Holders and that they can only transfer their Notes to Eligible Holders; (iv) waive any right to payment and recourse to the extent that such payment or part thereof would cause the Issuer’s net assets (as determined in accordance with Article 617 and 619 of the Company Code, taking into account all its Compartments) to become lower than the minimum share capital required by Belgian law; (v) shall not sue for recovery of or take any other steps for the purpose of recovering any amounts or liabilities whatsoever owing to them, in whatever capacity, by the Issuer or in respect of any of its liabilities whatsoever under any of the Transaction Documents, in each case unless and until the Security Agent having become bound to enforce the Security Interests, fails to do so within a reasonable time thirty (30) calendar days being deemed for this purpose to be a reasonable period) and such failure is continuing; and (vi), or any other person acting on their behalf, shall not until the date falling one year after the latest maturing Note is paid in full, initiate or join any person in

initiating, any Bankruptcy Event or the appointment of any Bankruptcy Official in relation to the Issuer or any of its Compartments.

Words and expressions defined in the Master Definitions Agreement and not defined herein shall have the same meaning in the Conditions, unless otherwise defined herein.

#### **4.1 Form, Denomination and Title**

- (a) The Notes are issued in the form of dematerialised notes under the Company Code in the denomination of EUR 250,000.
- (b) The Notes may only be acquired or subscribed to and may only be held by Eligible Holders. “**Eligible Holders**” are holders who satisfy the following criteria:
  - (i) they qualify as qualifying investors (*in aanmerking komende beleggers / investisseurs éligibles*) within the meaning of Article 5, §3/1 of the UCITS Act (“**Qualifying Investors**”), acting for their own account;
  - (ii) they do not constitute investors that, in accordance with annex A, (I), second indent, of the Royal Decree of 3 June 2007 concerning further rules for implementation of the directive on markets in financial instruments (“**Mifid**”), have registered to be treated as non-professional investors; and
  - (iii) they are holders of an exempt securities account (“**X-account**”) with the Securities Settlement System operated by the National Bank of Belgium or (directly or indirectly) with a participant in such system and will use that X-Account for the holding of the Notes.

Any acquisition of a Note by, or transfer of a Note to, a person who is not an Eligible Holder or to a person who is an Excluded Holder shall be void and not binding on the Issuer and the Security Agent. If a Noteholder ceases to be an Eligible Holder or becomes an Excluded Holder, it is obliged to report this to the Issuer and it will promptly transfer the Notes it holds to a person that qualifies as an Eligible Holder and that does not qualify as an Excluded Holder. Each payment of interest on Notes of which the Issuer becomes aware that they are held by a holder that does not qualify as an Eligible Holder or that qualifies as an Excluded Holder, will be suspended.

- (c) By subscribing or otherwise acquiring the Notes, the Noteholders certify that they are an Eligible Holder, and that they will only sell, transfer or otherwise assign the Notes to prospective Noteholders that qualify as Eligible Holders.

#### **4.2 Status, Relationship between the Notes and Security**

- (a) Status and Priority
  - (i) The Notes are direct, secured and unconditional obligations of Compartment SME Loan Invest 2017 of the Issuer and rank *pari passu* and rateably without any preference or priority among the Notes. The rights of the Notes, in respect of priority of payment are set out in Condition 4.2(c).
  - (ii) The Pledge Agreement contains provisions which provide that in connection with the exercise of its powers, authorities and discretions, the Security Agent shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequence of such exercise for individual Noteholders. For so long as there are any Notes outstanding, the Security Agent is to have regard solely to the interests of the Noteholders if, in the Security

Agent's opinion, there is a conflict between the interests of (a) the Noteholders and (b) any other Secured Parties.

(b) Security

Pursuant to the Pledge Agreement, a pledge will be created in favour of the Secured Parties, including the Security Agent on behalf of the Noteholders and the other Secured Parties, as security for, among other things, the Notes over:

- (i) the SME Receivables and the Related Security, acquired by the Issuer pursuant to the SME Receivables Purchase Agreement;
- (ii) all moneys and proceeds payable or to become payable under, in respect of, or pursuant to the Transaction Accounts and the right to receive payment of such moneys and proceeds and all payments made, including all sums of money that may at any time be credited to any Transaction Account together with all interest accruing from time to time on such money and the debts represented by any Transaction Account, as well as all other rights, title, interest and benefit under or in respect of the Transaction Accounts; and
- (iii) all rights, title, interest and benefit of the Issuer under or pursuant to the Transaction Documents to which the Issuer is a party (other than the Pledge Agreement), including without limitation, its rights under the (A) SME Receivables Purchase Agreement, (B) the Issuer Services Agreement, (C) the Issuer Management Agreements, (D) the Account Bank Agreement and (E) the Swap Agreement.

The security created by the Issuer pursuant to the Pledge Agreement (in favour of all the Secured Parties), is referred to herein as the "**Security Interests**". The assets in which the Security Interests are created are referred to herein collectively as the "**Pledged Assets**".

The Pledged Assets serve as security for payments to the Noteholders but the Pledged Assets also provide security for other amounts payable by the Issuer under the Transaction Documents but to the extent only that such amounts, costs and expenses have been properly and specifically allocated to Compartment SME Loan Invest 2017, including amounts thus payable to (i) the Security Agent under the Parallel Debt Agreement or the Pledge Agreement, (ii) the Servicer under the Issuer Services Agreement, (iii) the Administrator under the Issuer Services Agreement, (iv) the Corporate Services Provider under the Issuer Services Agreement, (v) the Seller under the SME Receivables Purchase Agreement, (vi) the Account Bank under the Account Bank Agreement, (vii) the Domiciliary Agent, the Listing Agent and the Reference Agent under the Agency Agreement, (viii) the Swap Counterparty under the Swap Agreement and (ix) the Issuer Directors under the Issuer Management Agreements, all in accordance with the order of priorities set out below.

The Noteholders will be entitled to the benefit of the Pledge Agreement and the Noteholders will be entitled to the benefit of the Parallel Debt Agreement, the Agency Agreement and all other Transaction Documents, and by subscribing for or otherwise acquiring the Notes, the Noteholders shall be deemed to have knowledge of, accept and be bound by, the terms and conditions set out therein, including the appointment of the Security Agent to hold the Security Interests and to exercise the rights under the Pledge Agreement for the benefit of the Noteholders and the other Secured Parties. The Noteholders shall have recourse only against the Pledged Assets and to no other assets of the Issuer.

(c) Priorities of payment

The Pledge Agreement contains provisions regulating the priority of application of amounts forming part of the Security Interests among the persons entitled thereto.

Prior to the service of an Enforcement Notice by the Security Agent, the Notes Interest Available Amount (as defined below) will be applied in accordance with the Interest Priority of Payments (as defined below). The Notes Redemption Available Amount will be applied in accordance with the Principal Priority of Payments.

Following an Enforcement Notice, payments will be made only in accordance with the Priority of Payments upon Enforcement.

***Priority of Payments in respect of interest***

Prior to the delivery of an Enforcement Notice by the Security Agent, the sum of the following amounts referred to under items (a) up to and including (k), calculated as at each Monthly Calculation Date (being the fourth Business Day prior to each Monthly Payment Date) and which have been received or deposited during the Monthly Calculation Period immediately preceding such Monthly Calculation Date or, with respect to the amounts referred to under item (f), on the immediately succeeding Monthly Payment Date (the sum of items (a) up to and including (k) being hereafter referred to as the “**Notes Interest Available Amount**”):

- (a) as interest, including penalty interest, on the SME Receivables;
- (b) as interest accrued on the Transaction Accounts;
- (c) as Prepayment Penalties under the SME Loans;
- (d) as Net Proceeds on any SME Receivables;
- (e) as amounts to be drawn from the Reserve Account on the immediately succeeding Monthly Payment Date (excluding, for the avoidance of doubt, any amount remaining in the Reserve Account after all amounts of interest and principal due in respect of the Notes have been paid in full and all payments or provisions of the Interest Priority of Payments ranking higher in priority have been made);
- (f) as amounts to be received from the Swap Counterparty under the Swap Agreement on the immediately succeeding Monthly Payment Date, if any, excluding, for the avoidance of doubt, any collateral transferred pursuant to the Swap Agreement;
- (g) as amounts received in connection with a repurchase of SME Receivables pursuant to the SME Receivables Purchase Agreement or any other amounts received pursuant to the SME Receivables Purchase Agreement, to the extent such amounts do not relate to principal;
- (h) as amounts received in connection with a sale of SME Receivables pursuant to the Pledge Agreement to the extent such amounts do not relate to principal;
- (i) as amounts received as post-foreclosure proceeds on the SME Receivables;
- (j) any (remaining) amounts standing to the credit of the Issuer Collection Account to the extent they do not relate to principal; and
- (b) any amounts (provided that these are used solely as indemnity for losses of scheduled interest on the SME Receivables as a result of Commingling Risk) to be used as Notes Interest Available Amount from the funds credited to the Deposit Account in accordance with the provisions of SME Receivables Purchase Agreement and as described under paragraph *Risk Mitigation Deposit* in the section *SME Receivables Purchase Agreement* above, which are transferred from the Deposit Account to the Issuer Collection Account,

will pursuant to the terms of the Pledge Agreement be applied by the Issuer on the immediately succeeding Monthly Payment Date as follows (in each case only if and to the extent that payments of a higher order of priority have been made in full), (the “**Interest Priority of Payments**”):

- (i) *first*, in or towards satisfaction, pro rata, according to the respective amounts thereof, of any amounts, if any, due and payable to the Issuer Directors in connection with the Issuer Management Agreements;
- (ii) *second*, in or towards satisfaction of fees and expenses due and payable to the Administrator under the Issuer Services Agreement;
- (iii) *third*, in or towards satisfaction of any fees due and payable to the Security Agent under the Pledge Agreement and of any costs, charges, liabilities and expenses incurred by the Security Agent under or in connection with any of the Transaction Documents, including, but not limited to, fees and expenses of any legal advisor, auditor and/or accountant appointed by the Security Agent;
- (iv) *fourth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, (i) of any amounts due and payable to third parties under obligations incurred in connection with the Issuer’s business (other than under the Transaction Documents), including, without limitation, in or towards satisfaction of sums due or provisions for any payment of the Issuer’s liability, if any, to tax and sums due to any Rating Agency and fees and expenses of any legal advisor, auditor and/or accountant appointed by the Issuer, (ii) fees and expenses due to the Domiciliary Agent, the Listing Agent and the Reference Agent under the Agency Agreement, (iii) fees and expenses due to the Servicer under the Issuer Services Agreement and (iv) fees and expenses due and payable to the Corporate Services Provider under the Issuer Services Agreement;
- (v) *fifth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of (i) all amounts of interest due or interest accrued but unpaid in respect of the Notes and (ii) amounts, if any, due but unpaid under the Swap Agreement, (except for any termination payment due or payable as a result of the occurrence of an Event of Default (as defined therein) where the Swap Counterparty is the Defaulting Party or an Additional Termination Event (as defined therein) relating to the credit rating of the Swap Counterparty (as such terms are defined in the Swap Agreement) (a “**Swap Counterparty Default Payment**”) payable under (xi) below but excluding, for the avoidance of doubt, the repayment to the Swap Counterparty of Excess Swap Collateral);
- (vi) *sixth*, in or towards making good any shortfall reflected in the Notes Principal Deficiency Ledger until the debit balance, if any, on the Notes Principal Deficiency Ledger is reduced to zero;
- (vii) *seventh*, in or towards satisfaction of any sums required to replenish the Reserve Account up to the amount of the Reserve Account Required Amount;
- (viii) *eighth*, in or towards satisfaction of interest due or interest accrued but unpaid on the Subordinated Loan in accordance with the terms of the Subordinated Loan Agreement;
- (ix) *ninth*, in or towards making good any shortfall reflected in the Subordinated Loan Principal Deficiency Ledger until the debit balance, if any, on the Subordinated Loan Principal Deficiency Ledger is reduced to zero;

- (x) *tenth*, in or towards satisfaction of any sums required to replenish the Deposit Account up to the amount of the Risk Mitigation Deposit Amount, to the extent the Seller has not credited such sums to the Deposit Account before the relevant Monthly Calculation Date;
- (xi) *eleventh*, in or towards satisfaction of the Swap Counterparty Default Payment payable to the Swap Counterparty under the terms of the Swap Agreement;
- (xii) *twelfth*, in or towards satisfaction of interest due or interest accrued but unpaid in respect of the Expenses Subordinated Loan in accordance with the terms of the Expenses Subordinated Loan Agreement;
- (xiii) *thirteenth*, in or towards satisfaction of principal due and payable but unpaid in respect of the Expenses Subordinated Loan in accordance with the terms of the Expenses Subordinated Loan Agreement;
- (xiv) *fourteenth*, in or towards transfer to the Share Capital Account on the Monthly Payment Date falling in July of amounts payable to the Issuer under the SME Receivables Purchase Agreement; and
- (xv) *fifteenth*, in or towards satisfaction of any payments due in connection with the Deferred Purchase Price to the Seller.

