KBC BANK NV

(Incorporated with limited liability in Belgium)

Euro 10,000,000,000

Residential Mortgage Covered Bonds Programme

Arranger

KBC Bank

Dealer

KBC Bank

The date of this Base Prospectus is 27 November 2018.

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the **FSMA**) in its capacity as competent authority under Article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market, as last amended by the law dated 30 July 2018 as amended, supplemented and/or replaced from time to time (the **Belgian Prospectus Law**) to approve this document as a base prospectus (the **Base Prospectus**) for the purposes of Article 29 of the Belgian Prospectus Law and Article 5.4 of Directive 2003/71/EC as amended, supplemented and/or replaced from time to time (the **Prospectus Directive**). This approval cannot be considered as a judgement as to the opportunity or the quality of the transaction, nor on the situation of the Issuer. Application has also been made to Euronext Brussels for the Covered Bonds issued under the Programme to be listed on Euronext Brussels. References in this Base Prospectus to the Covered Bonds being listed (and all related references) shall mean that the Covered Bonds have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2014/65/EU as amended, supplemented and/or replaced from time to time of the European Parliament and of the Council on markets in financial instruments. The minimum denomination of the Covered Bonds to be issued under this Base Prospectus shall be EUR 100,000.

Innocenzo Soi
Authorised Signature

Jerome FERRI
Authorised Signatory

KBC BANK NV

(Incorporated with limited liability in Belgium)

Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme

Under this Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme (the **Programme**), KBC Bank NV (the **Issuer** or **KBC Bank**) may from time to time issue *Belgische pandbrieven/lettres de gage belges* (**Covered Bonds**) in accordance with the law of 3 August 2012 on the legal framework for Belgian covered bonds as amended, supplemented and/or replaced from time to time (the **Covered Bonds Law**) (as implemented in Articles 79 to 84 of the Law of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms as amended, supplemented and/or replaced from time to time (the **Banking Law**) and the Annex III to the Banking Law) and its implementing royal decrees and regulations.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed Euro 10,000,000,000, subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealer specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a **Dealer** and together the **Dealers**). References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds.

An investment in Covered Bonds issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*". Investors should review and consider these risk factors carefully before purchasing any Covered Bonds.

Application has been made to the FSMA in its capacity as competent authority under Article 23 of the Belgian Prospectus Law to approve this document as a Base Prospectus for the purposes of Article 29 of the Belgian Prospectus Law and Article 5.4 of the Prospectus Directive. 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. Application has also been made to Euronext Brussels for the Covered Bonds to be listed on Euronext Brussels. References in this Base Prospectus to the Covered Bonds being listed (and all related references) shall mean that the Covered Bonds have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments.

The National Bank of Belgium (the **NBB**) as supervisor (as defined in Article 3, 4° of the Banking Law) or any other supervisory authority to which relevant powers may be transferred (the **Supervisor**) has admitted the Issuer to the list of credit institutions that are authorised to issue Belgian covered bonds and has admitted the Programme to the list of authorised programmes for issuance of Belgian covered bonds. Further issuances made under the Programme shall be included in the list of the Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) on the website of the Supervisor, which at the date of this Base Prospectus is www.nbb.be.

The Base Prospectus is a prospectus for the purposes of Article 5.4 of the Prospectus Directive and the Belgian Prospectus Law. It intends to give the information with regard to the Issuer and the Covered Bonds,

which according to the particular nature of the Issuer and the Covered Bonds is necessary to enable investors to make an informed assessment of the rights attaching to the Covered Bonds and of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

Covered Bonds may be issued in dematerialised form (**Dematerialised Covered Bonds**) or in registered form (**Registered Covered Bonds**). Dematerialised Covered Bonds will be issued in dematerialised form under the Belgian Companies Code of 7 May 1999 as amended, supplemented and/or replaced from time to time (*Wetboek van Vennootschappen/Code des Sociétés*) (the **Belgian Companies Code**) and cannot be physically delivered.

Dematerialised Covered Bonds will be represented exclusively by book entries in the records of the X/N securities and cash clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**). Access to the Securities Settlement System is available through those of its Securities Settlement System participants whose membership extends to securities such as the Covered Bonds. Securities Settlement System participants include certain banks, stockbrokers (*beursvennootschappen/sociétés de bourse*), Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking, société anonyme, Luxembourg (**Clearstream, Luxembourg**), SIX SIS Ltd, Switzerland (**SIX SIS, Switzerland**), Monte Titoli S.p.A., Italy (**Monte Titoli, Italy**) and InterBolsa S.A., Portugal (**InterBolsa, Portugal**) or any other national or international NBB investors central securities depository (**NBB investor (I)CSDs**)[1]. Accordingly, the Dematerialised Covered Bonds will be eligible to clear through, and therefore accepted by Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy and InterBolsa, Portugal and investors can hold their Dematerialised Covered Bonds within securities accounts in Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs.

Registered Covered Bonds will be registered in a register maintained by the Issuer or a registrar on behalf of the Issuer (a **Registrar**) in accordance with Article 462 *et seq* of the Belgian Companies Code.

Unless otherwise stated, capitalised terms used in this Base Prospectus have the meanings set forth in this Base Prospectus. Where reference is made to the Conditions of the Covered Bonds or to the Conditions, reference is made to the Terms and Conditions of the Covered Bonds.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will be set out in a final terms document (the **Final Terms**) which, with respect to Covered Bonds to be listed on Euronext Brussels, will be filed with the FSMA. Copies of Final Terms in relation to Covered Bonds to be listed on Euronext Brussels will be published on the website of Euronext Brussels (www.euronext.com) and will also be published on the website at www.kbc.com.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s)). In the case of Covered Bonds which are to be admitted to trading on a regulated market (as defined in the Prospectus Directive) of a European Economic Area Member State other than the regulated market of Euronext Brussels (a **Host Member State**), the Issuer will request that the FSMA delivers to the competent authority of the Host Member State a certificate of approval pursuant to Article 18 of the Prospectus Directive attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

[1] The official list of participants as amended, supplemented and/or replaced from time to time can be consulted on the website of the NBB on http://www.nbb.be.

The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds intended to be listed or admitted to trading, as the case may be, on a regulated market in the European Economic Area) a Supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds. The Issuer may issue and/or agree with any Dealer or investor (as applicable) to issue Covered Bonds in a form and subject to conditions not contemplated by the Terms and Conditions or the Final Terms set out herein under a different prospectus or without prospectus.

The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended, supplemented and/or replaced from time to time (the **CRA Regulation**) will be disclosed in the applicable Final Terms.

The Covered Bonds issued under the Programme are expected on issue to be assigned a rating by Moody's Investors Service Limited or its successors (**Moody's**) and Fitch Ratings Ltd., Fitch France S.A.S. or any of their successors (**Fitch**), each of which is established in the European Union and is registered under the CRA Regulation. As such each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Details of the ratings of the Covered Bonds, if applicable, will be specified in the applicable Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

The issue price and amount of the relevant Covered Bonds will be determined at the time of offering of each Tranche or Series based on, *inter alia*, the then prevailing market conditions and will be set out in the applicable Final Terms.

The Covered Bonds may not be a suitable or appropriate investment for all investors. Accordingly, prospective investors in Covered Bonds should decide for themselves whether they want to invest in the Covered Bonds and obtain advice from a financial intermediary in that respect, in which case the relevant intermediary will have to determine whether or not the Covered Bonds are a suitable investment for them.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO CONSUMERS IN BELGIUM – Covered Bonds issued under the Programme are not intended to be offered, sold to or otherwise made available to and will not be offered, sold or otherwise made available by any Dealer to any "consumer" (*consument / consommateur*) within the meaning of the Belgian Code of Economic Law (*Wetboek economisch recht / Code de droit economique*) dated 28 February 2013 (as amended, the **Belgian Code of Economic Law**).

MIFID II PRODUCT GOVERNANCE / TARGET MARKET – The Final Terms in respect of any Covered Bonds will include a legend entitled "MiFID II Product Governance" which will outline the target

market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the target market assessment. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

BENCHMARK REGULATION – Amounts payable under the Covered Bonds may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the **Benchmark Regulation**). If any such reference rate does constitute such a benchmark, the applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**ESMA**) pursuant to article 36 of the Benchmark Regulation. Not every reference rate will fall within the scope of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the relevant Final Terms (or, if located outside the European Union, recognition, endorsement or equivalence). The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

Arranger
KBC Bank

Dealer
KBC Bank

The date of this Base Prospectus is 27 November 2018. The Base Prospectus shall be valid for a period of twelve months from its date of approval.

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STABILISATION

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager(s)) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

RISK FACTORS

In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Covered Bonds.

It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Covered Bonds. In addition, factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Covered Bonds may occur for other unknown reasons or for reasons which may not be considered significant risks by the Issuer based on the information currently available to it or which it may not currently be able to anticipate and the Issuer does not represent that the statements regarding the risks of holding any Covered Bonds are exhaustive. The sequence in which the risk factors are listed is not an indication of their likelihood to occur or of the extent of their consequences. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision and consult with their own professional advisors (if they consider it necessary).

The "Group" refers to KBC Bank NV and its subsidiaries from time to time.

THE PURCHASE OF COVERED BONDS MAY INVOLVE SUBSTANTIAL RISKS AND MAY BE SUITABLE ONLY FOR INVESTORS WHO HAVE THE KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS NECESSARY TO ENABLE THEM TO EVALUATE THE RISKS AND THE MERITS OF AN INVESTMENT IN THE COVERED BONDS. PRIOR TO MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY, IN LIGHT OF THEIR OWN FINANCIAL CIRCUMSTANCES AND INVESTMENT OBJECTIVES, (I) ALL THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS (AND ANY SUPPLEMENT, IF APPLICABLE) AND, IN PARTICULAR, THE CONSIDERATIONS SET FORTH BELOW AND (II) ALL THE INFORMATION SET FORTH IN THE APPLICABLE FINAL TERMS. PROSPECTIVE INVESTORS SHOULD MAKE SUCH ENQUIRIES AS THEY DEEM NECESSARY WITHOUT RELYING ON THE ISSUER OR ANY DEALER.

Words and expressions defined in the Terms and Conditions of the Covered Bonds below or elsewhere in this Base Prospectus have the same meanings in this Risk Factors section, unless the contrary intention appears.

Risk factors have been grouped as set out below:

I. Risks related to the market in which the Group operates

II. Risks related to the Group and its business

III. Other risks relating to the Group

IV. Risks relating to the Special Estate and the Covered Bonds

V. Factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme

V. A. Risks related to the market generally

V. B. Risks related to the structure of a particular issue of Covered Bonds

V. C. Risks related to Covered Bonds generally

The risks associated with a particular Series of Covered Bonds may change over time. Prospective investors should seek advice from a professional financial and/or legal adviser in order to understand the risks associated with a particular Series of Covered Bonds.

I. Risks relating to the market in which the Group operates

Economic and market conditions may pose significant challenges for the Group and may adversely affect its results

The global economy, the condition of the financial markets and adverse macro-economic developments can all significantly influence the Group's performance. The after-effects of the financial crisis on the wider economy and the uncertainty concerning the future economic environment have led to more difficult earnings conditions for the financial sector. The challenging environment in which the Group operates is characterised by, amongst others, a prolonged period of low interest rates resulting from (amongst others) ongoing central bank measures to foster economic growth and giving rise to negative interest rates in some areas, upswings in market volatility, and business activities coping with lower overall profitability. Furthermore, a number of countries in Europe have relatively large sovereign debts and/or fiscal deficits, and most European economies face a number of structural challenges.

Since the Group conducts the majority of its business in Belgium, the Czech Republic, the Slovak Republic, Hungary, Bulgaria and the other home markets such as Ireland, its performance is influenced by the level and cyclical nature of business activity in these countries which is in turn affected by both domestic and international economic and political events. A weakening in these economies may in particular have a negative effect on the Group's financial condition and results of operations. Moreover, any deterioration in financial and credit market conditions could further adversely affect the Group's business and, if they were to persist or worsen, could adversely affect the financial condition, results of operations and access to capital and credit of the Group.

General business and economic conditions that could affect the Group include the level and volatility of short- term and long-term interest rates, a prolonged period of low and potentially negative interest rates in some areas, inflation, employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, fluctuations in foreign exchange, the availability and cost of funding, investor confidence, political crisis, credit spreads (e.g. corporate, sovereign) and the strength of the economies in which the Group operates.

In addition, the Group's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economies in which the Group does business and market interest rates at the time.

All these elements, including market volatility, can negatively affect the Group's banking and asset management activities through a reduction in demand for products and services, a reduction in the value of assets held by the Group, a decline in the profitability of certain assets and a loss of liquidity in certain asset classes.

Political, constitutional and economic uncertainty arising from the outcome of the referendum on the membership of the United Kingdom in the European Union.

On 23 June 2016, the United Kingdom held a national referendum on the continued membership of the United Kingdom in the European Union. A majority of voters voted for the United Kingdom to leave the

European Union. The announcement of the referendum result caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in a significant weakening of the pound sterling against the U.S. dollar, the euro and other major currencies. The share prices of major banks in Europe, including the Group, suffered significant declines in market prices in the weeks following the referendum. Furthermore, major credit rating agencies have also downgraded the sovereign credit rating of the United Kingdom.

In the first quarter of 2017, the United Kingdom triggered Article 50 of the Treaty on European Union which is the formal starting point of exiting the European Union. A process of negotiation has since begun to determine the future terms of the relationship of the United Kingdom with the European Union, and the uncertainty during and after the period of negotiation could have a further negative economic impact and result in renewed volatility in the markets. Regardless of any eventual timing or terms of the United Kingdom's exit from the European Union, the June referendum and the following formal decision to withdraw did already create significant political, social and macroeconomic uncertainty.

The effects on the United Kingdom, European and global economy of the uncertainties arising from the results of the referendum are difficult to predict but may include economic and financial instability in the United Kingdom, Europe and the global economy and the other types of risks described in the previous risk factor entitled "Economic and market conditions may pose significant challenges for the Group and may adversely affect its results" on page 2 of this Base Prospectus. Any uncertainty or economic and financial instability or other effects arising as a result of the decision of the United Kingdom to leave the European Union, could affect the Group's business and, if they were to persist or worsen, could adversely affect the financial condition, results of operations and access to capital and credit of the Group.

Increased regulation of the financial services industry or changes thereto could have an adverse effect on the Group's operations

There have been significant regulatory developments in response to the global financial crisis, including various initiatives, measures, stress tests and liquidity risk assessments taken at the level of the European Union, national governments, the European Banking Authority and/or the European Central Bank (the **ECB**). This has led to the adoption of a new regulatory framework and the so-called "Banking Union", as a result of which the responsibility for the supervision of the major Eurozone credit institutions (including the Group) has been assumed at the European level.

The most relevant areas of regulatory and legislative developments which affect the Group and its parent KBC Group NV include the following:

- The revised regulatory framework of Basel III which was implemented in the European Union through the adoption of Regulation (EU) n°575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (**CRR**) and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions on prudential requirements for credit institutions and investment firms (**CRD**, and together with CRR, **CRD IV**).

- A new recovery and resolution regime for credit institutions which introduced certain tools and powers with a view to addressing banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses, through Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending various EU Directives and Regulations (**BRRD**).

- The assumption in November 2014 of certain supervisory responsibilities by the ECB which were previously handled by the National Bank of Belgium (the **NBB**), pursuant to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank

concerning policies relating to the prudential supervision of credit institutions (the **Single Supervision Mechanism** or **SSM**).

- Regulation (EU) No 806/2014 of the European Parliament and of the Council 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 Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council (the **Single Resolution Mechanism** or **SRM**). The Single Resolution Mechanism entered into force on 19 August 2014 and applies to credit institutions which fall under the supervision of the ECB, including the Group. It established a Single Resolution Board (**SRB**) which is responsible since 1 January 2016 of vetting resolution plans and carrying out any resolution in cooperation with the national resolution authorities (the SRB together with the resolution college of the NBB is hereinafter referred to as the **Resolution Authority**).

- Finally, changes are also being made to the International Financial Accounting Standards (**IFRS**).

Although the Issuer works closely with its regulators and continually monitors regulatory developments, there can be no assurance that additional regulatory or capital requirements will not have an adverse impact on the Issuer and/or its subsidiaries, their business, financial condition or results of operations

In May 2014, the new Belgian law of 25 April 2014 on the status and supervision of credit institutions and stockbroking firms (the **Banking Law**) entered into force. The Banking Law replaced the banking law of 22 March 1993 and implemented various directives, including (without limitation) CRD IV and BRRD, as well as various other measures taken since the financial crisis. The Banking Law imposes, amongst others, several restrictions with respect to certain activities (including trading activities, which may have to be separated if certain thresholds are exceeded) and prohibits certain proprietary trading activities. Certain provisions of the Banking Law are still subject to further implementation.

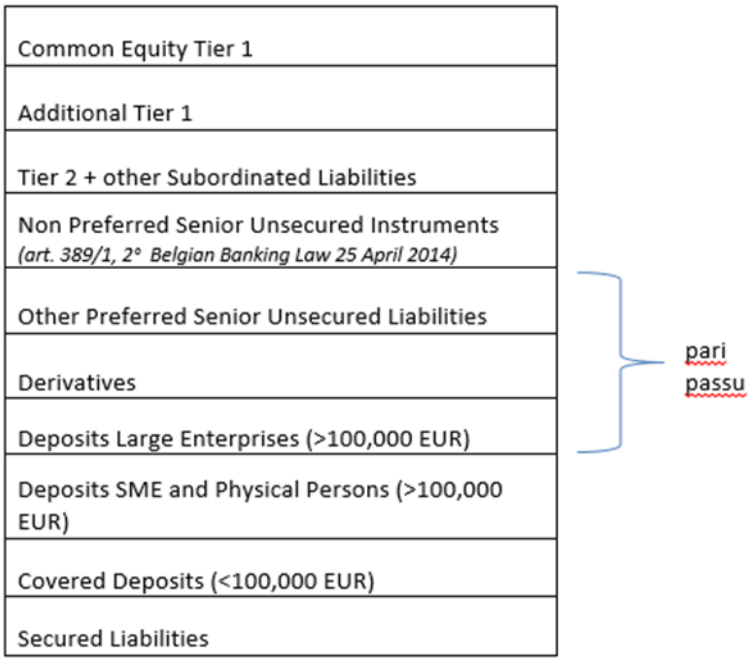
In addition, the Banking Law also puts a lot of emphasis on the solid and efficient organisation of credit institutions and introduces to that effect a dual governance structure at management level, specialised advisory committees within the Board of Directors (audit committee, risk committee, remuneration 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 (being remuneration recovery mechanics pursuant to which a staff member has to return the ownership of an amount of variable remuneration paid in the past under certain conditions (**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. 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 contains recommendations to assure the suitability of shareholders, management and independent control functions and the appropriate organisation of the business.

On 23 November 2016, the European Commission proposed certain further amendments to CRD IV and BRRD. These relate, amongst others, to the inclusion of a new layer of so-called "non-preferred" senior debt instruments to absorb losses and certain other changes to implement the proposal by the Financial Stability Board in respect of the Total Loss-Absorbing Capacity (**TLAC**) for global systemically important banks (**GSIBs**). These proposed changes are currently scheduled to be adopted and implemented in large part by 2019 at the earliest.

On 31 July 2017, the Belgian legislator adopted a new law to, amongst others, amend the Banking Law in order to give effect to the European Commission's proposals of 23 November 2016 to amend CRD IV and

BRRD. In particular, the law also adds a new article 389/1 in the Banking Law which aims at increasing the effectiveness of the bail-in tool (being the mechanism to write down eligible liabilities (subordinated debt, senior debt and eligible deposits) or to convert debt into equity, as a means of restoring the institution's capital position. See risk factor "*The Group could become subject to the exercise of a "bail-in" tool or other resolution tools and powers by the Resolution Authority*" below) and introduces a new category of claims in the statutory creditor hierarchy in the case of a liquidation procedure (*procédure de liquidation/liquidatieprocedure*) of a credit institution. Article 389/1, 2° of the Banking Law now divides senior notes into: (i) senior preferred notes, retaining the same ranking as the previous senior notes; and (ii) senior non-preferred notes. Senior non-preferred notes are direct, unconditional, senior, and unsecured (*chirographaires/chirografaire*) obligations.

In accordance with this new provision, in case of liquidation of a credit institution or stockbroking firm, the claims will rank as follows (whereby Common Equity Tier 1 will rank lowest):



On 30 July 2018 the Belgian legislator adopted a law which, among others, amended Article 389/1, 2° of the Banking Law. As of this law, senior non-preferred notes must have each of the following characteristics:

(i) they may not contain embedded derivatives or be derivatives themselves (it being understood that floating rate debt instruments which are derived from a commonly used reference rate and debt instruments which are not denominated in the national currency of the issuer, provided that principal, repayment and interest are denominated in the same currency, may not solely on the basis of these characteristics be considered as debt instruments containing embedded derivatives);

(ii) their maturity may not be less than one year; and

(iii) the issuance terms must expressly provide that the claim is unsecured (*chirographaire/chirografair*) and that their ranking is as set forth in Article 389/1, 2° of the Belgian Banking Law.

On 7 December 2017, the Basel Committee reached an agreement on the remaining Basel III post-crisis regulatory reforms (commonly known as **Basel IV**). One of the main elements of Basel IV is the aggregate output floor which will ensure that bank's risk-weighted assets generated by internal models are no lower than 72.5% of the risk-weighted assets as calculated by the standardised approaches of Basel III (the **Output**

Floor). Basel IV has also revised standardised approaches for credit risk and especially operational risk. The Basel IV agreement needs to be transposed into European regulation. It will apply as from 1 January 2022. The Output Floor will be phased in over five years from 2022 to 2027.

The Group conducts its businesses subject to on-going regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in Belgium and the other regions in which the Group conducts its business. Changes in supervision and regulation, in particular in Belgium and Central and Eastern Europe (e.g. Hungary), could materially affect the Group's business, the products and services offered by it or the value of its assets.

In particular, it cannot be excluded that the Group or its parent KBC Group NV would be required to issue further securities that qualify as regulatory capital or to liquidate assets or curtail certain businesses as a result of such new regulations or a different interpretation given by the ECB (or exercise of certain discretions under the applicable banking regulations in a different manner than the NBB). All may have an adverse effect on the Group's business, financial condition and results of operations. Moreover, there seems to have been an increase in the level of scrutiny applied by governments and regulators to enforce applicable regulations and calls to impose further charges on the financial services industry in recent years. There can be no assurance that such increased scrutiny or charges will not require the Group to take additional measures which, in turn, may have adverse effects on its business, financial condition and results of operations.

Risk associated with the highly competitive environment in which the Group operates and which could intensify further as a result of the global market conditions

As part of the financial services industry, the Group faces substantial competitive pressures that could adversely affect the results of its operations in banking, asset management and other products and services.

In its Belgian home market, the Group faces substantial competition, mainly from BNP Paribas Fortis, ING Group and Belfius Bank. In addition, the Group faces increased competition in the Belgian savings market from smaller-scale banking competitors (and internet bank competitors) seeking to enlarge their respective market shares by offering higher interest rates. In Central and Eastern Europe, the Group faces competition from the regional banks in each of the jurisdictions in which it operates and from international competitors such as UniCredit, Erste Bank and Raiffeisen International.

Competition is also affected by consumer demand, technological changes (including the growth of digital banking), regulatory actions and/or limitations and other factors. Such factors include changes in competitive behaviour due to new entrants to the market (including potentially non traditional financial services providers such as large retail or technology conglomerates) and new lending models (such as, for example, peer-to-peer lending). These competitive pressures could result in increased pricing pressures on a number of the Group's products and services and in the loss of market share in one or more such markets. Moreover, there can be no certainty that the Group's investment in its IT capability intended to address the material increase in customer use of online and mobile technology for banking will be successful or that it will allow the Group to continue to grow such services in the future.

II. Risks relating to the Group and its business

The Group has significant credit default risk exposure

As a large financial organisation, the Group is subject to a wide range of general credit risks, including risks arising from changes in the credit quality and recoverability of loans and amounts due from counterparties. Third parties that owe the Group money, securities or other assets may not pay or perform under their obligations. These parties include, among others, borrowers under loans made by the Group (in particular, by the Issuer), the issuers whose securities the Group holds, customers, trading counterparties, counterparties under derivative contracts, clearing agents, exchanges, clearing houses, guarantors and other financial

intermediaries. These parties may default on their obligations to the Group due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Credit institutions have witnessed a significant increase in default rates over the past few years as a result of worsening economic conditions. This increase in the scope and scale of defaults is evidenced by the significant increase in the amount of impaired loans in the Portfolio of the Group in 2013, although this has been decreasing again since 2014. This trend – i.e., the decreasing amount of impaired loans – remains visible, particularly in Ireland. In some of the Central and Eastern European countries in which the Group is active, credit is also granted in a currency other than the local currency. Changes in exchange rates between the local and such other currency can also have an impact on the credit quality of the borrower. Any further adverse changes in the credit quality of the Group's borrowers, counterparties or other obligors could affect the recoverability and value of its assets and require an increase in the Group's provision for bad and doubtful debts and other provisions. In addition to the credit quality of the borrower, adverse market conditions such as declining real estate prices negatively affect the results of the Group's credit portfolio since these conditions impact the recovery value of the collateral. All this could be further exacerbated in the case of a prolonged economic downturn or worsening market conditions.

The Group's banking business makes provisions for loan losses which correspond to the provision for impairment losses in its income statement in order to maintain appropriate allowances for loan losses. These provisions are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) basis for defaulted borrowers and on a 12-month or lifetime ECL basis for non-defaulted borrowers, depending on whether there has been a credit risk deterioration and a corresponding shift from 'Stage 1' to 'Stage 2' (see page 184 for further explanation of these terms). Specific IFRS 9 models are used for this purpose. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have a material adverse effect on the Group's business, results of operation or financial condition.

The Group's principal credit risk exposure is to retail and corporate customers, including in its mortgage and real estate portfolio, as well as towards other financial institutions and sovereigns. As this credit risk reflects some concentration, particularly in Belgium, the Czech Republic, the Slovak Republic, Hungary, Bulgaria and the other home markets (such as Ireland) where it is active, the Group's financial position is sensitive to a significant deterioration in credit and general economic conditions in these regions. Moreover, uncertainty regarding Greece and the rest of the Eurozone, the risk of losses as a result of a country's or a credit institution's financial difficulties or a downgrade in its credit rating could have a significant impact on the Group's credit exposure, loan provisioning, results of operation and financial position. In addition, concerns about, or a default by, one credit institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions are closely related as a result of their credit, trading, clearing and other relationships.

The events described above have adversely affected and may continue to adversely affect, the Group's ability to engage in routine transactions as well as the performance of various loans and other assets it holds.

Risks associated with liquidity and funding inherent to the Group's business

The procurement of liquidity for the Group's operations and access to long term financings are crucial to achieve the Group's strategic goals, as they enable the Group to meet payment obligations in cash and on delivery, scheduled or unscheduled, so as not to prejudice the Group's activities or financial situation.

Although the Group currently has a solid liquidity position (with a diversified core deposit base and a large amount of liquid and/or pledgeable assets), its procurement of liquidity could be adversely impacted by the inability to access the debt market, sell products or reimburse financings as a result of the deterioration of market conditions, the lack of confidence in financial markets, uncertainties and speculations regarding the solvency of market participants, rating downgrades or operational problems of third parties. In addition

thereto, the Group's liquidity position could be adversely impacted by substantial outflows in deposits and asset management products.

Limitations of the Group's ability to raise the required funds on terms which are favourable for the Group, difficulties in obtaining long-term financings on terms which are favourable for the Group or dealing with substantial outflows could adversely affect the Group's business, financial condition and results of operations. In this respect, the adoption of new liquidity requirements under Basel III and CRD IV must be taken into account since these could give rise to an increased competition resulting in an increase in the costs of attracting the necessary deposits and funding.

Furthermore, as was the case during the financial crisis, protracted market declines can reduce the liquidity of markets that are typically liquid. If, in the course of its activities, the Group requires significant amounts of cash on short notice in excess of anticipated cash requirements, the Group may have difficulty selling investments at attractive prices, in a timely manner, or both.

In such circumstances, market operators may fall back on support from central banks and governments by pledging securities as collateral. Unavailability of liquidity through such measures or the decrease or discontinuation of such measures could result in a reduced availability of liquidity on the market and higher costs for the procurement of such liquidity when needed, thereby adversely affecting the Group's business, financial condition and results of operations.

The Group is exposed to counterparty credit risk in derivative transactions

The Group executes a wide range of derivatives transactions, such as interest rate, exchange rate, share/index prices, commodity and credit derivatives with counterparties in the financial services industry.

Operating in derivative financial instruments exposes the Group to market risk and operational risk, as well as the risk that the counterparty defaults on its obligations or becomes insolvent prior to maturity when the Group has an outstanding claim against that counterparty. Non-standardised or individually negotiated derivative transactions can make exiting, transferring or settling the position difficult.

Counterparty credit risk is subject to mitigating actions taken by the Group (i.e. central clearing and collateralization). The remaining risk can be exacerbated if the collateral held by the Group cannot be realised or liquidated at a value that is sufficient to cover the full amount of the counterparty exposure.

Changes in interest rates, which are caused by many factors beyond the Group's control, can have significant adverse effects on its financial results

Fluctuations in interest rates affect the returns the Group earns on fixed interest investments and also affect the value of the investment and trading portfolio of the Group. Interest rate changes also affect the market values of the amounts of capital gains or losses the Group takes on and the fixed interest securities it holds.

The results of the Group's operations are affected by its management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. Changes in market interest rates, including in case of negative interest rates in certain areas, can affect the interest rates that the Group receives on its interest-earnings assets differently to the rates that it pays for its interest-bearing liabilities. Accordingly, the composition of the Group's assets and liabilities, and any gap position resulting from such composition, causes the Group's operations' net interest income to vary with changes in interest rates. In addition, variations in interest rate sensitivity may exist within the repricing periods and/or between the different currencies in which the Group holds interest rate positions. A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or results of operations of the Group's businesses.