***Priority of Payments in respect of principal***

Prior to the delivery of an Enforcement Notice by the Security Agent, the sum of the following amounts referred to under items (a) up to and including (h), calculated as at any Monthly Calculation Date, as being received or deposited during the immediately preceding Monthly Calculation Period (the sum of items (a) up to and including (h) hereinafter referred to as the “**Notes Redemption Available Amount**”):

- (a) by means of repayment and prepayment in full of principal under the SME Receivables from any person, but, for the avoidance of doubt, excluding Prepayment Penalties;
- (b) as amounts received in connection with a repurchase of SME Receivables pursuant to the SME Receivables Purchase Agreement and any other amounts received pursuant to the SME Receivables Purchase Agreement to the extent such amounts relate to principal;
- (c) as amounts received in connection with a sale of SME Receivables pursuant to the Pledge Agreement to the extent such amounts relate to principal;
- (d) as amounts to be credited to the Principal Deficiency Ledger under items (vi) and (viii) of the Interest Priority of Payments on the immediately succeeding Monthly Payment Date;
- (e) as partial prepayment in respect of SME Receivables;
- (f) any amounts (provided that these are used solely as indemnity for losses of scheduled principal on the SME Receivables as a result of Commingling Risk) to be used as Notes Redemption Available Amount from the funds credited to the Deposit Account in accordance with the provisions of the SME Receivables Purchase Agreement and as described under *Risk Mitigation Deposit* in the section *SME Receivables Purchase Agreement* below, which are transferred from the Deposit Account to the Issuer Collection Account;

- (g) any part of the Notes Redemption Available Amount calculated on the immediately preceding Monthly Calculation Date which has not been applied towards redemption of the Notes on the preceding Monthly Payment Date; and
- (h) any amount remaining in the Reserve Account after all amounts of interest and principal due in respect of the Notes have been paid in full and all payments or provisions of the Interest Priority of Payments ranking higher in priority have been made,

will, pursuant to the Pledge Agreement be applied by the Issuer on the Monthly Payment Date immediately succeeding such Monthly Calculation Date as follows (and in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the “**Principal Priority of Payments**”):

- (i) prior to the occurrence of a Sequential Trigger Event:
  - (A) *first*, up to the Maximum Pro Rata Amount Notes, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (B) *second*, up to the Maximum Pro Rata Amount Subordinated Loan, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid; and
- (ii) after the occurrence of a Sequential Trigger Event:
  - (A) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (B) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.

***Priority of Payments upon Enforcement***

Following delivery of an Enforcement Notice any amounts payable by the Security Agent under the Pledge Agreement will be applied in the following order of priority (and in each case only if and to the extent payments of a higher priority have been made in full) (the “**Priority of Payments upon Enforcement**”):

- (i) *first*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of any amounts, if any, due and payable to the Issuer Directors in connection with the Issuer Management Agreements;
- (ii) *second*, in or *towards* satisfaction of fees and expenses due and payable to the Administrator under the Issuer Services Agreement;
- (iii) *third*, in or *towards* satisfaction of any fees due and payable to the Security Agent under the Pledge Agreement and of any cost, charge, liability and expenses incurred by the Security Agent under or in connection with any of the Transaction Documents, which will include, *inter alia*, the fees and expenses of any legal advisor, auditor and/or accountant appointed by the Security Agent;
- (iv) *fourth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of
  - (i) the fees and expenses of the Domiciliary Agent, the Listing Agent and the Reference Agent incurred under the provisions of the Agency Agreement, (ii) the fees and expenses of

the Servicer under the Issuer Services Agreement and (iii) the fees and expenses due and payable to the Corporate Services Provider under the Issuer Services Agreement;

- (v) *fifth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of amounts, if any, due but unpaid to the Swap Counterparty under the Swap Agreement including any amount to be paid by the Issuer upon early termination of the Swap Agreement as determined in accordance with its terms but excluding any Swap Counterparty Default Payment payable under subparagraph (x) below, excluding, for the avoidance of doubt, the repayment to the Swap Counterparty of Excess Swap Collateral;
- (vi) *sixth*, in or towards satisfaction of all amounts of interest due or interest accrued but unpaid in respect of the Notes;
- (vii) *seventh*, in or towards satisfaction of all amounts of principal and any other amount due but unpaid in respect of the Notes;
- (viii) *eighth*, in or towards satisfaction of all amounts of interest due or interest accrued but unpaid in respect of the Subordinated Loan;
- (ix) *ninth*, in or towards satisfaction of all amounts of principal and any other amount due but unpaid in respect of the Subordinated Loan;
- (x) *tenth*, in or towards satisfaction of the Swap Counterparty Default Payment payable to the Swap Counterparty under the terms of the Swap Agreement;
- (xi) *eleventh*, in or towards satisfaction of all amounts of interest due, interest accrued and principal due but unpaid in respect of the Expenses Subordinated Loan; and
- (xii) *twelfth*, in or towards satisfaction of any payments due in connection with the Deferred Purchase Price to the Seller.

#### **4.3 Covenants of the Issuer**

Save with the prior written consent of the Security Agent or as provided in or envisaged by any of the Transaction Documents, the Issuer undertakes with the Secured Parties that so long as any Note remains outstanding, it shall not:

- (a) carry on any business other than the business of purchasing receivables by using different compartments and to finance such acquisitions by issuing securities through such compartments and the related activities described therein and in respect of that business;
- (b) in relation to Compartment SME Loan Invest 2017 and the Transaction, engage in any activity or do anything whatsoever except:
  - (i) own and exercise its rights in respect of the Pledged Assets and its interests therein and perform its obligations in respect of the Pledged Assets;
  - (ii) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Transaction Documents in accordance with applicable law;
  - (iii) to the extent permitted by the terms of any of the Transaction Documents, pay dividends or make other distributions in the manner permitted by applicable law;



- (iv) use, invest or dispose of any of its property or assets in the manner provided in or contemplated by the Transaction Documents; and
- (v) perform any act incidental to or necessary in connection with (i), (ii), (iii) or (iv) above;
- (c) in relation to Compartment SME Loan Invest 2017 and the Transaction, save as permitted by the Transaction Documents, incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness;
- (d) in relation to Compartment SME Loan Invest 2017 and the Transaction, create or permit to exist any mortgage, charge, pledge, lien or other security interest whatsoever over any of its assets, or sell or otherwise dispose of any part of its assets or undertaking, present or future (including any Pledged Assets), other than as expressly contemplated by the Transaction Documents;
- (e) consolidate or merge with any other person or convey or transfer its property or assets substantially or as an entirety to any person, other than as contemplated by the Transaction Documents;
- (f) permit the validity or effectiveness of the Pledge Agreement or any other Transaction Document or the priority of the Security Interests to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Pledged Assets to be released from such obligations;
- (g) amend, supplement or otherwise modify its by-laws (*statuten / statuts*) or any provisions of these covenants save to the extent that such modifications are required by law or relate only to other transactions that do not adversely affect the assets and liabilities of Compartment SME Loan Invest 2017;
- (h) have any employees, own premises or own shares in any subsidiary or any company;
- (i) in relation to Compartment SME Loan Invest 2017 and the Transaction, have an interest in any bank account, other than (i) the Transaction Account and the Securities Pledged Accounts, (ii) the Share Capital Account, (iii) the Deposit Account (if required to be opened in accordance with the provisions of the SME Receivables Purchase Agreement), and (iii) any swap collateral account that the Issuer may need to open in accordance with the Swap Agreement and the Credit Support Annex, unless such account or interest is pledged or charged to the Secured Parties on terms acceptable to the Security Agent;
- (j) in relation to Compartment SME Loan Invest 2017 and the Transaction, issue any further notes or any other type of security;
- (k) reallocate any assets from Compartment SME Loan Invest 2017 to any other Compartment that it may set up in the future;
- (l) have an established place of business in any other jurisdiction than Belgium;
- (m) enter into transactions of which it is aware that they are not at arm's length; and
- (n) dispose of any assets of Compartment SME Loan Invest 2017 except in accordance with the terms of the Transaction Documents.

The Issuer shall procure that all material transactions and material liabilities incurred by the Issuer are clearly allocated to one or more Compartments of the Issuer and it shall not allocate transactions or liabilities to Compartment SME Loan Invest 2017 other than as envisaged in the Transaction Documents.

As long as any of the Notes remains outstanding the Issuer will procure that there will at all times be a provider of administration services and corporate services and a servicer for the SME Receivables and an Account Bank. The appointment of the Security Agent, the Administrator, the Corporate Services Provider, the Reference Agent, the Domiciliary Agent, the Listing Agent, the Servicer, the Account Bank and the Swap Counterparty may be terminated only as provided in the Transaction Documents.

In giving any consent to any of the foregoing, the Security Agent may require the Issuer to make such modifications or additions to the provisions of any of the Transaction Documents or may impose such other conditions or requirements as the Security Agent may deem expedient (in its absolute discretion) in the interests of the Noteholders.

In determining whether or not to give any proposed consent, the Security Agent shall be able to rely on, and act on any advice or opinion of or any certificate obtained from a valuer, accountant, banker, broker, securities company or other company other than the Rating Agencies whether obtained by itself or the Issuer and it shall not be liable for any loss occasioned by such action, save where such loss is due to its Gross Negligence, wilful misconduct or fraud. Concurrently, the Security Agent may, along with any other relevant factors, have regard for whether the then current ratings of the Notes would not be adversely affected by such proposed consent. “**Gross Negligence**” shall mean for the purposes hereof negligence of such serious nature that not any prudent security agent/common representative would have acted similarly.

The Issuer further covenants with the Secured Parties as follows:

- (a) at all times to carry on and conduct its affairs in a proper and efficient manner;
- (b) to give to, and procure that is given to, the Security Agent such information and evidence (and in such form) as the Security Agent shall reasonably require for the purpose of the discharge of the duties, powers, authorities and discretions vested in it under or pursuant to Condition 4.11 and the Pledge Agreement;
- (c) to cause to be prepared and certified by its auditors, in respect of each financial year, accounts in such forms as will comply with the requirements of Belgian laws and regulations;
- (d) at all times to keep proper books of accounts and allow the Security Agent and any person appointed by the Security Agent free access to such books of account at all reasonable times during normal business hours;
- (e) forthwith after becoming aware thereof and without waiting for the Security Agent to take any action, to give notice in writing to the Security Agent of the occurrence of any Event of Default or any condition, event or act which with the giving of notice and/or the lapse of time and/or the issue of a certificate would constitute an Event of Default;
- (f) at all times to execute all such further documents and do all such acts and things as may be necessary or appropriate at any time or times to give effect to the Transaction Documents;
- (g) at all times to comply with and perform all its obligations under or pursuant to the Transaction Documents and to use its best endeavours to procure, so far as it is lawfully able

to do so, that the other parties thereto, comply with and perform all their respective obligations thereunder and pursuant thereto and not to terminate any of the Transaction Documents or any right or obligation arising pursuant thereto or make any amendment or modification thereto or agree to waive or authorise any material breach thereof;

- (h) at all times to comply with any reasonable direction given by the Security Agent in relation to the Security Interests in accordance with the Pledge Agreement;
- (i) upon occurrence of a termination event under the Account Bank Agreement, to use its best endeavours to appoint a substitute account bank within thirty (30) calendar days;
- (j) upon resignation of an Agent or upon the occurrence of a termination event under the Agency Agreement, to appoint a relevant substitute agent;
- (k) to promptly exercise and enforce its rights and discretions in relation to the Swap Agreement and in particular those rights to require a transfer, collateralisation, an indemnity or a guarantee in the event of a downgrading of the Swap Counterparty;
- (l) at all times to keep separate bank accounts and financial statements allocated to its separate Compartments (as the case may be);
- (m) at all times to keep separate stationery for each of its Compartments (as the case may be);
- (n) at no time to pledge, charge or encumber the assets allocated to Compartment SME Loan Invest 2017 otherwise than pursuant to the Pledge Agreement;
- (o) at all times to have adequate corporate capital to run its business in accordance with the corporate purpose as set out in its Articles of Association;
- (p) at all times not to commingle its own assets allocated to any of its Compartments with the assets of another Compartment or the assets of third parties and, in particular, to expressly allocate any liabilities of any of its Compartments to the relevant Compartment;
- (q) to observe at all times all applicable corporate formalities set out in its by-laws, the UCITS Act, the Company Code and any other applicable legislation, including, but not limited to, all formalities to be complied with in its capacity as public and listed company;
- (r) to comply in all respects with the specific statutory and regulatory provisions applicable to an *institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht / société d'investissement en créances institutionnelle de droit belge* and to refrain from all acts which could prejudice the continuation of such status at any time;
- (s) to mention in each communication in relation to the Notes or the admission to trading of the Notes, issued by or on behalf of the Issuer, that the Notes may only be subscribed to or otherwise acquired or held by an Eligible Holder;
- (t) to conduct at all times its business in its own name; for the avoidance of doubt, this requirement does not prejudice those provisions under the Transaction Documents which provide that certain transaction parties (including the Administrator, the Corporate Services Provider, the Servicer and the Account Bank) shall for certain purposes act on behalf of the Issuer;

- (u) if it becomes aware of any event which is or may become (with the lapse of time and/or the giving of notice and/or the making of any determination) a Notification Event or Sequential Trigger Event, it will without delay inform the Security Agent of such event; and
- (v) if it finds or has been informed that a substantial change has occurred in the development of the SME Receivables, SME Loans or the cash flows generated by the SME Receivables or that any particular event has occurred which may materially change the ratings of the Notes, the expected financial results of the Transaction or the expected cash flows, it will without delay inform the Security Agent of such change or event, except if such change or event is or has already been reflected in a Monthly Calculation Report.

The Issuer shall provide to the Security Agent, the Rating Agencies and the Domiciliary Agent or procure that the Security Agent, the Rating Agency and the Domiciliary Agent are provided with the Investor Reports on or about each Monthly Payment Date.

The Investor Reports will be made available for inspection at [www.kbc.be/abs/smeloaninvest2017](http://www.kbc.be/abs/smeloaninvest2017) and will be made available upon request free of charge to any person at the office of the Domiciliary Agent.

#### 4.4 Interest

##### (a) Period of Accrual

Each Note bears interest on its Principal Amount Outstanding (as defined in Condition 4.5(c)) from and including the Closing Date. Each Note (or in the case of the redemption of part only of a Note that part only of such Note) shall cease to bear interest from its due date for redemption unless payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue thereon (before and after any judgment) at the rate applicable to such Note up to but excluding the date on which all sums due in respect of such Note are paid to the Securities Settlement System Operator for the benefit of the relevant Noteholder, or (if earlier) the seventh calendar day after notice is duly given by the Domiciliary Agent to the relevant Noteholder (in accordance with Condition 4.13) that it has received all sums due in respect of such Note, provided payment is in fact made.

Whenever it is necessary to compute an amount of interest in respect of any Note for any period (including any Floating Rate Interest Period (as defined below)), such interest shall be calculated on the basis of the actual days elapsed and a 360 days year.