The Group is subject to foreign exchange risk

The Group pursues a prudent policy as regards its structural currency exposure, with a view to limit as much as possible currency risk. Foreign exchange exposures in the asset-liability management (**ALM**) books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio are however generally not hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of assets excluding goodwill. Although the Group pursues a prudent policy with regard to foreign exchange risk, there can still be a limited impact of this risk on the financial results of the Group.

The Group is subject to market risk

The most significant market risks the Group faces are interest rate, credit spread, basis risk, foreign exchange and bond and equity price, inflation rate and market liquidity risks. Changes in (the level and volatility of) interest rates, (the level and shape of) levels, yield curves and (the level and volatility of) yield spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency prices and price volatility affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets (equity prices and equity price volatility) may cause changes in the value of the Group's investment and trading portfolios.

The Group uses a range of instruments and strategies to partly hedge against certain market risks. If the market risk managagement instruments and strategies prove ineffective or only partially effective (e.g. basis risk arises, i.e. the price of a derivative is not or no longer perfectly correlated with the market value of the underlying asset, as a result of which the derivative is not or no longer a perfect hedge for the underlying asset), the Group may suffer losses. Sudden drying up of the liquidity in the financial markets may affect the (cost of the) implementation of the risk reducing measures.

Unforeseen market developments such as those in relation to the government bonds of various countries which occurred in 2011 and 2012 may significantly reduce the effectiveness of the measures taken by the Group to hedge risks. Gains and losses from ineffective risk-hedging measures may heighten the volatility of the results achieved by the Group and could therefore have a material adverse effect on the Group's business, results of operations and financial condition.

A downgrade in the credit rating of KBC Group NV or its subsidiaries, such as the Issuer, may limit access to certain markets and counterparties and may necessitate the posting of additional collateral to counterparties or exchanges

The credit ratings of KBC Group NV and certain of its subsidiaries, such as the Issuer, are important to maintaining access to key markets and trading counterparties. The major rating agencies regularly evaluate KBC Group NV, certain of its subsidiaries, including the Issuer, and their securities, and their ratings of debt and other securities are based on a number of factors, including financial strength, as well as factors not entirely within the control of the Group, including conditions affecting the financial services industry generally or the rating of the countries in which it operates. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that KBC Group NV or its subsidiaries, including the Issuer, will maintain the current ratings.

KBC Group NV's or its subsidiaries', including the Issuer's, failure to maintain their credit ratings could adversely affect the competitive position of the Group, make entering into hedging transactions more difficult and increase borrowing costs or limit access to the capital markets or the ability of the Group to engage in funding transactions. A further reduction in KBC Group NV's or its subsidiaries including the Issuer's credit ratings could have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical. In connection with certain trading

agreements, an entity of the Group may be required to provide additional collateral in the event of a credit ratings downgrade.

The Group's risk management policies, procedures and methods may leave it exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

The Group devotes significant resources to developing risk management policies and models, procedures and assessment methods for its banking and asset management businesses. The Group applies both quantitative and qualitative methods to arrive at quantifications of risk exposures. These include, amongst others, value-at- risk (**VaR**) models, back testing, Probability of Default (**PD**) models, Loss Given Default (**LGD**) models, asset valuation models and stress tests as well as risk assessment methods.

Nonetheless, such risk management techniques and strategies may not be fully effective in assessing risk exposure in all economic and market environments or against all types of risk, including risks that the Group fails to identify or anticipate. Some of the models and metrics used are based upon observed historical behaviour as well as future predictions. Accordingly, the models used by the Group may fail to predict or may predict incorrectly future risk exposures and the Group's losses could therefore be significantly greater than such measures would indicate. In addition, the risk management methods used by the Group do not take all risks into account and could prove insufficient. If prices move in a way that the Group's risk modelling has not anticipated, the Group may experience significant losses. These failures can be exacerbated where other market participants are using models that are similar to those of the Group. In certain cases, it may also be difficult to reduce risk positions due to the activity of other market participants or widespread market dislocations. Furthermore, other risk management methods depend on the evaluation of information regarding markets, customers or other publicly-available information. Such information may not always be accurate or up-to-date.

Accordingly, the Group's losses could be significantly greater than such measures would indicate and unanticipated or incorrectly quantified risk exposures could result in material losses in the Group's banking and asset management businesses.

While the Group strictly manages its operational risks, these risks remain inherent to its business

The Group is exposed to many types of operational risks, including fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures and systems failure or non-availability. In addition, the Group may also be subject to disruptions of its operating systems, or of the infrastructure that supports it, arising from events that are wholly or partially beyond the Group's control (for example natural disasters, acts of terrorism, computer viruses, pandemics, transport or utility failures or external vendors not fulfilling their contractual obligations) which could give rise to losses in service to customers and to loss or liability to the Group.

The operational risks that the Group faces include the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, employee misconduct or external events such as fraud or cyber crime. These events can potentially result in financial loss as well as harm to its reputation. Additionally, the loss of key personnel could adversely affect the Group's operations and results.

The Group attempts to keep operational risks at appropriate levels by maintaining a sound and well controlled environment in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks, they do not eliminate them.

The financial industry, including the Group, is increasingly dependent on information technology systems, which may fail, be inadequate or no longer available

The Group, like other banks and financial institutions, is increasingly dependent on highly sophisticated information technology (IT) systems for the conduct of its business. The proper functioning of the Group's payment systems, financial and sanctions controls, risk management, credit analysis and reporting, accounting, customer services and other IT services, as well as the communication networks between its branches and main data centres, are critical to the Group's operations.

IT systems are, however, vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centres. IT systems need regular upgrading and banks, including the Group, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. These threats are increasingly sophisticated and there can be no assurance that banks will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, banks, including the Group, could face fines from bank regulators if they fail to comply with applicable banking or reporting regulations.

The Group may be subject to privacy or data protection failures, cybercrime and fraudulent activity in relation to personal customer data, which could result in investigations by regulators, liability to customers, administrative fines, penalties and/or reputational damage.

The Group is subject to regulation regarding the processing (including disclosure and use) of personal data. The Group processes significant volumes of personal data relating to customers as part of its business, some of which may also be classified under legislation as sensitive personal data. The Group must therefore comply with strict data protection and privacy laws and regulations.

Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, which entered into force on 25 May 2018, is the primary legislation governing the Group's use of customer personal data. It introduces substantial changes to data protection laws, including an increased emphasis on businesses being able to demonstrate compliance with their data protection obligations. This requires significant investments by the Group in its data management and compliance operations. In addition, the European Commission recently released its proposal for a new European ePrivacy Regulation.

The Group also faces the risk of a breach in the security of its ICT systems, for example from increasingly sophisticated attacks by cybercrime groups. Data breaches could have a material adverse impact on the Group's reputation and on its business, financial condition, operating results and prospects. The Group tries to mitigate such risks, including by ensuring that systems and procedures are in place to ensure compliance with relevant regulations. There can, however, be no assurance that such security measures will be effective.

The Group's financial statements are in part based on assumptions and estimates which, if inaccurate, could have an impact on its reported results or financial position

The Group's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position. The Group believes that all assumptions and estimates are reasonable at the time the financial statements are being prepared.

The preparation of financial statements in accordance with EU-IFRS requires the use of estimates. It also requires management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include credit impairment charges for amortised cost assets, impairment and valuation of available-for-sale investments (as of 1 January 2018 in accordance with IFRS 9: valuation of assets through other comprehensive income), calculation of income and deferred tax, fair value of

financial instruments, valuation of goodwill and intangible assets, calculation of technical provisions insurance, valuation of provisions and accounting for pensions and post-retirement benefits. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect then this could result in significant loss to the Group, beyond that anticipated or provided for, which could have an adverse effect on its business, financial condition and results of operations.

Observable market prices are not available for many of the financial assets and liabilities that the Group holds at fair value and a variety of techniques to estimate the fair value are used. Should the valuation of such financial assets or liabilities become observable, for example as a result of sales or trading in comparable assets or liabilities by third parties, this could result in a materially different valuation to the current carrying value in the Group's financial statements.

As of 1 January 2018, the consolidated financial statements of the Issuer are prepared in accordance with IFRS 9. The total impact of the first time application of the transition from IAS 39 to IFRS 9 as at 1 January 2018 amounted to, including the impact on both the financial assets and provisions, a decrease in equity before tax of EUR -755 million (EUR -599 million after tax). This consists of:

- a classification and measurement impact of EUR -475 million before tax, mainly due to a decrease of other comprehensive income reserves; and
- an increase in impairments and provisions amounting to EUR -280 million before tax.

The further development of standards and interpretations under EU-IFRS could also significantly affect the results of operations, financial condition and prospects of the Group.

The Group is exposed to the risk of breaches of regulatory and compliance-related requirements in connection with the exercise of its business activity, such as provisions for limitation of money laundering

The possibility of inadequate or erroneous internal and external work processes and systems, regulatory problems, breaches of compliance-related provisions in connection with the exercise of business activities, such as rules to prevent money laundering, human errors and deliberate legal violations such as fraud cannot be ruled out. The Group endeavours to hedge such risks by implementing appropriate control processes tailored to its business, the market and regulatory environment in which it operates. Nevertheless, it is possible that these measures prove to be ineffective in relation to particular or all operational risks to which the Group is exposed. Even though the Group's endeavours to insure itself against the most significant operational risks, it is not possible to obtain insurance cover for all the operational risks on commercially acceptable terms on the market. Should one, some or all of the risks described in this paragraph materialise, the Group business, results of operations and financial condition could be materially adversely affected.

Litigation or other proceedings or actions may adversely affect the Group's business, financial condition and results of operations

The Group's business is subject to the risk of litigation by customers, employees, shareholders or others through private actions, class actions or summary proceedings by associations (e.g. consumer of professional organisations) notably in order to stop or suspend commercial activities or products, administrative proceedings, regulatory actions or other litigation (including, but not limited to, any criminal investigation or prosecution). Given the complexity of the relevant circumstances and corporate transactions underlying these proceedings, together with the issues relating to the interpretation of applicable law, it is inherently difficult to estimate the potential liability related to such liability risks, to evaluate the outcome of such litigation or the time when such liability may materialise. Management makes estimates regarding the outcome of legal, regulatory and arbitration matters, such as the ones mentioned above, and creates provisions when losses with respect to such matters are deemed probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, possible defences and previous experience in similar cases or

proceedings. Legal proceedings with remote or non quantifiable outcomes are not provided for, and the Group may be required to cover litigation losses which are not covered by such provision, including for example series of similar proceedings. As a result, there can be no assurance that provisions will be sufficient to fully cover the possible losses arising from litigation proceedings, and the Group cannot give any assurance that a negative outcome in one or more of such proceedings would not have a material adverse effect on the Group's business, results of operations or financial condition.

Furthermore, plaintiffs in legal proceedings may seek recovery of large or indeterminate amounts or other remedies that may affect the Group's ability to conduct business, and the magnitude of the potential loss relating to such actions may remain unknown for substantial periods of time. Also, the cost to defend future actions may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of its services, regardless of whether the allegations are valid or whether they are ultimately found liable. See further "Information relating to the Issuer", Subsection "Litigation".

As a result, litigation may adversely affect the Group's business, financial condition and results of operations.

The Group is exposed to risks on account of pension obligations

The Group has various pension obligations towards its current and former staff. These obligations therefore entail various risks which are similar to, amongst others, risks in a life insurance company and risks involving a capital investment. Risks, however, may also arise due to changes in tax or other legislation, and/or in judicial rulings, as well as inflation rates or interest rates. Any of these risks could have a material adverse effect on the Group's business, results of operations and financial condition.

III. Other risks relating to the Group

The Group is responsible for contributing to compensation schemes and subject to special bank taxes

The Group is required to make contributions to national resolution deposit guarantee fund based on a number of criteria, including the amount of its deposit taking. In addition, the Group is required to make contributions to the European Single Resolution Fund which was established pursuant to the SRM and which is to be built up with contributions of the banking sector to ensure the availability of funding support for the resolution of credit institutions. The overall aim of the SRM is to ensure an orderly resolution of failing banks with minimal costs to taxpayers and the real economy. Moreover, the Group is also subject to special bank taxes which have been introduced after the financial crisis and which have been increased in recent years.

Any levies, taxes or funding requirements imposed on the Group pursuant to the foregoing or otherwise in any of the jurisdictions where they operate could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is subject to increasingly onerous minimum regulatory capital, liquidity and leverage requirements

As a licensed credit institution, the Issuer is subject to the capital requirements and capital adequacy ratios of CRD IV, which implements the Basel III capital requirements. The CRD IV requirements include a capital conservation buffer and, in certain circumstances, a systemic buffer and/or a countercyclical buffer which come on top of the minimum requirements. These additional requirements will be fully phased in as from 2019 and will have an impact on the Group and its operations, as it imposes higher capital requirements.

The Group is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements. Under CRD IV, capital requirements are inherently more sensitive to market movements than under previous regimes. Capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Accordingly, banks could be required to raise additional capital if they were to incur losses or asset impairments. Any such further

capital increases may be difficult to achieve or only be raised at high costs in the context of adverse market circumstances.

Any failure of the Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions or it ultimately being subject to any resolution action (including bail-in), which in turn is likely to have a material adverse impact on the Group's results of operations. A shortage of available capital may restrict the Group's opportunities for expansion.

CRD IV requires the Group to meet targets set for the Basel III liquidity related ratios, i.e., (i) the liquidity coverage ratio (**LCR**) under Article 412 CRR which requires banks to hold sufficient unencumbered high quality liquid assets to withstand a 30-day stressed funding scenario and (ii) the net stable funding ratio (**NSFR**) under Article 427 which is calculated as the ratio of an institution's amount of available stable funding to its amount of required stable funding. At year-end 2017, the NSFR of the Group stood at 134% and the average LCR in 2017 was 139%. By way of comparison, the requirements for the Group under CRD IV are 100% for NSFR and 100% (on 1 January 2018) for LCR. Therefore, the Group currently complies with the CRD IV requirements. However, failure to comply with these ratios in the future may lead to regulatory sanctions.

The Group could become subject to the exercise of a "bail-in" tool or other resolution tools and powers by the Resolution Authority. The potential impact thereof is inherently uncertain, including in certain significant stress situations

The BRRD, which was adopted in May 2014 and implemented in the Banking Law, provides common tools and powers to supervisory and resolution authorities to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers granted to resolution authorities under the BRRD include a "bail-in" tool in relation to unsecured debt and a statutory "write-down and conversion power" in relation to regulatory capital instruments. These powers allow resolution authorities to write down the claims of unsecured creditors of a failing institution in order to recapitalise the institution by allocating losses to its shareholders and unsecured creditors, or to convert debt into equity, as a means of restoring the institution's capital position. The bail-in tool is applicable to all liabilities as defined in the BRRD. Pursuant to Article 44 (2) and (3) of the BRRD certain liabilities of credit institutions (including the Covered Bonds) are, however, excluded from the scope of the bail-in tool and therefore not subject to the bail-in. The bail-in tool was introduced with effect on 1 January 2016 and comes in addition to the write-down and conversion power applicable to additional tier 1 and tier 2 capital instruments, which is to be exercised before or at the latest concurrently with (but immediately prior to) the exercise of any resolution power (including the bail-in power).

Under the Banking Law, substantial powers have been granted to the NBB, the SSM and the SRM in their capacity as supervisory authority and resolution authority. These powers enable the Resolution Authority to deal with and stabilise credit institutions and their holding company (including KBC Group NV and the Issuer) that are failing or are likely to fail. In line with BRRD, the resolution regime will enable the Resolution Authority to: (i) transfer all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer all or part of the business of the relevant entity to a "bridge bank"; (iii) obtain the temporary public ownership of the relevant entity and/or (iv) bail-in unsecured debt. Moreover, competent supervisory and resolution authorities are entrusted with broad early intervention powers and institutions will be required to draw up recovery and resolution plans and demonstrate their resolvability.

Moreover, in order to make the bail-in power effective, BRRD and the Banking Law provide that credit institutions (including the Issuer) will at all times have to meet a minimum requirement for own funds and eligible liabilities (**MREL**) so that there is sufficient capital and liabilities available to stabilise and recapitalise failing credit institutions. These requirements will be gradually phased in. The resolution plan for

KBC is based on a Single Point of Entry (**SPE**) approach[2] at the level of KBC Group. Bail-in is the preferred resolution tool.

As at 30 June 2018, the MREL ratio based on instruments issued by KBC Group stood at 25.1 per cent. of risk weighted assets (the 'point of entry' view). Based on the broader SRB definition, which also includes eligible instruments of the Issuer, the MREL ratio applicable to the Issuer amounted to 26.4 per cent. of risk weighted assets (the 'consolidated' view). The SRB requires KBC Group to achieve a ratio of 25.9 per cent. by 1 May 2019 using eligible instruments of both KBC Group and the Issuer.

On 25 November 2016, the European Commission proposed certain further amendments to CRD IV and BRRD, including, amongst others, to implement the TLAC proposal. The proposed changes are currently scheduled to be adopted and implemented in large part by 2019. It is not entirely clear at this stage to what extent TLAC will be adopted in respect of MREL, including in relation to the sanctions that would apply in the case of an institution's failure to comply with MREL. Any failure to comply may have a material adverse effect on the Group's business and results of operation.

As these are new rules and there are still a number of important implementation rules that need to be adopted under CRD IV, BRRD and the Banking Law, uncertainty remains about the potential effect thereof on the business and operations of the Group and how the authorities may choose to exercise the powers afforded to them under such rules.

Belgian bank recovery and resolution regime

BRRD has been transposed into Belgian law as from 3 March 2015. Under the Belgian bank recovery and resolution regime, the supervisory and resolution authorities (which includes the 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; limitations on variable remuneration; the complete or partial suspension or prohibition of the institution's activities; the requirement to transfer all or part of the institution's participations in other companies; the replacement of the institution's directors or managers; 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.

Furthermore, the lead regulators can impose specific measures on important financial institutions (including the Group), when the Resolution Authority is of the opinion that (a) such financial institution has an unsuitable risk profile or (b) the policy of the financial institution can have a negative impact on the stability of the financial system.

These new regulations confer wide-ranging powers on competent authorities to intervene and to alter an institution's business, operations and capital markets and debt structure which could have significant consequences on the Group's profitability, operations and financing costs. As these are new rules and as there remain a number of important implementing measures that still need to be adopted, there is considerable uncertainty about the potential effect thereof on the business and operations of the Group and how the authorities may choose to exercise the powers afforded to them under such laws and regulations.

Please also refer to "*The Group could become subject to the exercise of a "bail-in" tool or other resolution tools and powers by the Resolution Authority. The potential impact thereof is inherently uncertain, including in certain significant stress situations*" above for further information.

[2] This resolution strategy involves a single resolution authority applying resolution tools at the holding or parent company level of a group. In the present case, this is on the level of KBC Group.

The Group is highly concentrated in and hence vulnerable to European sovereign exposure, in particular in its home country Belgium

The Group conducts the vast majority of its business in the European Union. Part of that business has led to an exposure by the Group towards various countries in the European Union, including certain countries which have come under market pressure in the past few years and which have not yet fully recovered from the effects of the financial crisis. It is possible that economic and financial developments in certain European countries could put pressure on their ability to meet their obligations vis-à-vis their creditors, including the Group. If any such sovereign risk were to materialise, the Group's business, financial condition and results of operation could be materially adversely affected.

IV. Risks relating to the Special Estate and the Covered Bonds

The Covered Bonds will be obligations of the Issuer only

The Covered Bonds will be solely obligations of the Issuer and will not be obligations of or guaranteed by the Representative, the Cover Pool Monitor, the Cover Pool Administrator, the Supervisor, the Agents, the Hedging Counterparties, the Arranger, the Dealers or the Listing Agent (as defined below). No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Covered Bonds shall be accepted by any of the Arranger, the Dealers, the Hedging Counterparties, the Representative, the Cover Pool Monitor, the Agents, the Cover Pool Administrator, the Supervisor, any company in the same group of companies as such entities or any other party to the programme documents relating to the Programme. The Covered Bonds will not represent an obligation or be the responsibility of any of the Arranger, the Dealers, the Representative or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its respective officers, members, directors, employees, security holders or incorporators.

Credit risk

Any person who purchases the Covered Bonds is relying upon the creditworthiness of the Issuer and has no recourse against any other person. Covered Bondholders are subject to the risk of a partial or total failure of the Issuer to make payments of interest and principal under the Covered Bonds.

The credit risk is to some extent mitigated as the Covered Bonds are covered by a segregated pool of assets (*bijzonder vermogen/patrimoine special*) (the **Special Estate**) of which the main asset category will consist of Residential Mortgage Loans, their Related Security and all monies derived therefrom from time to time in accordance with the Belgian Covered Bonds Legislation (as defined herein). The Covered Bondholders and the Other Cover Pool Creditors will have an exclusive right of recourse against the Special Estate (see section 4.3 (*Allocation of the Special Estate)* under *Summary of the Belgian Covered Bonds Legislation*).

In addition, the Issuer has undertaken to ensure that the value of the Residential Mortgage Loans that are part of the Special Estate calculated in accordance with the Belgian Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105% of the aggregate Principal Amount Outstanding of Covered Bonds of all Series then outstanding. Therefore, the Covered Bonds are, amongst others, exposed to the credit risk of the Residential Mortgage Loans that are part of the Special Estate. Reference is also made to the Over-collateralisation Test imposed by the Covered Bond Legislation according to which per special estate, the value of the cover assets must represent at least 105% of the principal amount of the Belgian covered bonds issued.

Liquidity risk

Mismatches are possible in the rates of interest received on the Cover Assets and the rates of interest payable under the Covered Bonds. Moreover, the maturity and amortisation profile of the Cover Assets may not

match the repayment profile and maturities of the Covered Bonds, therefore creating the need for liquidity solutions at the level of the Programme.

Pursuant to Article 5, §3 of the Royal Decree of 11 October 2012 on the issue of Belgian covered bonds by Belgian credit institutions, as amended and/or supplemented and/or restated from time to time (the **Covered Bonds Royal Decree**), the sum of interest, principal and all other revenues generated by the Cover Assets in the Special Estate must be sufficient to cover the sum of all interest, principal and charges linked to the Covered Bonds.

In addition, the Liquidity Test provided by Article 7, §1 of the Covered Bonds Royal Decree requires that the Cover Assets must over a period of six months generate sufficient liquidity or include enough liquid assets to enable the Issuer to make all unconditional payments on the Covered Bonds (including principal, interest and other costs) falling due during the following six months. As an Extended Final Maturity Date will be specified in the applicable Final Terms for each Series of Covered Bonds, the payments subject to an extension in accordance with the Conditions shall, however, not be considered as unconditional for the purpose of Article 7, §1 of the Covered Bonds Royal Decree.

To comply with the Liquidity Test, the Issuer is entitled to enter into a liquidity facility provided that the counterparty is a credit institution outside the group that satisfies certain credit quality requirements.

The liquidity risk at Programme level may further be mitigated by holding Cover Assets with a short-term amortisation profile or liquid assets such as cash. Under the Conditions, the Issuer has undertaken that it will ensure that the Special Estate will at all times include liquid bonds that have a market value which is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months (see Condition 2.6 (Issuer undertaking)). Under the Conditions, the Issuer furthermore has the option to retain all or part of the Covered Bonds for liquidity purposes and to enter into a liquidity facility. In this respect, reference is made to the introduction of the Conditions in which it is stated that the Issuer may, from time to time during the Programme, enter into liquidity facility agreements. Reference is also made to Condition 9 (Priorities of Payments) which refers to liquidity facility agreements and Condition 6.5 regarding purchase of Covered bonds by the Issuer and Condition 6.6 regarding subscription to own bonds.

Maintenance of the Special Estate

The Special Estate is subject to the Statutory Tests (as defined in Condition 1 (*Interpretation*) below) set out in the Belgian Covered Bonds Legislation. Failure of the Issuer to take prompt remedial action to cure any breach of the Liquidity Test will result in the Issuer not being able to issue further Covered Bonds and if the Issuer does not satisfy the Statutory Tests this may have an adverse effect on the ability of the Issuer to meet its payment obligations in respect of the Covered Bonds.

Factors that may affect the realisable value of the Special Estate or of the Cover Assets

The Covered Bondholders together with the Other Cover Pool Creditors will have an exclusive recourse against the Special Estate. Since the economic value of the Cover Assets may increase or decrease, the value of the Special Estate may decrease over time (for example, if there is a general decline in property values or default of Borrowers). Without prejudice to the obligation to comply with the Statutory Tests, the Issuer makes no representation, warranty or guarantee that the value of the Cover Assets will remain at the same level as it was on the date of the origination of the related Residential Mortgage Loan or at any other time.

The realisable value of Residential Mortgage Loans registered as Cover Assets and their Related Security comprising part of the Special Estate may be reduced by:

- default by borrowers (each borrower being, in respect of a Residential Mortgage Loan, the person specified as such in the relevant mortgage terms together with each person (if any) who assumes from time to time an obligation to repay such Loan (the **Borrower**) in payment of amounts due on their Residential Mortgage Loan;

- changes to the lending criteria of the Issuer;
- decline in real estate values; and
- possible regulatory changes by the regulatory authorities.

Each of these factors is considered in more detail below. The Statutory Tests are intended to mitigate this risk and purport to ensure that the Issuer maintains an adequate amount of Cover Assets in the Special Estate to enable the Issuer to meet its obligations under the Covered Bonds. There can be no assurance, however, that the Cover Assets could be realised for sufficient value to enable the Issuer to meet its obligations under the Covered Bonds.

Default by Borrowers in paying amounts due on their Residential Mortgage Loan

Borrowers may default on their obligations under the Residential Mortgage Loans. Defaults may occur for a variety of reasons. The Residential Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Residential Mortgage Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies or collective debt arrangements of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Residential Mortgage Loans. In addition, the ability of a Borrower to sell a property given as security for a Residential Mortgage Loan at a price sufficient to repay the amounts outstanding under that Residential Mortgage Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

As Residential Mortgage Loans with respect to properties located in Belgium constitute the main asset category of the Special Estate, the above factors (or a combination of them) may have an adverse effect on mortgage borrowers' ability to meet their obligations under the Residential Mortgage Loans. This could reduce the value of the Residential Mortgage Loans and, ultimately, could result in losses for the Covered Bondholders if the Special Estate is liquidated. The ultimate effect of this could be to delay or reduce the payments on the Covered Bonds.

In addition, even though the Issuer is required to register additional assets (for example, Residential Mortgage Loans) in the Special Estate if the value of the Special Estate decreases to such an extent that the Cover Tests would no longer be met, there can be no assurance that the Issuer will be in a position to originate or add new assets to the Special Estate in the future. (For a description of the Cover Tests see section 6 (*Over-Collateralisation and Tests)* under *Summary of the Belgian Covered Bonds Legislation.*)

Changes to the lending criteria of the Issuer

Each of the Residential Mortgage Loans originated by the Issuer will have been originated in accordance with its lending criteria applicable at the time of origination. It is expected that the Issuer's lending criteria will generally consider, *inter alia*, type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. The Issuer retains the right to revise its lending criteria from time to time but would do so only to the extent that such a change would be acceptable to a reasonable, prudent mortgage lender. If the lending criteria change in a manner that affects the creditworthiness of the Residential Mortgage Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Special Estate, or part thereof, and the ability of the Issuer to make payments under the Covered Bonds.

Decline in real estate values and geographical concentration of the Residential Mortgage Loans

The Residential Mortgage Loans may be affected by, among other things, a decline in real estate values. Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, may experience higher rates of loss and delinquency on mortgage loans generally. Although borrowers are located throughout Belgium, the Borrowers may be concentrated in certain locations. Any deterioration in the economic condition of the areas in which the Borrowers are located, or any deterioration in the economic condition of other areas that causes an adverse effect on the ability of the Borrowers to repay the Residential Mortgage Loans could increase the risk of losses on the Residential Mortgage Loans. A concentration of Borrowers in such areas may therefore result in a greater risk of loss than would be the case if such concentration had not been present. Such losses, if they occur, could have an adverse effect on the yield to maturity of the Covered Bonds as well as on the repayment of principal and interest due on the Covered Bonds. Certain areas of Belgium may from time to time experience declines in real estate values. No assurance can be given that values of the underlying properties have remained or will remain at their levels on the dates of origination of the related Residential Mortgage Loans. If the residential real estate market in Belgium in general, or in any particular region, should experience an overall decline in property values such that the outstanding balances of the Residential Mortgage Loans become equal to or greater than the value of the underlying properties, such a decline could in certain circumstances result in the value of the interest in the underlying property securing the Residential Mortgage Loans being significantly reduced and, ultimately, may affect the repayment of the Covered Bonds.

Regulatory changes

The Issuer's operations are subject to substantial regulation and regulatory and governmental oversight. Adverse legal or regulatory changes may be introduced in the future either by the European Union or by the Kingdom of Belgium or changes in government or prudential policy, which may have a negative impact on the realisable value of the Residential Mortgage Loans registered as Cover Assets and their Related Security.

In the current market environment, with increased government intervention of the banking sector, future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Issuer.

Areas where changes may have an adverse impact include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- other changes in regulatory requirements, such as prudential rules relating to the capital adequacy or liquidity frameworks;
- external bodies applying or interpreting standards or laws differently to the way these were historically applied by the Issuer;
- changes in the competitive environment and pricing in the market as a result of actions by the competent antitrust authorities;
- further developments in the financial reporting environment; and
- other unfavourable political, economic or social developments (such as wars and revolutions) can destabilise the institutions of a country and lead to legal uncertainty.

Realisation of the Special Estate

If an Event of Default occurs and a Notice of Default is served on the Issuer, the Issuer, or upon its appointment by the Supervisor, the Cover Pool Administrator may be required to liquidate the Special Estate in whole or in part in order to repay the Covered Bondholders. Upon the service of a Notice of Default on the

Issuer, the Covered Bonds of all Series will become immediately due and repayable on the date specified in the Notice of Default.