##### (b) Interest Periods and Payment Dates

Interest on the Notes is payable monthly in arrears in euro on the 15th day of each month (or, if such day is not a Business Day, the next succeeding Business Day) in each year (each such day being a “**Monthly Payment Date**”), the first Monthly Payment Date being in April 2017. The period from (and including) a Monthly Payment Date (or the Closing Date in respect of the first Floating Rate Interest Period) to (but excluding) the immediately succeeding (or first) Monthly Payment Date is called a “**Floating Rate Interest Period**” in these Conditions. The first Floating Rate Interest Period will commence on (and include) the Closing Date and will end on (but exclude) the first Monthly Payment Date.

A “**Business Day**” means a day on which banks are open for business in Brussels, provided that such day is also a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer payment system (“**TARGET2**”) or any successor thereto is operating credit or transfer instructions in respect of payments in euro.

(c) Interest on the Notes

Interest on the Notes for each Floating Rate Interest Period will accrue at a rate equal to the sum of the Euro Interbank Offered Rate (“**Euribor**”) for one (1) month deposits plus a margin of 0.75 per cent. per annum. The interest applicable to the Notes will never be lower than zero.

(d) Euribor

For the purpose of Conditions 4.4(c) and 4.4 (d) Euribor will be determined as follows:

- (i) The Reference Agent will obtain for each Floating Rate Interest Period the rate equal to the amount of Euribor for one (1) month deposits in euros (or, in respect of the first Floating Rate Interest Period, the rate which represents the linear interpolation of Euribor for one (1) month deposits in euro, rounded, if necessary, to the 5<sup>th</sup> decimal place with 0.00005 being rounded upwards). The Reference Agent shall use the Euribor rate as determined and published by the European Money Markets Institute (or any other person which takes over the administration of that rate) and which appears for information purposes on the Reuters Screen EURIBOROI (or, if not available, any other display page on any screen service maintained by any registered information vendor (including, without limitation, the Reuter Monitor Money Rate Service, the Dow Jones Telerate Service and the Bloomberg Service) for the display of the Euribor rate selected by the Reference Agent) as at or about 11.00 a.m. (Central European time) on the day that is two (2) Business Days preceding the first day of each Floating Rate Interest Period (each an “**Interest Determination Date**”).
- (ii) If, on the relevant Interest Determination Date, such Euribor rate is not determined and published by the European Money Markets Institute (or any other person which takes over the administration of that rate), or if it is not otherwise reasonably practicable to calculate the rate under (i) above, the Reference Agent will:
  - (A) request the principal euro-zone office of each of four major banks in the euro-zone interbank market (the “**Reference Banks**”) to provide a quotation for the rate at which three (3) months euro deposits are offered by it in the euro-zone interbank market at approximately 11.00 a.m. (Central European time) on the relevant Interest Determination Date to prime banks in the euro-zone interbank market in an amount that is representative for a single transaction at that time; and determine the arithmetic mean (rounded, if necessary, to the fifth decimal place with 0.000005 being rounded upwards) of such quotation as is provided; and
  - (B) if fewer than two such quotations are provided as requested, the Reference Agent will determine the arithmetic mean (rounded, if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the rates quoted by major banks, of which there shall be at least two in number, in the euro-zone, selected by the Reference Agent, at approximately 11.00 a.m. (Central European time) on the relevant Interest Determination Date for one (1) month deposits to leading euro-zone banks in an amount that is representative for a single transaction in that market at that time,

and Euribor for such Floating Rate Interest Period shall be the rate per annum equal to the euro interbank offered rate for euro deposits as determined in accordance with this Condition 4.4, provided that if the Reference Agent is unable to determine Euribor in accordance with the above provisions in relation to any Floating Rate Interest Period, Euribor applicable to the Notes during such Floating Rate Interest Period will be Euribor last determined in relation thereto.

(e) Determination of Rates of Interest and Calculation of Interest Amounts

The Reference Agent will, as soon as practicable after 11.00 a.m. (Central European Time) on each Interest Determination Date, determine the floating rate of interest for the Notes (the “**Floating Rate of Interest**”) and calculate the amount of interest payable on the Notes for the following Floating Rate Interest Period (the “**Interest Amount**”) by applying the relevant Floating Rate of Interest to the Principal Amount Outstanding of the Notes. The determination of the Floating Rate of Interest and each Interest Amount by the Reference Agent shall (in the absence of manifest error) be final and binding on all parties.

(f) Notification of Rates of Interest and Interest Amounts

At the latest by 02.00 pm (CET) on the Interest Determination Date, the Reference Agent will cause the Floating Rate of Interest and the Interest Amount to be notified to the Securities Settlement System Operator, the Issuer, the Administrator, the Security Agent and the Domiciliary Agent and will cause notice thereof to be given to the Noteholders. The Interest Amount, the Floating Rate of Interest and the Monthly Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Floating Rate Interest Period.

(g) Determination or Calculation

If the Reference Agent at any time for any reason does not determine the relevant Floating Rate of Interest or fails to calculate the Interest Amount in accordance with Condition 4.4(f), the Issuer (or whenever a Protection Notice or Enforcement Notice has been served, the Security Agent in consultation with the Issuer) shall determine or shall cause the Floating Rate of Interest to be determined at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in Condition 4.4(e), it shall deem fair and reasonable under the circumstances, or, as the case may be, the Issuer (or whenever a Protection Notice or Enforcement Notice has been served, the Security Agent in consultation with the Issuer) shall calculate or shall cause the Interest Amount to be calculated in accordance with Condition 4.4(f), and each such determination or calculation shall (in the absence of manifest error) be final and binding on all parties.

(h) Reference Banks and Reference Agent

The Issuer will procure that, as long as any of the Notes remains outstanding, there will at all times be four Reference Banks and a Reference Agent. The Issuer has, subject to prior written consent of the Security Agent, the right to terminate the appointment of the Reference Agent or of any Reference Bank by giving at least ninety (90) calendar days’ notice in writing to that effect. Notice of any such termination will be given to the holders of the Notes in accordance with Condition 4.13. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be) or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the prior written consent of the Security Agent, appoint a successor Reference Bank or Reference Agent (as the case may be) to act in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor approved in writing by the Security Agent has been appointed.

## 4.5 Redemption and Cancellation

(a) Final redemption

Unless previously redeemed as provided below, the Issuer will redeem the Notes at their Principal Amount Outstanding (as defined below) on the Monthly Payment Date falling in April 2051 (the “**Final Maturity Date**”).

The Issuer may not redeem Notes in whole or in part prior to the Final Maturity Date except as provided in Conditions 4.5(b), 4.5(e), 4.5(f), 4.5(g), 4.5 (h) and 4.5(i) but without prejudice to Condition 4.9.

(b) Mandatory Redemption

Provided that no Enforcement Notice has been served in accordance with Condition 4.9:

- (i) on each Monthly Payment Date prior to the occurrence of a Sequential Trigger Event, the Issuer shall be obliged to apply the Notes Redemption Available Amount (as defined below) as follows (and in each case only if and to the extent that payments or provisions of a higher priority have been made in full):
  - (A) *first*, to redeem (or partially redeem) the Notes on a *pro rata* basis at their Principal Amount Outstanding up to the Maximum Pro Rata Amount Notes, until fully redeemed; and
  - (B) *second*, to repay (or partially repay) principal amounts due under the Subordinated Loan, up to the Maximum Pro Rata Amount Subordinated Loan until fully repaid;
- (ii) on each Monthly Payment Date following the occurrence of a Sequential Trigger Event, the Issuer shall be obliged to apply the Notes Redemption Available Amount (as defined below) as follows (and in each case only if and to the extent that payments or provisions of a higher priority have been made in full):
  - (A) *first*, to redeem (or partially redeem) the Notes on a *pro rata* basis at their Principal Amount Outstanding, until fully redeemed; and
  - (B) *second*, to repay (or partially repay) principal amounts due under the Subordinated Loan, until fully repaid.

The principal amount so redeemable in respect of each relevant Note (each a “**Principal Redemption Amount**”) on the relevant Monthly Payment Date shall be the amount (if any) (rounded down to the nearest euro) of:

- (i) in case of a redemption on a Monthly Payment Date prior to the occurrence of a Sequential Trigger Event, the lesser of (i) the Notes Redemption Available Amount and (ii) the Maximum Pro Rata Amount Notes, each of (i) and (ii), on the Monthly Calculation Date relating to that Monthly Payment Date divided by the number of Notes subject to such redemption; and
- (ii) in case of a redemption on a Monthly Payment Date following the occurrence of a Sequential Trigger Event, the Notes Redemption Available Amount on the Monthly Calculation Date relating to that Monthly Payment Date divided by the number of Notes subject to such redemption,

provided always that the Principal Redemption Amount may never exceed the Principal Amount Outstanding of the relevant Note. Following application of the Principal Redemption Amount, the Principal Amount Outstanding of such Note shall be reduced accordingly.

Under the terms of the Pledge Agreement, the Issuer will have the right to sell and assign the SME Receivables on each Optional Redemption Date to a third party, which may also be the Seller. In addition, on each Monthly Payment Date, the Seller or any third party appointed by the Seller has the option (but not the obligation) to repurchase and accept re-assignment of the SME Receivables if (i)

on the Monthly Calculation Date immediately preceding such Monthly Payment Date the aggregate Principal Amount Outstanding of the Notes is less than ten (10) per cent. of the aggregate Principal Amount Outstanding of the Notes as of the Closing Date and (ii) the Issuer shall have provided to the Security Agent a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to discharge all its liabilities in respect of the Notes and any amounts required to be paid in priority to or *pari passu* with the Notes in accordance with these Conditions (the “**Clean-Up Call Option**”). The Issuer has undertaken in the SME Receivables Purchase Agreement to sell and assign the SME Receivables to the Seller or any third party appointed by the Seller in its sole discretion in case of the exercise of the Clean-Up Call Option, to the extent it still holds the SME Receivables upon exercise by the Seller of the Clean-Up Call Option.

The proceeds of such sales shall be applied by the Issuer towards:

- (a) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
- (b) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.

All SME Receivables which would be so repurchased by the Seller or the third party shall be repurchased for a price equal to the then Outstanding Principal Amount together with accrued interest due but unpaid (if any) up to the relevant date of such repurchase and reassignment and reasonable costs relating thereto (including any costs incurred by the Issuer in effecting and completing such repurchase and re-assignment), except that with respect to Defaulted Receivables, the purchase price shall be an amount as calculated by the Servicer in its daily operations representing an amount equal to the Outstanding Principal Amount of such SME Receivable less the estimated losses or, as the case may be, realised losses in relation to such SME Receivable according to the Seller’s impairment policy (the “**Optional Repurchase Price**”).

(c) Definitions

For the purpose of these Conditions the following terms shall have the following meanings:

- (i) The “**Principal Amount Outstanding**” on any Monthly Payment Date of any Note shall be the principal amount of that Note upon issue less the aggregate amount of all Principal Redemption Amounts in respect of that Note that have become due and payable prior to such Monthly Payment Date.
- (ii) The term “**Notes Redemption Available Amount**” shall mean on any Monthly Calculation Date the sum of the following amounts referred to under items (A) up to and including (G), received or held by the Issuer during the immediately preceding Monthly Calculation Period:
  - (A) by means of repayment and prepayment in full of principal under the SME Receivables from any person, but, for the avoidance of doubt, excluding Prepayment Penalties, if any;
  - (B) as amounts received in connection with a repurchase of SME Receivables pursuant to the SME Receivables Purchase Agreement and any other amounts received pursuant to the SME Receivables Purchase Agreement to the extent such amounts relate to principal;
  - (C) as amounts received in connection with a sale of SME Receivables pursuant to the Pledge Agreement to the extent such amounts relate to principal;



- (D) as amounts to be credited to the Principal Deficiency Ledger under items (vi) and (viii) of the Interest Priority of Payments on the immediately succeeding Monthly Payment Date;
  - (E) as partial prepayment in respect of SME Receivables;
  - (F) any amounts (provided that these are used solely as indemnity for losses of scheduled principal on the SME Receivables as a result of Commingling Risk) to be used as Notes Redemption Available Amount from the funds credited to the Deposit Account in accordance with the provisions of the SME Receivables Purchase Agreement and as described under Risk Mitigation Deposit in the *section SME Receivables Purchase Agreement* above, which are transferred from the Deposit Account to the Issuer Collection Account;
  - (G) any part of the Notes Redemption Available Amount calculated on the immediately preceding Monthly Calculation Date which has not been applied towards redemption of the Notes on the preceding Monthly Payment Date; and
  - (H) any amount remaining in the Reserve Account after all amounts of interest and principal due in respect of the Notes have been paid in full and all payments or provisions of the Interest Priority of Payments ranking higher in priority have been made.
- (iii) The term “**Net Proceeds**” shall mean (a) any proceeds received in connection with an SME Receivable after such SME Receivables has become a Defaulted Receivables, (b) the proceeds of foreclosure on any Related Security securing the SME Receivable, (c) the proceeds, if any, of collection of any insurance policies in connection with the SME Receivable, including but not limited to any Insurance Policy, and (d) the proceeds of foreclosure on any other assets of the relevant debtor, after deduction of foreclosure costs.
  - (iv) The term “**Monthly Calculation Date**” means, in relation to a Monthly Payment Date, the fourth Business Day prior to such Monthly Payment Date.
  - (v) The term “**Monthly Calculation Period**” means a period of one (1) month commencing on, and including the first day of each month of each year.
  - (vi) The term “**Sequential Trigger Event**” means, at any point in time, any of the following events occurring:
    - (i) the sum of the outstanding Defaulted Receivables, including written-off loans, since the Closing Date exceeds an amount equal to 3% of the aggregate Outstanding Principal Amount of the SME Receivables at the Closing Date; or
    - (ii) the sum of the Delinquent Receivables exceeds an amount equal to 5% of the aggregate Outstanding Principal Amount of the SME Receivables; or
    - (iii) the principal outstanding of the Subordinated Loan falls below 33% of the original principal amount of the Subordinated Loan on the Closing Date.
  - (vii) The term “**Maximum Pro Rata Amount Notes**” means the amount equal to:
    - (i) the Notes Redemption Available Amount multiplied by the outstanding amount of principal under the Notes; divided by

- (ii) the sum of (i) the outstanding amount of principal under the Notes and (ii) the outstanding amount of principal under the Subordinated Loan minus the Reserve Account Required Amount.
  - (viii) The term “**Maximum Pro Rata Amount Subordinated Loan**” means the amount equal to:
    - (i) the Notes Redemption Available Amount multiplied by the outstanding amount of principal under the Subordinated Loan minus the Reserve Account Required Amount; divided by
    - (ii) the sum of (i) the outstanding amount of principal under the Notes and (ii) the outstanding amount of principal under the Subordinated Loan minus the Reserve Account Required Amount.
- (d) Determination of Principal Redemption Amount and Principal Amount Outstanding
- (i) On each Monthly Calculation Date, the Issuer shall determine (or cause the Administrator to determine) (x) the Principal Redemption Amount and (y) the Principal Amount Outstanding of the relevant Note on the first day of the next following Floating Rate Interest Period. Each determination by or on behalf of the Issuer of any Principal Redemption Amount or the Principal Amount Outstanding of a Note shall in each case (in the absence of manifest error) be final and binding on all persons.
  - (ii) The Issuer will cause each determination of a Principal Redemption Amount and Principal Amount Outstanding of the Notes to be notified forthwith to the Security Agent, the Domiciliary Agent, the Reference Agent, the Seller and the Swap Counterparty and will immediately cause notice of each determination of a Principal Redemption Amount and Principal Amount Outstanding to be given in accordance with Condition 4.13 by no later than 11.00 hrs (CET) on the 4th Business Day before the relevant Monthly Payment Date. If no Principal Redemption Amount is due to be made on the Notes on any applicable Monthly Payment Date a notice to this effect will be given to the Noteholders in accordance with Condition 4.13.
  - (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) the Principal Redemption Amount or the Principal Amount Outstanding of a Note, such Principal Redemption Amount or such Principal Amount Outstanding shall be determined by the Administrator, failing which the Security Agent in accordance with the preceding paragraphs (but based upon the information in its possession as to the Notes Redemption Available Amount) and each such determination or calculation shall be deemed to have been made by the Issuer.
- (e) Optional Redemption
- Unless previously redeemed in full, on the Monthly Payment Date falling in April 2022 and on each Monthly Payment Date thereafter (each an “**Optional Redemption Date**”) the Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding together with interest accrued but unpaid on such date. The Issuer shall notify the exercise of such option by giving not more than sixty (60) nor less than thirty (30) calendar days written notice to the Security Agent, the Noteholders and each Rating Agency in accordance with Condition 4.13, prior to the relevant Optional Redemption Date.

The proceeds of such sales shall be applied by the Issuer towards:

- (a) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (b) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.
- (f) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer (which shall be under no obligation to do so) in whole, but not in part, on any Monthly Payment Date, at their Principal Amount Outstanding, together with interest accrued but unpaid up to and including the date of redemption, if any of the following circumstances arise:

- (i) if on the next Monthly Payment Date the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or any other person would be required to deduct or withhold for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed by the Kingdom of Belgium (or any sub-division or authority thereof or therein) from any payment of principal or interest in respect of Notes held by or on behalf of any Noteholder who ceased to be a Tax Eligible Investor, but for any amendment to, or change in, the tax laws or regulations of the Kingdom of Belgium (or of any sub-division or authority thereof or therein having power to tax) or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations after the Closing Date; or
- (ii) if on the next Monthly Payment Date, the Issuer, the Swap Counterparty or any other person would be required to deduct or withhold for or on account of any present or future taxes, duties assessments or governmental charges of whatever nature imposed by the Kingdom of Belgium (or any sub-division or authority thereof or therein), or any other sovereign authority having the power to tax, from any payment under the Swap Agreement; or
- (iii) if the total amount payable in respect of interest on any of the SME Receivables ceases to be receivable by the Issuer due to withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature in respect of such payments; or
- (iv) if, after the Closing Date, the IIR Tax Regulations are changed or applied in a way materially adverse to the Issuer or would no longer apply to the Issuer;

by giving not more than sixty (60) nor less than thirty (30) calendar days written notice to the Noteholders and the Security Agent prior to the relevant Monthly Payment Date in accordance with Condition 4.13, provided that:

- (i) prior to giving any such notice, no Enforcement Notice has been served by the Security Agent in respect of any of the Notes;
- (ii) prior to giving such notice, the Administrator shall have provided to the Security Agent a certificate signed by two directors of the Issuer confirming that the Issuer will have on the Relevant Monthly Payment Date sufficient funds available to discharge all amounts of principal and interest due in respect of the Notes and any amounts required to be paid in priority to or *pari passu* with the Notes in accordance with the Interest or Principal Priority of Payment. The Notes may not be redeemed under such circumstances unless all Notes (or such of them as are then outstanding) are also redeemed in full at the same time; and

- (iii) the Security Agent is satisfied in its reasonable opinion, following such certification, that the Issuer is able to discharge such liabilities.

The proceeds of such sales shall be applied by the Issuer towards:

- (a) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
- (b) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.

A “**Tax Eligible Investor**” includes all persons and organisations referred to in Article 4 of the *Koninklijk Besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing / Arrêté royal relatif à la perception et à la bonification du précompte mobilier* (Royal decree of 26 May 1994 on the deduction of withholding tax).

“**IIR Tax Regulations**” means the Belgian tax regulations introducing income tax, withholding tax, registration duty and VAT concessions for Belgian companies for investment in receivables (including the Issuer).

(g) Optional Redemption in case of Change of Law

In addition, on each Monthly Payment Date, the Issuer may at its option (but shall not be under any obligation to do so) redeem the Notes, in whole, but not in part, if there is a change in, or any amendment to the laws, regulations, decrees or guidelines of the Kingdom of Belgium (including in respect of EU legislation, regulations or guidelines implemented or applicable in the Kingdom of Belgium) or of any authority therein or thereof having legislative or regulatory powers or in the interpretation by a relevant authority or a court of, or in the administration of, such laws, regulations, decrees or guidelines after the Closing Date (a “**Change of Law**” ) which would or could affect the Issuer, the Seller or the Noteholders, as certified by the Security Agent, in an adverse way, by giving not more than sixty (60) calendar days’ notice nor less than thirty (30) calendar days’ notice in accordance with Condition 4.13 prior to the relevant Monthly Payment Date, provided that:

- (i) prior to giving any such notice, no Enforcement Notice has been served by the Security Agent in respect of any of the Notes;
- (ii) prior to giving such notice, the Administrator shall have provided to the Security Agent a certificate signed by two directors of the Issuer confirming that the Issuer will have on the relevant Monthly Payment Date sufficient funds available to discharge all amounts of principal and interest due in respect of the Notes and any amounts required to be paid in priority to or *pari passu* with the Notes; and
- (i) the Security Agent is satisfied in its reasonable opinion, following such certification, that the Issuer is able to discharge such liabilities.

(h) Redemption for regulatory reasons

The Issuer shall redeem the Notes, in whole, but not in part, on any Monthly Payment Date, at their Principal Amount Outstanding together with interest accrued but unpaid up to and including the date of redemption, if the Seller exercises its Regulatory Call Option to repurchase the SME Receivables upon the occurrence, on or after the Closing Date, of a change (i) in the Basel Capital Accord promulgated by the Basel Committee on Banking Supervision (the “**Basel Accord**”), in the Basel II Capital Accord promulgated by the Basel Committee on Banking Supervision as set forth in the EU Capital Adequacy Directive 2006/49/EC, as amended and supplemented from time to time (the

“**Basel II Accord**”) and as further amended (the “**Basel III Accord**”) or in the international, European or Belgian regulations, rules and instructions (the “**Bank Regulations**”) applicable to the Seller (including any change in the Bank Regulations enacted for purposes of implementing a change to the Basel Accord, the Basel II Accord or the Basel III Accord) or such a change in the manner in which the Basel Accord, the Basel II Accord or the Bank Regulations are interpreted or applied by the Basel Committee on Banking Supervision or by any relevant competent international, European or national body (including any relevant international, European or Belgian Central Bank or other competent regulatory or supervisory authority), in each case, which, in the opinion of the Seller, has the effect of adversely affecting the rate of return on capital of the Seller or increasing the cost or reducing the benefit to the Seller with respect to the transaction contemplated by the Notes or (ii) in the eligible collateral framework of the European Central Bank as result of which the Notes no longer qualify or to a lesser degree as eligible collateral for Eurosystem monetary policy purposes and intra-day credit operations by the Eurosystem (a “**Regulatory Change**”).

The Issuer shall notify the exercise of such option by giving not more than sixty (60) nor less than thirty (30) calendar days’ notice to the Noteholders and the Security Agent in accordance with Condition 4.13 prior to the relevant Monthly Payment Date. Prior to giving any such notice, the Issuer shall have provided to the Security Agent a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to discharge all its liabilities in respect of the Notes and any amounts required to be paid in priority to or *pari passu* with the Notes in accordance with these Conditions.

The proceeds of such sales shall be applied by the Issuer towards:

- (a) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
  - (b) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.
- (i) Optional Redemption in case of a Ratings Downgrade Event

On each Monthly Payment Date, the Issuer may at its option (but shall not be under any obligation to do so) redeem the Notes, in whole, but not in part, upon the occurrence of a downgrade of the Seller by a Rating Agency on or after the Closing Date as a result of which (i) the long-term, unsecured and unsubordinated debt obligations of the Seller cease to be rated as high as BBB(L) by DBRS or BBB- by Fitch or such rating is withdrawn; or (ii) the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Seller cease to be rated as high as F3 by Fitch or such rating is withdrawn (a “**Ratings Downgrade Event**”) by giving not more than sixty (60) calendar days’ notice in accordance with Condition 4.13 prior to the relevant Monthly Payment Date, provided that:

- (i) prior to giving any such notice, no Enforcement Notice has been served by the Security Agent in respect of any of the Notes;
- (ii) prior to giving such notice, the Administrator shall have provided to the Security Agent a certificate signed by two directors of the Issuer confirming that the Issuer will have on the relevant Monthly Payment Date sufficient funds available to discharge all amounts of principal and interest due in respect of the Notes and any amounts required to be paid in priority to or *pari passu* with the Notes; and
- (iii) the Security Agent is satisfied in its reasonable opinion, following such certification, that the Issuer is able to discharge such liabilities.

The proceeds of such sales shall be applied by the Issuer towards:

- (a) *first*, in or towards satisfaction of principal amounts due under the Notes until fully redeemed; and
- (b) *second*, in or towards satisfaction of principal amounts due under the Subordinated Loan until fully repaid.

(j) Notice of Redemption

Any such notice as is referred to in Conditions 4.5(e), 4.5(f), 4.5. (g), 4.5(h) and 4.5(i) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes at their Principal Amount Outstanding together with interest accrued but unpaid up to and including the date of redemption.

(k) Purchase

The Issuer may not purchase Notes.

(l) Cancellation

All Notes redeemed in full pursuant to the foregoing provisions will be cancelled upon redemption and may not be resold or reissued.

#### 4.6 Payment

- (a) On each date on which payment in respect of the Notes becomes due, the Issuer will transfer, or cause to be transferred, to the Domiciliary Agent in same day funds value the same date but not later than 12 am (Brussels time) for further distribution to the Noteholders (through the Securities Settlement System), an amount sufficient for the payment of principal, interest and other amounts (if any) in respect of the Notes as the same shall become due.

Upon receipt of such payment, the Securities Settlement System Operator shall cause the amounts due to the relevant Noteholders to be credited to the accounts of the Securities Settlement System Participants through which the Noteholders hold their Notes, who shall cause the same amounts to be credited to the Noteholder's accounts with such Securities Settlement System Participants.

- (b) Payments of principal and interest in respect of the Notes are subject in all cases to any (i) fiscal or other laws and regulations applicable thereto and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto (such withholding or deduction, "**FATCA Withholding**").
- (c) The initial Domiciliary Agent is KBC Bank NV and its initial specified office is at Havenlaan 2, 1080 Brussels. The Issuer reserves the right at any time to vary or terminate the appointment of the Domiciliary Agent and to appoint additional or other paying agents provided that no paying agent located in the United States of America will be appointed and for as long as the Notes are admitted to trading on Euronext Brussels, the Issuer will at all times maintain a paying agent in Belgium. Notice of any termination or appointment of a Domiciliary Agent and of any changes in the specified offices of the Domiciliary Agent will be given to the Noteholders in accordance with Condition 4.13.
- (d) If the due date for payment of any amount of principal or interest in respect of any Note is not a Business Day, such payment shall be due on the immediately succeeding Business Day without any further payments of additional amounts.

#### 4.7 Prescription (*verjaring / prescription*)

Claims for the payment of principal or interest under the Notes shall become time barred ten or five years, respectively, after their relevant due date.

#### 4.8 Taxation

- (a) All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature, unless the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or any other person is required by applicable law to make any payment in respect of the Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature (including FATCA Withholding). In that event, the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or such other person (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer, the Securities Settlement System Operator, the Domiciliary Agent nor any other person will be obliged to gross up the payments in respect of the Notes or to make any additional payments to any Noteholders in respect of any such withholding or deduction.
- (b) The Security Agent, the Issuer, the Securities Settlement System Operator, the Domiciliary Agent or any other person being required to make a Tax Deduction shall not constitute an Event of Default.