Likewise, upon appointment, the Cover Pool Administrator may, in certain circumstances, proceed with the liquidation of the Special Estate and with the early repayment of the Covered Bonds. This is where bankruptcy proceedings have been initiated against the Issuer and the Cover Assets are not sufficient or risk not being sufficient to satisfy the obligations under the Covered Bonds (subject to approval by the Supervisor and consultation with the Representative) or when a decision to that effect has been taken at a Meeting of Covered Bondholders at which at least two thirds of the principal amount of all Covered Bonds of all Series is represented (see *Summary of the Belgian Covered Bonds Legislation* and *Meeting Rules of the Covered Bondholders*).

In such circumstances, there is no guarantee that the proceeds of liquidation of the Special Estate will be in an amount sufficient to cover all amounts due to the Covered Bondholders and the Other Cover Pool Creditors under the Covered Bonds and the Programme Documents. The Covered Bonds may therefore be repaid sooner or later than expected or not at all.

The Statutory Tests and the legal requirements for Cover Assets set out in the Belgian Covered Bonds Legislation are intended to mitigate this risk but there can be no assurance that the Cover Assets could be realised for sufficient value to enable the Issuer to repay the Covered Bonds following an Event of Default and the service of a Notice of Default on the Issuer or upon a liquidation of the Special Estate by the Cover Pool Administrator. Under the Belgian Covered Bonds Legislation, the Statutory Tests will be verified by the Cover Pool Monitor on a periodic basis and will periodically be communicated to the Supervisor (see *Summary of the Belgian Covered Bonds Legislation*).

Condition 2.6 (*Issuer undertaking*) and the Programme Documents contain an undertaking of the Issuer to ensure that it will comply with the obligations applicable to it under the Belgian Covered Bonds Legislation (which includes compliance with the Statutory Tests and certain other obligations for so long as the Covered Bonds are outstanding. Covered Bondholders should note that they will not have the right to accelerate the Covered Bonds under the Conditions or the Programme Documents if the Issuer breaches its contractual undertaking to comply with the Belgian Covered Bonds Legislation or any other of its obligations provided for in the Issuer undertaking. This will, however, be without prejudice to any remedy available against the Issuer under Belgian contract law.

If the Special Estate is liquidated, the realisable value of the Cover Assets may be reduced (which may affect the ability of the Issuer to make payments under the Covered Bonds) by a number of factors including, without limitation: (a) default by Borrowers of amounts due on their Residential Mortgage Loans, (b) changes to the lending criteria of the Issuer, (c) possible regulatory changes, (d) adverse movement of interest rates, and (e) unwinding cost related to the hedging structure, if any.

Sale of Residential Mortgage Loans and their Related Security by the Cover Pool Administrator

Following the appointment of a Cover Pool Administrator, the Cover Pool Administrator, or any person appointed by the Cover Pool Administrator, will be entitled to sell in whole or in part the Cover Assets in order to help satisfy the Issuer's obligations in respect of the Covered Bonds. Without prejudice to the powers of the Cover Pool Administrator to liquidate the Special Estate in the circumstances set out above (included in Article 11 of Annex III to the Banking Law), the Cover Pool Administrator needs the approval of the Supervisor and of the Representative for every transaction, including the sale of Cover Assets, that entails that the Cover Tests, the Liquidity Test or the contractual provisions can no longer be fulfilled.

The proceeds from any such sale will, (a) following the service of Notice of Default be applied in accordance with the Post Event of Default Priority of Payments, and (b) following a decision by the Cover Pool Administrator to early redeem the Covered Bonds of all Series pursuant to Article 11, 6° or 7° of Annex III to the Banking Law be applied in accordance with the Early Redemption Priority of Payments. Before such events, no priority of payments will apply and the proceeds from any such sale will be applied to pay

obligations to the Cover Pool Creditors (including the Covered Bondholders) as they become due and payable. As result, there may be fewer assets available to support later maturing Series of Covered Bonds.

There is no guarantee that the Cover Pool Administrator will be able to sell in whole or in part the Cover Assets as the Cover Pool Administrator may not be able to find a buyer at the time it chooses to sell.

Transfer of the Special Estate in a situation of distress

The Supervisor may appoint a Cover Pool Administrator in the circumstances set out in Article 8 of Annex III to the Banking Law. If in addition bankruptcy proceedings are initiated against the Issuer, the Cover Pool Administrator may, subject to the approval of the Supervisor and following consultation with the Representative, transfer the Special Estate (i.e. all assets and liabilities) and its management to an institution which will be entrusted with the continued performance of the obligations to the Covered Bondholders in accordance with the applicable Conditions.

Even though the rights of the Covered Bondholders against the Special Estate will be maintained and will follow the Special Estate on any such transfer, investors should be aware that in such circumstances the obligor under the Covered Bonds will be the institution to which the Special Estate is transferred. Any such transfer and change of debtor will be discussed with the Covered Bondholders' Representative but will not require the consent of the Covered Bondholders.

In a similar vein, within the framework of resolution measures taken in accordance with the provisions of the newly adopted Banking Law, the Resolution Authority of the NBB may under certain conditions impose a transfer of all or part of the assets and/or liabilities of the Issuer to (a) a bridge institution (*instrument van de overbruggingsinstelling/instrument de l'établissement-relais*), (b) a specially created asset management vehicle (i*nstrument van afsplitsing van activa*/*instrument de séparation des actifs*), or (c) another acquirer (*instrument van verkoop van de onderneming/instrument de cession des activités*) (Article 255 and the following of the Banking Law). Such transfer may include the Special Estate. In such event, the rights of the Covered Bondholders will be maintained and transferred together with the cover assets that form the Special Estate.

Other Cover Pool Creditors and subordination

The Conditions provide, in accordance with the Belgian Covered Bonds Legislation, that the Other Cover Pool Creditors (as defined in Condition 1 (*Interpretation*)) also have recourse against the Special Estate. These include the Representative, any Hedging Counterparty, any Liquidity Facility Provider and the Cover Pool Administrator as well as the Other Cover Pool Creditors (each as defined in Condition 1 (*Interpretation*)).

Moreover, in accordance with the Post Event of Default Priority of Payments and the Early Redemption Priority of Payments (see Condition 9 *(Priorities of Payments)* the claims of the Covered Bondholders may be subordinated to the claims of the Representative, the Cover Pool Monitor, the Cover Pool Administrator and the Other Cover Pool Creditors and will rank *pari passu* with the claims of any Hedging Counterparty and any Liquidity Facility Provider (subject to certain exceptions). As a result, it is possible that none or only part of the proceeds of the Special Estate are applied in satisfaction of amounts due and payable to the Covered Bondholders which may result in a loss to Covered Bondholders.

This risk is to some extent mitigated by the Statutory Tests (see section headed *Summary of the Belgian Covered Bonds Legislation*).

Covered Bondholders may not immediately accelerate the Covered Bonds upon a breach of the Statutory Tests or an Issuer's bankruptcy

Covered Bondholders should be aware that the breach of the Statutory Tests and the opening of bankruptcy proceedings with respect to the Issuer will not give them the right to declare the Covered Bonds immediately due and payable. Covered Bonds which have not yet reached their maturity will not automatically accelerate

as a result of a breach of the Statutory Tests or the opening of a bankruptcy procedure against the Issuer, without prejudice to an early repayment of the Covered Bonds and liquidation of the Special Estate pursuant to Article 11, 6° and 7° of Annex III to the Banking Law (see *Summary of the Belgian Covered Bonds Legislation*).

The Supervisor may appoint a Cover Pool Administrator in certain circumstances including, (a) upon the adoption of a reorganisation measure against the Issuer if such measure, in the opinion of the Supervisor, may negatively affect the Covered Bondholders, (b) upon the initiation of bankruptcy proceedings against the Issuer, (c) upon the removal of the Issuer from the list of Belgian covered bonds issuers, or (d) in circumstances where the situation of the Issuer is such that it may seriously affect the interest of the Covered Bondholders.

Upon appointment, the Cover Pool Administrator will manage the Special Estate with a view to satisfying the obligations in relation to the Covered Bonds as provided for in the Conditions. The Cover Pool Administrator is legally entrusted with all necessary and relevant powers to manage the Special Estate.

On the initiation of bankruptcy proceedings against the Issuer, the Cover Pool Administrator may also in certain circumstances proceed with the liquidation of the Special Estate and with the early repayment of the Covered Bonds. This is where the Cover Assets are not sufficient or risk not being sufficient to satisfy the obligations under the Covered Bonds (subject to approval by the Supervisor) or when a decision to that effect has been taken at a Meeting of Covered Bondholders at which at least two thirds of the principal amount of all Covered Bonds of all Series is represented.

Other than pursuant to an Event of Default under Condition 8 (*Events of Default and Enforcement*) or pursuant to Article 11, 7° of Annex III to the Banking Law, the Covered Bondholders cannot direct an acceleration of the Covered Bonds.

Belgian bankruptcy proceedings

If bankruptcy proceedings were commenced against the Issuer in Belgium, a receiver would be appointed over the Issuer in Belgium. However, this would not affect the ability of the Cover Pool Administrator to manage the Special Estate to the exclusion of the Issuer and the insolvency administrator. The Cover Pool Administrator is legally entrusted with all necessary and relevant powers to manage the Special Estate. The purpose of such management is to ensure compliance with the obligations under the Covered Bonds in accordance with the Conditions.

If bankruptcy proceedings are opened against the Issuer, the proceedings are limited to the General Estate of the Issuer; the Special Estate and the debts and obligations it covers do not form part of the bankruptcy estate of the Issuer. The proceedings do not cause the obligations and debts of the Special Estate to become due and payable.

In relation to a bankruptcy of the Issuer, the Banking Law incorporates private international law principles transposing Directive 2001/24/EC of the European Parliament and of the Council of April 2001 on the reorganisation and winding up of credit institutions, as amended and/or supplemented and/or restated from time to time (the **Credit Institutions Insolvency Directive**) into Belgian law. The Credit Institutions Insolvency Directive applies to credit institutions and their branches set up in Member States other than those in which they have their head offices, as defined in Directive 2000/12/EC, subject to the conditions and exemptions laid down in the Credit Institutions Insolvency Directive. Only the administrative or judicial authorities of the home member state which are responsible for winding-up are empowered to decide on the opening of winding up proceedings.

Pursuant to the Belgian Covered Bonds Legislation, a receiver has a legal obligation to cooperate with the Supervisor and the Cover Pool Administrator in order to enable them to manage the Special Estate in accordance with the Belgian Covered Bonds Legislation. There may be certain practical difficulties in this

respect which may cause a delay in the execution of the obligations of the Special Estate towards the Covered Bondholders and the Other Cover Pool Creditors.

Whenever a credit institution is subject to a resolution measure in accordance with the provisions of the Banking Law (or if all conditions are fulfilled for initiating a resolution measure), no liquidation proceedings (*faillissement /faillite*) can be started without the prior approval of the Resolution Authority of the NBB (Article 273 Banking Law).

Liquidation of the Special Estate

In case the Special Estate is liquidated, the positive balance on closing of the liquidation (i.e., amounts realised from such liquidation which are not required to meet the claims on the Special Estate) automatically forms part of the General Estate. This means that Cover Assets that are part of the Special Estate in principle only return to the General Estate once all Covered Bonds are repaid in full. However, on the initiation of bankruptcy proceedings against the Issuer, an insolvency administrator is entitled, after consultation with the Supervisor, to require that the assets, which are with certainty no longer necessary as Cover Assets, return to the General Estate. The preparatory works of the Covered Bonds Law specify that the determination as to whether certain cover assets constitute a surplus that is not necessary for the payment of the covered bondholders must take place in consultation with the Supervisor and must take into account not only the regulatory requirements but also, as the case may be, the maintenance of the ratings assigned by external credit ratings agencies. Even so, this would affect the value of the Special Estate and there can be no assurance that it would not affect the repayment of the Covered Bonds.

Commingling Risk

In the event of bankruptcy of the Issuer, the ability of the assets comprising the Special Estate to generate funds to make timely payments on the Covered Bonds will in part depend on whether the Special Estate has been maintained in compliance with the statutory requirements (see section headed *Summary description of the Belgian Covered Bonds Legislation*). To the extent that the bank accounts into which collections in respect of the Special Estate are paid or where funds are otherwise held for the Special Estate are held with the Issuer, a commingling risk cannot, as a practical matter, be excluded. This risk is mitigated to some extent by the revindication mechanism provided in Article 3, second indent of Annex III to the Banking Law pursuant to which the property rights over any amounts that are part of the Special Estate but that cannot be identified as such in the General Estate are transferred by operation of law to other unencumbered assets in the General Estate selected in accordance with the criteria specified in Condition 12.1 (*Criteria for the transfer of assets by the General Estate to the Special Estate*).

Nevertheless, to the extent that certain underlying debtors are not notified on time or otherwise continue to make payments to the Issuer accounts or to the extent that cash may not be able to be withdrawn from such accounts in such circumstances, the Special Estate or the Cover Pool Administrator, as the case may be, may not be in a position to make timely payments. This risk is mitigated to some extent by the undertaking of the Issuer that it will ensure that the Special Estate will at all times include liquid bonds, meeting certain specified criteria, that have a market value which is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months (See Condition 2.6 (*Issuer Undertaking*).)

However, to the extent that there are not enough unencumbered assets available for purposes of revindication as set out above, the Covered Bonds may be repaid later than expected or not at all.

Set-off risk

Under Belgian law, legal set-off occurs where two persons hold claims against each other, provided, in general, that their debts exist, are fungible, liquid (*vaststaand/liquide*) and due (*opeisbaar/exigible*). As a result, set-off rights may arise in respect of cross-claims between an underlying debtor of a Residential Mortgage Loan and the Issuer, potentially reducing amounts receivable by the Special Estate.

Pursuant to the law of 3 August 2012 on various measures to facilitate the mobilisation of receivables in the financial sector (*Wet van 3 augustus 2012 betreffende diverse maatregelen ter vergemakkelijking van de mobilisering van schuldvorderingen in de financiële sector/Loi du 3 août 2012 relative à des mesures diverses pour faciliter la mobilisation de créances dans le secteur financier),* as amended and/or supplemented and/or restated from time to time (the **Mobilisation Law**), the underlying debtor may no longer invoke set-off of the debt with any claim that would arise after, or in respect of which the conditions for legal set-off would not met prior to, the earlier of, (a) the notification of the registration/transfer of the relevant loan to the underlying debtor (or acknowledgement thereof by theunderlying debtor), to the extent the conditions for set-off are only satisfied after such notification (or acknowledgment), or (b) regardless of any notification or acknowledgement of the registration/transfer, following the start of insolvency proceedings or the occurrence of a situation of concurrence of creditors (*samenloop/concours*) in relation to the Issuer, to the extent the conditions for set-off are only satisfied following or as a result of such insolvency proceedings or concurrence of creditors.

The Special Estate may nevertheless still be subject to the rights of the underlying debtors of Residential Mortgage Loans to invoke set-off against the Special Estate to the extent that the relevant claims against the Issuer arise, or the conditions for set-off against the Issuer are met, prior to the earlier of, (a) the notification (or acknowledgement) of the registration of the loan, or (b) the start of insolvency proceedings or the occurrence of a situation of concurrence of creditors in respect the Issuer. The exercise of set-off rights by underlying debtors may adversely affect the value of the Special Estate, may additionally affect any sale proceeds of the Special Estate and may ultimately affect the ability of the Issuer or the Cover Pool Administrator, as applicable, to make payments under the Covered Bonds.

Mortgage mandates

Pursuant to the Belgian Covered Bonds Legislation, a Residential Mortgage Loan which is partly secured by a mortgage mandate may be included in the Special Estate. Subject to certain valuation rules (see *Summary of the Belgian Covered Bonds Legislation*), the amounts secured by the mortgage mandate may be taken into account for the purposes of the Cover Tests.

Investors should be aware that such mortgage mandate is not a security and that it will only provide a security interest once the mandate has been exercised and a mortgage has been registered. Accordingly, prior to such exercise, the Special Estate will not benefit from any security in respect of that portion of a Residential Mortgage Loan covered by the mortgage mandate. Moreover, in certain circumstances as further set out below, exercise of a mandate may no longer be possible or may no longer result in valid and effective security.

The following limitations, amongst others, exist in relation to the conversion of mortgage mandates:

- the Borrower or the third party collateral provider that has granted a mortgage mandate may grant a mortgage to a third party that will rank ahead of the mortgage to be created pursuant to the conversion of the mortgage mandate, although this would generally constitute a contractual breach of the standard loan documentation;

- if a conservatory or an executory attachment of the real property covered by the mortgage mandate has been filed by a third party creditor of the borrower or, as the case may be, of the third party collateral provider, a mortgage registered pursuant to the exercise of the mortgage mandate after the writ of attachment has been recorded at the mortgage register will not be enforceable against the creditor who filed the attachment;

- if the borrower or the third party collateral provider is a merchant:

    - the mortgage mandate can no longer be converted following the bankruptcy of the borrower or, as the case may be, the third party collateral provider and any mortgage registered at the mortgage register after the bankruptcy judgment is void; and

- a mortgage registered at the mortgage register pursuant to the exercise of a mortgage mandate during the pre-bankruptcy investigation period (i.e., after the date of cessation of payments that may be fixed by the court) for a pre-existing loan will not be enforceable against the bankrupt estate. Under certain circumstances, the clawback rules are not limited in time, for example, where a mortgage has been granted pursuant to a mortgage mandate and in order to "fraudulently prejudice" creditors; and

- mortgages registered after the day of cessation of payments of debt can be declared void by the bankruptcy court, if the registration was made more than fifteen days after the creation of the mortgage; and

- the effect of a judicial reorganisation (*gerechtelijke reorganisatie*/*réorganisation judiciaire*) of a borrower or of a third party collateral provider on the mortgage mandate is uncertain;

- if the borrower or the third party collateral provider, as the case may be, is an individual (non-merchant) and started collective debt settlement proceedings, a mortgage registered at the mortgage register after the court has declared the request admissible is not enforceable against the other creditors of the borrower or of the third party collateral provider;

- besides the possibility that the borrower or the third party collateral provider may grant a mortgage to another lender discussed above, the mortgage to be created pursuant to a mortgage mandate may also rank behind certain statutory mortgages (such as, for example, the statutory mortgage of the tax and the social security authorities) to the extent these mortgages are registered before the exercise of the mortgage mandate. In this respect, it should be noted that the notary involved in preparing the mortgage deed will need to notify the tax administration, and, as the case may be, the social security administration before finalising the mortgage deed pertaining to the creation of the mortgage;

- if the borrower or the third party collateral provider, as the case may be, is an individual, certain limitations apply to the conversion of the mortgage mandate into a mortgage if the Borrower or third party collateral provider dies before the conversion; certain limitations also apply in case of a dissolution of the borrower or third party collateral provider that is a legal person.

In addition, prior to such exercise, third parties acting in good faith may register prior-ranking mortgages.

Once a mandate is exercised, the ensuing mortgage will rank at the highest level available at the time of registration of such mortgage.

To the extent that the mortgage secures any other loans made by the Issuer to the same grantor that are not included in the Special Estate, all proceeds received out of the enforcement of the mortgage will be applied in priority in satisfaction of the obligations under the relevant loans that are included in the Special Estate (see also Condition 12.3 (*Priority Rules regarding security interest securing both Cover Assets and assets in the General Estate*)).

Reliance on Hedging Counterparties

To provide a hedge against interest rate and/or other risks in respect of amounts received by the Issuer under the Residential Mortgage Loans forming part of the Cover Assets and under the other Cover Assets and the interest rate and amounts payable by the Issuer under the Covered Bonds, the Issuer may enter into a Hedging Agreement with a Hedging Counterparty in respect of a Series of Covered Bonds under a Hedging Agreement.

If the Issuer fails to make timely payments of amounts due under any Hedging Agreement, then it will have defaulted under that Hedging Agreement. A Hedging Counterparty is only obliged to make payments to the Issuer as long as the Issuer complies with its payment obligations under the relevant Hedging Agreement. If the Hedging Counterparty is not obliged to make payments or if it defaults on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Issuer on the due date

for payment under the relevant Hedging Agreement, the Issuer will be exposed to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments under the Covered Bonds.

If a Hedging Agreement terminates, then the Issuer may be obliged to make a termination payment to the relevant Hedging Counterparty. There can be no assurance that the Issuer will have sufficient funds available to make a termination payment under the relevant Hedging Agreement, nor can there be any assurance that the Issuer will be able to enter into a replacement swap agreement or, if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by a Rating Agency.

Following a decision of the Cover Pool Administrator to early redeem the Covered Bonds pursuant to Article 11, 6° and 7° of Annex III to the Banking Law or following the delivery of a Notice of Default and with respect to funds derived from the Special Estate, if the Issuer is obliged to pay a termination payment under any Hedging Agreement that constitutes a Cover Asset, such termination payment will rank *pari passu* with amounts due on the Covered Bonds, except where default by, or downgrade of, the relevant Hedging Counterparty has caused the relevant swap agreement to terminate (See Condition 9 (*Priorities of Payment*)).

Differences in timings of obligations of the Issuer and the Hedging Counterparty under the Hedging Agreements

With respect to any Hedging Agreement that may be entered into by the Issuer, the Issuer will, periodically, pay or provide for payment of an amount to each corresponding Hedging Counterparty based on EURIBOR for Euro deposits for the agreed period. The Hedging Counterparty may not be obliged to make corresponding swap payments to the Issuer under a Hedging Agreement until amounts are due and payable by the Issuer under the Covered Bonds. If a Hedging Counterparty does not meet its payment obligations to the Issuer under the relevant Hedging Agreement or such Hedging Counterparty does not make a termination payment that has become due from it to the Issuer under the Hedging Agreement, the Issuer may have a shortfall in funds with which to make payments under the Covered Bonds. Hence, the difference in timing between the obligations of the Issuer and the obligations of the Hedging Counterparties under the Hedging Agreements may affect the Issuer's ability to make payments with respect to the Covered Bonds. A Hedging Counterparty may be required, pursuant to the terms of the relevant Hedging Agreement, to post collateral with the Issuer if the relevant rating of the Hedging Counterparty is downgraded by a Rating Agency below the rating specified in the relevant Hedging Agreement.

Reference Rates and Benchmark

Reference Rates and indices, including interest rate benchmarks, such as the Euro Interbank Offered Rate (**EURIBOR**) and the London Interbank Offered Rate (**LIBOR**), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (**Benchmark**), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated.

Regulation (EU) 2016/1011 (the **Benchmark Regulation**), which applies as of 1 January 2018, applies to the provision of Benchmarks, the contribution of input data to a Benchmark and the use of a Benchmark within the European Union. Among other things, the Benchmark Regulation (i) requires Benchmark administrators to be authorised or registered (or, if based outside the European Union, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of Benchmarks of administrators that are not authorised or registered (or, if based outside the European Union, not deemed equivalent or recognised or endorsed). Pursuant to the Benchmark Regulation, an index provider needs to apply for authorisation or registration by 1 January 2020. It may, however, continue to provide an existing Benchmark (i.e., a Benchmark existing on or before 1 January 2018) until 1 January 2020 or, where an application for authorisation or registration is submitted, unless and until the authorisation or registration is refused. The Benchmark Regulation could adversely affect any Mortgage Covered Bond referencing a Benchmark, in particular if the methodology or other terms of the relevant

Benchmark are changed in order to comply with the requirements of the Benchmark Regulation or in case of the discontinuation of a Benchmark as a result of the failure by a Benchmark administrator to be authorised or registered (or, if based outside the European Union, to be deemed equivalent or recognised or otherwise endorsed).

In March 2017, the European Money Markets Institute (**EMMI**) published a position paper setting out the legal grounds for certain proposed reforms to EURIBOR. The proposed reforms seek to clarify the EURIBOR specification, to align the current methodology with the Benchmark Regulation, the IOSCO Principles (i.e., nineteen principles which are to apply to Benchmarks used in financial markets as published by the Board of the International Organisation of Securities Commissions in July 2013) and other regulatory recommendations and to adapt the methodology to better reflect current market conditions. EMMI is more specifically aiming to evolve the current quote based methodology to a transaction based methodology in order to better reflect the underlying interest that it intends to measure and adapt to the prevailing market conditions. In particular, it is contemplated that it will be anchored on actual market transaction input data whenever available, and on other funding sources if transaction data are insufficient. In a statement published in January 2018, EMMI indicated that it aims to launch the hybrid methodology for EURIBOR by the fourth quarter of 2019 at the latest, in accordance with the transitional period provided for by the Benchmark Regulation. On 29 March 2018, EMMI launched its first stakeholder consultation on the hybrid methodology. The consultation closed on 15 May 2018 and is followed by an in-depth testing of the proposed methodology under live conditions from May to August 2018.

In addition, on 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority (FCA), which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Covered Bonds linked to such benchmark (including but not limited to Covered Bonds whose interest rates are linked to LIBOR).

It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards.

On 21 September 2017, the ECB, the European Commission, ESMA and the Belgian Financial Services and Markets Authority announced that they would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current Benchmarks used in a variety of financial instruments and contracts in the euro area. Once it has made a recommendation, it will also explore possible approaches for ensuring a smooth transition to this rate. Furthermore, the ECB announced that it will start providing an overnight unsecured index before 2020.

The reforms described above or any other changes may cause a Benchmark to perform differently than in the past or to be discontinued, may create disincentives for market participants to continue to administer or participate in certain Benchmarks or may have other consequences which cannot be predicted.

Following the implementation of any such potential reforms, the manner of administration of Benchmarks may change, with the result that they may perform differently than in the past, or the Benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. The elimination of LIBOR or any other Benchmark, changes in the manner of administration of any Benchmark, or any other **Benchmark Event** could require or result in an adjustment to the interest calculation and related provisions of the Terms and Conditions as well as the Agency Agreement (as further described in Condition 4.2(h) (*Benchmark replacement*))**,** or result in adverse consequences to holders of any Covered Bonds linked to such Benchmark (including Floating Rate Covered Bonds whose interest rates are linked to LIBOR or any other Benchmark that is or may become the subject of reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to a Benchmark may adversely affect such Benchmark during the term of the relevant Covered

Bonds, the return on the relevant Covered Bonds and the trading market for securities based on the same Benchmark.

The Terms and Conditions of the Covered Bonds provide for certain fall-back arrangements (the **Fall-Back Arrangements**) in the event that a published Benchmark, such as LIBOR, (including any page on which such Benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the Rate of Interest could be set by the Issuer (without a requirement for the consent or approval of the Covered Bondholders) by reference to a Successor Rate or an Alternative Reference Rate and that such Successor Rate or Alternative Reference Rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant Benchmark. In certain circumstances, the ultimate fall back of interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the Rate of Interest which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates and the involvement of an Independent Adviser (if applicable), the relevant fall-back provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of, and return on, any Covered Bonds to which the Fall-Back Arrangements are applicable. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could adversely affect the ability of the Issuer to meet its obligations under the Floating Rate Covered Bonds or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Covered Bonds.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Residential Loans and the Covered Bonds due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Issuer to meet its obligations under the Covered Bonds.

Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Covered Bonds.

Conflicts of Interest

Where the Issuer acts as a calculation agent, potential conflicts of interest may exist between the Issuer and Covered Bondholders.

The Calculation Agent is entitled to carry out a series of determinations which affect the Covered Bonds. Such determinations could have an adverse effect on the value of the Covered Bonds and on the amounts payable to investors under the Terms and Conditions of the Covered Bonds, whether in the case of an early redemption event or at maturity, giving rise to a potential conflict of interest in respect of the interests of the Covered Bondholders.

Conflict of interests may also exist between the Issuer and the Covered Bondholders where the Issuer acts as domiciliary and paying agent or as dealer.

While the Issuer has identified here conflicts of interest of which it is aware (to the best of its knowledge), it cannot be excluded that other conflicts of interest would arise in the future in specific circumstances.

Time subordination

The Issuer will be entitled to apply available funds in order to repay earlier maturing Series of Covered Bonds, which may mean that there may be fewer assets available to support later maturing Series of Covered Bonds.

Reliance on third parties

The Issuer has entered into agreements with a number of third parties which have agreed to perform services for the Special Estate. Such counterparties may not perform their obligations under the Programme Documents, which may result in the Special Estate not being able to meet its obligations under the Covered Bonds.

None of the third parties will have any obligation itself to advance payments that Borrowers fail to make in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by such third parties.

Representative's powers may affect the interests of the Covered Bondholders

If there is at any time a conflict between a duty owed by the Representative to the Covered Bondholders and a duty owed by the Representative to any Other Cover Pool Creditor, then the Representative must have regard only to the interests of the Covered Bondholders while any of the Covered Bonds remain outstanding and will not be required to have regard to the interests of any Other Cover Pool Creditor or any other person or to act upon or comply with any direction or request of any Other Cover Pool Creditor or any other person while any amount remains owing to any Covered Bondholders.

Where the Representative is required to have regard to the Covered Bondholders (or any Series thereof), it must have regard to the general interests of the Covered Bondholders (or any Series thereof) as a class and will not have regard to any interests arising from circumstances particular to individual Covered Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular country, territory or any political subdivision thereof and the Representative will not be entitled to require, nor will any Covered Bondholder be entitled to claim from, the Issuer, the Representative or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, except to the extent already provided for in Condition 7. If, in connection with the exercise of its powers, trusts, authorities or discretions, the Representative is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series could or would be materially prejudiced thereby, the Representative may determine that it will not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution. Provided that the Representative acts in good faith, as described in the foregoing, it will not incur any liability to any Other Cover Pool Creditor or any other person for so doing.

V. Factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme

V.A. Risks related to the market generally

Set out below is a brief description of certain market risks.

The Covered Bonds may not be a suitable or appropriate investment for all investors

Each potential investor in the Covered Bonds must determine the suitability and appropriateness of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement and all the information contained in the applicable Final Terms;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal and/or interest payable in one or more currencies, or where the currency for principal and/or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be 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 its investment and its ability to bear the applicable risks.

Impact of fees, commissions and/or inducements on the Issue Price and/or offer price

Investors should note that the issue price and/or offer price of any issue of Covered Bonds may include subscription fees, placement fees, direction fees, structuring fees and/or other additional costs. Any such fees and/or other commissions and inducements will be disclosed to investors in the applicable Final Terms. Any such fees may not be taken into account for the purposes of determining the price of such Covered Bonds on the secondary market and could result in a difference between the original issue price and/or offer price, the theoretical value of such Covered Bonds, and/or the actual bid/offer price quoted by any intermediary in the secondary market.

Any such difference may have an adverse effect on the value of Covered Bonds, particularly immediately following the offer and the issue date relating to such Covered Bonds, where any such fees and/or costs may be deducted from the price at which such Covered Bonds can be sold by the initial investor in the secondary market.

Market Value of Covered Bonds

The market value of an issue of Covered Bonds will be affected by a number of factors independent of the creditworthiness of the Issuer, including, but not limited to:

- market interest and yield rates;
- liquidity of the Covered Bonds in the secondary market;
- the time remaining to any redemption date or the maturity date; and
- economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally.

Absence of secondary market

There is not, at present, an active and liquid secondary market for the Covered Bonds, and no assurance is provided that an active and liquid secondary market for the Covered Bonds will emerge. The Arranger are not obliged to and do not intend to make a market for the Covered Bonds. None of the Covered Bonds has been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under *Subscription and Sale*. If a secondary market does emerge, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield.

The Issuer may, but is not obliged to, list an issue of Covered Bonds on a stock exchange or regulated market. If Covered Bonds are not listed or traded on any stock exchange or regulated market, pricing information for the relevant Covered Bonds may be more difficult to obtain and the liquidity of such

Covered Bonds may be adversely affected, and therefore the price of the Covered Bonds could be affected by their limited liquidity.

If Covered Bonds are not listed or traded on a stock exchange or regulated market they may be traded on trading systems governed by the laws and regulations in force from time to time (for example, multilateral trading systems) or in other trading systems (for example, bilateral systems, or equivalent trading systems). In the event that trading in such Covered Bonds takes place outside any such stock exchange, regulated market or trading systems, the manner in which the price of such Covered Bonds is determined may be less transparent and the liquidity of such Covered Bonds may be adversely affected. Investors should note that the Issuer does not grant any warranty to Covered Bondholders as to the methodologies used to determine the price of Covered Bonds which are traded outside a trading system. However, where the Issuer or any of its affiliates determines the price of such Covered Bonds, it will take into account the market parameters applicable at such time in accordance with applicable provisions of law. Even if Covered Bonds are listed and/or admitted to trading, this will not necessarily result in greater liquidity.

Each of the Issuer and any Dealer may, but is not obliged to, at any time purchase Covered Bonds at any price in the open market or by tender or private agreement. Any Covered Bonds so purchased may be held or resold or surrendered for cancellation. If any Covered Bonds are redeemed in part, then the number of Covered Bonds outstanding will decrease, which will reduce liquidity for the outstanding Covered Bonds. Any such activities may have an adverse effect on the price of the relevant Covered Bonds in the secondary market and/or the existence of a secondary market.

Any Dealer or any of its affiliates may, but is not obliged to, be a market maker, liquidity provider, specialist or bid intermediary for an issue of Covered Bonds. Even if a Dealer is a market-maker, liquidity provider, specialist or bid intermediary for an issue of Covered Bonds, the secondary market for such Covered Bonds may be limited and there is no assurance given as to the price offered by a market-maker, liquidity provider, specialist or bid intermediary or the impact of any such quoted prices on those available in the wider market and any such activities may be affected by legal restrictions in certain jurisdictions.

The appointment of an entity acting as a market-maker, liquidity provider, specialist or bid intermediary with respect to the Covered Bonds may, under certain circumstances, have a relevant impact on the price of the Covered Bonds in the secondary market.

If it is possible to sell Covered Bonds, they would be sold for the prevailing bid price in the market and may be subject to a transaction fee. The prevailing bid price may be affected by several factors including prevailing interest rates at the time of sale, the time remaining to the stated maturity date, the creditworthiness of the Issuer and factors affecting the capital markets generally. The introduction of additional or competing products in the market may also have a negative effect on the price of any Covered Bonds. It is therefore possible that an investor selling Covered Bonds in the secondary market may receive substantially less than their original purchase price.

In addition, Covered Bondholders 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 Covered Bonds. As a result of the current liquidity crisis, there exist significant additional risks to the Issuer and the investors which may affect the returns on the Covered Bonds to investors.

In addition, the current liquidity crisis has stalled the primary market for a number of financial products including instruments similar to the Covered Bonds. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for securities similar to the Covered Bonds will recover at the same time or to the same degree as such other recovering global credit market sectors.

Limited liquidity in the secondary market in mortgage loans and mortgage backed securities

The secondary mortgage markets can experience severe disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. As a result, the secondary market for mortgage loans and mortgage-backed securities could experience extremely limited liquidity. This may, amongst other things, affect the ability of the Issuer, or the Cover Pool Administrator, to obtain timely funding to fully redeem maturing Series with the sale proceeds of Cover Assets.

Limited liquidity in the secondary market for mortgage-backed securities has had a severe adverse effect on the market value of mortgage-backed securities (including Covered Bonds). Limited liquidity in the secondary market may continue to have a severe adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the investment requirements of limited categories of investors. Consequently, an investor in the Covered Bonds may not be able to sell its Covered Bonds readily. The market values of the Covered Bonds are likely to fluctuate and may be difficult to determine. Any of these fluctuations may be significant and could result in significant losses to such investor.

In addition, the forced sale into the market of mortgage-backed securities held by structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties could adversely affect an investor's ability to sell, and/or the price an investor receives for, the Covered Bonds in the secondary market.

Counterparty risk exposure

The ability of the Issuer to make payments under the Covered Bonds is subject to general credit risks, including credit risks of Borrowers. Third parties that owe the Issuer money, securities or other assets may not pay or perform under their obligations. These parties include borrowers under loans granted, trading counterparties, counterparties under swaps and credit and other derivative contracts, agents and other financial intermediaries. These parties may default on their obligations to the Issuer due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Extendable obligations under the Covered Bonds

An Extended Final Maturity Date will apply to each Series of Covered Bonds. The Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date shall be deferred past the Final Maturity Date until the Extended Final Maturity Date (as specified in the Final Terms) (such date the **Extended Final Maturity Date**) if the Issuer fails to pay the Final Redemption Amount on the Final Maturity Date (subject to applicable grace period). Such deferral will occur automatically if the Issuer fails to pay any amount representing the amount due within 14 Business Days after the Final Maturity Date as set out in the Final Terms (the **Final Redemption Amount**) in respect of the relevant Series of Covered Bonds provided that, any amount representing the Final Redemption Amount due and remaining unpaid within 14 Business Days after the Final Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date. Between the Final Maturity Date and the Extended Final Maturity Date, the Interest Payment Dates will occur monthly. Interest will continue to accrue and be payable on any unpaid amounts on each Interest Payment Date up to the Extended Final Maturity Date in accordance with the Conditions and the Issuer will make payments on each relevant Interest Payment Date and Extended Final Maturity Date.

The extension of the maturity of the Final Redemption Amount of the Covered Bonds from the Final Maturity Date to the Extended Final Maturity Date will not result in any right of the Covered Bondholders to accelerate payments or take action against the Special Estate and no payment will be payable to the Covered Bondholders in that event other than as set out in the applicable Final Terms. The payment of the Final Redemption Amount shall become due and payable on the Extended Final Maturity Date as specified in the applicable Final Terms.

Covered Bondholders should also note that an extension of the maturity of a particular Series of Covered Bonds will not automatically trigger an extension of the maturity date of any other Series.

If the Covered Bonds are not redeemed in full on the relevant Extended Final Maturity Date, then the Representative may serve a Notice of Default on the Issuer pursuant to the Conditions. Following the service of a Notice of Default, (a) no further Covered Bonds will be issued, and (b) the Covered Bonds of each Series shall become immediately due and payable.

The provisions on extendable obligations under the Covered Bonds shall only apply if the Issuer has insufficient funds available to redeem Covered Bonds in full on the relevant Final Maturity Date (or within 14 Business Days thereafter).

(1) V.B. Risks related to the structure of a particular issue of Covered Bonds

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of the most common such features.

(1) Covered Bonds where Maximum Rate of Interest applies

Covered Bonds where a Maximum Rate of Interest applies have an interest rate that is subject to a maximum specified rate. The maximum amount of interest payable in respect of these Covered Bonds will occur when the sum of the relevant reference rate and the specified margin (if any) equals the maximum specified rate. Investors in such Covered Bonds will therefore not benefit from any increase in the relevant reference rate which, when the specified margin is added to such reference rate, would otherwise cause such interest rate to exceed the maximum specified rate. The market value of these Covered Bonds would therefore typically fall the closer the sum of the relevant reference rate and the margin is to the maximum specified rate.

Fixed Rate Covered Bonds

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

Floating Rate Covered Bonds

A key difference between Floating Rate Covered Bonds and Fixed Rate Covered Bonds is that interest income on Floating Rate Covered Bonds cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of Floating Rate Covered Bonds at the time they purchase them, so that their return on investment cannot be compared with that of investments having fixed interest periods. If the Final Terms of the Covered Bonds provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline, because investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Zero Coupon Covered Bonds

Changes in market interest rates have a substantially stronger impact on the prices of Zero Coupon Covered Bonds than on the prices of ordinary Covered Bonds because the discounted issue prices are substantially below par. If market interest rates increase, Zero Coupon Covered Bonds can suffer higher price losses than other Covered Bonds having the same maturity and credit rating. Due to their leverage effect, Zero Coupon Covered Bonds are a type of investment associated with a particularly high price risk.

Covered Bonds issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the

securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Covered Bonds not contemplated by the Base Prospectus

The Issuer may from time to time issue Covered Bonds under the Programme in any form agreed by the Issuer from time to time and the relevant Dealer or investor. These Covered Bonds will be subject to terms and conditions and final terms which may be agreed with the Issuer at the time of their issuance. The issuance of these Covered Bonds is subject to compliance with the Programme Common Terms Agreement, which contains certain terms to which all Covered Bonds issued under the Programme will be subject. The Programme Common Terms may be amended in accordance with the provisions of the Programme Common Terms Agreement.

The issuance of these Covered Bonds is also subject to the Belgian Covered Bonds Legislation (see also *Summary of the Belgian Covered Bonds Legislation*). The Covered Bondholders should note that all Covered Bonds will rank *pari passu* among themselves and that, as a result, the proceeds of the Special Estate will be applied to the satisfaction of amounts due and payable to all Covered Bondholders on a pro rata basis.

V.C. Risks related to Covered Bonds generally

Set out below is a brief description of certain risks relating to the Covered Bonds generally.

Belgian Covered Bonds Legislation and Change of Law

The Belgian Covered Bonds Legislation came into force in October 2012 and has not been amended since that date (except for the incorporation of the Covered Bonds Law into the Banking Law). The transactions contemplated in this Base Prospectus are based on and subject to the provisions of the Belgian Covered Bonds Legislation. So far as the Issuer is aware, as at the date of this Base Prospectus there has been no judicial authority as to the interpretation of any of the provisions of the Belgian Covered Bonds Legislation. It is consequently uncertain how the Covered Bonds Regulations will be interpreted or applied or whether changes or amendments, affecting the Covered Bonds, will be made to it.

For further information on the Belgian Covered Bonds Legislation, see *Summary of the Belgian Covered Bonds Legislation*. There are a number of aspects of Belgian law which are referred to in this Base Prospectus with which potential Covered Bondholders are likely to be unfamiliar. Particular attention should be paid to the sections of this Base Prospectus containing such references.

The Covered Bonds are based on Belgian law in effect as at the date of issuance of the relevant Covered Bonds. No assurance can be given as to the impact of any possible judicial decision or change to Belgian law or administrative practice after the date of issuance of the relevant Covered Bonds.

In addition, any relevant tax law or practice applicable as at the date of this Base Prospectus and/or the date of purchase or subscription of the Covered Bonds may change at any time (including during any subscription period or the term of the Covered Bonds). Any such change may have an adverse effect on a Covered Bondholder, including that the Covered Bonds may be redeemed before their due date, their liquidity may decrease and/or the tax treatment of amounts payable to or receivable by an affected Covered Bondholder may be less than otherwise expected by such Covered Bondholder.

Implementation of and/or changes to the framework adopted by the Basel Committee may affect the capital requirements and/or the liquidity associated with a holding of the Covered Bonds for certain investors

In 1988, the Basel Committee on Banking Supervision (the **Basel Committee**) adopted capital guidelines that explicitly link the relationship between a bank's capital and its credit risks. In June 2006 the Basel Committee finalised and published new risk-adjusted capital guidelines (**Basel II**). Basel II includes the application of risk-weighting which depends upon, amongst other factors, the external or, in some

circumstances and subject to approval of supervisory authorities, internal credit rating of the counterparty. The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as **Basel III**) and on 1 June 2011 issued its final standards which envisages a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards and to establish minimum liquidity standards and a leverage ratio "backstop" for financial institutions.

In particular, Basel III includes, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio (Leverage Ratio or **LR)** as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio or **LCR** and the Net Stable Funding Ratio or **NSFR**). Member countries were required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from October 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee also introduces additional capital requirements for global systemically important banks from 2016 and published rules outlining the relevant requirements in November 2011. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Covered Bonds and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

On 17 July 2013, CRD IV which transposes Basel III into EU law entered into force. Institutions were required to apply the new rules from 1 January 2014, with full implementation on 1 January 2019. Member States will retain some possibilities to require their institutions to hold more capital and will also be allowed to impose specific add-on on banks to cover systemic or macro-prudential risks. Member states would also retain powers to impose additional requirements on specific bank following the supervisory review process.

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

Limited description of the Special Estate

Other than receipt of the Investor Report, the Covered Bondholders will not receive detailed statistics or information in relation to the Cover Assets in the Special Estate because it is expected that the constitution of the Special Estate will frequently change due to, for instance:

- the Issuer allocating additional Cover Assets to the Special Estate; and
- the Issuer removing Cover Assets from the Special Estate or substituting existing Cover Assets in the Special Estate with additional Cover Assets.

There is no assurance that the characteristics of the Cover Assets allocated to the Special Estate on the relevant Issue Date will be the same as those Cover Assets in the Special Estate as at any date thereafter. However, each Cover Asset will be required to meet the requirements of the Belgian Covered Bonds Legislation. In addition, the Statutory Tests (and the Issuer's obligations to remedy breaches of the Statutory Tests) are intended to ensure that the value of the Special Estate as determined in accordance with the Belgian Covered Bonds Legislation is greater than the Principal Amount Outstanding of the Covered Bonds covered by the Special Estate (although there is no assurance that it will do so). The Cover Pool Monitor must at least once a month verify whether the Statutory Tests and the requirements in relation to the Register of Cover Assets are met. The Cover Pool Monitor must immediately inform the NBB, in its capacity as Supervisor, if it establishes that the Issuer no longer satisfies the requirements. The Cover Pool Monitor must

report to the NBB, in its capacity as Supervisor, on a monthly basis on the performance of the procedures and the results thereof.

Ratings of the Covered Bonds

One or more independent credit rating agencies may assign ratings to an issue of Covered Bonds.

The expected credit ratings of the Covered Bonds, if applicable, are set out in the applicable Final Terms for each Series of Covered Bonds.

The credit ratings that may be assigned to the Covered Bonds (where applicable) address:

- the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date;
- the likelihood of ultimate payment of principal in relation to Covered Bonds on the Extended Final Maturity Date thereof; and
- (in relation to Fitch) their probability of default but also incorporate an element of recovery should default occur. Credit ratings assigned by Fitch exclude event risk, such as a change in legislation governing a jurisdiction's covered bond framework, or the merger of an issuer with another entity.

There is no guarantee that ratings will be assigned or maintained by the Issuer following the date of this Base Prospectus.

A Rating Agency may lower its rating or withdraw its rating if, in the sole judgment of that Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any credit rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds.

CRA Regulation

In general, European regulated investors are restricted under the CRA Regulation (as defined on the cover page of this Base Prospectus) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms.

Covered Bonds issued under the Programme

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds will rank at least *pari passu* and pro rata without any preference or priority among themselves, irrespective of their Series.

Following the occurrence of an Event of Default and service by the Representative of a Notice of Default, the Covered Bonds of all outstanding Series will become immediately due and payable against the Issuer.

A Cover Pool Administrator appointed by the Supervisor in the circumstances described in the Belgian Covered Bonds Legislation may also in certain circumstance proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds. This is where following the initiation of a bankruptcy procedure against the Issuer, the Cover Assets are not, or risk not being, sufficient to satisfy the obligations under the Covered Bonds (subject to approval by the Supervisor) or when a majority decision has been taken to this effect at a meeting of Covered Bondholders at which at least two thirds of the aggregate principal amount of all Covered Bonds of all Series then outstanding is represented.

Modification, waivers and substitution

The Conditions contain provisions for calling meetings of Covered Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who did not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the majority. The organisation of such meetings requires logistical efforts (which entails operational risks, i.e. it may be impracticable or there may be technical difficulties in organising the meetings) and such meetings are subject to quorum requirements (i.e. absent certain quorums, it may not be possible for the meeting to take valid and binding decisions, which could delay the decision-making process).

In addition, pursuant to Condition 4.2(h) (*Benchmark replacement*), if a Benchmark Event occurs, certain changes may be made to the interest calculation and related provisions of Floating Rate Covered Bonds, as well as the Agency Agreement in the circumstances and as otherwise set out in such Condition, without the consent or approval of the Covered Bondholders.

The Representative may agree to modifications to the Conditions without the Covered Bondholders' prior consent

Pursuant to the Conditions and the terms of the Representative Appointment Agreement, the Representative may, without the consent or sanction of any of the Covered Bondholders or any of the Other Cover Pool Creditors, concur with the Issuer or any person in making or sanctioning any modification to the Conditions:

provided that the Representative is of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interests of any of the Covered Bondholders; or

which in the sole opinion of the Representative is of a formal, minor or technical nature or is to correct a manifest error or to comply with mandatory provisions of law.

Certain decisions of Covered Bondholders taken at Programme level

Any Resolution to direct the Representative to serve a Notice of Default on the Issuer must be passed at a single meeting of all Covered Bondholders of all Series then outstanding (see Condition 8.1 (*Events of Default*)). The organisation of such meetings requires logistical efforts and such meetings are subject to quorum requirements.

Early redemption

The Conditions provide for an early redemption of the Covered Bonds in the case of an illegality or tax gross-up. Investors that choose to reinvest moneys they receive through an early redemption may be able to do so only in securities with a lower yield than the redeemed Covered Bonds. Potential investors should consider reinvestment risk in light of other investments available at that time.

Moreover, following the opening of bankruptcy proceedings against the Issuer, the Cover Pool Administrator may in certain circumstances proceed with the liquidation of the Special Estate and early redemption of the

Covered Bonds (see *Summary of the Belgian Covered Bonds Legislation*). There is a risk that, in such circumstances, the proceeds from the liquidation of the Special Estate will not be sufficient to cover the Early Redemption Amount due under the Covered Bonds and that Covered Bondholders or the Representative on their behalf will have to introduce a contingent unsecured claim against the Issuer's general bankruptcy estate in order to preserve their recourse against the General Estate. Such claim would rank *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general application (which includes the deposit holders which, in accordance with Article 389 of the Banking Law, have a lien on all movable assets in the General Estate).

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities.

Each potential investor should consult its legal advisers to determine whether and to what extent, (a) Covered Bonds are legal investments for it, (b) Covered Bonds can be used as collateral for various types of borrowing, and (c) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

Prospective investors who consider purchasing any Covered Bonds should reach an investment decision only after carefully considering the suitability of such Covered Bonds in light of their particular circumstances.

Covered Bonds in dematerialised form

The Covered Bonds may be issued in the form of dematerialised bonds under the Belgian Companies 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 participants in the Securities Settlement System whose membership extends to securities such as the Covered Bonds (the **Participants**). Participants include certain Belgian banks, stockbrokers (*beursvennootschappen/sociétés de bourse*), Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs.

Transfers of interests in the Covered Bonds will be effected between the 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 Participants through which they hold their Covered Bonds.

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

Illegality

In the event that the Issuer determines that the performance of the Issuer's obligations under a Series of Covered Bonds has or will become unlawful, illegal or otherwise prohibited in whole or in part, the Issuer may redeem all, but not some only, of the Covered Bonds of such Series in accordance with the *Terms and Conditions of the Covered Bonds* below.

Common Reporting Standard

The exchange of information is governed by the Common Reporting Standard (**CRS**). On 7 August 2018, 103 jurisdictions had signed the multilateral competent authority agreement (**MCAA**), which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent

bilateral exchanges coming into effect between those signatories that file the subsequent notifications. About 100 jurisdictions have committed to exchange information as from 2018.

Under CRS, financial institutions resident in a CRS country are required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (which includes trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

On 9 December 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation (**DAC2**), which provides for mandatory automatic exchange of financial information between EU Member States as foreseen in CRS. DAC2 amends the previous Directive on administrative cooperation in direct taxation, Directive 2011/16/EU.

The Belgian government has implemented DAC2, respectively the CRS, pursuant to the law of 16 December 2015 regarding the exchange of information on financial accounts by Belgian financial institutions and by the Belgian tax administration, in the context of an automatic exchange of information on an international level and for tax purposes (the **Law regarding Exchange of Information**).

As a result of the Law regarding Exchange of Information, the mandatory automatic exchange of information applies in Belgium (i) as of financial year 2016 (first information exchange in 2017) towards the EU Member States (including Austria, irrespective of the fact that the automatic exchange of information by Austria towards other EU Member States is only foreseen as of income year 2017), (ii) as of financial year 2014 (first information exchange in 2016) towards the US and (iii) with respect to any other jurisdictions that have signed the MCAA, as of the respective date to be further determined by Royal Decree. In a Royal Decree of 14 June 2017, it was determined that the automatic provision of information has to be provided as from 2017 (for the 2016 financial year) for a first list of eighteen jurisdictions, as from 2018 (for the 2017 financial year) for a second list of 44 jurisdictions, and as from 2019 (for the 2018 financial year) for another jurisdiction.

Investors who are in any doubt as to their position should consult their professional advisers.

U.S. Foreign Account Tax Compliance Withholding

Under FATCA, a U.S. federal tax legislation laid down in Section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended and/or supplemented and/or restated from time to time (**FATCA**), a 30% withholding tax would be imposed on "withholdable payments" made to non-U.S. financial institutions (including non-U.S. investment funds and certain other non-U.S. financial entities) that fail to provide certain information regarding their U.S. accountholders and/or certain U.S. investors to the IRS. On 23 April 2014, the Belgian and US governments signed an Intergovernmental Agreement (**IGA**) intended to implement FATCA in Belgium. The Belgian IGA is a so-called Model 1 agreement, meaning that foreign financial institutions established in Belgium will be required to report information on U.S. accountholders directly to the Belgian tax authorities, who in turn will report to the IRS. The Belgian IGA is intended to simplify FATCA requirements for Belgian financial institutions but in many cases still requires significant efforts to maintain compliance.

The Belgian law implementing the FATCA legislation has meanwhile been adopted by Belgian parliament, Law of 16 December 2015. This law implies that Belgian financial institutions holding covered bonds for "US accountholders" and for "Non US owned passive Non-Financial Foreign entities" shall report financial information regarding the covered bonds (income, gross proceeds, etc.) to the Belgian competent authority, who shall communicate the information to the US tax authorities.

While the Covered Bonds are held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Covered Bonds are discharged once it has paid the clearing systems, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*".

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE COVERED BONDS AND THE COVERED BONDHOLDER IS SUBJECT TO CHANGE. EACH COVERED BONDHOLDER SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH COVERED BONDHOLDER IN ITS PARTICULAR CIRCUMSTANCE.

Financial Transaction Tax

On 14 February 2013, the EU Commission adopted a proposal for a Council Directive (the **Draft Directive**) on a common financial transaction tax (**FTT**). Pursuant to the Draft Directive, the FTT shall be implemented and enter into effect in eleven EU Member States (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovak Republic, Slovenia and Spain; the **Participating Member States**). In December 2015, Estonia withdrew from the Participating Member States.

The Commission's Proposal currently stipulates that once the FTT enters into force, the Participating Member States shall not maintain or introduce taxes on financial transactions other than the FTT (or VAT as provided in the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax).

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. According to the Draft Directive, the FTT shall be payable on financial transactions provided that at least one party to the financial transaction is established (or deemed established) in a Participating Member State and that there is a financial institution established (or deemed established) in a Participating Member State which is a party to the financial transaction, or is acting in the name of a party to the transaction. 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 dealings is issued in a Participating Member State. The FTT shall, however, not apply to among others primary market transactions referred to in Article 5 (c) of Regulation (EC) No 1287/2006, including the activity of underwriting and subsequent allocation of financial instruments in the framework of their issue.

The rates of the FTT shall be fixed by each Participating Member State but for transactions involving financial instruments other than derivatives, they shall amount to at least 0.1% of the taxable amount. The taxable amount for such transactions shall in general be determined by reference to the consideration paid or owed in return for the transfer or the market price (whichever is higher). The FTT shall be payable by each

financial institution established (or deemed established) in a Participating Member State which is a party to the financial transaction, which is acting in the name of a party to the transaction or where the transaction has been carried out on its account. Where the FTT due has not been paid within the applicable time limits, each party to the relevant financial transaction, including persons other than financial institutions, shall become jointly and severally liable for the payment of the FTT due.

However, the FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. Therefore, it may be altered prior to any implementation, the timing of which also remains unclear. Additional Member States may decide to participate and/or other Participating Member States may decide to withdraw.

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

Taxation

Potential purchasers and sellers of Covered Bonds should be aware that they may be required to pay taxes or documentary charges or other duties in accordance with the laws and practices of the country where the Covered Bonds are transferred and/or any relevant assets are delivered or other jurisdictions.

In some jurisdictions, no official statements of the tax authorities or court decisions may be available in relation to the tax treatment of financial instruments such as the Covered Bonds. Potential purchasers are advised not to rely upon the tax summary contained in this Base Prospectus but to consult their own independent tax advisers on their individual taxation with respect to the acquisition, holding, sale and redemption of the Covered Bonds. Only these advisers are in a position to duly consider the specific situation of the potential investor. In addition, potential purchasers should be aware that tax regulations and their application by the relevant taxation authorities may change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. This risk factor has to be read in connection with the taxation sections of this Base Prospectus. See “Taxation”

Belgian Withholding Tax

If the Issuer, the NBB, 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 Covered Bonds, the Issuer, the NBB, 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.

The Issuer will pay such additional amounts as may be necessary in order that the net payment received by each Covered Bondholder in respect of the Covered Bonds, after withholding for any taxes imposed by tax authorities in the Kingdom of Belgium upon payments made by or on behalf of the Issuer in respect of the Covered Bonds, will equal the amount which would have been received in the absence of any such withholding taxes, except that no such additional amounts shall be payable in respect of any Covered Bonds in the circumstances defined in Condition 7. In such case and subject to certain conditions, the Issuer may also redeem the Covered Bonds in accordance with Condition 6.2 (*Redemption for taxation reasons*).

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Base Prospectus and each Final Terms.

To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Market data and other statistical information used in this Base Prospectus has been extracted from a number of sources, including independent industry publications, government publications, reports by market research firms or other independent publications (each an Independent Source). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant Independent Source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

GENERAL DESCRIPTION OF THE PROGRAMME

*The following overview (the **Overview**) does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Series or Tranche of Covered Bonds, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Covered Bonds shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of any Covered Bonds which are intended to be admitted to trading on a regulated market within the European Economic Area (**EEA**) or offered to the public in an EEA Member State in circumstances which require the publication of a prospectus under the Prospectus Directive, if appropriate, a supplement to the Base Prospectus will be published.*

The Issuer may also from time to time issue Covered Bonds under the Programme which are subject to terms and conditions and/or final terms not contemplated by this Base Prospectus or under a different prospectus or without prospectus. The relevant (form of) terms and conditions will, in such circumstances, be set out in a schedule to the Programme Common Terms Agreement.

This Overview constitutes a general description of the Programme for purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, as amended and/or restated, from time to time.

Words and expressions defined in the Terms and Conditions of the Covered Bonds below or elsewhere in this Base Prospectus have the same meanings in this Overview.