#### 4.9 Events of Default

- (a) If an Event of Default occurs and is continuing:
  - (i) the Security Agent at its discretion may give notice (an “**Enforcement Notice**”) to the Issuer declaring the Notes to be immediately due and payable at their Principal Amount Outstanding together with accrued interest, but, in the case of the events mentioned in paragraph (ii) to (vi) below, only after the Security Agent shall in its discretion have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the holders of the Notes then outstanding; and
  - (ii) the Security Agent shall be required to give an Enforcement Notice:
    - (A) if it shall have been directed to do so by an Extraordinary Resolution of the holders of the Notes then outstanding; or
    - (B) if it shall have been requested to do so by holders of not less than fifty (50) per cent. in Principal Amount Outstanding of the Notes then outstanding and held by External Investors; or
    - (C) if it shall have been requested to do so by the holders of not less than ten (10) per cent in Principal Amount Outstanding of the Notes then outstanding; and
    - (D) if it shall in all cases have been indemnified to its satisfaction against all liability, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith, save where due to its own Gross Negligence, wilful misconduct or fraud,

but, in the case of the events mentioned in paragraph (ii) to (vi) below, only after the Security Agent shall in its discretion have certified in writing to the Issuer that such event is,

in its opinion, materially prejudicial to the interests of the holders of the Notes then outstanding

Each of the following events is an “**Event of Default**”:

- (i) the Issuer fails to pay any amount of principal in respect of the Notes on or within thirty-one (31) calendar days of the due date for payment of such principal or, fails to pay any amount of interest in respect of the Notes on or within ten (10) Business Days of the due date for payment of such interest, provided that, for the avoidance of doubt, any suspension of payments of interest in accordance with Condition 4.1(b) shall not constitute an Event of Default; or
- (ii) the Issuer defaults in the performance or observance of any of its other obligations or is in breach of any of its representations or warranties under or in respect of the Notes or the other Transaction Documents and such default or breach (a) is, in the opinion of the Security Agent, incapable of remedy or (b) being a default or breach which is, in the opinion of the Security Agent, capable of remedy, remains unremedied for ten (10) Business Days or such longer period as the Security Agent may agree after the Security Agent has given written notice of such default or breach to the Issuer; or
- (iii) an order being made or an effective resolution being passed for the winding up (*ontbinding / dissolution*) of the Issuer except a winding up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Security Agent in writing or by an Extraordinary Resolution of the Noteholders; or
- (iv) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub paragraph (iii) above, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or the Issuer being unable to pay its debts allocated to Compartment SME Loan Invest 2017 as and when they fall due or the value of its assets allocated to Compartment SME Loan Invest 2017 falling to less than the amount of its liabilities allocated to Compartment SME Loan Invest 2017 or otherwise becomes insolvent; or
- (v) proceedings are initiated against or by the Issuer under any applicable liquidation, insolvency or other similar law including the Law on Bankruptcies of 8 August 1997 (*Faillissementswet / Loi sur les faillites*) and the Law on the continuity of enterprises of 31 January 2009 (*Wet betreffende de continuïteit van de ondernemingen / Loi relative à la continuité des entreprises*), as applicable, or an administrative receiver or other receiver, administrator or other similar official (including an ad hoc administrator (*voorlopig bewindvoerder / administrateur provisoire*) and an enterprise mediator (*ondernemingsbemiddelaar / médiateur d'entreprise*)) has been appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or a notice of demand (*bevel tot betalen/commandement de payer*) is notified to the Issuer under Articles 1499 or 1564 of the Judicial Code (*Gerechtigd Wetboek / Code judiciaire*) or distraint (*uitvoerend beslag / saisie exécutoire*) is carried out in respect of the whole or any substantial part of the undertaking or assets allocated to Compartment SME Loan Invest 2017 of the Issuer and in any of the foregoing cases it shall not be discharged within thirty (30) Business Days; or
- (vi) any action is taken by any authority, court or tribunal, which results in the loss of the Issuer of its status as an *institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht / société d'investissement en créances institutionnelle de droit belge* or which in the reasonable opinion of the Security Agent, after consultation with the Issuer and the



Administrator, is very likely to result in the loss of such status and would adversely affect the Transaction.

(b) General

Each of the Noteholders agrees with the Issuer and the Security Agent that all obligations of the Issuer to the Noteholders and all other Secured Parties are limited in recourse such that only the Pledged Assets allocated to Compartment SME Loan Invest 2017 will be available to meet the claims of the Noteholders and the other Secured Parties. In the event that the Security Interests in respect of the Notes have been fully enforced and the proceeds of such enforcement, after payment of all other claims ranking under the Pledge Agreement in priority to the relevant Notes are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes, the Noteholders shall have no further claim against the Issuer or the Security Agent in respect of any such unpaid amounts.

**4.10 Enforcement**

(a) Enforcement of the Security Interests

- (i) At any time after the Notes have become due and repayable, the Security Agent may, at its discretion and without further notice, take such steps and proceedings against the Issuer as it may think fit to enforce the Security Interests and to enforce repayment of the Notes together with payment of accrued interest, but it shall not be bound to take any such proceedings unless (a) (i) it shall have been directed to do so by an Extraordinary Resolution of the holders of the Notes then outstanding; or (ii) it shall have been requested to do so by the holders of not less than fifty (50) per cent. in Principal Amount Outstanding of the Notes then outstanding and held by External Investors; or (iii) it shall have been requested to do so by the holders of not less than ten (10) per cent. in Principal Amount Outstanding of the Notes then outstanding; and (b) it shall have been indemnified or secured to its satisfaction against all liability, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith, save where due to its own Gross Negligence, wilful misconduct or fraud.
- (ii) Only the Security Agent may enforce the Security Interests and no other Secured Party shall be entitled to enforce such security or proceed against the Issuer to enforce the performance of any of the provisions of the Pledge Agreement, unless the Security Agent, having become bound to take such steps as provided in the Pledge Agreement, fails to do so within a reasonable period (thirty (30) days being deemed for this purpose to be a reasonable period) and such failure shall be continuing. The Security Agent shall have regard to the Noteholders as a class.
- (iii) The Security Agent cannot, while any of the Notes are outstanding, be required to enforce the Security Interests at the request of any Secured Party other than the Noteholders.
- (iv) If an Enforcement Notice has been delivered by the Security Agent, the Issuer will not be entitled to dispose of the SME Receivables.

(b) Enforcement of other obligations of the Issuer – non-petition

- (i) As representative of the Noteholders and of the other Secured Parties, only the Security Agent may pursue the remedies available under general law or under the Transaction Documents against the Issuer and the Pledged Assets and, other than as permitted in this Condition 4.10, no Secured Party (other than the Security Agent) shall be entitled to proceed directly against the Issuer and the Pledged Assets.

- (ii) Without prejudice to Condition 4.10(a), each Secured Party has agreed in the Pledge Agreement that:
- (A) no Secured Party, (nor any person on its behalf), other than the Security Agent is entitled, otherwise than as permitted by the Transaction Documents, to direct the Security Agent to take any proceedings against the Issuer or take any proceedings against the Issuer unless the Security Agent, having become bound to serve an Enforcement Notice or having been requested in writing or directed by a resolution of the Noteholders in accordance with Conditions 4.10(a) to take any action to enforce its rights under the Notes and under the other Transaction Documents (such obligations a “**Security Agent Action**”), fails to do so within thirty (30) calendar days of becoming so bound and that failure is continuing (in which case each of the Secured Parties shall (subject to (C) and (D) below) be entitled to take any such steps and proceedings as it shall deem necessary in respect of, the Issuer);
  - (B) no Secured Party (nor any person on its behalf), other than the Security Agent, shall have the right to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due from the Issuer to any of such Secured Parties, unless the Security Agent, having become bound to take a Security Agent Action, fails to do so within thirty (30) calendar days of becoming so bound and that failure is continuing (in which case each of the Secured Parties shall (subject to (C) and (D) below) be entitled to take any such steps and proceedings as it shall deem necessary in respect of the Issuer);
  - (C) until the date falling one year after the latest maturing Note is paid in full, no Secured Party, including the Security Agent, (nor any person acting on their behalf) shall initiate or join any person in initiating any Bankruptcy Event or the appointment of any Bankruptcy Official in relation to the Issuer or any of its Compartments;
  - (D) no Secured Party, including the Security Agent, (nor any person on their behalf) shall be entitled to take or join in the taking of any steps or proceedings which would result in the applicable priority of payments under the Pledge Agreement not being observed; and
  - (E) no Secured Party (nor any person on its behalf), other than the Security Agent, shall seek to prevent the Security Agent from exercising its powers and discretions under or pursuant to the Pledge Agreement (or any other Transaction Document), unless in the circumstances where they would be entitled to take direct action against the Issuer in accordance with the paragraphs (A) or (B) above.

“**Bankruptcy Event**” in respect of a person means: (a) such person is unable or admits its inability to pay its debts as they fall due, or suspends making payments on any of its debts or is otherwise insolvent; or (b) the value of the assets of such person is less than the amount of its liabilities, taking into account its contingent and prospective liabilities; or (c) a moratorium is declared in respect of any indebtedness of such person; or (d) the commencement of negotiations with one or more creditors of such person with a view to rescheduling any indebtedness of such person; or (e) any corporate action, legal proceedings or other procedure or step is taken in relation to: (i) the appointment of a Bankruptcy Official in relation to such person or in relation to the whole or any part of the undertaking or assets of such person; or (ii) any official or representative (excluding, in relation to the Issuer, by the Security Agent) taking possession of the whole or any part of the undertaking or assets of such person; or (iii) the making of an arrangement, or compromise, (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of such person, a reorganisation of such person, a conveyance to or assignment for the creditors of such

person generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such person generally, including without limitation a bankruptcy (*faillissement / faillite*) and a judicial reorganisation (*gerechtelijke reorganisatie / réorganisation judiciaire*); or (iv) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such person (excluding, in relation to the Issuer, by the Security Agent); or (f) any procedure or step is taken, or any event occurs, analogous to those set out in (a) to (e) above, in any jurisdiction.

**“Bankruptcy Official”** means, in relation to a person, a liquidator, (except, in the case of the Issuer, a liquidator appointed for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Agent or by an Extraordinary Resolution of the Noteholders of the Notes then outstanding), provisional liquidator, administrator, administrative receiver, receiver, manager, compulsory or interim manager, nominee, supervisor, trustee, trustee in bankruptcy, conservator, guardian or other similar officer in respect of such company or in respect of any arrangement, compromise or composition with any creditors or any equivalent or analogous officer under the law of any jurisdiction.

#### 4.11 The Security Agent

(a) Appointment

The Security Agent has been appointed by the Issuer as representative of the Noteholders in accordance with Article 271/12 of the UCITS Act and as irrevocable attorney (*mandataris / mandataire*) of the other Secured Parties, in each case upon the terms and conditions set out in the Pledge Agreement and herein.

(b) Powers, authorities and duties

The Security Agent, acting in its own name and on behalf of the Secured Parties shall have the power:

- (i) to accept the Security Interests on behalf of the Noteholders and the other Secured Parties;
- (ii) upon service of an Enforcement Notice, to proceed against the Issuer to enforce the performance of the Transaction Documents and to enforce the Security Interests on behalf of the Secured Parties;
- (iii) to collect all proceeds in the course of enforcing the Security Interests;
- (iv) to apply or to direct the application of the proceeds of enforcement in accordance with the Conditions and the provisions of the Pledge Agreement;
- (v) to instruct the Domiciliary Agent (or any substitute domiciliary agent appointed in accordance with the provisions of the Agency Agreement) to open a bank account with an Eligible Institution for the purposes of depositing the proceeds of enforcement and to give all directions to the Eligible Institution and/or the Domiciliary Agent (or its substitute) to administer such account, and to receive a power of attorney given by the Domiciliary Agent to administer such account;
- (vi) to exercise all other powers and rights and perform all duties given to the Security Agent under the Transaction Documents; and
- (vii) generally, to do all things necessary in connection with the performance of such powers and duties.

“**Eligible Institution**” means a credit institution within the meaning of the Belgian law of 25 April 2014 on credit institutions.

The Security Agent may delegate the performance of any of the foregoing powers to any persons (including any legal entity) whom it may designate. Notwithstanding any sub-contracting or delegation of the performance of its obligations under the Pledge Agreement, the Security Agent shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of the obligations of the Security Agent under the Pledge Agreement and shall be jointly and severally liable for the performance or non-performance or the manner of performance of any sub-contractor, agent or delegate and such sub-contracting or delegation shall not affect the Security Agent’s obligations under the Pledge Agreement.

The Security Agent has also been appointed as irrevocable agent (*mandataris / mandataire*) of the Secured Parties (other than the Noteholders). In relation to any duties, obligations and responsibilities of the Security Agent to these other Secured Parties in its capacity as agent of these other Secured Parties in relation to the Pledged Assets and under or in connection with the Transaction Documents, the Security Agent and these other Secured Parties agree and the Issuer concurs, that the Security Agent shall discharge these duties, obligations and responsibilities by performing and observing its duties, obligations and responsibilities as representative of the Noteholders in accordance with the provisions of the Pledge Agreement, the Transaction Documents and the Conditions.

The Security Agent may in accordance with Clause 10(e) of the Pledge Agreement serve a Protection Notice as a result of which no payments shall be made from the Transaction Accounts without the prior consent of the Security Agent, provided that such will not alter the relevant Priority of Payments.

(c) Variations

The Security Agent may on behalf of the Noteholders and without the consent of the Noteholders or the other Secured Parties at any time and from time to time, concur with the Issuer or any other person in making any modification:

- (i) to the Transaction Documents which in the opinion of the Security Agent is of a formal, minor, or technical nature or is to correct a manifest error or to comply with the mandatory provisions of Belgian law; or
- (ii) to the Transaction Documents which in the opinion of the Security Agent is not materially prejudicial to the interests of the Noteholders, provided that such modification will have no adverse impact on the then current rating assigned to the Notes (it being understood that the fact that the then current rating of the Notes will not be adversely affected does not address whether such modification is in the best interest of, or prejudicial to, some or all of the Noteholders),

it being understood that any modification of a Transaction Document must be approved by each party thereto.

Any such modification shall be binding on the Noteholders.

In no event may such modification be a Basic Terms Modification (as defined in Condition 4.12) and except as set forth in Condition 4.12. The Security Agent shall not be bound to give notice to Noteholders of any modifications to the Transaction Documents agreed pursuant to this paragraph. The Issuer shall cause notice of any such modification to be given to the Rating Agencies, the Administrator, the Coporate Services Provider, the Servicer and the Domiciliary Agent.

If, in the Security Agent's opinion it is not sufficiently established that the proposed amendment or variation can be approved by it in accordance with this paragraph, it will determine in its full discretion whether to submit the proposal to a duly convened meeting of Noteholders or to refuse the proposed amendment or variation, or, in case of a Basic Term Modification, to ask for an approval of such Basic Term Modification by an Extraordinary Resolution.