PRINCIPAL PARTIES

Issuer	KBC Bank NV (**KBC Bank** or the **Issuer**), 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 RPM/RPR 0462.920.226, Enterprise Court of Brussels. The legal entity identifier code is 6B2PBRV1FCJDMR45RZ53. The NBB (as defined below) has admitted the Issuer to the list of credit institutions that are authorised to issue covered bonds on 6 November 2012.
Arranger	KBC Bank (the **Arranger**).
Dealer	KBC Bank (the **Dealer**).
Cover Pool Monitor	A reputable firm of independent auditors and accountants, not being the auditors of the Issuer for the time being, appointed by the Issuer in accordance with Article 16, §1 of Annex III to the Banking Law (as approved by the NBB, in its capacity as Supervisor, in accordance with the Belgian Covered Bonds Legislation) as an independent cover pool monitor (*portefeuillesurveillant/surveillant de portefeuille*), (a) to issue periodic reports to the NBB, in its capacity as Supervisor, on compliance by the Issuer with the legal and regulatory framework, and (b) to perform the Statutory Tests both as provided for in Belgian Covered Bonds Legislation and in accordance with the requirements of the NBB, in its capacity as Supervisor. KPMG Bedrijfsrevisoren was appointed as Initial Cover Pool Monitor,

	represented by Frans Simonetti, Accredited Auditor (the **Cover Pool Monitor**). For further information see *Summary of the Belgian Covered Bonds Legislation* and *Description of Principal Documents* below.
Cover Pool Administrator	In accordance with Article 8, §1 of Annex III to the Banking Law, the Supervisor may appoint a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) in certain circumstances including, (a) upon the adoption of a reorganisation measure under Article 236 of the Banking Law against the Issuer if such measure, in the opinion of the Supervisor, may negatively affect the Covered Bondholders, (b) upon the initiation of bankruptcy proceedings against the Issuer, (c) upon the removal of the Issuer from the list of Belgian covered bonds issuers; or (d) in circumstances where the situation of the Issuer is such that it may seriously affect the interest of the Covered Bondholders (the **Cover Pool Administrator**). For further information see *Summary of the Belgian Covered Bonds Legislation* and *Description of Principal Documents* below.
Representative	Stichting KBC Residential Mortgage Covered Bonds Representative a foundation (*stichting*) incorporated under Dutch law on 16 November 2012 has been appointed as representative (*vertegenwoordiger/représentant*) of the Covered Bondholders in accordance with Article 14 §2 of Annex III to the Banking Law (the **Representative**). It has its registered office at Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands and is registered in the trade register (*handelsregister*) of the chamber of commerce (*kamer van koophandel*) in the Netherlands under number 56487592. Its managing director is Amsterdamsch Trustee's Kantoor B.V. For further information see *Summary of the Belgian Covered Bonds Legislation* and *Description of principal documents* below.
Hedging Counterparties	The Issuer may, from time to time during the Programme, enter into Hedging Agreements (the **Hedging Agreements**) with various swap providers to hedge certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets and/or the Covered Bonds (each a **Hedging Counterparty**).
Liquidity Facility Provider	The Issuer may, from time to time during the Programme, enter into Liquidity Facility Agreements (the **Liquidity Facility Agreements**) with one or more liquidity facility providers (each a **Liquidity Facility Provider**) in order to improve the liquidity of the Special Estate.
Paying Agent and Domiciliary Agent	KBC Bank (the **Paying Agent** and the **Domiciliary Agent**).
Listing Agent	KBC Bank (the **Listing Agent**).
Statutory Auditor(s)	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 (the **Statutory Auditor(s)**). PwC is a member of the

	Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises.
	The financial statements of KBC Bank have been audited in accordance with International Standards on Auditing by PwC for the financial years ended 31 December 2016 and 31 December 2017 and resulted in an unqualified audit opinion.
	The report of PwC on (i) the audited consolidated annual financial statements of KBC Bank and its consolidated subsidiaries for the financial years ended 31 December 2016 and 31 December 2017 and (ii) the unaudited consolidated interim financial statements of KBC Bank and its consolidated subsidiaries for the first six months ended 30 June 2018 are incorporated by reference in this Base Prospectus, with the consent of the auditor.
Supervisor	The supervisor as defined in Article 3, 4° Banking Law in accordance with the SSM-Regulation.
SSM-Regulation	Council Regulation (EU) 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.
Registrar (for Registered Covered Bonds)	KBC Bank, unless otherwise specified in the applicable Final Terms (the **Registrar**).
Rating Agencies	Means such internationally recognised rating agencies (together, the **Rating Agencies** and each a **Rating Agency**) as may from time to time be appointed to rate the Covered Bonds issued under the Programme[3]. The Issuer may, from time to time, request for the withdrawal of a previously assigned rating of a Series of Covered Bonds by a Rating Agency and/or the appointment of a different Rating Agency to assign a rating to a Series of Covered Bonds in issue or about to be issued. The Issuer may also terminate the appointment of any Rating Agency to rate the Covered Bonds under the Programme at any time.
	Moody's and Fitch have, for the time being, been appointed to provide ratings for those Series of Covered Bonds which are to be rated.

The parties listed above are appointed to act in respect of the Programme pursuant to the Programme Documents as further described under the Programme Description Section of this Base Prospectus. The relevant Programme Documents provide that other parties may be appointed from time to time and contain certain provisions in relation to the replacement of the above-mentioned parties.

PROGRAMME DESCRIPTION

Description	KBC Bank NV Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme (the **Programme**) is a programme for the continuous issue of Belgian *pandbrieven/lettres de gage* (the **Covered Bonds**) in accordance with the Belgian Covered Bonds Legislation.
	The NBB, as Supervisor, has originally admitted the Programme to the list of authorised programmes for the issue of Belgian covered bonds on 6 November 2012. The Supervisor will regularly update such list upon notification by the Issuer with the Covered Bonds issued under the

[3] A list of credit rating agencies registered under Regulation (EC) No. 1060/2009 is published on the website of ESMA (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk).

	Programme and will indicate that the Covered Bonds constitute Belgian *pandbrieven/lettres de gage* under the Belgian Covered Bonds Legislation.
Programme Amount	Euro 10,000,000,000 outstanding at any time as described herein. The Issuer has the right to increase the amount of the Programme from time to time and in each case subject to the delivery of certain conditions precedent to the satisfaction of the Dealer(s) (which may include the production of a new Base Prospectus or a supplement to the Base Prospectus by the Issuer)..
Status of the Covered Bonds	The Covered Bonds will be issued as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) in accordance with the Belgian Covered Bonds Legislation and will constitute direct, unconditional and unsubordinated obligations of the Issuer. The Covered Bonds will rank *pari passu* and rateably without any preference or priority among themselves, irrespective of their Series and at least *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general application. In addition, the Covered Bonds will be covered in accordance with the Belgian Covered Bonds Legislation by the Special Estate and the Covered Bondholders and the Other Cover Pool Creditors will have an exclusive recourse to the Special Estate. See also *Summary of the Belgian Covered Bonds Legislation* below.
Special Estate	Upon the first issue of Covered Bonds by the Issuer, the estate of the Issuer will be legally composed of a general estate and of the Special Estate. All Covered Bonds to be issued under the Programme will be covered by the same Special Estate. **Special Estate** means the special estate (*bijzonder vermogen/patrimoine special*) of the Issuer constituted pursuant to Article 3 of Annex III to the Banking Law in relation to the Programme. See also *Summary of the Belgian Covered Bonds Legislation (4. Special Estate and protection in the context of an insolvency).*
Main Asset Class	The main asset class of the Special Estate will consist of Residential Mortgage Loans, their Related Security interests and all monies derived therefrom from time to time in accordance with the Belgian Covered Bonds Legislation. **Related Security** means all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate. **Residential Mortgage Loans** means loans that are secured by a mortgage on residential real estate as defined in Article 2, 6° of the Covered Bonds Royal Decree and located in Belgium. See also *Summary of the Belgian Covered Bonds Legislation (Section 5*

Assets to be included in the special estate) and *Cover Assets of this Base Prospectus* for further information on the composition of the Special Estate.

Register of Cover Assets

The Issuer will maintain a Register of Cover Assets in which both the issued Covered Bonds and the Cover Assets will be registered.

Cover Assets means Residential Mortgage Loans that are registered in the Register of Cover Assets and all other assets listed in Article 80, § 3, 2° of the Banking Law that are included in the Special Estate pursuant to Article 3 of Annex III to the Banking Law.

Register of Cover Assets means the register of Cover Assets established by the Issuer for the Covered Bonds issued under the Programme in accordance with Article 15 of Annex III to the Banking Law.

See also *Summary of the Belgian Covered Bonds Legislation (Section 4.2. The Register of Cover Assets).*

Issuer Undertaking

The Issuer will undertake in favour of the Covered Bondholders and the Representative for so long as the Covered Bonds are outstanding, that it will ensure that:

(a) it will comply with the obligations applicable to it under the Belgian Covered Bonds Legislation;

(b) the value of the Residential Mortgage Loans registered as Cover Assets in the Register of Cover Assets calculated in accordance with the Belgian Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105% of the Series Principal Amount Outstanding of the Covered Bonds of all Series; and

(c) the Special Estate will at all times include liquid bonds meeting the criteria set out in Article 7 of the NBB Covered Bonds Regulation and which, (a) are eligible as collateral for Eurosystem monetary policy purposes and intra-day credit operations by the Eurosystem, (b) have a credit quality step 1 as determined in accordance with the Regulation 575/2013 of 26 June 2013 on prudential requirements, as amended and/or supplemented and/or restated from time to time (the CRR), (c) are subject to a daily mark-to-market and have a market value which, after applying the ECB haircut in accordance with the Guideline 2015/510 of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy (as amended, supplemented, replaced and/or restated from time to time), is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months, (d) have a remaining maturity of more than three months, and (e) are not debt issued by the Issuer or residential mortgage backed securities (RMBS) of which the underlying assets have been originated by the Issuer or by a group related entity.

Moody's Committed OC Undertaking

The Programme Common Terms Agreement provides that for so long as Moody's provides a rating to a Series of Covered Bonds issued under the

Programme and unless otherwise agreed with Moody's, the Issuer will ensure that the aggregate outstanding nominal amount of the Cover Assets (other than the hedging instruments registered as Cover Assets) will be at least equal to the sum of one plus Moody's Committed Over-collateralisation (**OC**), multiplied by the Series Principal Amount Outstanding of the Covered Bonds of all Series (the **Moody's Committed OC Undertaking**)

where:

Moody's Committed OC means the lower of

(a) 28%, and

(b) the percentage figure that is necessary to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology (regardless of the actual Moody's rating of the Covered Bonds at the time).

Moody's Committed OC Undertaking only applies for so long as Moody's provides a rating to a Series of Covered Bonds under the Programme.

The Programme Common Terms Agreement (including the Moody's Committed OC Undertaking) may be amended in writing between the Issuer and the Representative, without the consent or sanction of the Covered Bondholders.

Over-Collateralisation and Cover Tests

At the time of the issuance and as long as any Covered Bonds remain outstanding, the Issuer must, in respect of the Special Estate, meet the following cover tests as provided for in the Belgian Covered Bonds Legislation.

The value of the Residential Mortgage Loans (and of the assets that form part of this category) registered as Cover Assets in the Special Estate must represent at least 85% of the Series Principal Amount Outstanding of the Covered Bonds of all Series (the **85% Asset Coverage Test**).

The value of the Cover Assets must provide an excess cover such that their value exceeds the Principal Amount Outstanding of the Covered Bonds. The value of the Cover Assets must represent at least 105% of the Series Principal Amount Outstanding of the Covered Bonds of all Series (the **Over-Collateralisation Test**).

The Cover Assets composing the Special Estate must, for the duration of the Covered Bonds, provide a sufficient cover (i) for the payment of principal and interest on the Covered Bonds, (ii) for the obligations towards the Cover Pool Creditors and (iii) for the management of the Special Estate. With respect to the Special Estate, the sum of interest, principal and all other revenues generated by the Cover Assets must be sufficient to cover the sum of all interest, principal and charges linked to the Covered Bonds (the **Cover Asset Coverage Test**).

The 85% Asset Coverage Test, the Over-Collateralisation Test and the Cover Asset Coverage Test are hereinafter jointly referred to as the **Cover Tests**.

See also *Summary of the Belgian Covered Bonds Legislation (6. Over-*

collateralisation and tests).

Liquidity Test

The Belgian Covered Bonds Legislation provides that, with respect to the Special Estate, the Cover Assets must over a period of six months generate sufficient liquidity or include enough liquid assets in order to enable the Issuer to make all unconditional payments on the Covered Bonds (including principal, interest and other costs) falling due during the following six months (the **Liquidity Test**). As an Extended Final Maturity Date applies to all Series of Covered Bonds, payments of amounts due on the Final Maturity Date will not be considered as unconditional for the purpose of the Liquidity Test.

The Cover Tests and the Liquidity Test are hereinafter jointly referred to as the **Statutory Tests**.

See also *Summary of the Belgian Covered Bonds Legislation (8. Liquidity Test).*

Management of the Special Estate

Until the appointment of a Cover Pool Administrator by the Supervisor, the Issuer will manage the Special Estate.

Upon designation, the Cover Pool Administrator will manage the Special Estate to the exclusion of the Issuer.

See also *Summary of the Belgian Covered Bonds Legislation (10.2 Cover Pool Administrator).*

Changes to the Special Estate

Until the appointment of a Cover Pool Administrator by the Supervisor:

(a) the Issuer may allocate additional assets to the Special Estate, among other things, for the purposes of issuing further Series of Covered Bonds and/or for the purpose of complying with the Statutory Tests and/or maintaining the initial rating(s) assigned to the Covered Bonds; and

(b) the Issuer may remove or substitute existing Cover Assets from the Special Estate, provided that no breach of the Statutory Tests would occur as a result of such removal or substitution.

Final Maturity Date

The final maturity date for each Series (the **Final Maturity Date**) will be specified in the applicable Final Terms as agreed between the Issuer and the relevant Dealer(s). An Extended Final Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds.

Extended Final Maturity Date

The applicable Final Terms shall specify that the Issuer's obligations under the relevant Covered Bonds to pay the Final Redemption Amount on the relevant Final Maturity Date will be deferred past the Final Maturity Date until the extended final maturity date (as specified in the applicable Final Terms) (such date the **Extended Final Maturity Date**).

Such deferral will occur automatically if the Issuer fails to pay any amount representing the amount due within 14 Business Days after the Final Maturity Date as set out in the Final Terms (the **Final Redemption Amount**) in respect of the relevant Series of Covered Bonds, provided that any amount representing the Final Redemption Amount due and

remaining unpaid within 14 Business Days after the Final Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date. Between the Final Maturity Date and the Extended Final Maturity Date, the Interest Payment Dates will occur monthly. Interest will continue to accrue and be payable on any unpaid amounts on each Interest Payment Date up to the Extended Final Maturity Date in accordance with Condition 4 (*Interest*) and the Issuer will make payments on each relevant Interest Payment Date and Extended Final Maturity Date.

Events of Default

If any of the following events occurs and is continuing (each an **Event of Default**):

(a) on the Extended Final Maturity Date in respect of any Series there is a failure to pay any amount of principal due on the Covered Bonds on such date and such default is not remedied within a period of 14 Business Days from the due date thereof; or

(b) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of 14 Business Days from the due date thereof,

then the Representative may and shall upon direction of the relevant majority of Covered Bondholders or if so directed by a Programme Resolution (subject to being indemnified and/or secured and/or prefunded to its satisfaction) serve a notice (a **Notice of Default**) on the Issuer (copied to the Cover Pool Monitor, the Supervisor, the Rating Agencies and, if appointed, the Cover Pool Administrator).

Cross-acceleration

Following the service of a Notice of Default, (a) no further Covered Bonds will be issued, and (b) the Covered Bond of each Series shall become immediately due and payable, together with any accrued interest.

Liquidation of the Special Estate

Upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator pursuant to Article 11, 6° or 7° of Annex III to the Banking Law:

(a) may, in consultation with the Representative and subject to approval by the Supervisor, proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds where the Cover Assets are not, or risk not being, sufficient to satisfy the obligations under the Covered Bonds; and

(b) will, in consultation with the Representative and the Supervisor, proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds when a majority decision has been taken to this effect at a meeting of Covered Bondholders at which at least two thirds of the Series Principal Amount Outstanding of the Covered Bonds of all Series is represented.

See also *Summary of the Belgian Covered Bonds Legislation (Section 4. Special Estate and protection in the context of an insolvency).*

Payments on the Covered Bonds

Payments on the Covered Bonds will be direct and unconditional obligations of the Issuer.

Following delivery of a Notice of Default all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account (if any)) shall be applied on any Business Day in accordance with the Post Event of Default Priority of Payments provided in Condition 9.1 (*Post Event of Default Priority of Payments*).

Following a decision by the Cover Pool Administrator to liquidate the Special Estate and early redeem the Covered Bonds of all Series pursuant to Article 11, 6° or 7° of Annex III to the Banking Law and as long as no Notice of Default has been delivered all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account, if any) shall be applied on any Business Day in accordance with the Early Redemption Priority of Payments provided in Condition 9.2 (*Early Redemption Priority of Payments*).

Monitoring

The Cover Pool Monitor has been appointed, (a) to issue periodic reports to the Supervisor on compliance by the Issuer with the legal and regulatory framework, and (b) to perform the Statutory Tests both as provided for in Belgian Covered Bonds Legislation and in accordance with the requirements of the Supervisor. The Supervisor can also request that the Cover Pool Monitor performs other tasks and verifications.

See also *Summary of the Belgian Covered Bonds Legislation (10.2 Cover Pool Monitor).*

Breach of the Statutory Tests

The Belgian Covered Bonds Legislation provides that, if the Issuer is (and remains) unable to meet the requirements of the Liquidity Test or any other specific requirements which applies to it as issuing credit institution of Belgian covered bonds, the Supervisor can impose a grace period of 14 days during which this situation must be resolved. If the situation is not resolved after expiry of this grace period, the Supervisor can remove the Issuer from the list of Belgian covered bonds Issuers and revoke the Issuer's licence to issue Belgian covered bonds.

The Supervisor can also publish warnings/statements indicating that a credit institution has failed to comply with the Supervisor's requests to meet the requirements of the Belgian Covered Bonds Legislation within a specified grace period. In addition, as part of its general supervisory function under the Banking Law, the Supervisor can impose fines and administrative penalties.

A removal of the Issuer from the list of Belgian covered bonds Issuers

	will have no impact on the Covered Bonds already issued by the Issuer. See also *Summary of the Belgian Covered Bonds Legislation (10.4 NBB).*
Cross Default	None (other than cross-acceleration between Series of Covered Bonds).
Negative Pledge	None.
Belgian Covered Bonds Legislation	The Covered Bonds are issued pursuant to the Belgian Covered Bonds Legislation as amended and/or supplemented and/or restated from time to time. For further information on the Belgian Covered Bonds Legislation, see *Summary of the Belgian Covered Bonds Legislation* below.
Governing Law	The Covered Bonds are governed by and construed in accordance with Belgian law.

INFORMATION ON THE COVERED BONDS THAT MAY BE ISSUED UNDER THE PROGRAMME

Distribution	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis and subject to the terms set out in the section "Important information relating to the use of this base prospectus and offers of covered bonds generally" and "Subscription and sale". In particular, any offer of the Covered Bonds in a Relevant Member State (as defined below) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds.
Issuance in Series	Covered Bonds will be issued in Series, but on different terms from each other, subject to the terms set out in the applicable Final Terms in respect of such Series. The Covered Bonds will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series). The Issuer may issue further Covered Bonds without the prior consent of the Covered Bondholders pursuant to Condition 18 (*Further Issues*). As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and Series means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are, (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.
Final Terms	Final terms (the **Final Terms**) will be issued, executed by the Issuer and published in accordance with the terms and conditions set out herein under *Terms and Conditions of the Covered Bonds* (the **Conditions**) prior to the issue of each Series or Tranche detailing certain relevant

terms thereof which, for the purposes of that Series only, complete the Conditions and the Base Prospectus and must be read in conjunction with the Conditions and the Base Prospectus. The terms and conditions applicable to any particular Series are the Conditions as completed by the applicable Final Terms.

Exempt Covered Bonds

The applicable Final Terms in relation to any Tranche of Covered Bonds may, in the case of any Covered Bonds which are neither to be admitted to trading on a regulated market within the European Economic Area nor offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive (**Exempt Covered Bonds**), specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the terms and conditions included in this Base Prospectus, replace or modify the terms and conditions included in this Base Prospectus for the purpose of such Exempt Covered Bonds.

Form of Covered Bonds

The Covered Bonds will be issued in such form as may be specified in the applicable Final Terms.

The Covered Bonds can be issued, (a) in dematerialised form (**Dematerialised Covered Bonds**) in accordance with Article 468 *et seq* of the Belgian Companies Code via a book-entry system maintained in the records of the NBB as operator of the Securities Settlement System, or (b) in registered form (**Registered Covered Bonds**) in accordance with Article 462 *et seq* of the Belgian Companies Code. No physical documents of title will be issued in respect of Dematerialised Covered Bonds that will be delivered in the form of an inscription on a securities account. See *Form of the Covered Bonds.*

Issue Dates

The date of issue of a Series or Tranche as specified in the applicable Final Terms (each, the **Issue Date** in relation to such Series or Tranche).

Specified currency

Euro.

Denominations

In any case, the Covered Bonds will be in such denominations as may be specified in the applicable Final Terms with a minimum specified denomination of Euro 100,000.

Fixed Rate Covered Bonds

The applicable Final Terms may provide that certain Covered Bonds will bear interest at a fixed rate (**Fixed Rate Covered Bonds**), which will be payable on each Interest Payment Date and on the applicable redemption date and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds

The applicable Final Terms may provide that certain Covered Bonds bear interest at a floating rate (**Floating Rate Covered Bonds**). Floating Rate Covered Bonds will bear interest at a rate determined:

(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.

The margin (if any) relating to such floating rate (the **Margin**) will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.

Other provisions in relation to Floating Rate Covered Bonds

Floating Rate Covered Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s).

Zero Coupon Covered Bonds

The applicable Final Terms may provide that certain Covered Bonds, bearing no interest (**Zero Coupon Covered Bonds**), may be offered and sold at a discount to their nominal amount.

Issue Price

Covered Bonds of each Series may be issued at par or at a premium or discount to par on a fully-paid basis (in each case, the **Issue Price** for such Series or Tranche) as specified in the applicable Final Terms in respect of such Series.

Interest Payment Dates

In relation to any Series of Covered Bonds, the Interest Payment Dates will be specified in the applicable Final Terms (as the case may be).

Early Redemption

The Covered Bonds can be redeemed prior to their stated maturity for taxation reasons in the manner set out in Condition 6.2 (*Redemption for taxation reasons*) and in the event of an illegality in the manner set out in Condition 6.4 (*Illegality*).

GENERAL INFORMATION

Proceeds of the issue of Covered Bonds

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to fund its general corporate purposes. If in respect of any particular issue there is a particular identified use of proceeds this will be stated in the applicable Final Terms.

Taxation

All payments of principal, interest and other proceeds (if any) on the Covered Bonds will be made free and clear of any withholding or deduction for, or on account of, any taxes of Belgium, unless the Issuer or any intermediary that intervenes in the collection of interest and other proceeds on the Covered Bonds is required by law to make such a withholding or deduction. In the event that such withholding or deduction is required by law, the Issuer will, except in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted. In such case and subject to certain conditions, the Issuer may also redeem the Covered Bonds in accordance with Condition 6.2 (*Redemption for taxation reasons*).

Ratings

Each Series issued under the Programme may be assigned a rating by the Rating Agencies. Details of the ratings assigned to a particular Series of Covered Bonds will be specified in the applicable Final Terms, whether or not each credit rating applied in relation to the Covered Bonds will be

issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

Moody's Investor Services Limited is established in the European Union and is registered for the purposes of the CRA Regulation.

Fitch Ratings Ltd. and Fitch France S.A.S. are established in the European Union and are registered for the purposes of the CRA Regulation.

Each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. The Issuer has considered the appointment of one or more credit rating agencies (other than Moody's and Fitch) with no more than 10% of the total market share. However, whereas Moody's and Fitch have previously facilitated similar transactions in an efficient way, the Issuer is of the opinion that Moody's and Fitch will facilitate an efficient execution of the Covered Bonds documentation and will ensure accessing of the investor base in respect of the Covered Bonds in a prudent manner. Therefore, the Issuer has to date decided not to appoint one or more other credit rating agencies with no more than 10% of the total market share.

Listing and admission to trading

Application has been made to the Belgian Financial Services and Market Authority (*Autoriteit voor Financiële Diensten en Markten / Autorité des services et marchés financiers*) (**FSMA**) to approve this document as a base prospectus.

Application will also be made to Euronext Brussels for the Covered Bonds issued under the Programme after the date hereof to be admitted to listing on the official list and trading on the regulated market of Euronext Brussels.

Covered Bonds may be unlisted or may be listed or admitted to trading, as the case may be, on a regulated market for the purposes of the Markets in Financial Instruments Directive, as may be agreed between the Issuer, the Representative of the Belgian Covered Bondholders and the relevant Dealer(s) in relation to each issue. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which regulated markets.

Delivery of Covered Bonds

Dematerialised Covered Bonds will be credited to the accounts held in the clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**), by Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs, or other Securities System participants or their participants. Registered Covered Bonds will be registered in a register maintained by the Issuer or by the Registrar in accordance with Article 462 *et seq* of the Belgian Companies Code.

Securities Settlement Systems

The Dematerialised Covered Bonds will be created, cleared and settled in the Securities Settlement System. Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa,

	Portugal and any other NBB investor (I)CSDs maintain accounts in the Securities Settlement System. The clearing of the Covered Bonds through the Securities Settlement System is subject to prior approval of the NBB.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA, the United Kingdom, Spain, Japan, France, the Netherlands, the Republic of Italy, the Czech Republic, Poland, Hong Kong, the Republic of Singapore, Korea, Hungary, the Slovak Republic and the People's Republic of China and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds. See *Subscription and Sale* below. The Issuer is Category 2 for the purposes of Regulation S under the Securities Act.

PROGRAMME DOCUMENTS

Representative Appointment Agreement	Pursuant to the terms of the representative appointment agreement between the Issuer and the Representative initially dated 21 November 2012 (such representative appointment agreement as amended and/or supplemented and/or restated from time to time, the **Representative Appointment Agreement**), the Representative has been appointed to act as representative (*vertegenwoordiger/représentant*) of the Belgian Covered Bondholders in accordance with the Belgian Covered Bonds Legislation.
Programme Common Terms Agreement	Pursuant to terms of the programme common terms agreement entered into between the Issuer and the Representative initially dated 21 November 2012 (such programme common terms agreement as amended and/or supplemented and/or restated from time to time and most recently on 27 November 2018, the **Programme Common Terms Agreement**), all Covered Bonds issued under the Programme shall be subject to and have the benefit of certain programme common terms regardless of whether the Covered Bonds are issued under the Base Prospectus or not.
Agency Agreement	Pursuant to terms of the agency agreement between the Issuer, KBC Bank as Domiciliary Agent, Paying Agent, Listing Agent and Registrar and the Representative initially dated 21 November 2012 (such agency agreement as amended and/or supplemented and/or restated from time to time and most recently on 27 November 2018, the **Agency Agreement**), KBC Bank will respectively act as Domiciliary Agent, Paying Agent, Listing Agent and Registrar in relation to the Covered Bonds.
Clearing Services Agreement	The Issuer, the Domiciliary Agent and the NBB as operator of the Securities Settlement System entered into a clearing services agreement in relation to the clearing of the Covered Bonds on 4 November 2016 (the **Clearing Services Agreement**).
Hedging Agreements	The Issuer may, from time to time during the Programme, enter into interest rate swap agreements, FX swap agreements and covered bonds swap agreements (each a **Hedging Agreement** and together the **Hedging Agreements**) with one or more Hedging Counterparties for the purpose of, inter alia, protecting itself against certain risks (including, but not

	limited to, interest rate, liquidity and credit) related to the Cover Assets (as defined below) and/or the Covered Bonds. Any Hedging Agreement(s) will be included as part of the Special Estate at the Issuer's discretion.
Liquidity Facility Agreements	The Issuer may, from time to time during the Programme, enter into Liquidity Facility Agreements (each a **Liquidity Facility Agreement** and together the **Liquidity Facility Agreements**) with one or more Liquidity Facility Providers in order to improve the liquidity of the Special Estate. Any Liquidity Facility Agreement(s) will be included as part of the Special Estate at the Issuer's discretion.
Programme Documents	The Agency Agreement, the Representative Appointment Agreement, the Programme Common Terms Agreement, the Clearing Services Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Covered Bonds and/or the Special Estate and designated as a Programme Document by the Issuer and the Representative (each a **Programme Document** and together the **Programme Documents**).
Investor Report	Not later than on the day which falls on the fifteenth Business Day of each calendar quarter of each year, the Issuer will publish an investor report (the **Investor Report**), which will contain information regarding the Covered Bonds and the Cover Assets, including statistics relating to the financial performance of the Cover Assets. Such report will be available to the prospective investors in the Covered Bonds and to the Covered Bondholders at the offices of the Domiciliary Agent, on Bloomberg and on the website at https://www.kbc.com/en/presentations-2018

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of Covered Bonds issued under the Programme for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented or applied in a Relevant Member State of the European Economic Area) (the **Prospectus Directive**) and of giving information with regard to the Issuer, the Group and the Covered Bonds which, according to the particular nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference"*). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus. This Base Prospectus may only be used for the purposes for which it has been published.

In view of the fact that the denomination of the Covered Bonds to be issued under the Base Prospectus is at least EUR 100,000, the requirement to publish a prospectus under the Prospectus Directive only applies to Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area under Article 3.2 of the Prospectus Directive (as implemented in the Relevant Member State(s)). References in this Base Prospectus to **Exempt Covered Bonds** are to Covered Bonds for which no prospectus is required to be published under the Prospectus Directive. The Issuer may issue and/or agree with any Dealer or investor (as applicable) to issue Covered Bonds in a form and subject to conditions not contemplated by the terms and conditions or the final terms set out herein or under a different prospectus or without prospectus.

The Arranger, the Dealer(s) and the Representative (as defined below) have not independently verified all the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealer(s) or the Representative as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. The Arranger, the Dealer(s) and the Representative do not accept any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme.

To the fullest extent permitted by law, any Dealer appointed under the Programme from time to time does not accept any responsibility for the contents of this Base Prospectus or for any other statement made or purported to be made by the Dealer(s) or on its (their) behalf in connection with the Issuer or the issue and offering of the Covered Bonds. The Dealer(s) accordingly disclaim(s) all and any liability whether arising in tort or contract or otherwise (save as referred to in this section) which it might otherwise have in respect of this Base Prospectus or any such statement. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme.

No person is or has been authorised by the Issuer, the Dealer(s) or the Representative to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Dealer(s) or the Representative.

Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or

supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds, (a) is intended to provide the basis of any credit or other evaluation, or (b) should be considered as a recommendation by the Issuer, any of the Dealers or the Representative that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Representative to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealer(s) and the Representative expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, inter alia, the documents incorporated herein by reference when deciding whether or not to purchase any Covered Bonds.