(d) Waivers

The Security Agent may, without the consent of the Noteholders and the other Secured Parties or the Issuer, without prejudice to its right in respect of any further or other breach, condition, event or act from time to time and at any time, but only if and in so far as in its opinion the interests of Noteholders will not be materially prejudiced thereby, (i) authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any proposed or actual breach of any of the covenants or provisions contained in or arising pursuant to the Pledge Agreement, the Notes or any of the Transaction Documents, or (ii) determine that any breach, condition, event or act which constitutes (and/or which, with the giving of notice or the lapse of time and/or the Security Agent making any relevant determination and/or issuing any relevant certificate would constitute) but for such determination, an Event of Default shall not, or shall not subject to specified conditions, be treated as such for the purposes of the Pledge Agreement. Any such authorisation, waiver or determination pursuant to this clause shall be binding on the Noteholders and if, but only if, the Security Agent shall so require, notice thereof shall be given to the Noteholders and the Rating Agencies.

(e) Reliance

In determining whether or not any power, trust, authority, duty or discretion or any change, event or occurrence under or in relation to the Conditions or any of the Transaction Documents will be materially prejudicial to the interests of Noteholders, the Security Agent shall be able to rely on, and act on any advice or opinion of or any certificate obtained from a valuer, accountant, banker, broker, securities company or other company other than the Rating Agencies whether obtained by itself or the Issuer and it shall not be liable for any loss occasioned by such action, save where such loss is due to its Gross Negligence, wilful misconduct or fraud. Concurrently, the Security Agent may, along with any other relevant factors, have regard for whether the Rating Agencies have confirmed that the then current rating of the Notes, would not be adversely affected by such change, event or occurrence. The fact that the current ratings of the Notes would not be adversely affected shall not be construed to mean that any such exercise, change, event or occurrence is not materially prejudicial to the interests of the Noteholders.

(f) Conflicts of interest

In connection with the exercise of its powers, authorities and discretions, the Security Agent shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequence of such exercise for individual Noteholders.

The Security Agent shall take account of the interests of the Secured Parties to the extent that there is no conflict amongst them. To the extent that:

- (i) an actual conflict exists or is likely to exist between the interests of the Secured Parties in relation to any material action, decision or duty of the Security Agent under or in relation to the Pledge Agreement and the Conditions; and
- (ii) any of the Transaction Documents and the Conditions give the Security Agent a material discretion in relation to such action, decision or duty;

the Security Agent shall always have regard to the interests of the Noteholders in priority to the interests of the other Secured Parties.

For so long as there are any Notes outstanding, the Security Agent is to have regard solely to the interests of the Noteholders if, in the Security Agent's opinion, there is a conflict between the interests of (a) the Noteholders and (b) any other Secured Parties.

Further, to the extent that:

- (A) an actual conflict exists or is likely to exist between the interests of the Issuer, the Secured Parties and the interests of KBC Bank NV in its capacity as Seller in relation to any material action, decision or duty of the Security Agent under or in relation to the Pledge Agreement and any other Transaction Document; and
- (B) the Pledge Agreement and any other Transaction Document gives the Security Agent a material discretion in relation to such action, decision or duty;

then the Security Agent shall have regard to the interests of the Issuer and the Secured Parties (other than KBC Bank NV in its capacity as Seller) in priority to the interests of the Seller.

(g) Replacement of the Security Agent

The Noteholders shall be entitled to terminate the appointment of the Security Agent by an Extraordinary Resolution notified to the Issuer and the Security Agent, provided that:

- (i) in the same resolution a substitute security agent is appointed; and
- (ii) such substitute security agent meets all legal requirements to act as security agent and common representative and accepts to be bound by the terms of the Transaction Documents in the same way as its predecessor.

If any of the following events (each a "**Security Agent Termination Event**") occurs, namely:

- (i) an order is made or an effective resolution is passed for the dissolution (*ontbinding / dissolution*) of the Security Agent except a dissolution (*ontbinding / dissolution*) for the purpose of a merger where the Security Agent remains solvent; or
- (ii) the Security Agent ceases or threatens to cease to carry on its business or a substantial part of its business or stops payment or threatens to stop payment of its debts or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent; or
- (iii) the Security Agent defaults in the performance or observance of any of its material covenants and obligations under the Pledge Agreement or any other Transaction Document and (except where such default is incapable of remedy, when no such continuation and/or notice shall be required) such default continues unremedied for a period of thirty (30) Business Days after the earlier of the Security Agent becoming aware of such default and receipt by the Security Agent of written notice from the Issuer requiring the same to be remedied; or
- (iv) the Security Agent becomes subject to any bankruptcy (*faillissement / faillite*), judicial reorganisation (*gerechtelijke reorganisatie / réorganisation judiciaire*), as applicable, or other insolvency procedure under applicable laws; or

- (v) the Security Agent is unable to perform its material obligations under the Pledge Agreement for a period of twenty (20) Business Days by circumstances beyond its reasonable control or *force majeure*; or
- (vi) the Security Agent no longer meets the conditions set out in the UCITS Act and any implementing royal decrees containing the requirements for the appointment of an agent for Noteholders in accordance with Article 271/12 §1 first to seventh indent of the UCITS Act;

then the Issuer shall by written notice to the Security Agent, the other Secured Parties and the Rating Agencies terminate the powers delegated to the Security Agent under the Pledge Agreement and the Transaction Documents with effect from a date (not earlier than the date of the notice) specified in the notice and appoint a substitute security agent selected by the Issuer which shall act as security agent until a new security agent is appointed by the general meeting of Noteholders which shall promptly be convened by the Issuer. Upon such selection being made and notified by the Issuer to the Secured Parties in a way deemed appropriate by the Issuer all rights and powers granted to the company then acting as Security Agent shall terminate and shall automatically be vested in the substitute security agent so selected. All references to the Security Agent in the Transaction Documents shall where and when appropriate be read as references to the substitute security agent as selected and upon vesting of rights and powers pursuant this clause.

Such termination shall also terminate the appointment and power of attorney by the other Secured Parties. The other Secured Parties hereby irrevocably agree that the substitute security agent shall from the date of its appointment act as attorney (*mandataris / mandataire*) of the other Secured Parties on the terms and conditions set out in these Conditions and the Transaction Documents.

The Security Agent shall not be discharged from its responsibilities under the Pledge Agreement until a suitable substitute security agent, which has been accepted by the Issuer and the Noteholders (such approval not being unreasonably withheld) is appointed.

(h) Accountability, Indemnification and Exoneration of the Security Agent

If so requested in advance by the board of directors of the Issuer, the Security Agent shall report to the general meeting of Noteholders on the performance of its duties under the Pledge Agreement and the Transaction Documents provided such request is notified by registered mail no later than ten (10) Business Days prior to the relevant general meeting of Noteholders. The board of directors of the Issuer shall require such report if so requested by those Noteholders who have requested that such general meeting be convened.

The Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Security Agent and providing for its indemnification in certain circumstances, including provisions relieving the Security Agent from taking enforcement proceedings or enforcing the Security Interests unless indemnified to its satisfaction.

The Security Agent shall not be liable to the Issuer or any of the Secured Parties (other than the Security Agent) in respect of any loss or damage which arises out of the exercise, or the attempted exercise of, or the failure to exercise any of its powers or any loss resulting there from, except that the Security Agent shall be liable for such loss or damage that is caused by its Gross Negligence, wilful misconduct or fraud.

The Security Agent shall not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Pledged Assets, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Servicer or any agent or related company of the Servicer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Security Agent.

The Security Agent shall have no liability for any breach of or default under its obligations under the Transaction Documents if and to the extent that such breach is caused by any failure on the part of the Issuer, any of the Secured Parties (other than the Security Agent) to duly perform any of their material obligations under any of the Transaction Documents. In the event that the Security Agent is rendered unable to duly perform its obligations under the Transaction Documents by any circumstances beyond its control (*overmacht / force majeure*), the Security Agent shall not be liable for any failure to carry out its obligations under the Transaction Documents which are thus affected by the event in question and, for so long as such circumstances continue, its obligations under the Transaction Documents which are thus affected will be suspended without liability for the Security Agent.

The Security Agent shall not be responsible for monitoring the compliance by any of the other parties (including the Issuer and the Servicer) with their obligations under the Transaction Documents. The Security Agent may, until it has actual knowledge or express notice to the contrary, assume the Issuer and the Servicer are observing and performing all their obligations under any of the Transaction Documents and in any notices or acknowledgements delivered in connection with any such Transaction Documents.

The Security Agent shall not be responsible for ensuring that any Security Interest is created by, or continues to be managed by, the Issuer, the Security Agent, or any other person in such a manner as to create or maintain sufficient control to obtain the type of Security Interest described in the Pledge Agreement in relation to the assets of the Issuer which are purported to be secured thereby, provided that it complies with the provisions of the Transaction Documents.

Except if such meeting is convened by the Security Agent, but only to the extent that any defect has arisen directly from the Security Agent's Gross Negligence, wilful misconduct or fraud, the Security Agent shall not be liable for acting upon any resolution purporting to have been passed at any meeting of the Noteholders in respect whereof minutes have been made and signed even though subsequent to its acting it may be found that there was some defect in the constitution of the meeting or passing of the resolution or that for any reason the resolution was not valid or binding upon such Noteholders.

If the Security Agent has acted upon such resolution, each Noteholder shall forthwith on demand indemnify the Security Agent for its *pro rata* share in any liability, loss or expense incurred or expected to be incurred by the Security Agent in any way relating to or arising out of its acting as Security Agent in respect of that resolution, except to the extent that the liability or loss arises directly from the Security Agent's Gross Negligence, wilful misconduct or fraud. The liability shall be divided between the Noteholders *pro rata* according to the respective Principal Amount Outstanding of the Notes held by each of them respectively.

(i) Instructions and indemnity

The Security Agent shall not be bound to take any action under its powers or duties other than those referred to in paragraph (i), (iii) and (v) of Condition 4.11(b) and Condition 4.11(c) unless:

- (A) it shall have been directed to do so by an Extraordinary Resolution of the holders of the Notes then outstanding; or it shall have been requested to do so by the holders of not less than fifty (50) per cent. in Principal Amount Outstanding of the Notes then outstanding and held by External Investors; or it shall have been requested to do so by the holders of not less than ten (10) per cent. in Principal Amount Outstanding of the Notes then outstanding; and
- (B) it shall in all cases have been indemnified to its satisfaction against all liability, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses



which may be incurred by it in connection therewith, save where these are due to its own Gross Negligence, wilful misconduct or fraud.

Whenever the interests of the Noteholders are or can be affected in the opinion of the Security Agent, the Security Agent may – if indemnified to its satisfaction - take legal action on behalf of the Noteholders and represent the Noteholders in any insolvency proceeding and any other legal proceedings initiated against the Issuer or any other party to a Transaction Document.

The Security Agent can under no circumstances, including the situation wherein Noteholders' instruction or approval cannot be obtained for whatever reason, be required to act without it being remunerated and indemnified or secured to its satisfaction.

The Security Agent shall be indemnified by the Issuer and held harmless, in respect of any and all liabilities and expenses incurred by it or by anyone appointed by it or to whom any of its functions may be delegated by it in carrying out its functions.

(j) Parallel Debt

In the Parallel Debt Agreement the Issuer will irrevocably and unconditionally undertake to pay to the Security Agent an amount equal to the aggregate amount due (*verschuldigd / dû*) by the Issuer (the “**Parallel Debt**”):

- (i) to the Noteholders under the Notes;
- (ii) as expenses or other amounts to the Issuer Directors under the Issuer Management Agreements;
- (iii) as fees and expenses to the Servicer under the Issuer Services Agreement;
- (iv) as fees and expenses to the Administrator under the Issuer Services Agreement;
- (v) as fees and expenses to the Corporate Services Provider under the Issuer Services Agreement;
- (vi) as fees and expenses to the Domiciliary Agent, the Reference Agent and the Listing Agent under the Agency Agreement;
- (vii) to the Swap Counterparty under the Swap Agreement, excluding the return of Excess Swap Collateral;
- (viii) the Account Bank under the Account Bank Agreement;
- (ix) to the Seller under the SME Receivables Purchase Agreement; and
- (x) to the Subordinated Loan Provider under the Subordinated Loan Agreement and the Expenses Subordinated Loan Agreement.

(together the “**Secured Parties**”).

The Parallel Debt constitutes a separate and independent obligation of the Issuer and constitutes the Security Agent's own separate and independent claim to receive payment of the Parallel Debt from the Issuer. Upon receipt by the Security Agent of any amount in payment of the Parallel Debt, the payment obligations of the Issuer to the Secured Parties shall be reduced by an amount equal to the amount so received.

To the extent that the Security Agent irrevocably and unconditionally receives any amount in payment of the Parallel Debt, the Security Agent shall distribute such amount among the Secured Parties in accordance with the Priority of Payments upon Enforcement. The amounts due to the Secured Parties, will be the sum of:

- (A) amounts recovered by it on the SME Receivables and the other Pledged Assets; and
- (B) the amounts received in connection with the Pledge Agreement and penalty provided in the SME Receivables Purchase Agreement insofar such penalty relates to the SME Receivables and the other Pledged Assets; and
- (C) the *pro rata* part of amounts received from any of the Secured Parties, as received or recovered by any of them pursuant to the Parallel Debt Agreement;
- (D) **less** any amounts already paid by the Security Agent to the Secured Parties pursuant to the Pledge Agreement, and
- (E) **less** the *pro rata* part of the costs and expenses of the Security Agent (including, for the avoidance of doubt, any costs of, *inter alia*, the Rating Agencies and any legal advisor, auditor or accountant appointed by the Security Agent).

#### **4.12 Meetings of Noteholders, Modifications and Waivers**

The Articles 568 to 580 of the Company Code (*Wetboek van vennootschappen / Code des sociétés*) shall only apply to the extent that the Conditions, the articles of association of the Issuer or the Transaction Documents do not contain provisions which differ from the provisions contained in such articles.

The Pledge Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting the interests of Noteholders, including proposals by Extraordinary Resolution to modify, or to sanction the modification of the Notes (including these Conditions) or the provisions of any of the Transaction Documents.