This Base Prospectus contains certain statements that are forward-looking statements with respect to the Issuer's business strategies, expansion and growth of operations, trends in its business, competitive advantage, technological and regulatory changes, and information on exchange rate risk, and generally includes statements preceded by, followed by or that include the words **believe**, **expect**, **project**, **anticipate**, **seek**, **estimate** or similar expressions. Such forward-looking statements are not guarantees of future performance and involve risk and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors. Potential investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF COVERED BONDS GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Dealer(s) and the Representative do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealer(s) or the Representative which is intended to permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the EEA, the United Kingdom, Spain, Japan, France, the Netherlands, the Republic of Italy, the

Czech Republic, Poland, Hong Kong, the Republic of Singapore, Korea, Hungary, the Slovak Republic and the People's Republic of China and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds (see *Subscription and Sale* below).

This Base Prospectus has been prepared on a basis that would permit a public offer of Covered Bonds with a denomination of at least Euro 100,000. As a result, any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer of Covered Bonds in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Covered Bonds may not be a suitable or appropriate investment for all investors. Each potential investor in the Covered Bonds must determine the suitability and appropriateness of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds where the currency for principal or interest payments is different from the potential investor's currency;
- understands thoroughly the terms of the Covered Bonds and is familiar with the behaviour of financial markets; and
- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent, (a) Covered Bonds are legal investments for it, (b) Covered Bonds can be used as collateral for various types of borrowing, and (c) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, supplemented and/or replaced from time to time (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). Covered Bonds are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. For a description of these and certain further restrictions on offers and sales of Covered Bonds and on distribution of this Base Prospectus, see "*Subscription and Sale"*.

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

- **euro** and **Euro** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- **Group** refers to KBC Bank NV together with its subsidiaries; and
- **KBC Group** refers to KBC Group NV together with its subsidiaries (including KBC Bank NV and KBC Insurance NV).

SUMMARY OF THE BELGIAN COVERED BONDS LEGISLATION

The Issuer is licensed under the Banking Law to issue Belgian covered bonds. The following is a brief summary of certain features of the Belgian Covered Bonds Legislation governing the issuance of Belgian covered bonds as at the date of this Base Prospectus, which legislation may be supplemented, amended, modified or varied whether by legislative enactment or by way of judicial decisions and administrative pronouncements including, possibly, with retroactive effect. This summary does not purport to be, and is not, a complete description of all aspects of the Belgian legislative and regulatory framework pertaining to Belgian covered bonds and prospective Covered Bondholders should also read the detailed information set out elsewhere in this Base Prospectus. The original language of the Belgian Covered Bonds Legislation is Dutch and French. The following summary is provided in English only for the sake of convenience. In the event of any doubt, the original Dutch or French language version of the Belgian Covered Bonds Legislation should be consulted.

1. INTRODUCTION

The transactions described in this Base Prospectus are the subject of specific legislation, the Belgian Covered Bonds Legislation. As mentioned elsewhere in this Base Prospectus, the Belgian Covered Bonds Legislation includes the Covered Bonds Law as incorporated in the Banking Law, the Mobilisation Law, the Covered Bonds Royal Decree, the Cover Pool Administrator Royal Decree, the NBB Covered Bonds Regulation, the NBB Cover Pool Monitor Regulation and any other law, royal decree, regulation or order that may be passed or taken in relation to Belgian covered bonds, as amended, supplemented and/or replaced from time to time.

The Belgian Covered Bonds Legislation has been enacted, with a view, *inter alia*, to introducing a legal framework for the issue of Belgian covered bonds complying with the standards of Article 52, § 4 of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (**UCITS**) (recast), as amended, supplemented and/or replaced from time to time, by Belgian credit institutions.

The Belgian Covered Bonds Legislation contemplates a full on balance structure with a right of dual recourse for Covered Bondholders (an exclusive claim against the Special Estate (together with the Cover Pool Creditors) and an unsecured claim against the General Estate of the Issuer).

The Covered Bonds Law was initially incorporated in the Law on the Legal Status and Supervision of Credit Institutions of 22 March 1993, but has now been included in the Banking Law. The implementing decrees and regulations were however not updated at the occasion of the inclusion of the Covered Bonds Law in the Banking Law. As a result, certain cross-references within the implementing decrees and regulations still refer to older versions of rules and regulations that were in the meantime updated or replaced (especially certain provisions in relation to capital adequacy regulations).

The provisions of the Belgian Covered Bonds Legislation that are relevant to the Programme may be summarised as follows.

2. BELGIAN PANDBRIEVEN (BELGISCHE PANDBRIEVEN/LETTRES DE GAGE BELGES)

Pursuant to Article 1, 1° of Annex III to the Banking Law, Belgian covered bonds are debt instruments which:

- are issued by a credit institution governed by Belgian law which is authorised to issue Belgian covered bonds;
- are included in the list of Belgian covered bonds, or are subject to a Belgian covered bond programme approved by the Supervisor; and

- are covered by a special estate on the balance sheet of the issuing credit institution.

Pursuant to Article 6, §1 of the Banking Law and Article 2, §1 of Annex III to the Banking Law, Belgian covered bonds which comply with the specific conditions for obtaining a beneficial risk weight as implemented in the Belgian capital adequacy regulations adopted in the framework of the transposition of the 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**), which now include the provisions of the Regulation 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (**CRR** together with the CRD, the **CRD IV**), may be referred to as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*). Pursuant to Article 13 of the Covered Bonds Royal Decree, Belgian covered bonds which comply with the requirements set out in the Covered Bonds Royal Decree will be deemed to comply with the CRD IV and may therefore be referred to as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*). The Covered Bonds issued under the Programme will comply with the requirements set out in the Covered Bonds Royal Decree and will therefore be deemed to comply with CRD IV.

3. DUAL AUTHORISATION BY THE SUPERVISOR

(a) Introduction

A Belgian credit institution requires specific authorisation from the Supervisor to issue Belgian covered bonds.

The prior authorisation of the Supervisor comprises:

- a general authorisation in relation to its organisational capacity to issue Belgian covered bonds and to provide the follow up (the **General Authorisation**); and

- a special authorisation as to whether a particular issue or issue programme complies with the legal requirements (the **Specific Authorisation**).

On its website, the Supervisor publishes:

- a list of credit institutions that are authorised to issue Belgian covered bonds (currently at https://www.nbb.be); and

- a list that specifies, per credit institution, the programmes or issuances that have been authorised. This list is divided into a list of Belgian covered bonds and a list of Belgian pandbrieven (currently at https://www.nbb.be).

The Issuer is on the Supervisor’s list of credit institutions that are authorised to issue Belgian covered bonds. The Programme is on the Supervisor's list of Belgian covered bonds that are compliant with CRD IV.

(b) General Authorisation

To obtain a General Authorisation, the credit institution must, among other things, provide information on its financial position, long-term strategy, tasks and responsibilities in relation to the issue of Belgian covered bonds, risk management policy, internal audit and IT systems. The financial position must demonstrate that the interests of its creditors other than the holders of Belgian covered bonds will be protected. The credit institution's statutory auditor must report on the credit institution's organisational capacity to issue Belgian covered bonds.

The Supervisor will only grant the General Authorisation to the extent that, on the basis of the above information, it is satisfied:

- that the administrative and accounting organisation of the Issuer allows it to operate in accordance with the Belgian Covered Bonds Legislation, in particular as regards its capacity to segregate the Cover Assets from its General Estate; and
- that the financial position of the Issuer, specifically with respect to its solvency, is sufficient to safeguard the interests of its creditors, other than the Covered Bondholders and Other Cover Pool Creditors.

The Issuer obtained the General Authorisation from the NBB, Supervisor in relation to its organisational capacity to issue Belgian covered bonds on 6 November 2012.

(c) Specific Authorisation

To obtain the Specific Authorisation, the credit institution must, among others things, provide information on the impact of the issue on the liquidity position of the issuing credit institution, the quality of the cover assets and the extent to which the maturity dates of the Belgian covered bonds coincide with those of the cover assets. The credit institution will also have to demonstrate that it continues to comply with the requirements of the General Authorisation.

The Supervisor will only grant the Specific Authorisation to the extent that, on the basis of the above information, it is satisfied that the following conditions have been met:

- the Issuer has obtained a General Authorisation; and
- the Cover Assets meet the requirements set out in the Belgian Covered Bonds Legislation.

The Issuer obtained the Specific Authorisation from the Supervisor in relation to the Programme on 6 November 2012.

(d) Sanctions in case of breach

If the issuing credit institution is (and remains) unable to meet the requirements which apply to it as issuing credit institution of Belgian covered bonds, the Supervisor can grant a grace period during which this situation must be resolved. If the situation is not resolved after expiry of this grace period, the Supervisor can remove the credit institution from the list of Belgian covered bond issuers and revoke the issuing credit institution's authorisation to issue Belgian covered bonds. For so long as the issuing credit institution is in breach of the Liquidity Test or Cover Test, it shall not be allowed to issue new Belgian covered bonds, regardless of the granting of any grace period by the Supervisor. In urgent circumstances, the Supervisor can remove an issuing credit institution from the list of credit institutions that are authorised to issue Belgian covered bonds, without any grace period. The Belgian Covered Bonds Regulations provide that this will not affect the registration of outstanding Cover Assets.

The Supervisor can also publish warnings to indicate that a credit institution has failed to comply with the Supervisor's requests to meet the requirements of the Belgian Covered Bonds Legislation within a specified grace period. In addition, as part of its general supervisory function under the Banking Law, the Supervisor can – after hearing or inviting the issuing credit institution for a hearing – impose a fine of maximum EUR 2,500,000 per breach or EUR 50,000 per day of non-compliance. The Supervisor has the power to impose administrative penalties on issuing credit institutions. Such administrative penalties may range from EUR 2,500 to EUR 2,500,000 (please also refer to Section 10.4 below – *Parties – the Supervisor*).

4. SPECIAL ESTATE AND PROTECTION IN THE CONTEXT OF AN INSOLVENCY

4.1. Composition of the Special Estate

The Belgian Covered Bonds Legislation contemplates a full on balance sheet structure.

The estate of an issuing credit institution that has issued Belgian covered bonds is legally composed of a general estate and of one or more special estates.

The issuing credit institution must maintain a cover register for all Belgian covered bonds issued in which all Belgian covered bonds and the cover assets are registered (the **Register of Cover Assets**).

The special estate by operation of law includes:

- all assets registered in the Register of Cover Assets;
- the assets (cash or financial instruments) received as collateral in the context of hedging agreements which are part of the special estate;
- all security interests and sureties, guarantees or privileges, in whatever form, that have been granted in relation to cover assets, as well as rights under insurance policies and other contracts in relation to the cover assets or the management of the special estate;
- all sums that the issuing credit institution holds as a result of the recovery (reimbursement, payment) of assets or of the rights mentioned above for the account of the special estate or otherwise held for the special estate; and
- the mandatory reserves with the NBB, to the extent that these are linked to the special estate.

Pursuant to a revindication mechanism provided by Article 3, §2, second indent of Annex III to the Banking Law, if the Issuer holds amounts as provided for in Article 3, § 2, 4° for the account of a Special Estate, and these amounts cannot be identified in the General Estate when the delivery of these assets is requested on behalf of the Special Estate, the ownership right in relation to these amounts that are part of the Special Estate will be transferred for a corresponding value to other unencumbered assets in the General Estate of the Issuer that will be selected by taking into account criteria specified in the terms and conditions of the relevant issuance (hereinafter referred to as the "*issue conditions"*).

4.2. The Register of Cover Assets

The issuing credit institution must maintain a Register of Cover Assets. The issuing credit institution may have more than one Register of Cover Assets. The assets included in the Register of Cover Assets are included on, and are a part of, the issuing credit institution's balance sheet. Each item in the Register of Cover Assets must be clearly identified and the Register of Cover Assets must be updated on a regular basis to include any changes in the relevant information.

As from their registration in the Register of Cover Assets, the assets listed in Article 80 §3, 2° of the Banking Law (see section 5 below), including the relevant hedging instruments, that are part of the relevant Special Estate, constitute the cover assets. Such registration and allocation to the cover assets is valid and enforceable against third parties.

The amounts that are paid by way of repayment, recovery or payment of interest on the cover assets may be applied as cover assets that form part of their respective category, until the point at which such amounts are used for other purposes.

Upon their removal from the Register of Cover Assets, cover assets will no longer be part of the special estate.

The Register of Cover Assets must at least contain the following information:

- the characteristics per series of issued Belgian covered bonds, including their nominal value, maturity date and interest rate(s); and
- the characteristics of assets that constitute the Cover Assets, including the category, the type of contract, the nominal value, the currency, the issue date or origination date and the maturity date of the assets, the date of registration in the Register of Cover Assets, the identity of the counterparties, information regarding redemption, interest rates, guarantees and the value of the assets.

If any of the above characteristics of an asset changes, this must be reflected in the Register of Cover Assets as soon as possible.

The assets, hedging instruments and the outstanding debt instruments that are part of the special estate must be registered in accordance with the following principles:

- the cover assets, which are registered in the Register of Cover Assets, must at all times be identifiable in the accounts and systems of the issuing credit institution;
- each transaction regarding cover assets must be immediately registered in the Register of Cover Assets and at the latest on the same day by close of business;
- each registration in and/or amendment to the Register of Cover Assets must be traceable;
- the issuing credit institution must be able to copy the content of the Register of Cover Assets at all times; and
- at the end of each month, the content of the Register of Cover Assets must be copied to a durable medium and kept for a period of five years after the maturity date of the Belgian covered bonds. The standard procedures of the issuing credit institution for back-up and archiving can be used to this end, provided that the relevant storage method is acceptable to the statutory auditor, the cover pool monitor and the NBB.

Protective measures must be taken to prevent unauthorised persons from making modifications to the Register of Cover Assets, or to prevent damages to or destruction of the Register of Cover Assets. To this end, the issuing credit institution must keep an updated (back-up) copy of the Register of Cover Assets at a different location to that where the original copy is kept.

4.3. Allocation of the Special Estate

Each special estate is exclusively allocated to satisfy the obligations towards the Belgian covered bondholders and creditors that are or can be determined based on the issue conditions. The distribution or priority rules between the obligations towards the holders of Belgian covered bonds and the other creditors of the special estate must be determined in the issue conditions and in the agreements that are entered into in the context of the issue of Belgian covered bonds or the relevant issue programme. The Conditions (see Condition 9 (*Priorities of Payments*)) contain specific provisions regarding the distribution of payments between the Covered Bondholders and the Other Cover Pool Creditors with respect to funds derived from the Special Estate following an acceleration of the Covered Bonds or following a decision of the Cover Pool Administrator to early redeem the Covered Bonds of all Series pursuant to Article 11, 6° or 7° of Annex III to the Banking Law.

Creditors of the issuing credit institution (other than Belgian covered bondholders and creditors that are or can be determined based on the issue conditions) may not exercise any rights against or attach the special estate.

The Belgian covered bondholders and the creditors that are or can be determined based on the issue conditions also maintain a recourse against the general estate of the issuing credit institution. The Belgian covered bondholders and creditors that are or can be determined based on the issue conditions consequently have a dual right of recourse against, (a) the general estate, and (b) the special estate of the issuing credit institution.

The holders of Covered Bonds issued by the Issuer under the Programme and the Other Cover Pool Creditors will consequently have an exclusive recourse against the Special Estate while maintaining a recourse against the General Estate of the Issuer. As indicated above, the Conditions (see Condition 9 (*Priorities of Payments*)) contain specific provisions regarding the distribution of payments between the Cover Pool Creditors with respect to funds derived from the Special Estate following an acceleration of the Covered Bonds or following a decision of the Cover Pool Administrator to early redeem the Covered Bonds of all Series pursuant to Article 11, 6° or 7° of Annex III to the Banking Law.

4.4. Protection in the context of insolvency – no acceleration

The Belgian Covered Bonds Legislation also contains provisions relating to the protection of holders of Belgian covered bonds and of creditors that are or can be determined based on the issue conditions upon the insolvency of the issuing credit institution.

If bankruptcy proceedings are initiated against the issuing credit institution, the proceedings are limited to the general estate of the issuing credit institution; the special estate and the debts and obligations it covers do not form part of the bankruptcy estate. The proceedings do not cause the obligations and debts of the special estate to become due and payable. Accordingly, the Belgian covered bonds (can) remain outstanding until their stated maturity, notwithstanding a bankruptcy of the issuing credit institution.

The special estate will be run separately from the bankruptcy procedure applicable to the general estate of the issuing credit institution (i.e., on a bankruptcy remote basis).

Cover assets that are part of the special estate will only return to the general estate once all Belgian covered bonds have been repaid in full. The insolvency administrator (*curator/curateur*) will have no rights on the special estate. However, on the initiation of bankruptcy proceedings against the issuing credit institution, the insolvency administrator is entitled, after consultation with the Supervisor, to require that the cover assets, that are with certainty no longer necessary as cover assets, are retransferred to the general estate.

The insolvency administrator has a legal obligation to co-operate with the Supervisor and the cover pool administrator in order to enable them to manage the special estate in accordance with the Belgian Covered Bonds Legislation.

A special (legal) mechanism has been created to protect cash held by the issuing credit institution on account of the special estate. Pursuant to this (legal) mechanism, the ownership rights of the special estate as regards cash that cannot be identified in the general estate, will be transferred to unencumbered assets of the general estate that will be selected by taking into account criteria specified in the issue conditions. With respect to the Programme, these criteria are specified in Condition 12 (*Covered Bond Provisions*).

In addition, upon a bankruptcy of the issuing credit institution, all sums and payments relating to the assets constituting the special estate that are collected by or for the account of the special estate are automatically excluded from the bankrupt estate of the issuing credit institution and exclusively allocated to the special estate.

4.5. Transfer and liquidation of the special estate

As indicated above, bankruptcy proceedings against the issuing credit institution do not cause the obligations and debts covered by the special estate to become due and payable. Upon the initiation of bankruptcy proceedings against the issuing credit institution, the cover pool administrator may, in the interest of the holders of Belgian covered bonds, in consultation with the representative of the holders of Belgian covered

bonds and subject to approval by the Supervisor, transfer the special estate (assets and liabilities) and its management to an institution entrusted with performing obligations to the holders of Belgian covered bonds in accordance with the initial issue conditions.

Upon the initiation of bankruptcy proceedings against the issuing credit institution, the cover pool administrator:

(a) may, in consultation with the representative of the holders of Belgian covered bonds and subject to approval by the Supervisor, proceed with the liquidation of the special estate and with the early redemption of the Belgian covered bonds where the cover assets are not, or risk not being, sufficient to satisfy the obligations under the Belgian covered bonds; and

(b) will, in consultation with the representative of the holders of Belgian covered bonds and the Supervisor, proceed with the liquidation of the special estate and with the early redemption of the Belgian covered bonds when a majority decision has been taken to this effect at a bondholders meeting at which at least two thirds of the principal amount of Belgian covered bonds is represented.

If the Cover Tests and the Liquidity Test are no longer met, the cover pool administrator must consult the representative of the covered bondholders for the purposes of considering the liquidation of the special estate and the early repayment of the Belgian covered bonds, as contemplated under (a) above.

Reference is also made to Condition 8 (Events of Default and Enforcement)) in relation to the events that trigger an acceleration of the Covered Bonds.

The rights of Belgian covered bondholders and of the creditors that are or can be determined based on the issue conditions against the special estate will also be maintained and will follow the special estate on a disposal of assets of the issuing credit institution in the context of redress measures taken by the Belgian authorities against the issuing credit institution.

The Special Estate could be transferred to a third party, either as a result of (i) the application of the resolution tools (*afwikkelingsinstrumenten/instruments de résolution*) taken in accordance with Book II, Title VIII of the Banking Law, or (ii) following the commencement of bankruptcy proceedings or recovery measures, if the Cover Pool Administrator decides to transfer in accordance with Article 11, 5° of Annex III to the Banking Law. The Banking Law provides that, in the case of such a transfer, the rights of the holder of the Belgian covered bonds against the special estate will be maintained and will follow the special estate.

5. ASSETS TO BE INCLUDED IN THE SPECIAL ESTATE

The special estate may be composed of assets falling within any of the following five categories: Residential Mortgage Loans (including Residential Mortgage Backed Securities (**RMBS**)) (**category 1**), Commercial Mortgage Loans (including Commercial Mortgage Backed Securities (**CMBS**)) (**category 2**), Public Exposures (including Public Asset Backed Securities (**ABS**)) (**category 3**), exposures to credit institutions (**category 4**) and hedging instruments (**category 5**).

(a) Mortgage Loans

The special estate may include residential mortgage loans or commercial mortgage loans:

- **Residential mortgage loans (category 1)**: mortgage receivables secured by a mortgage on Residential Real Estate located in the European Economic Area (EEA) (Residential Mortgage Loans). Mortgage receivables relating to residential real estate under construction or in development can only be included in the special estate if they do not represent more than 15% of all the residential mortgage loans included in the special estate; and

- **Commercial mortgage loans (category 2)**: mortgage receivables secured by a mortgage on Commercial Real Estate located in the EEA (Commercial Mortgage Loans). Mortgage

receivables relating to commercial real estate under construction or in development may not be included in the special estate.

In order to qualify for residential and commercial mortgage loans, the credit institution must be the beneficiary of a first-ranking mortgage.

Residential Real Estate is real property that is destined for housing or for renting (huur/location) as housing by the owner.

Commercial Real Estate is real property that is primarily used for industrial or commercial purposes or for other professional activities, such as offices or other premises intended for the exercise of a commercial or services activity.

(b) **Exposures to public sector entities (category 3)**: receivables on or guaranteed or insured by, (i) central, regional or local authorities of member states of the Organisation for Economic Co-operation and Development (**OECD**), (ii) central banks of these member states, (iii) public sector entities of these member states, or (iv) multilateral development banks or international organisations that qualify for a 0% risk weighting as set out in Article 117 CRR (**Public Exposures**).

(c) RMBS, CMBS and ABS issued by securitisation vehicles that securitise exposures on assets primarily composed of the assets sub (a) and/or (b) above and that meet the following conditions:

(i) the securitisation vehicle is governed by the laws of a member state of the EEA;

(ii) the securitisation positions qualify for credit quality step 1 as set out in Article 251 CRR and are part of the most senior tranche of securitisation positions;

(iii) at least 90% of the underlying assets are composed of only one of the categories of residential mortgage loans, commercial mortgage loans or public sector exposures;

(iv) the underlying assets have been originated by a group-related entity of the issuing credit institution; and

(v) the most subordinated tranche is fully retained by the issuing credit institution or a group-related entity.

Securities issued by securitisation vehicles are only recognised as cover assets within the limits imposed by CRD IV (which permits Belgian covered bonds to benefit from a favourable weighting in the context of the "own funds" regulation applicable to credit institutions).

(d) **Exposures to credit institutions (category 4)**: claims against credit institutions that have the status of credit institution under the law of a member state of the OECD and cash held on account with these credit institutions, as well as sums held by the issuing credit institution for the benefit of the special estate.

(e) **Hedging instruments (category 5)**: positions resulting from one or more hedging instruments linked to one or more cover assets or Belgian covered bonds concerned, as well as sums paid under these positions. The counterparty of these instruments must have the status of a credit institution under an OECD member state.

The hedging instruments may only cover interest rate risk, currency exchange risk or other risks linked to the cover assets or the Belgian covered bonds.

The hedging instruments may only be included in the special estate if recovery measures or bankruptcy proceedings opened against the issuing credit institution do not automatically result in the early termination (close-out) of these instruments and if the relevant hedge counterparty cannot

invoke an early termination (close-out) in such circumstances. The issuing credit institution may not include hedging instruments in one of the novation or netting agreements to which it is a party.

The credit institution must be able to demonstrate that the default risk of the counterparty is limited. The NBB Covered Bonds Regulation specifies that the limited default risk of the counterparty will be established if the counterparty qualifies for:

- credit quality step 1 according to Article 120 CRR; or
- credit quality step 2 according to Article 120 CRR and that the duration of the hedging contract does not exceed 12 months as from the time it was registered in the Register of Cover Assets.

If the hedge counterparty is a group-related entity of the issuing credit institution, it must have the status of credit institution in an EEA Member State and must benefit from credit quality step 1 (as defined in Article 120 CRR). In addition, the net risk positions arising from these hedging instruments towards these counterparties have to be covered by financial instruments or values as contemplated by Article 197 CRR.

Furthermore, the issuing credit institution must establish risk management policies in relation to interest rate and currency exchange risks. The issuing credit institution must ensure that the liquidity generated by such hedging instruments is sufficient to meet the applicable tests in the case of sudden and unexpected movements and/or, as the case may be, dispose of other assets that can be sold or mobilised quickly in order to provide relevant coverage.

Amounts paid as reimbursement, collection or payment of interest on cover assets included in the special estate may be applied as cover assets that are a part of their respective category.

6. OVER-COLLATERALISATION AND TESTS

At the time of the issuance and as long as any Belgian covered bonds remain outstanding, the issuing credit institution must, in respect of each special estate, meet the following cover tests.

6.1. 85% Asset Coverage Test

The value of the assets out of one of the first three categories (Residential Mortgage Loans (including RMBS), Commercial Mortgage Loans (including CMBS) or Public Exposures (including ABS)) must represent at least 85% of the nominal amount of the Belgian covered bonds outstanding (the **85% Asset Coverage Test**).

For the purposes of this Programme, the main asset class of the Special Estate will consist of Residential Mortgage Loans, their Related Security interests and all monies derived therefrom from time to time in accordance with the Belgian Covered Bonds Legislation.

6.2. Over-Collateralisation Test

The value of the cover assets must provide an excess cover such that their value exceeds the principal amount outstanding of the Belgian covered bonds. Per special estate, the value of the cover assets must represent at least 105% of the principal amount of the Belgian covered bonds issued (the **Over-Collateralisation Test**).

In order to meet the continuous requirements of the Over-Collateralisation Test, the issuing credit institution has the legal obligation to maintain an active collateral management policy. Accordingly, the composition of the cover assets included in the special estate is dynamic. As long as Belgian covered bonds are outstanding, the issuing credit institution may be required to add, remove and/or replace cover assets in order to meet the requirements of the Over-Collateralisation Test.

6.3. Cover Asset Coverage Test

The cover assets composing the special estate must, for the duration of the Belgian covered bonds, provide a sufficient cover, (a) for the payment of principal and interest on the Belgian covered bonds, (b) for the obligations towards the creditors that are or can be determined based on the issue conditions, and (c) for the management of the special estate. Per special estate, the sum of interest, principal and all other revenues generated by the cover assets must be sufficient to cover the sum of all interest, principal and charges linked to the Belgian covered bonds (the **Cover Asset Coverage Test**).

The 85% Asset Coverage Test, the Over-Collateralisation Test and the Cover Asset Coverage Test are hereinafter jointly referred to as the **Cover Tests**.

7. COVER TESTS – VALUATION METHODOLOGY

The value of the cover assets of each category is determined in the following manner for the purpose of the 85% Asset Coverage Test and the Over-Collateralisation Test:

(a) **Residential Mortgage Loans**: the lesser of, (i) the outstanding loan amount, (ii) 80% of the market value of the Residential Real Estate, and (iii) the value of the mortgage.

If the Residential Real estate over which a mortgage has been created is located in Belgium, the value of the mortgage in respect of a residential mortgage loan will be equal to the amount of the mortgage registration in first rank, plus any amounts of mortgages in subsequent ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres créanciers*).

If the mortgage is supplemented with a mortgage mandate, the value of the mortgage will be equal to the lesser of, (i) the sum of the amount of the mortgage registration in first rank, plus any amounts of mortgages in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres créanciers*) and the amount for which a mortgage mandate has been granted, and (ii) the amount of the mortgage registration in first rank, plus the amount of any mortgage in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres créanciers*), divided by 0.6.

If the Residential Real Estate over which the mortgage has been created is located outside Belgium, the value of the mortgage in respect of such residential mortgage loan will be equal to the amount of the mortgage registration in first rank, plus the amount of any mortgages in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres créanciers*). Mortgage mandates are not taken into consideration.

Residential Real Estate may only be taken into consideration for the purposes of the valuation calculations of the cover assets if the requirements set out Article 208 CRR and the valuation rules set out in Article 229 CRR, as implemented in Belgium, have been complied with. This does not prejudice the possibility to take into account the value of mortgage mandates, as set out above. If deemed necessary, the Supervisor can impose further requirements with respect to the valuation of residential real estate.

The valuation of Residential Real Estate is subject to periodic review. The valuation rules in relation to residential real estate are further specified in the NBB Covered Bonds Regulation.

(b) **Commercial Mortgage Loans**: the lesser of, (i) the outstanding loan amount, (ii) 60% of the sales value of the Commercial Real Estate, and (iii) the value of the mortgage.

The value of the mortgage in respect of a commercial mortgage loan equals the amount of the mortgage registration in first rank, accrued (if applicable) with the amount of the mortgages in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres créanciers*). Mortgage mandates are not taken into consideration.

Commercial Real Estate may only be taken into consideration for the purposes of the valuation calculations if the eligibility requirements that apply to Residential Mortgage Loans have been met.

The valuation of Commercial Real Estate is subject to periodic review.

(c) **Public Exposures**: to the extent that the counterparty is a member of the European Union, the value is equal to the book value in the books of the issuing credit institution (or limited to the amount guaranteed or insured by the relevant entities). If the counterparties of the receivables are not members of the European Union, the value of the receivables will be zero unless:

(i) the counterparties benefit from a credit quality step 1 as defined in Article 129 CRR; or

(ii) the counterparties benefit from a credit quality step 2 as defined in Article 129 CRR and these receivables do not exceed 20% of the amount of Belgian covered bonds.

(d) **RMBS, CMBS and ABS issued by securitisation vehicles**: the value of the receivables corresponds to the lesser of, (i) the amount at which the assets are registered in the accounting statements, and (ii) the amount of the assets that are underlying to the securitisation, applying the valuation rules set forth above per analogy.

(e) **Hedging instruments**: no value is given to that category for the purpose of the 85% Asset Coverage Test and the Over-Collateralisation Test.

(f) **Exposures to credit institutions**: no valuation is given to this category for the purpose of the 85% Asset Coverage Test. No valuation is given to this category for the purposes of the Over-Collateralisation Test unless:

(i) the counterparty benefits from a credit quality step 1 as defined in Article 120 CRR. Receivables which are deposits can only be taken into account for the Over-Collateralisation Test, provided that their maturity date does not exceed 12 months from the date on which they are recorded in the Register of Cover Assets; or

(ii) the counterparty benefits from a credit quality step 2 and the maturity does not exceed 100 days from their registration in the Register of Cover Assets; and

in both cases, the value will be equal to the amount at which the assets are registered in the accounting statements of the issuing credit institution.

In all circumstances, the value of an asset that is 90 days past due is zero. The value of an asset that is 30 days past due will only be taken into account for 50% of the value as set out above.

8. LIQUIDITY TEST

Per special estate, the cover assets must over a period of six months generate sufficient liquidity or include enough liquid assets in order to enable the issuing credit institution to make all unconditional payments on the Belgian covered bonds (including principal, interest and other costs) falling due during the following six months (the **Liquidity Test**). As an Extended Final Maturity will be specified for each Series of Covered Bonds, payments of amounts due on the Final Maturity Date will not be considered as unconditional for the purpose of the Liquidity Test.

To comply with the Liquidity Test, the issuing credit institution will be entitled to enter into a liquidity facility provided that the counterparty is a credit institution outside the group that satisfies certain credit quality requirements. The Issuer currently does not have the intention to enter into a liquidity facility agreement in relation to the Special Estate but has the ability to do so pursuant to the Belgian Covered Bonds Legislation.

The liquidity that is made available pursuant to a liquidity facility is taken into account for the calculation of the Liquidity Test, provided that:

(a) the liquidity facility can be used only for payment on the Belgian covered bonds; and

(b) the funds drawn under the liquidity facility cannot be used for any other activities.

The funds drawn under the liquidity facility will be part of the special estate by operation of law.

If an issuing credit institution fails to meet the requirements of the Liquidity Test, it will have 14 days to take the necessary redress measures to meet the relevant requirements. As long as an issuing credit institution has not taken the necessary redress measures, it is not allowed to issue new Belgian covered bonds (under a programme or on a stand-alone basis).

9. LIMITATIONS ON ISSUE OF BELGIAN COVERED BONDS BY AN ISSUING CREDIT INSTITUTION AND SUBSCRIPTION OF OWN COVERED BONDS

9.1. Limitation of the amount of Belgian covered bonds

An issuing credit institution may no longer issue further Belgian covered bonds if the amount of the cover assets exceeds 8% of the total assets of such credit institution, except with the prior consent of the Supervisor. The Supervisor can specify which assets are to be taken into account for the purpose of calculating this 8% limit and how such assets should be valued.

The Supervisor can only temporarily authorise an issuing credit institution to issue covered bonds beyond the 8% limit when justified by exceptional circumstances on the financial markets which affect the issuing credit institution and which justify an increased use of such financing. The report to the Covered Bonds Royal Decree clarifies that these exceptional circumstances may be circumstances where the issuing credit institution would not have access to the unsecured funding markets.

In addition, for each credit institution issuing Belgian covered bonds, the Supervisor may determine a maximum percentage of Belgian covered bonds that may be issued by such institution compared to its balance sheet total. The Supervisor may request that a credit institution that issues Belgian covered bonds limits the issue volume of Belgian covered bonds in order to protect the credit institution's other creditors.

9.2. Conditions to issuance of Belgian covered bonds

As set out in Section 3 above, an issuer can only issue Belgian covered bonds after having obtained a general licence from the Supervisor authorising it to issue covered bonds as well as a specific licence in relation to the programme (or standalone issue, as the case may be). Subsequently, an issuer may be restricted from issuing further Belgian covered bonds in certain circumstances. In particular, this could be the case if the Supervisor removes the issuer from the list of Belgian covered bond issuers and revokes its licence (see Section 3.3 above or if the Supervisor imposes a certain limit on the aggregate amount of Belgian covered bonds that can be issued and the issuer would exceed such limit with a new issue (see Section 9.1 above). Moreover, if the issuer fails to meet the Liquidity Test and is not able to remedy thereto within fourteen (14) days, it will be prevented from further issuing Belgian covered bonds as long the Liquidity Test is not met (see Section 8 above).

9.3. Subscription of own Belgian covered bonds

The issuing credit institution may subscribe to or invest in its own Belgian covered bonds. However, to the extent that these Belgian covered bonds are held by the issuing credit institution, such credit institution will not be able to exercise the rights set out in Articles 568 to 580 of the Belgian Companies Code (to the extent applicable) or similar rights set out in the articles of association of the issuing credit institution or in the issue conditions, unless otherwise provided in the issue conditions.

10. PARTIES

10.1. Cover Pool Monitor

For each Belgian covered bonds issue or issue programme, the issuing credit institution must appoint a cover pool monitor (*portefeuillesurveillant/surveillant de portefeuille*) approved by the Supervisor. The cover pool monitor is an auditor who is not the statutory auditor of the issuing credit institution.

Before the issue of Belgian covered bonds the cover pool monitor will need to take all reasonable measures to ensure that the issuing credit institution meets the following requirements:

(a) the cover assets meet the qualitative requirements that apply to cover assets registered in the Register of Cover Assets and limits set out in the Belgian Covered Bonds Legislation (see section 5 above);

(b) the cover assets meet the Cover Tests (see sections 6 and 7 above);

(c) the cover assets meet the Liquidity Test (see section 8 above); and

(d) the requirements that apply to the cover register and the correct registration of cover assets in the cover register are complied with (see section 4.2 above).

The cover pool monitor must be able to verify all information which is recorded in the Register of Cover Assets.

After the issue of Belgian covered bonds, the cover pool monitor must perform these verifications at least once a year. However, the cover pool monitor will verify at least once a month that the Cover Tests, the Liquidity Test and the requirements for the cover register are complied with. The NBB Cover Pool Monitor Regulation contains provisions that specify how the cover pool monitor must perform its task.

The Supervisor can also request that the cover pool monitor performs other tasks and verifications.

The fees and cost of the cover pool monitor must be borne by the issuing credit institution.

KPMG Bedrijfsrevisoren represented by Frans Simonetti, Accredited Auditor, Bourgetlaan 40, 1130 Brussels has been appointed as Initial Cover Pool Monitor in relation to the Special Estate pursuant to Article 16, §1 of Annex III to the Banking Law by the Issuer on 21 November 2012. The appointment of KPMG Bedrijfsrevisoren represented by Frans Simonetti, Accredited Auditor as Cover Pool Monitor was approved by the Supervisor. The tasks and duties of the Cover Pool Monitor are further described in the Belgian Covered Bonds Legislation.

10.2. Cover Pool Administrator

Until the appointment of a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) by the Supervisor, the issuing credit institution manages the special estate.

The Supervisor appoints a cover pool administrator for each special estate:

(a) upon the adoption of a recovery measure as set out in Article 236 of the Banking Law against the issuing credit institution if such measure, in the opinion of the Supervisor, may negatively affect (*negatieve impact/impact négatif*) the Belgian covered bonds;

(b) upon the initiation of winding-up proceedings (*liquidatieprocedure/procédure de liquidation*) against the issuing credit institution; or

(c) where the Supervisor is of the opinion that the assessment of the situation of the issuing credit institution is such that it may seriously affect (*ernstig in gevaar kan brengen/de nature à mettre gravement en péril*) the interest of the Belgian covered bondholders.

The Supervisor may also appoint a cover pool administrator upon the removal of the issuing credit institution from the list of Belgian covered bonds issuers.

Winding-up proceedings within the meaning of Article 3, 59° of the Banking Law currently refer, in relation to the Issuer, to a bankruptcy within the meaning of the bankruptcy law of 8 August 1997.

In order to be appointed, the cover pool administrator must have the required expertise and experience and professional reliability. A number of further conditions apply as specified in the Cover Pool Administrator Royal Decree. Credit institutions established in the European Economic Area which are licensed to issue covered bonds with respect to similar assets or manage portfolios of mortgage loans or other assets which qualify as cover assets are deemed to satisfy such criteria.

It is not possible for the same party to perform both roles as cover pool administrator and insolvency administrator.

On designation, the cover pool administrator manages the special estate to the exclusion of the issuing credit institution. The cover pool administrator is legally entrusted with all necessary and relevant powers to manage the special estate. The purpose of such management is to ensure compliance with the obligations under the Belgian covered bonds in accordance with the issue conditions.

The cover pool administrator is allowed to enter into additional agreements on behalf of the special estate in order to improve the liquidity of the special estate.

The cover pool administrator can, among other things, perform the following tasks:

(a) ensure the payment of interest and principal on the Belgian covered bonds based on the amounts that are collected from the cover assets and, as the case may be, by making use of the available liquidity lines;

(b) ensure the collection of amounts that are due from the cover assets that constitute the special estate for the benefit of the covered bondholders and amend the cover register in order to take into account these payments;

(c) ensure the collection of overdue payments concerning cover assets, also by executing the guarantees, including the mortgages;

(d) without prejudice to Article 11 of Annex III to the Banking Law and the contractual provisions that apply to the relevant covered bonds, sell the cover assets;

(e) invest the amounts collected from the cover assets in other eligible assets, pending payment of the interest and principal on the relevant covered bonds. Provided that the NBB has granted its consent, the 85% Asset Coverage Test will not be applied when the special estate is managed by the cover pool administrator;

(f) in the interest of the covered bondholders renegotiate the contractual terms of the receivables that are in default, provided that this is not prohibited pursuant to the contractual terms of the relevant covered bonds;

(g) execute transactions that relate to hedging instruments, provided that these hedging instruments exclusively purport to cover the interest rate risk and the other risks that are related to the cover assets or the relevant covered bonds;

(h) enter into additional obligations, in particular making use of liquidity lines, in order to guarantee compliance with the contractual conditions of the relevant covered bonds; and

(i) perform administrative tasks that the issuing credit institution has to perform pursuant to the contractual conditions of the relevant covered bonds.

The Cover Pool Administrator Royal Decree specifies that the Cover Pool Administrator will be required to consult with the representative in circumstances where, following an insolvency of the issuing credit institution, it deems it necessary to liquidate the special estate and redeem the covered bonds because it is of the view that the cover assets are no longer sufficient to cover the obligations under the covered bonds. Such consultation with the representative will be required if the Cover Tests and/or Liquidity Test are no longer met.

Without prejudice to its powers under Article 11 of Annex III to the Banking Law, the cover pool administrator must obtain the approval of the Supervisor and of the representative of the Belgian covered bondholders for every transaction, including the sale of cover assets, if it would imply that the Cover Tests, the Liquidity Test or the contractual provisions would no longer be met or if there is a risk that they would no longer be met.

The cover pool administrator must:

(a) verify whether the Cover Tests, the Liquidity Test and the contractual provisions regarding the relevant covered bonds are met;

(b) inform the Supervisor and the representative(s) of the covered bondholders on, (I) the outcome of the tests under (A) on a quarterly basis, and (II) the measures that have been taken if these tests have not been met; and

(c) ensure that the periodic reports (required under the Covered Bonds Royal Decree) are sent to the Supervisor.

10.3. Representative of the holders of Belgian covered bonds

A representative may be appointed for holders of Belgian covered bonds that are part of the same issue or issue programme, provided that the issue conditions contain rules regarding the organisation of meetings of holders of Belgian covered bonds. These representatives may, within the limit of the missions that are entrusted to them, bind the holders of Belgian covered bonds of the relevant issue or issue programme towards third parties. The representative may act and represent the holders of Belgian covered bonds in any bankruptcy or analogous proceeding, without having to disclose the identity of the holders of Belgian covered bonds.

The representative performs its duties in the sole interest of the holders of Belgian covered bonds and, as the case may be, of other creditors of the special estate it represents.

Stichting KBC Residential Mortgage Covered Bonds Representative has been appointed as representative of the Covered Bondholders in relation to the Programme pursuant to Article 1, 4° of Annex III and Article 14, §2 of Annex III to the Banking Law by the Issuer pursuant to the Representative Appointment Agreement. Its managing director is Amsterdamsch Trustee's Kantoor B.V. The tasks and duties of Stichting KBC

Residential Mortgage Covered Bonds Representative as representative of the Covered Bondholders (the **Representative**) are further described in the Belgian Covered Bonds Legislation, the Conditions and the Representative Appointment Agreement.

The Representative may represent and bind the Covered Bondholders within the limits of the powers that are assigned to it (as specified in the Conditions (see Condition 14 (*The Representative*)) and in the Representative Appointment Agreement.

10.4. The Supervisor

The NBB is responsible for supervising compliance with the Belgian Covered Bonds Legislation by issuing credit institutions.

As noted above, a Belgian credit institution requires a General Authorisation and a Specific Authorisation from the Supervisor to issue Belgian covered bonds. The prior authorisations of the Supervisor relate to, (a) the organisational capacity of the credit institution to issue Belgian covered bonds and to provide the follow up, and (b) whether a particular issue or issue programme complies with the legal requirements.

The appointment of the cover pool monitor must be approved by the Supervisor and the Supervisor appoints the cover pool administrator.

The Supervisor has an important role in the administration of the Belgian Covered Bonds Legislation. For instance the Supervisor:

(a) determines the policy in relation to the Belgian Covered Bonds Legislation and can amend the regulations of the Supervisor in relation to Belgian covered bonds;

(b) gives guidance under the Belgian Covered Bonds Legislation;

(c) maintains a register of issuers and Belgian covered bonds regulated under the Belgian Covered Bonds Legislation;

(d) will undertake an on-going supervisory role with respect to Belgian covered bond issuers; and

(e) has the power to give directions and impose sanctions.

The issuing credit institution and the cover pool monitor have ongoing obligations to provide to the Supervisor periodic information on compliance with the Belgian Covered Bonds Legislation and to inform the Supervisor if the Cover Tests and the Liquidity Test are not or are not likely to be met.

The issuing credit institution must also provide the Supervisor with all information concerning the registration of assets in the cover register and the steps that it has undertaken to ensure that records are kept of the special estate, that the special estate is capable of satisfying the claims in respect of the Belgian covered bonds and certain other expenses for the maintenance, administration and liquidation of the special estate and that obligations under the Belgian covered bonds are timely paid.

The issuing credit institution must also inform the Supervisor if material changes are made to the programme.

If the issuing credit institution is (and remains) unable to meet the requirements of the Liquidity Test or any other specific requirements which applies to it as issuing credit institution of Belgian covered bonds, the Supervisor can impose a grace period during which this situation must be resolved. If the situation is not resolved after expiry of this grace period, the Supervisor can remove the issuing credit institution from the list of Belgian covered bonds issuers and revoke the issuing credit institution's licence to issue Belgian covered bonds. In extremely urgent circumstances, the Supervisor can remove an issuing credit institution from the list of credit institutions that are authorised to issue Belgian covered bonds, without imposing a grace period.

The Supervisor can also publish warnings/statements indicating that a credit institution has failed to comply with the Supervisor's requests to meet the requirements of the Belgian Covered Bonds Legislation within a specified grace period. In addition, as part of its general supervisory function under the Banking Law, the Supervisor can – after hearing or inviting the issuing credit institution for a hearing – impose a fine of maximum Euro 2,500,000 per breach or Euro 50,000 per day of non-compliance.

The Supervisor has the power to impose administrative penalties on issuing credit institutions. Such administrative penalties may range from Euro 2,500 to Euro 2,500,000.

PROGRAMME DESCRIPTION

1. INTRODUCTION

The Issuer may from time to time issue Covered Bonds under the Programme. The aggregate principal amount of outstanding Covered Bonds in euro shall not at any time exceed Euro 10,000,000,000, subject to increase as described herein. All Covered Bonds issued under the Programme and the Other Cover Pool Creditors will benefit from, (a) a recourse against the General Estate of the Issuer, and (b) an exclusive recourse against the same Special Estate. All Covered Bonds outstanding from time to time shall be included in a list which can be consulted on the website of the NBB at www.nbb.be.

Under the Programme, the Issuer may issue Covered Bonds subject to the Conditions (and applicable Final Terms) set out in this Base Prospectus, but may also from time to time issue Covered Bonds subject to terms not contemplated by this Base Prospectus. In the latter case, the relevant form of terms of the Covered Bonds will be set out in a schedule to the Programme Common Terms Agreement.

The Covered Bonds will be issued pursuant to the terms of the Dealer Programme Agreement. The Covered Bonds will also have the benefit of an Agency Agreement, pursuant to which the Domiciliary Agent, the Paying Agent, Listing Agent and Registrar shall be appointed. The Issuer entered into a Clearing Services Agreement with the NBB in relation to the Dematerialised Covered Bonds which will be represented by a book-entry in the records of the Securities Settlement System.

The Covered Bondholders will be represented by the Representative pursuant to the Representative Appointment Agreement which shall have the powers and rights conferred on it by the Belgian Covered Bonds Legislation, the applicable Conditions, including the Meeting Rules of the Covered Bondholders and the Representative Appointment Agreement. Furthermore, the Issuer has appointed a Cover Pool Monitor in accordance with the Belgian Covered Bonds Legislation. The Covered Bonds will also have the benefit of Programme Common Terms Agreement.

The Programme Common Terms Agreement, the Representative Appointment Agreement, the Agency Agreement, the Clearing Services Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Covered Bonds and/or the Special Estate and designated as a Programme Document by the Issuer and the Representative (as the same may be amended, supplemented, replaced and/or restated from time to time) are each referred to as a **Programme Document** and together referred to as the Programme Documents (the **Programme Documents**).

Pursuant to the terms of the Programme Documents, the Issuer shall be entitled to vary, approve or terminate the appointment of any agent or party thereto and/or appoint any additional or substitute agent or party (including (without limitation) in relation to the issue of any Covered Bond). The Issuer may also enter into any other agreement or document as it may from time to time deem necessary or appropriate in relation to the Programme or issuance of any Covered Bonds. Each of the Programme Documents shall further contain specific provisions for the amendment, supplement, replacement and/or restatement of such agreement and a reference to any Programme Document shall be deemed a reference to such agreement as the same may from time be time be amended, supplemented, replaced and/or restated.

2. PROGRAMME COMMON TERMS AGREEMENT

Pursuant to the terms of the Programme Common Terms Agreement initially entered into on 21 November 2012 (as amended and/or restated from time to time and most recently on 27 November 2018), all Covered Bonds issued under the Programme shall be subject to and have the benefit of certain programme common terms regardless of whether the Covered Bonds are issued under the Base Prospectus or not. These Programme Common Terms specify that all Covered Bondholders will be represented by the Representative and will benefit from an exclusive right of recourse against the same Special Estate. These Programme Common Terms include in substance the following provisions of the Conditions: Condition 2.1 (Residential

Mortgage Covered Bonds), Condition 2.6 (Issuer Undertaking), Condition 3 (Status of the Covered Bonds), Condition 8.1 (Events of Default) except for the definition of the events of default which shall be defined in the conditions of the relevant Covered Bonds, Condition 8.3 (Covered Bondholders' Waiver), Condition 9 (Priorities of Payments), Condition 12 (Covered Bonds Provisions), Condition 13 (Meeting Rules of Covered Bondholders) and Condition 14 (The Representative). The Programme Common Terms Agreement and the Meeting Rules of Covered Bondholders provide that these programme common terms may only be amended in accordance with the provisions of the Programme Common Terms Agreement and of the Meeting Rules of Covered Bondholders.

Besides the Programme Common Terms, the Programme Common Terms Agreement also includes certain confirmations and undertakings of the Issuer. These confirmations and undertakings include the confirmation of the appointment of the Cover Pool Monitor and the Moody's Committed OC Undertaking (see *General Description of the Programme – Moody's Committed OC Undertaking*).

3. DEALER PROGRAMME AGREEMENT

Pursuant to the terms of the Dealer Programme Agreement initially entered into on 21 November 2012 (as amended and/or restated from time to time and most recently on 27 November 2018) between the Issuer and the Dealer, the Dealer Programme Agreement includes the arrangements under which Covered Bonds may from time to time be agreed to be issued by the Issuer to, and subscribed by, the Dealer(s). The Dealer Programme Agreement will, inter alia, make provision for the price at which such Covered Bonds will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription.

The Dealer Programme Agreement makes provision for the resignation or termination of appointment of existing Dealer(s) and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series of Covered Bonds. The Dealer Programme Agreement will be supplemented on or around the date of each issuance by a subscription agreement, which will set out, *inter alia*, the relevant underwriting commitments (such agreement, the **Subscription Agreement**).

4. REPRESENTATIVE APPOINTMENT AGREEMENT

Pursuant to the terms of the Representative Appointment Agreement initially entered into on 21 November 2012 (as amended and/or restated from time to time), Stichting KBC Residential Mortgage Covered Bonds Representative, a Dutch foundation (*stichting*) has been appointed as the Representative of the Covered Bondholders (the **Representative**). Its managing director is Amsterdamsch Trustee's Kantoor B.V.

The Representative has been appointed by the Issuer as representative of the Covered Bondholders in accordance with Article 14, §2 of Annex III to the Banking Law upon the terms and conditions set out in the Representative Appointment Agreement and the Conditions including the Meeting Rules of the Covered Bondholders.

The Representative can also be appointed to represent Other Cover Pool Creditors provided that those Other Cover Pool Creditors agree with such representation.

The powers, authorities and duties of the Representative are specified in the Representative Appointment Agreement and the Conditions including the Meeting Rules of the Covered Bondholders.

In exercising any of its powers, authorities and discretions, the Representative shall have regard to the overall interests of the Covered Bondholders and of the Other Cover Pool Creditors that have agreed to be represented by the Representative. The Representative shall not be obliged to have regard to any interests arising from circumstances particular to individual Covered Bondholders or such Other Cover Pool Creditors.

The Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Covered Bondholders and the Other

Cover Pool Creditors that have agreed to be represented by the Representative but if, in the opinion of the Representative, there is a conflict between the interests the Covered Bondholders and those Other Cover Pool Creditors, the Representative will have regard solely to the interest of the Covered Bondholders.

5. AGENCY AGREEMENT

Pursuant to the terms of the Agency Agreement initially entered into on 21 November 2012 (as amended and/or restated from time to time and most recently on 27 November 2018), the Domiciliary Agent and the Paying Agent will undertake to ensure the payment of the sums due on the Covered Bonds 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 Services Agreement, which comprise, *inter alia*, providing the NBB as operator of the Securities Settlement System with information relating to the issue of the Covered Bonds, the Base Prospectus and other documents required by law.

The Listing Agent will cause an application to be made to Euronext Brussels for the admission to trading of the Covered Bonds.

The Registrar will maintain a register for the registration of Registered Covered Bonds.

The Issuer has reserved the right at any time to vary or terminate the appointment of any Agent, Registrar, Calculation Agent and to appoint a successor Agent, Registrar or Calculation Agent and additional or successor agents provided, however, that:

(a) the Issuer shall at all times maintain a Domiciliary Agent and the Domiciliary Agent will at all times be a participant in the Securities Settlement System;

(b) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Domiciliary Agent) with a specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority;

(c) so long as there are Registered Covered Bonds, the Issuer shall maintain a Registrar for the relevant Series of Registered Covered Bonds (which may be itself);

(d) in the case of Floating Rate Covered Bonds, the Issuer shall at all times maintain a Calculation Agent for the relevant Series of Covered Bonds (which may be itself); and

(e) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income (as amended, supplemented and/or replaced from time to time) or any law implementing or complying with, or introduced in order to conform to, this Directive.

6. CLEARING SERVICES AGREEMENT

Pursuant to the Clearing Services Agreement, the NBB as operator of the Securities Settlement System will provide clearing services for the Issuer.

7. HEDGING AGREEMENTS

The Issuer or, upon its appointment by the Supervisor, the Cover Pool Administrator may, from time to time during the Programme, enter into interest rate swap agreements and covered bonds swap agreements (each a **Hedging Agreement** and together the **Hedging Agreements**) with one or more hedging counterparties (the **Hedging Counterparties**) for the purpose of, *inter alia*, protecting itself against certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets and/or the Covered Bonds.

The distribution or priority rules between the obligations towards Covered Bondholders and the Hedging Counterparties are determined in the Conditions. Reference is made to Condition 9 (*Priorities of Payments*) in this respect.

8. LIQUIDITY FACILITY AGREEMENTS

The Issuer or, upon its appointment by the Supervisor, the Cover Pool Administrator may, from time to time during the Programme, enter into liquidity facility agreements (each a **Liquidity Facility Agreement** and together the **Liquidity Facility Agreements**) in relation to the Special Estate with one or more liquidity facility providers (each a **Liquidity Facility Agreement** and together the **Liquidity Facility Providers**) in order to improve the liquidity of the Special Estate.

The distribution or priority rules between the obligations towards Covered Bondholders and the Liquidity Facility Providers are determined in the Conditions. Reference is made to Condition 9 (*Priorities of Payments*) in this respect.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the FSMA, shall be incorporated in, and form part of, this Base Prospectus:

- The audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2016 together with the related statutory auditors' report;[4]
- The audited consolidated annual financial statements of the Issuer for the financial years ended and 31 December 2017, together with the related statutory auditors' report;[5]
- The unaudited consolidated interim financial statements of the Issuer for the half year ended 30 June 2018.[6]

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the FSMA in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in a document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and on the website at www.kbc.com.

Under Article 34 of the Belgian Prospectus Law, the Issuer is required to prepare and publish a supplement to the Base Prospectus if a significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus which is capable of affecting the assessment of the Belgian covered bonds and which arises or is noted between the time when the Base Prospectus is approved and the final closing of the offer to the public or, as the case may be, the time when trading on a regulated market begins, whichever occurs later.

Furthermore, in connection with the listing of the Covered Bonds on Euronext Brussels, so long as any Covered Bond remains outstanding and listed on such exchange, in the event of any material adverse change in the financial condition of the Issuer which is not reflected in this Base Prospectus, the Issuer will prepare a further supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of the Covered Bonds to be listed on Euronext Brussels.

If the terms of the Programme are modified or amended in a manner which would make this Base Prospectus, as supplemented, inaccurate or misleading, a new base prospectus will be prepared.

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4 https://www.kbc.com/en/system/files/doc/investor-relations/Results/JVS_2016/JVS_2016_BNK_en.pdf

5 https://www.kbc.com/en/system/files/doc/ investor-relations/Results/JVS_2017/JVS_2017_BNK_en.pdf

6 https://www.kbc.com/en/system/files/doc/investor-relations/9-Bank-info/2018_1H_JVS_Bank_en.pdf

Specific items contained in *Documents Incorporated by Reference*

Documents

Audited consolidated annual financial statements of the Issuer and its consolidated subsidiaries for the financial year ended 31 December 2016[*]	**Page number**
report of the board of directors	5-69
consolidated balance sheet	73
consolidated income statement	71
consolidated statement of comprehensive income	72
consolidated cash flow statement	76-77
notes to the financial statements	78-139
statutory auditors' report	140-143
consolidated statement of changes in equity	74-75

Audited consolidated annual financial statements of the Issuer and its consolidated subsidiaries for the financial year ended 31 December 2017[*]	**Page number**
report of the board of directors	5-73
consolidated balance sheet	77
consolidated income statement	75
consolidated statement of comprehensive income	76
consolidated cash flow statement	80-81
notes to the financial statements	82-146
statutory auditors' report	147-154
consolidated statement of changes in equity	78-79

*Unaudited consolidated interim financial statements of the Issuer and its consolidated subsidiaries for the first six months of 2018**	**Page number**
report of the board of directors	5-9
consolidated income statement	11
condensed consolidated statement of comprehensive income	12
consolidated balance sheet	13
consolidated statement of changes in equity	14
condensed consolidated cash flow statement	15
notes on statement of compliance and changes in accounting policies	15-29
notes on segment reporting	33-34
other notes	35-43
statutory auditors' report	44-45

* *Page references are to the English language version of the relevant incorporated documents.*

Information contained in the documents incorporated by reference other than information listed in the table above is for information purposes only.

GENERAL DESCRIPTION OF THE COVERED BONDS

Under the Programme, the Issuer may from time to time issue Covered Bonds, subject as set out herein. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer(s) prior to the issue of the Covered Bonds and will be set out in the Terms and Conditions of the relevant Covered Bonds, as completed by the applicable Final Terms.

This Base Prospectus and any supplement will only be valid for issuing Covered Bonds in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Covered Bonds previously or simultaneously issued under the Programme, does not exceed Euro 10,000,000,000, subject to increase as described herein.

The Issuer may also issue from time to time Covered Bonds under the Programme which shall be subject to terms and conditions and/or final terms not contemplated by this Base Prospectus. In such circumstances, the relevant forms of terms of such Covered Bonds will be set out in a schedule to the Programme Common Terms Agreement (as defined below).

FORM OF THE COVERED BONDS

Form

The Covered Bonds can be issued in dematerialised form (**Dematerialised Covered Bonds**) or in registered form (**Registered Covered Bonds**).

Registered Covered Bonds will be registered in a register maintained by the Issuer or by a registrar on behalf of the Issuer (the **Registrar**) in accordance with Article 462 *et seq* of the Belgian Companies Code. Holders of Registered Covered Bonds can obtain a certificate demonstrating the registration of the Registered Covered Bonds in the register.

The Dematerialised Covered Bonds will be issued in dematerialised form in accordance with Articles 468 *et seq* of the Belgian Companies Code.

The Dematerialised Covered Bonds will be represented by a book entry in the records of the securities settlement system operated by the National Bank of Belgium (the **NBB**) or any successor thereto (the **Securities Settlement System**). The Dematerialised Covered Bonds can be held by their holders through the participants in the Securities Settlement System, including Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking, société anonyme, Luxembourg (**Clearstream, Luxembourg**), SIX SIS Ltd, Switzerland (**SIX SIS, Switzerland**), Monte Titoli S.p.A., Italy (**Monte Titoli, Italy**) InterBolsa S.A., Portugal (**InterBolsa, Portugal**) and any other national or international NBB investors central securities depository (**NBB investor (I)CSDs**)[7], and through other financial intermediaries which in turn hold the Dematerialised Covered Bonds through Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs or other participants in the Securities Settlement System.