Any resolution passed at a meeting of the Noteholders duly convened and held in accordance with the Conditions shall be binding upon all the Noteholders whether present or not present at such meeting and whether or not voting, provided that no Basic Terms Modification shall be effective unless the modification is approved by an Extraordinary Resolution in accordance with the rules set out in the Pledge Agreement for approving a Basic Terms Modification, except that if the Security Agent is of the opinion that such Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid an Event of Default, no such Extraordinary Resolution is required. For the avoidance of doubt, any modification (regardless of whether such modification is a Basic Terms Modification or not), shall require the consent of the Issuer.

The Board of Directors of the Issuer or the Auditors for the time being of the Issuer may at any time or upon a request in writing of (i) Noteholders holding not less than one-tenth of the Principal Amount Outstanding of the Notes for the time being outstanding, (ii) Noteholders holding not less than fifty (50) per cent. of the Principal Amount Outstanding of the Notes for the time being outstanding and held by External Investors, or (iii) the Security Agent (subject to its being indemnified to its satisfaction against all costs and expenses thereby occasioned), shall convene a general meeting of the Noteholders.

Any variation, modification, abrogation, cancellation or waiver of certain terms, including the date or priority of redemption of any of the Notes, any modification which would have the effect of postponing any day for payment of interest thereon, reducing or cancelling the amount of principal

payable in respect of the Notes or the rate of interest applicable thereto or altering the currency of payment thereof or of the majority required to pass an Extraordinary Resolution or altering the definition of an Event of Default, or altering the Security Agent's duties in respect of the Security Interests is referred to herein as a "**Basic Terms Modification**".

The quorum at any meeting of Noteholders for passing an Extraordinary Resolution (other than where the business of such meeting includes the proposal of a Basic Terms Modification (as defined above)) will be one or more persons holding or representing over fifty (50) per cent. of the Principal Amount Outstanding of the Notes then outstanding or at any adjourned meeting one or more persons being or representing Noteholders (as the case may be) whatever the Principal Amount Outstanding of the Notes then outstanding so held or represented and no business (other than the choosing of a chairman) shall be transacted at any such meeting unless the requisite quorum be present at the commencement of business. The quorum at any meeting of Noteholders for passing an Extraordinary Resolution in respect of a Basic Terms Modification shall be (i) one or more persons holding or representing not less than seventy-five (75) per cent. of the Principal Amount Outstanding of the Notes then outstanding and (ii) if any of the Notes are being held by External Investors, one or more persons holding or representing not less than seventy-five (75) per cent. of the Principal Amount Outstanding of the Notes then outstanding and held by such External Investors or, at any adjourned meeting, (i) one or more persons representing not less than twenty-five (25) per cent. of the Principal Amount Outstanding of the Notes then outstanding and (ii) if any of the Notes are being held by External Investors, one or more persons representing not less than twenty-five (25) per cent. of the Principal Amount Outstanding of the Notes then outstanding and held by External Investors.

"**Affiliated Entity**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company.

"**External Investor**" means any person or entity other than (i) the Issuer or (ii) the Seller.

"**Holding Company**" of any other person, means a person in respect of which that other person is a Subsidiary.

"**Subsidiary**" means an entity of which a person has direct or indirect control or owns directly or indirectly more than 50 per cent. of the voting capital or similar right of ownership and **control** for this purpose means the power to direct the management and the policies of the entity whether through the ownership of voting capital, by contract or otherwise.

The majority required for an Extraordinary Resolution shall be (i) seventy-five (75) per cent. of the votes cast on that resolution and (ii) if any of the Notes are being held by External Investors, seventy-five (75) per cent. of the votes cast with respect to Notes held by External Investors, whether on a show of hands or a poll.

The majority for every resolution other than an Extraordinary Resolution shall be a simple majority.

At any general meeting (a) on a show of hands every Noteholder (being an individual) who is present in person and produces a block voting certificate with respect to a Note or is a proxy shall have one vote and (b) on a poll, every person who is so present shall have one vote in respect of each EUR 250,000 in Principal Amount Outstanding of Notes so represented by the block voting certificate so produced or in respect of which that person is a proxy.

The Seller and the Issuer shall, and will cause any Affiliated Entity of the Issuer or the Seller to, indicate their identity on each block voting certificate or proxy. The Security Agent may request Noteholders to identify themselves for the purpose of determining whether they are External Investors.

The Issuer may with the consent of the Security Agent and without the consent of the Noteholders prescribe such other or further regulations regarding the holding of meetings of Noteholders and attendance and voting thereat as are necessary to comply with Belgian law.

#### **4.13 Notice to Noteholders**

All notices, other than notices given in accordance with the next paragraphs to the Noteholders shall be deemed to have been duly given if a notice in English, Dutch and French is published in a leading daily newspaper with general circulation in Belgium (which is expected to be *L'Echo* and *De Tijd*). If any such publication is not practicable, publication may be in another leading newspaper printed in the relevant language having general circulation in Europe (which is expected to be the *Financial Times*) or Belgium, as the case may be, previously approved in writing by the Security Agent. Notices of meetings of Noteholders shall in addition be published in the *Belgisch Staatsblad / Moniteur belge* (the “**Belgian Official Gazette**”). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in one of the newspapers referred to above. Notices of meetings of Noteholders shall be published once at least fifteen (15) calendar days before the date of the meeting, but the Security Agent shall not be responsible for any failure to comply with such publication requirements if nevertheless any meeting of Noteholders is duly convened and held in accordance with the Company Code, Condition 4.12 hereof and the relevant provisions contained in the Pledge Agreement.

Notices to the Noteholders of the availability of the reports and of meetings of Noteholders will also be given by delivery of the relevant notice to the Securities Settlement System Operator for communication by it to the participants of the Securities Settlement System. No notifications in any such form will be required for convening meetings of Noteholders if all Noteholders have been identified and have been given an appropriate notice by registered mail.

Notices specifying a Monthly Payment Date, a Floating Rate of Interest, an Interest Amount, a Principal Redemption Amount (or absence thereof) or a Principal Amount Outstanding or relating generally to payment dates, payments of interest, interest rates, repayments of principal and other relevant information with respect to the Notes shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of Bloomberg or such other medium for the electronic display of data as may be approved by the Security Agent and notified to the Noteholders (the “**Relevant Screen**”) at least two (2) Business Days before a Monthly Payment Date. Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen or if it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Condition shall be given in accordance with the preceding paragraph. Such notices may also be distributed by the Arranger or the Security Agent to the extent the Noteholders have been identified.

#### **4.14 Governing Law**

The Notes and all Transaction Documents other than the documents set out hereafter are governed by, and should be construed in accordance with, Belgian law.

The Swap Agreement is governed by, and should be construed in accordance with, English law.

The courts of Brussels, Belgium are to have jurisdiction to settle any dispute which may arise out of or in connection with the Notes and the Transaction Documents, including the Swap Agreement.

## 30. PURCHASE AND SALE

KBC Bank NV (the “**Manager**”) has pursuant to a subscription agreement to be dated on or about 31 March 2017, entered into between the Manager, the Issuer and the Seller (the “**Subscription Agreement**”) agreed with the Issuer, subject to certain conditions, to subscribe and pay for or to procure subscription and payment for the Notes at their respective issue prices. KBC Bank NV may acquire a substantial part of the Notes, which may result in KBC Bank NV holding a participation exceeding seventy-five (75) per cent. of the Principal Amount Outstanding of the Notes. In addition, Affiliated Entities of KBC Bank NV may also subscribe to the Notes. The Issuer has agreed to pay certain fees and to indemnify and reimburse the Arranger and the Manager against certain liabilities and expenses in connection with the issue of the Notes.

### 30.1 General

The distribution of this Prospectus and the offering and sale of the Notes in certain jurisdictions may be restricted by law; persons into whose possession this Prospectus comes are required by the Issuer and the Manager to inform themselves about and to observe any such restrictions, including those set out in the following paragraphs. No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. This Prospectus or any part thereof does not constitute an offer, or an invitation to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

The Manager has undertaken not to offer or sell directly or indirectly any Notes, or to distribute or publish this Prospectus or any other material relating to the Notes in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

### 30.2 General Holding and Transfer Restrictions

The Notes are only offered, directly or indirectly to holders who satisfy the following criteria (“**Eligible Holders**”):

- (1) they qualify as qualifying investors (*in aanmerking komende beleggers / investisseurs éligibles*) within the meaning of Article 5, §3/1 of the UCITS Act (“**Qualifying Investors**”), acting for their own account;
- (2) they do not constitute investors that, in accordance with annex A, (I), second indent, of the Royal Decree of 3 June 2007 concerning further rules for implementation of the directive on markets in financial instruments (“**Mifid**”), have registered to be treated as non-professional investors; and
- (3) they qualify as a holder of an exempt securities account (“**X-account**”) with the Securities Settlement System operated by the National Bank of Belgium or (directly or indirectly) with a participant in such system and will use that X-Account for the holding of the Notes.

The Notes may only be acquired, by direct subscription, by transfer or otherwise and may only be held by Eligible Holders.

A list of, for the time being, Qualifying Investors is attached as Annex I.

The minimum investment required per investor acting for its own account is EUR 250,000.

Any acquisition of a Note by, or transfer of a Note to, a person who is not an Eligible Holder or to a person who is an Excluded Holder shall be void and not binding on the Issuer and the Security Agent. If a

Noteholder ceases to be an Eligible Holder or becomes an Excluded Holder, it is obliged to report this to the Issuer and it will promptly transfer the Notes it holds to a person that qualifies as an Eligible Holder or that does not qualify as an Excluded Holder.

Each payment of interest on Notes of which the Issuer becomes aware that they are held by a holder that does not qualify as an Eligible Holder or that qualifies as an Excluded Holder, will be suspended.

The Manager will not, after the initial distribution, offer and sale of the Notes as provided in the Subscription Agreement, have any obligation whatsoever to ensure that the Notes are offered, sold, delivered or held by Eligible Holders.

In addition, the following sale and purchase restrictions will apply:

- **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), the Manager has represented and agreed that it has not made and will not make an offer of the Notes to the public in that Relevant Member State, except that it may make an offer of the Notes to the public in a Relevant Member State at any time:

- (1) to any legal entity which is a qualified investors as defined in the Prospectus Directive;
- (2) to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the Directive 2010/73 (amending the Prospectus Directive) 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (3) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 (2) of the Prospectus Directive,

provided always that such offering shall be restricted to Qualifying Investors only and that such offer shall not require the Issuer or the Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State. This expression “offer of the Notes to the public” should however not be understood as defined in the Prospectus Directive.

The Issuer does not intend to request that the FSMA provides the competent authority of other EEA Member States a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive. In any EEA Member State, offers of Notes can only be made pursuant to an exemption from the obligation under the Prospectus Directive as implemented in such Member State, to publish a prospectus.

- **Kingdom of Belgium**

The Prospectus and related documents are not intended to constitute a public offer in Belgium and may not be distributed to the Belgian public and no steps may be taken which would constitute or result in a public offering in Belgium. This offering constitutes a private placement and this Prospectus has been submitted to the FSMA only for the purpose of the admission to trading of the Notes on Euronext Brussels

Any offer will be made in Belgium exclusively to investors (“**Eligible Holders**”) who satisfy the following criteria:

- (1) they qualify as a qualifying investor within the meaning of Article 5, §3/1 of the UCITS Act (“**Qualifying Investors**”), acting for their own account;
- (2) they do not constitute investors that, in accordance with annex A, (I), second indent, of the Royal Decree of 3 June 2007 concerning further rules for implementation of the directive on markets in financial instruments (“**Mifid**”), have registered to be treated as non-professional investors; and
- (3) they qualify as a holder of an exempt securities account (“**X-account**”) with the Securities Settlement System operated by the National Bank of Belgium or (directly or indirectly) with a participant in such system and will use that X-Account for the holding of the Notes.

The Notes may only be acquired, by direct subscription, by transfer or otherwise and may only be held by Eligible Holders.

The minimum investment required per investor acting for its own account is EUR 250,000.

This Prospectus is intended for the confidential use of the offeree, and may not be reproduced or used for any other purpose.

- **United Kingdom**

The Manager has represented and agreed that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**UK FSMA**”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21 (1) of the UK FSMA does not apply to the Issuer and (ii) it has complied and will comply with all applicable provisions of the UK FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

- **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, a U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Notes are being offered, sold or delivered only to non-U.S. persons (within the meaning of Regulation S) in offshore transactions in reliance on Regulation S.

The Manager has agreed that it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (the “**distribution compliance period**”) within the United States or to, or for the account or benefit of, U.S. persons (within the meaning of Regulation S), and it will have sent to

each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after the later of the commencement of the offering of the Notes and the Closing Date, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

- **Excluded holders**

The Notes may not be acquired by a Belgian or foreign transferee who is not subject to income tax or who is, as far as interest income is concerned, subject to a tax regime that is deemed by the Belgian tax authorities to be significantly more advantageous than the common Belgian tax regime applicable to interest income (within the meaning of Articles 54 and 198, 11° of the Belgian Income Tax Code 1992 or any successor provision).

Furthermore, no Notes may be acquired by a Belgian or foreign transferee that qualifies as an “affiliated company” (within the meaning of Article 11 of the Company Code) of the Issuer, save where such transferee also qualifies as a “financial institution” referred to in Article 56, §2, 2° of the Belgian Income Tax Code 1992.

Notes may not be acquired by a Belgian or foreign transferee being a resident of or having an establishment in, or acting, for the purposes of the Notes, through a bank account held on a tax haven jurisdiction, a low-tax jurisdiction or a non-cooperative jurisdiction as referred to in Article 307, §1, fifth indent of the Belgian Income Tax Code of 1992 or any successor provision.



### 31. DEFINED TERMS

In addition to the terms defined in this Prospectus, the following terms have the following meaning:

“**Additional Security**” means with regard to any SME Loan, all claims, whether contractual or in tort, against any insurance company, notary public, Mortgage Registrar, public administration, property expert, broker or any other person in connection with such SME Loans or the related Mortgaged Assets or Loan Security or in connection with the Seller’s decision to grant such SME Loans and in general any other security or guarantee other than the Loan Security created or existing in favour of the Seller as security for a SME Loan;

“**Agreed Form**” means, in relation to any document, the form of the document which has been agreed between the parties thereto;

“**All Sums Farmers’ Lien**” means a Farmers’ Lien which is used to secure all other amounts which the Borrower owes or in the future may owe to the Seller in addition to amounts which the Borrower owes under the SME Loans;

“**All Sums Floating Charge**” means a Floating Charge which is used to secure all other amounts which the Borrower owes or in the future may owe to the Seller in addition to amounts which the Borrower owes under the SME Loans;

“**All Sums Mortgage**” means a Mortgage which is used to secure all other amounts which the Borrower owes or in the future may owe to the Seller (*alle sommen hypotheek/hypothèque pour toute somme*) in addition to amounts which the Borrower owes under the SME Loans;

“**All Sums Security Interest**” means an All Sums Floating Charge, an All Sums Mortgage, All Sums Farmers’ Lien or any other security interest granted by the relevant Borrower which is used to secure all other amounts which such Borrower owes or in the future may owe to the Seller in addition to amounts which such Borrower owes under the SME Loans;

“**Average Prepayment Rate**” means the average of the Constant Prepayment Rate over the past 3 months;

“**Code of Economic Law**” means the Belgian code of economic law (*Wetboek Economisch Recht/Code de Droit Économique*) dated 28 February 2013, as amended from time to time;

“**Collateral Law**” means the Law of 15 December 2004 on financial collateral (*Wet van 15 december 2004 betreffende financiële zekerheden en houdende diverse fiscale bepalingen inzake zakelijke-zekerheidsovereenkomsten en leningen met betrekking tot financiële instrumenten / Loi du 15 décembre 2004 relative aux sûretés financières et portant des dispositions fiscales diverses en matière de conventions constitutives de sûreté réelle et de prêts portant sur des instruments financiers*), as amended from time to time;

“**Compartment**” means a compartment within the meaning of article 271/11 of the UCITS Act;

“**Compartment SME Loan Invest 2017**” means the Compartment of the Issuer to which the assets and liabilities relating to the SME Receivables and the Notes are allocated (*Compartment SME Loan Invest 2017*);

“**Constant Prepayment Rate**” or “**CPR**” means the prepayment speed of the underlying collateral;

“**Contract Records**” means the file or files, books, magnetic tapes, disks, cassettes or such other method of recording or storing information from time to time relating to each SME Loan and Related Security,

containing, *inter alia*, (i) the Mortgage Deeds and all material records and correspondence relating to the SME Loans, the Loan Security and Additional Security and/or the Borrower, (ii) the completed Standard Loan Documentation applicable to the SME Loan and (iii) any payment, arrears and status reports maintained by the Servicer;

“**Credit Policies**” means the procedures, policies and practices currently applied by the Seller with regard to the origination, credit collection and administration and underwriting criteria of its SME Loans, provided that if the Seller no longer acts as Servicer, any collection and administration procedures and policies to be agreed between the Issuer and the new servicer;

“**Cut-Off Date**” means 31 March 2017;

“**DBRS Rating**” means:

- (a) DBRS’ public rating;
- (b) if no public rating exists, the DBRS’ private rating; or
- (c) if no public or private rating exists, DBRS’ internal assessment.

“**DBRS Required Minimum Ratings**” means a rating of at least, in respect of long term unsecured, unguaranteed and unsubordinated debt obligations from DBRS of A, or such lower rating as is required to maintain the then current rating assigned to the Notes by DBRS. An institution will be considered to meet the DBRS Required Minimum Rating if:

- (a) the institution has been assigned a critical obligations rating by DBRS (a “**COR**” ) and the rating that is one notch below the assigned COR meets the DBRS Required Minimum Rating; or
- (b) if no COR has been assigned to the institution, the higher of the issuer rating or the long-term senior unsecured debt rating assigned to the institution by DBRS meets the DBRS Required Minimum Rating.

“**Debt Insurance Policy**” means any insurance policy covering the risk of death of any Borrower of a SME Loan (*schuldsaldoverzekerings/assurance solde restant dû*);

“**Defaulted Receivable**” means a SME Receivable which has been qualified by the Servicer as dubious (“dubious”) in accordance with the Seller’s normal credit risk management. The Servicer considers a SME Receivable as dubious when it gets the classification of PD 12 (probability of default 12).

“**Deferred Purchase Price Available Amount**” means, on any Monthly Payment Date, an amount equal to:

- (a) prior to delivery of an Enforcement Notice, the positive difference, if any, between the Notes Interest Available Amount as calculated on each Monthly Calculation Date and the sum of all amounts payable by the Issuer as set forth in the Interest Priority of Payments under (i) up to and including (xiv); or, as the case may be,
- (b) following delivery of an Enforcement Notice, the amount remaining after all the payments as set forth in the Priority of Payments upon Enforcement under (i) up to and including (xi) (see Credit Structure above) on such date have been made.

“**Delinquent Receivable**” means a SME Receivable of which all or part of the Outstanding Principal Amount remains unpaid past its due date for more than 90 days.

“**Disputed SME Receivable**” means any SME Receivable in respect of which payment is disputed (in whole or in part, with or without justification) by the Borrower of such SME Loan, or in respect of which a set-off or counterclaim is being claimed by such Borrower; for the avoidance of doubt, a SME Receivable shall not be a Disputed SME Receivable by reason merely of the fact that any payment thereunder is not made, that the Borrower is in default, insolvent or subject to a *collectieve schuldenregeling / règlement collectif de dettes*, that the Borrower is seeking from the courts the benefit of a grace period;

“**Existing Loan**” means any loan or advance originated by the Seller that is secured by the same All Sums Security Interest as an SME Loan (whether the All Sums Security Interest was created before or after the loan or advance was originated) and any advance made available by the Seller under a revolving facility (*kredietopening / ouverture de crédit*) that is secured by the same All Sums Security Interest as an SME Loan, before the Closing Date and which has not been transferred to the Issuer;

“**Extraordinary Resolution**” means a resolution passed at a meeting of Noteholders convened and held in accordance with the Pledge Agreement by a majority of not less than (i) seventy-five (75) per cent. of the votes cast on that resolution and (ii) seventy-five (75) per cent. of the votes cast with respect to Notes held by External Investors, whether on a show of hands or a poll;

“**Fitch Required Minimum Ratings**” means: (i) a short-term IDR of at least F1 by Fitch (the **Fitch Required Minimum Short Term Rating**); or (ii) a long term IDR of at least A by Fitch (the **Fitch Required Minimum Long Term Rating**).

“**FSMA**” means the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten / Autorité des services et marchés financiers*), formerly named the Belgian Banking, Finance and Insurance Commission (*Commissie voor het Bank-, Financier- en Assurantiewezen / Commission bancaire, financière et des assurances*) and renamed pursuant to the Royal Decree of 3 March 2011 regarding the evolution of the financial supervisory architecture for the financial sector (*Arrêté royal mettant en oeuvre l'évolution des structures de contrôle du secteur financier / Koninklijk besluit betreffende de evolutie van de toezichtstructuur voor de financiële sector*).

“**Further Loan**” means any loan or advance originated by the Seller that is secured by the same All Sums Security Interest as a SME Loan and any advance made available by the Seller under a revolving facility (*kredietopening/ouverture de crédit*) that is secured by the same All Sums Security Interest as a SME Loan, after the Closing Date and which has not been transferred to the Issuer;

“**Hazard Insurance Policy**” means an insurance covering fire and/or kindred perils in respect of any Mortgaged Assets;

“**Instalments**” means in respect of any SME Loan, the aggregate amount of principal and interests which is scheduled to be payable on a particular date or after a particular period in accordance with the contractual terms of such SME Loan (as amended from time to time);

“**Loan Security**” means in respect of a SME Loan, any Mortgage and, as the case may be, Mortgage Mandate, any Floating Charge, and, as the case may be, any Floating Charge Mandate, any Farmers' Lien and, as the case may be, any Farmers' Lien Mandate, and all rights, title, interest and benefit relating to any Insurance Policies, any guarantee provided for such SME Loan, any assignment of salaries (*loonsoverdracht / cession de salaire*) that the Borrower may earn and any other type of any mortgage (*hypotheek / hypothèque*), privilege (*voorrecht / privilège*), pledge, encumbrance, assignment, right of retention, subordination, right of set-off or any security interest whatsoever, however so created or arising whether relating to existing or future assets, each to the extent expressly referred to in the loan documentation governing the SME Loan;

“**Member State**” means a member state of the European Union;

“**Mortgage**” means, in relation to each SME Loan, a mortgage (*hypotheek / hypothèque*) as such term is construed under Belgian law securing the SME Loan, together with the benefit of all rights relating thereto, including, for the avoidance of doubt, a mortgage created for the benefit of the Issuer pursuant to the exercise of a Mortgage Mandate;

“**Mortgage Act**” means the Belgian Act of 16 December 1851 on mortgages (*Hypotheekwet van 16 december 1851/Loi hypothécaire du 16 décembre 1851*), as amended from time to time;

“**Mortgage Deed**” means notarially certified copies of the notarial deeds constituting a Mortgage;

“**Mortgage Mandate**” means, in relation to any SME Loan, an irrevocable power of attorney granted by a Borrower or a third party collateral provider to certain attorneys to create a mortgage as security for the SME Loan and, as the case may be, all other amounts which the Borrower owes or in the future may owe to the Seller;

“**Mortgage Register**” means the office (*hypotheekkantoor / bureau des hypothèques*) where mortgages are or are to be registered in accordance with the Mortgage Act;

“**Mortgage Registrar**” means the person (*hypotheekbewaarder / conservateur des hypothèques*) who registers mortgages at the Mortgage Register in accordance with the Mortgage Act;

“**Origination Date**” means, in respect of a Loan, the date on which it was first advanced by the Originator to the Borrower.

“**Prepayment Penalty**” means a prepayment penalty due in the event of a voluntary prepayment of principal on any SME Loan prior to its scheduled due date in accordance with the provisions for prepayments provided for in the contractual terms of such SME Loans;

“**Real Estate**” means a real property or soil destined for real property construction located in Belgium;

“**Related Security**” means the Loan Security and the Additional Security;

“**Required Minimum Ratings**” means the Fitch Required Minimum Ratings and the DBRS Required Minimum Ratings;

“**Securities Pledged Accounts**” means the securities accounts held by the Issuer with the Account Bank to which the Permitted Investments are credited;

“**Seller Loans**” means the Existing Loans and the Further Loans;

“**Share Capital Account**” means the bank account of the Issuer, acting through its Compartment SME Loan Invest 2017, held with the Account Bank with number IBAN BE72 7350 4559 2816 to which certain amounts payable to the Issuer under the Pledge Agreement will be transferred;

“**Shared Security**” means Related Security of which the Issuer and the Seller share the benefit, as it secures both the SME Receivable (security in favour of the Issuer) and other loans, if any, or any other obligations owing from time to time to the Seller, if any (security in favour of the Seller);

“**Standard Loan Documentation**” means the standard documents and forms used for originating SME Loans through the network and according to the procedures of the Seller, attached as Schedule 1 to the SME Receivables Purchase Agreement;

“**Tax**” shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any

failure to pay or any delay in paying any of the same) imposed or levied by any government, state or municipality or any local, state, federal or other authority, body or official exercising a fiscal, revenue, customs or excise function;

“**Tax Deduction**” means any deduction or withholding on account of any Tax, duties, assessment or charges of whatever nature imposed or levied by or on behalf of the Kingdom of Belgium or any political subdivision or authority thereof or therein;

“**UCITS Act**” means the Act of 3 August 2012 on institutions for collective investment that satisfy the criteria of directive 2009/65/EC and on institutions for investment in receivables (*Wet betreffende de instellingen voor collectieve belegging die voldoen aan de criteria van Richtlijn 2009/65/EG en de instellingen voor belegging in schuldvorderingen / Loi relative aux organismes de placement collectif qui répondent aux conditions de la Directive 2009/65/CE et aux organismes de placement en créances*) as amended from time to time; and

“**Weighted Average Life**” or “**WAL**” means the weighted average number of years that each euro of unpaid principal due on the SME Receivables remains outstanding.

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## ANNEX 1 – QUALIFYING INVESTORS UNDER THE UCITS ACT

Pursuant to Article 5, §3 and §3/1 of the UCITS Act, Qualifying Investors are the “professional investors” (“**Professional Investors**”). A royal decree may restrict or extend this definition. The professional investors are the professional clients listed under Annex A of the royal decree of 3 June 2007 and the eligible counterparties in the meaning of Article 3, §1 of the royal decree of 3 June 2007, namely:

- (a) the Belgian and foreign legal entities that have a license or are regulated in order to be active on the financial markets including:
  - (i) the credit institutions;
  - (ii) the investment firms;
  - (iii) the other financial institutions that have a license or are regulated;
  - (iv) the insurance companies;
  - (v) the collective investment undertakings and their management companies;
  - (vi) the pension funds and their management companies;
  - (vii) the traders in commodities futures and derivated instruments (*grondstoffen termijnhandelaren / intermediaries en matières premières et instruments dérivés sur celles-ci*);
  - (viii) the local companies;
  - (ix) the other institutional investors;
- (b) the other companies than those contemplated in item a above, that satisfy at least two of the following three criteria, on individual basis:
  - (i) total balance sheet of EUR 20 million;
  - (ii) net annual turnover of EUR 40 million; and
  - (iii) equity of EUR 2 million.
- (c) national governments, Belgian state, Communities and Regions, national, regional and foreign authorities, public undertakings in charge of the public debt, central banks, international and supranational institutions as the World Bank, the IMF, the European Central Bank, the European Investment Bank, and other similar international institutions.
- (d) other institutional investors whom the main activity is the investment in financial instruments, in particular entities in relation to assets securitisation and other financing operations.

The Royal Decree of 26 September 2006 (as amended by the Royal Decree of 26 September 2013) has further modified the definition of “professional investors” for the purposes of Article 5, §3/1 of the UCITS Act as follows:

- (a) private individuals are not considered as professional investors;

- (b) professional investors that have elected to be treated as non-professional investors, as for the purposes of Article 5, §3/1 of the UCITS Act are considered as professional investors.

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