The Dematerialised Covered Bonds will be accepted for clearance (settlement) through the Securities Settlement System and will accordingly be subject to the Settlement System Regulations. Holders of Dematerialised Covered Bonds are entitled to exercise the rights they have, including exercising their voting rights and other associative rights (as defined for the purposes of Article 474 of the Belgian Companies Code) against the Issuer in accordance with the Conditions and without prejudice to the powers of the Representative upon submission of an affidavit drawn up by the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing their position in the Dematerialised Covered Bonds (or the position held by the financial institution through which their Covered Bonds are held with the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs in which case an affidavit drawn up by that financial institution will also be required).

References to the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Domiciliary Agent.

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

The Dematerialised Covered Bonds and the Registered Covered Bonds may not be exchanged for Covered Bonds in bearer form. Registered Covered Bonds may not be exchanged for Dematerialised Covered Bonds.

[7] The official list of participants as amended, supplemented and/or replaced from time to time can be consulted on the website of the NBB: https://www.nbb.be/nl/list-nbb-investor-icsds

Title and transfer

Title to and transfer of Dematerialised Covered Bonds will be evidenced only by records maintained by the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland and Monte Titoli, Italy, InterBolsa, Portugal or other Securities Settlement System participants and in accordance with the applicable rules and procedures for the time being of the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs or other Securities Settlement System participants, as the case may be.

Title to and transfer of Registered Covered Bonds shall pass by registration of the transfer by the Issuer or by the Registrar in a register in accordance with Article 462 *et seq* of the Belgian Companies Code. Upon a sale or transfer of Registered Covered Bonds, the seller thereof will be required to complete the relevant transfer documents and certificates. Those can be found, in case of issuance of any registered bonds, on the website at www.kbc.com or can be obtained from the Registrar.

Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Covered Bond shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

Payments

All payments of principal or interest owing under the Dematerialised Covered Bonds shall be made through the Domiciliary Agent and the Securities Settlement System in accordance with the Settlement System Regulations and the Clearing Services Agreement. The Issuer will validly discharge its payment obligations towards the Dematerialised Covered Bondholders by payment to the Securities Settlement System through the intervention of the Domiciliary Agent.

Payments of principal and interest in respect of Registered Covered Bonds shall be paid to the person shown on the register of the Registered Covered Bonds at the close of business on the fifteenth calendar day before the due date for payment thereof.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms but denotes directions for completing the Final Terms.

[*Date*]

KBC Bank NV

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Covered Bonds*]

Under the Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme

The Base Prospectus referred to below (as completed by this Final Terms) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO CONSUMERS IN BELGIUM - The Covered Bonds are not intended to be offered, sold or otherwise made available to and, may not be offered, sold or otherwise made available to, any consumer (*consument/consommateur*) within the meaning of the Belgian Code of Economic Law (*Wetboek van economisch recht/Code de droit économique*) in Belgium.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [*date*] [and the supplement to the Base Prospectus dated [*date*]] (the **Base Prospectus**) which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive as amended which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State. This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Base Prospectus. Copies of the Base Prospectus [and the supplement to the Base Prospectus] are available free of charge to the public at the registered office of the Issuer, from the specified office of the Domiciliary Agent and on the website at www.kbc.com.

[*The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Base Prospectus dated [*original date*] [and the supplement to the Base Prospectus dated [*date*]] (the **Base Prospectus**). This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State and must be read in conjunction with the Base Prospectus dated [*current date*] [and the supplement to the Base Prospectus dated [*date*]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, including the Terms and Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [*original date*] and [*current date*] [and the supplement to the Base Prospectus dated [*date*]]. These Final Terms and the Base Prospectus [and the supplement(s)][has][have] been published on the website at www.kbc.com [and are available free of charge to the public at the registered office of the Issuer and from the specified office of the Domiciliary Agent].

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs.*]

1.	Issuer:		KBC Bank NV
2.	(a)	Series Number:	[●]
	(b)	Tranche Number	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)		
3.	Specified Currency:		Euro (**EUR**)
4.	Aggregate Nominal Amount of Covered Bonds:		[●]
	(a)	[Series:	[●]]
	(b)	[Tranche:	[●]]
5.	Issue Price:		[●]% of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of*

			fungible issues only, if applicable)]
6.	Specified Denominations:		[●]
7.	(a)	Issue Date:	[●]
	(b)	Interest Commencement Date:	[Issue Date/[●]/Not Applicable]
8.	(a)	Final Maturity Date:	[●] [*Fixed rate – specify date/Floating Rate – Interest Payment Date falling in or nearest to the relevant month and year*]
		Business Day Convention for Final Maturity Date:	[Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
		Additional Business Centre(s):	[●] / [Not Applicable] (*please specify other financial centres required for the Business Day definition)*
	(b)	Extended Final Maturity Date:	[●] [*Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to* (*specify month and year, in each case falling one year after the Final Maturity Date*)]
		Business Day Convention for Extended Final Maturity Date:	[Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
		Additional Business Centre(s):	[●] / [Not Applicable] (*please specify other financial centres required for the Business Day definition)*
9.	Interest Basis:		
	(a)	Period to (but excluding) Final Maturity Date:	[[●]% Fixed Rate] [Floating Rate] [Zero Coupon] (further particulars specified below)
	(b)	Period from Final Maturity Date to (but excluding) Extended Final Maturity Date:	[[●]% Fixed Rate] [Floating Rate] [Zero Coupon] (further particulars specified below)
10.	Redemption Basis:		Subject to any purchase and cancellation [or early redemption], the Covered Bonds will be redeemed on the Final Maturity Date at [•] per cent. of their nominal amount or on the Extended Final Maturity Date at [•] per cent. of their nominal amount
11.	Change of Interest Basis:		[(*Specify details of any provision for convertibility of Covered Bonds into another Interest Basis*)] / [Not Applicable]
12.	(a)	Status of the Covered Bonds:	*Belgische pandbrieven/lettres de gage belges*
	(b)	[Date [executive board (or similar)]	[●]

approval for issuance of Covered Bonds obtained:]	(*NB Only relevant where executive board (or similar) authorisation is required for the particular tranche of Covered Bonds*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Covered Bond Provisions

(a)	To Final Maturity Date:	[Applicable/Not Applicable]
(b)	From Final Maturity Date to Extended Final Maturity Date:	[Applicable/Not Applicable] (*If (a) and (b) are not applicable, delete the remaining subparagraphs of this paragraph*)
(c)	Rate[(s)] of Interest:	
	(i) To Final Maturity Date:	[Not Applicable] / [●]% per annum [payable [annually/semi-annually/quarterly/monthly/*other* (*specify*)] in arrear]
	(ii) From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [●]% per annum [payable [annually/semi-annually/quarterly/monthly/*other* (*specify*)] in arrear]
(d)	Interest Period End Date(s):	
	(i) To Final Maturity Date:	[Not Applicable] / [●] in each year, starting on [●], up to and including the [●]
	(ii) From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [●] in each [year] [month], starting on [●], up to and including [●] (*NB This will need to be amended in the case of long or short coupons*)
(e)	Business Day Convention for Interest Period End Dates:	
	(i) To Final Maturity Date:	**[**Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
	(ii) From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] **[**Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
(f)	Interest Payment Date(s):	
	(i) To Final Maturity Date:	[Not Applicable] / [[●] in each year up to and including the Final Maturity Date][Interest Payment Dates will correspond to Interest Period End Dates]
	(ii) From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [[●] in each [year] [month] up to and including the Extended Final Maturity Date, if applicable][Interest Payment Dates will correspond to Interest Period End Dates]

			(provided however that after the Final Maturity Date, the Interest Payment Date shall be monthly)
(g)	Business Day Convention for Interest Payment Dates:		
	(i)	To Final Maturity Date:	[Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
(h)	Additional Business Centre(s):		
	(i)	To Final Maturity Date:	[Not Applicable] / [●] (*please specify other financial centres required for the Business Day definition)*
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [●] (*please specify other financial centres required for the Business Day definition)*
(i)	Day Count Fraction:		
	(i)	To Final Maturity Date:	*(Specify one of the options listed below)* [Actual/Actual (ICMA)] [Actual/Actual] or [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] or [360/360] or [Bond Basis] [30E/360] or [Eurobond Basis] [30E/360 (ISDA)] [1/1]
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	*(Specify one of the options listed below)* [Actual/Actual (ICMA)] [Actual/Actual] or [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] or [360/360] or [Bond Basis] [30E/360] or [Eurobond Basis] [30E/360 (ISDA)] [1/1] (*See Condition 4.1 for alternatives*)
(j)	Determination Date:		
	(i)	To Final Maturity Date:	[Not Applicable] / [[●] in each year]
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [[●] in each year] [*Insert regular Interest Period End Dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*]

(*This will need to be amended in the case of regular Interest Period End Dates which are not of equal durations*)

(*NB Only relevant where Day Count Fraction is Actual/Actual* (*ICMA*))

14. Floating Rate Covered Bond Provisions

(a)	To Final Maturity Date:	[Applicable/Not Applicable]
(b)	From Final Maturity Date to Extended Final Maturity Date:	[Applicable/Not Applicable] (*If (a) and (b) are not applicable, delete the remaining sub paragraphs of this paragraph*)
(c)	Interest Period End Dates:	
	(i) To Final Maturity Date:	[Not Applicable] / [[●] in each year, starting on [●], up to and including the [●]]
	(ii) From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [[●] in each [month] [year], starting on [●], up to and including [●]] (*NB This will need to be amended in the case of long or short coupons*)
(d)	Business Day Convention for Interest Period End Dates:	
	(i) To Final Maturity Date:	[Floating Rate Convention/Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
	(ii) From Final Maturity Date to Extended Final Maturity Date:	[Floating Rate Convention/Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
(e)	Interest Payment Dates:	
	(i) To Final Maturity Date:	[Not Applicable] [[●] in each year, starting on [●], up to and including the Final Maturity Date] [Interest Payment Dates will correspond to Interest Period End Dates]
	(ii) From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] [[●] in each year, starting on [●], up to and including the Extended Final Maturity Date] [Interest Payment Dates will correspond to Interest Period End Dates] (provided however that after the Final Maturity Date, the Interest Payment Date shall be monthly)

(f)	Business Day Convention for Interest Payment Dates:		
	(i)	To Final Maturity Date:	[Floating Rate Convention/Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Floating Rate Convention/Following Business Day Convention/ Preceding Business Day Convention/Not Applicable]
(g)	Additional Business Centre(s):		
	(i)	To Final Maturity Date:	[Not Applicable] / [●] (*please specify other financial centres required for the Business Day definition)*
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [●] (*please specify other financial centres required for the Business Day definition)*
(h)	Manner in which the Rate(s) of Interest is/are to be determined:		
	(i)	To Final Maturity Date:	[Not Applicable] / [Screen Rate Determination/ISDA Determination]
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [Screen Rate Determination/ISDA Determination]
(i)	Party responsible for calculating the Rate of Interest and Interest Amount:		
	(i)	To Final Maturity Date:	[Not Applicable] / [●] (*Give name and address*)
	(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [●] (*Give name and address*)
(j)	Screen Rate Determination:		
	(i)	To Final Maturity Date:	[Applicable] / [Not Applicable]
			(*If (i) is not applicable, delete the remaining subparagraphs of this paragraph*)
		Reference Rate:	[●]
			(*Insert relevant EURIBOR*)
		Interest Determination Date(s):	[●] [(*the second day on which the TARGET2 System is open prior to the start of each Interest Period*)]
		Relevant Screen Page:	[●]
			(*In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a*

composite rate or amend the fallback provisions appropriately)

Relevant Time: [●]

(ii) From Final Maturity Date to Extended Final Maturity Date: [Applicable] / [Not Applicable]

(*If (ii) is not applicable, delete the remaining subparagraphs of this paragraph*)

Reference Rate: [●]

(*Insert relevant EURIBOR*)

Interest Determination Date(s): [●] [(*the second day on which the TARGET2 System is open prior to the start of each Interest Period*)]

(*NB Specify the Interest Determination Date(s) up to and including the Extended Final Maturity Date, if applicable*)

Relevant Screen Page: [●]

(*In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)

Relevant Time: [●]

(k) ISDA Determination

(i) To Final Maturity Date: [Applicable] / [Not Applicable]

(*If (i) is not applicable, delete the remaining subparagraphs of this paragraph*)

Floating Rate Option: [●]

Designated Maturity: [●]

Reset Date: [●]

(ii) From Final Maturity Date to Extended Final Maturity Date: [Applicable] / [Not Applicable]

(*If (ii) is not applicable, delete the remaining subparagraphs of this paragraph*)

Floating Rate Option: [●]

Designated Maturity: [●]

Reset Date: [●]

(l) Margin(s):

(i) To Final Maturity Date: [Not Applicable] / [[+/-][●]% per annum]

(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [[+/-][●]% per annum]
(m)	Minimum Rate of Interest:	
(i)	To Final Maturity Date:	[Not Applicable] / [[●]% per annum]
(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [[●]% per annum]
(n)	Maximum Rate of Interest:	
(i)	To Final Maturity Date:	[Not Applicable] / [[●]% per annum]
(ii)	From Final Maturity Date to Extended Final Maturity Date:	[Not Applicable] / [[●]% per annum] *(With respect to any Interest Period, insert: (i) Minimum Rate of Interest to floor the Rate of Interest; (ii) Maximum Rate of Interest to cap the Rate of Interest; and (iii) Minimum Rate of Interest and Maximum Rate of Interest to collar the Rate of Interest)*
(o)	Day Count Fraction:	
(i)	To Final Maturity Date:	*(Specify one of the options listed below)* [Actual/Actual (ICMA)] [Actual/Actual] or [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] or [360/360] or [Bond Basis] [30E/360] or [Eurobond Basis] [30E/360 (ISDA)] [1/1] [Not Applicable]
(ii)	From Final Maturity Date to Extended Final Maturity Date:	*(Specify one of the options listed below)* [Actual/Actual] or [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] or [360/360] or [Bond Basis] [30E/360] or [Eurobond Basis] [30E/360 (ISDA)] [1/1] [Not Applicable] (*See Condition 4.2(b) for alternatives*)
15.	Zero Coupon Covered Bond Provisions:	[Applicable/Not Applicable][up to and including the Final Maturity Date] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
(a)	Accrual Yield:	[●]% per annum
(b)	Reference Price:	[●]

	(c)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]]
	(d)	Additional Business Centre(s):	[●] (*please specify other financial centres required for the Business Day definition)*
	(e)	Day Count Fraction in relation to Early Redemption Amounts and late payments:	[Conditions [●]and [●] apply/*specify other*]

PROVISIONS RELATING TO REDEMPTION

16.	Final Redemption Amount of each Covered Bond:	Principal Amount Outstanding/*specify other*
17.	Early Redemption Amount:	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, illegality or on event of default or other early redemption:	[[●]/Condition 6.3 applies]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

18.	Form of Covered Bonds:	[Dematerialised Covered Bonds]/[Registered Covered Bonds]
19.	Additional Financial Centre(s) or other special provisions relating to [Interest Payment Days]:	[Not Applicable/*give details*]. (*Covered Bond that this item relates to, the date and place of payment, and not interest period end dates, to which items [14(b) and 15(a) relates*)]
20.	[Consolidation provisions:]	[Not Applicable/The provisions [in Condition 18 (*Further Issues*)] apply]

DISTRIBUTION

21.	(a)	If syndicated, names of Managers:	[Not Applicable/*give names, addresses and underwriting commitments*]
	(b)	Date of Subscription Agreement	[●]
	(c)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
22.		If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
23.		U.S. Selling Restrictions:	Reg. S Compliance Category 2, TEFRA not applicable
24.		Additional selling restrictions:	[Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and admission to trading] on [the regulated market of Euronext Brussels][*specify relevant regulated market*] of the Covered Bonds described herein pursuant to the Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme of KBC Bank.

STABILISATION

[*Insert only if Paragraph 21(c) above is applicable*] [In connection with this issue, [*insert name of Stabilising Manager(s)*] (the **Stabilising Manager(s)**) (or any person acting for the Stabilising Manager(s)) may over-allot or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager(s) (or any agent of the Stabilising Manager(s)) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

1.1.	Admission to trading and admission to listing:	[Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of the [*specify relevant regulated market (for example Euronext Brussels, the Bourse de Luxembourg, the London Stock Exchange's Regulated Market or the Regulated Market of the Irish Stock Exchange) and if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)*] with effect from or around [●] [the Issue Date].] [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the [*specify relevant regulated market (for example Euronext Brussels, the Bourse de Luxembourg, the London Stock Exchange's Regulated Market or the Regulated Market of the Irish Stock Exchange) and if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)*] with effect from or around [●] [the Issue Date].] [Not Applicable.] (*Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.*)
1.2.	Estimate of total expenses related to admission to trading:	[●] / [Not Applicable]

2. RATINGS

	Ratings:	The Covered Bonds to be issued have been rated: [Moody's: [●]] [Fitch: [●]] [[Other]: [●]] *(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)* [Moody's/Fitch] [is/are] established in the European Union and [is/are] registered for the purposes of the EU Regulation on credit rating agencies (Regulation (EC) No.1060/2009 (the **CRA Regulation**), as amended from time to time). As such [Moody's/Fitch] [is/are] included in the list of credit rating agencies published by

the European Securities and Markets Authority on its website in accordance with such Regulation.]

(If applicable) [[Other] is established in the European Union and [has made an application to be (but as at the date hereof is not)]/[is] registered for the purposes of the EU Regulation on credit rating agencies (Regulation (EC) No.1060/2009 (the **CRA Regulation**), as amended from time to time). As such [Other] [is/will be] included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]

3. **HEDGING AGREEMENT** [Applicable] /[Not Applicable]

(*If not applicable, delete the remaining sub paragraphs of this paragraph*)

Hedging Agreement Provider: [●]

Nature of Hedging Agreement: [●]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

(*Include a description of any interest, including any conflicting interest, that is material to the issue/offer, detailing the persons involved and the nature of the interest. This requirement may be satisfied by the inclusion of the following statement*:)

[Save as discussed in [*Subscription and Sale*], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer.] (*Amend as appropriate if there are other interests.)*

(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)

5. REASONS FOR THE OFFER

Reasons for the offer: [●] (*See "Use of Proceed" wording in Base Prospectus – if reasons for offer different from general corporate purposes of the Issuer, will need to include those reasons here*.)

6. YIELD

[Indication of yield: (*Include only for Fixed Rate Covered Bonds only*)

(a) Gross yield: [●]

(b) Net yield: [●] (*include only if the Covered Bonds are issued that require information to be given in accordance with Annex XIII of the Regulation (EC) 809/2004, as amended*)

(c)	Maximum yield:	(*Include for Floating Rate Covered Bonds only where a maximum rate of interest applies*) [●] [Calculated as [*include details of method of calculation in summary form*] on the Issue Date.] / [Not Applicable]
(d)	Minimum yield:	*(Include for Floating Rate Covered Bonds only where a minimum rate of interest applies)* [●] [Calculated as [*include details of method of calculation in summary form*] on the Issue Date.] / [Not Applicable]

7. **OPERATIONAL INFORMATION**

ISIN:	[●]
Common Code:	[●]
(Insert here any other relevant codes such as CINS codes):	[●]
Any clearing system(s) other than the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
Delivery:	
Names and addresses of Registrar (if other than the Issuer):	
Names and addresses of initial Domiciliary Agent and Paying Agent(s):	
Names and addresses of additional Paying Agent(s) (if other than the Issuer):	
Name and address of the Calculation Agent (if any):	
Benchmark	[Not applicable]/ [[*specify benchmark*] is provided by [*administrator legal name*]. As at the date hereof, [*administrator legal name*] [appears]/[does not appear] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation.]/[As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the Benchmark Regulation.]

Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No] [Note that the designation "yes" simply means that the Covered Bonds to be held in a manner which would allow Eurosystem eligibility and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which, as completed by the applicable Final Terms in relation to any Tranche of Covered Bonds, will apply to the Covered Bonds. Reference should be made to Form of the Final Terms for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Tranche of Covered Bonds.

*The applicable Final Terms in relation to any Tranche of Covered Bonds may, in the case of any Covered Bonds which are neither to be admitted to trading on a regulated market within the European Economic Area nor offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive (**Exempt Covered Bonds**), specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Exempt Covered Bonds.*

The Issuer may also issue from time to time Covered Bonds under the Programme which shall be subject to terms and conditions and/or final terms not contemplated by this Base Prospectus. In such circumstances, the relevant forms of terms of such Covered Bonds will be set out in a schedule to the Programme Common Terms Agreement (as defined below).

KBC Bank NV (**KBC Bank** or the **Issuer**) has established a Residential Mortgage Covered Bonds Programme (the **Programme**) for the issuance of Belgian *pandbrieven/lettres de gage* governed by the Law of 3 August 2012 on the legal framework of Belgian covered bonds (*Wet van 3 augustus 2012 tot invoering van een wettelijke regeling voor Belgische covered bonds / Loi du 3 août 2012 instaurant un regime legal pour les covered bonds belges*) (as implemented in Articles 79 to 84 of the Banking Law and in Annex III to the Banking Law) as subsequently amended and/or supplemented from time to time.

The National Bank of Belgium (*Nationale Bank van België/Banque nationale de belgique*) (the **NBB**), as Supervisor has admitted the Issuer to the list of credit institutions that have obtained the authorisation to issue Belgian covered bonds pursuant to Article 80, §1 of the Banking Law on 6 November 2012. The Programme has been admitted by the NBB to the list of authorised programmes for issue of *Belgische pandbrieven/lettres de gage* pursuant to Article 80, §2 of the Banking Law on 6 November 2012. Upon so being notified by the Issuer, the NBB shall regularly update such list with the Covered Bonds issued under the Programme and shall indicate that the Covered Bonds constitute Belgian *pandbrieven/lettres de gage* under the Belgian Covered Bonds Legislation.

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are, (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Each Tranche is the subject of a Final Terms (hereinafter the **Final Terms**) which completes these terms and conditions (hereinafter the **Conditions**). The terms and conditions applicable to any particular Tranche of Covered Bonds are these Conditions as completed by the applicable Final Terms.

All subsequent references in these Conditions to **Covered Bonds** are, unless the context otherwise requires, to the Covered Bonds of the relevant Series.

The relationship between the Issuer and KBC Bank as domiciliary agent, paying agent, listing agent and registrar (hereinafter the **Domiciliary Agent**, the **Paying Agent,** the **Listing Agent** and the **Registrar** which expression includes any successor agent or registrar appointed from time to time in connection with the Covered Bonds) and the other paying agents named in the agency agreement (together with the Domiciliary Agent, the Paying Agent, the Listing Agent and the Registrar, the **Agents**, which expression includes any successor agent appointed from time to time in connection with the Covered Bonds) is determined in

accordance with an agency agreement made between the Issuer, KBC Bank and the Representative initially dated 21 November 2012 (such agency agreement as modified and/or supplemented and/or restated from time to time and most recently on 27 November 2018, the **Agency Agreement**).

The Representative acts as representative of the Covered Bondholders within the meaning of Article 1, 4° of Annex III to the Banking Law in accordance with the provisions of the representative appointment agreement initially dated on 21 November 2012 (such representative appointment agreement as modified and/or supplemented and/or restated from time to time, the **Representative Appointment Agreement**) made between the Issuer and Stichting KBC Residential Mortgage Covered Bonds Representative as representative (in such capacity the **Representative**, which expression shall include any successor Representative) under the Belgian Covered Bonds Legislation.

The Cover Pool Monitor has been appointed as cover pool monitor in relation to the Special Estate (as defined below) pursuant to Article 16, §1 of Annex III to the Banking Law and the Belgian Covered Bonds Legislation.

Pursuant to a programme common terms agreement entered into between the Issuer and the Representative initially dated 21 November 2012 (such programme common terms agreement as modified and/or supplemented and/or restated from time to time and most recently on 27 November 2018, the **Programme Common Terms Agreement**), all Covered Bonds issued under the Programme shall be subject to and have the benefit of certain programme common terms regardless of whether the Covered Bonds are issued under the Base Prospectus or not.

The relationship between the Issuer and the NBB as operator of the Securities Settlement System (as hereinafter defined) in relation to the clearing of the Dematerialised Covered Bonds is governed by a clearing services agreement (such clearing services agreement as modified and/or supplemented and/or restated from time to time, the **Clearing Services Agreement**) entered into between the Issuer, the Domiciliary Agent and the NBB on 4 November 2016 and the Settlement System Regulations (as hereinafter defined).

The Issuer may, from time to time during the Programme, enter into interest rate swap agreements and covered bonds swap agreements (each a **Hedging Agreement** and together the **Hedging Agreements**) with one or more hedging counterparties (each a **Hedging Counterparty** and together the **Hedging Counterparties**) for the purpose of, *inter alia*, protecting itself against certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets (as defined below) and/or the Covered Bonds.

The Issuer may, from time to time during the Programme, enter into liquidity facility agreements (each a **Liquidity Facility Agreement** and together the **Liquidity Facility Agreements**) in relation to the Special Estate with one or more liquidity facility providers (each a **Liquidity Facility Provider** and together the **Liquidity Facility Providers**) in order to improve the liquidity of the Special Estate.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of:

(a) the Agency Agreement;

(b) the Representative Appointment Agreement;

(c) the Programme Common Terms Agreement; and

(d) the Clearing Services Agreement.

The Agency Agreement, the Representative Appointment Agreement, the Programme Common Terms Agreement, the Clearing Services Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Covered Bonds

and/or the Special Estate and designated as a Programme Document by the Issuer and the Representative, are together referred to as the **Programme Documents**.

Copies of the Programme Documents are available for inspection during normal business hours at the registered office of the Issuer and at the Specified Office of the Domiciliary Agent and copies may be obtained from those offices save that, if the relevant Covered Bond is an Exempt Covered Bond, the applicable Final Terms will only be obtainable by a Covered Bondholder holding one or more Covered Bonds and such Covered Bondholder must produce evidence satisfactory to the Issuer and the Domiciliary Agent as to its holding of such Covered Bonds and identity. The Covered Bondholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Final Terms which are applicable to them. By subscribing for or otherwise acquiring the Covered Bonds, the Covered Bondholders will also be deemed to have knowledge of, accept and be bound by all the provisions of, the other Programme Documents.

1. INTERPRETATION

Definitions

In these Conditions the following expressions have the following meanings:

Accrual Yield has, in relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.

Banking Law means the law of 25 April 2014 regarding the status of and supervision on credit institutions and stockbroking firms, published in the Belgian Official Journal on 7 May 2014 (*Wet van 25 april 2014 op het statuut van en het toezicht op de kredietinstellingen en beursvennootschappen/Loi du 25 avril 2014 relative au statut et au contrôle des établissements de crédit et des sociétés de bourse*).

Base Prospectus means the base prospectus in relation to the Programme dated 27 November 2018, as amended/supplemented from time to time.

Belgian Companies Code means the Belgian *Wetboek van Vennootschappen/Code des Sociétés* of 7 May 1999 as amended, supplemented and/or replaced from time to time.

Belgian Covered Bonds Legislation means the Covered Bonds Law as incorporated in the Banking Law, the Mobilisation Law, the Covered Bonds Royal Decree, the Cover Pool Administrator Royal Decree, the NBB Covered Bonds Regulation, the NBB Cover Pool Monitor Regulation and any other law, royal decree, regulation or order that may be passed or taken in relation to Belgian covered bonds.

Business Day means a day other than a Saturday or Sunday on which:

(a) the Securities Settlement System is operating;

(b) commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Belgium and in each Additional Business Centre specified in the applicable Final Terms; and

(c) either (1) in relation to any sum payable in a currency other than euro, commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant currency or (2) in relation to any sum payable in euro, the TransEuropean Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the **TARGET2 System**) is open.

Calculation Agency Agreement means any calculation agency that may be entered into by the Issuer with a third party in relation to the Covered Bonds.

Calculation Agent means the Issuer or any calculation agent appointed by the Issuer pursuant to a Calculation Agency Agreement, as specified in the applicable Final Terms.

Cover Assets means Residential Mortgage Loans that are registered in the Register of Cover Assets and all other assets listed in Article 80, § 3, 2° of the Banking Law that are included in the Special Estate pursuant to Article 3 of Annex III to the Banking Law.

Cover Pool Administrator means any person or persons appointed (and any additional person or persons appointed or substituted) as a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) by the Supervisor pursuant to Article 8, §1 of Annex III to the Banking Law.

Cover Pool Administrator Royal Decree means the Royal Decree of 11 October 2012 on the cover pool administrator in the context of the issue of Belgian covered bonds by a Belgian credit institution *(Koninklijk Besluit van 11 oktober 2012 betreffende de portefeuillebeheerder in het kader van de uitgifte van Belgische covered bonds door kredietinstellingen naar Belgisch recht/Arrêté Royal du 11 octobre 2012 relatif au gestionnaire de portefeuille dans le cadre de l'émission de covered bonds belges par un établissement de crédit de droit belge*) as subsequently amended and/or supplemented.

Cover Pool Creditors means the Covered Bondholders and the Other Cover Pool Creditors.

Cover Pool Monitor means a cover pool monitor (*portefeuilesurveillant/surveillant de portefeuille*) appointed in accordance with Article 16, §1 of Annex III to the Banking Law and its representative (as approved by the NBB, in its capacity as Supervisor, in accordance with the Belgian Covered Bonds Legislation).

Covered Bondholders or **holders of Covered Bonds** means the person in whose name a Registered Covered Bond is registered or, as the case may be, the holders from time to time of Dematerialised Covered Bonds as determined by reference to the records of the relevant clearing systems or financial intermediaries and the affidavits referred to in Condition 2 (*Type, Form, Denomination and Title*).

Covered Bonds Royal Decree means the Royal Decree of 11 October 2012 on the issue of Belgian covered bonds by Belgian credit institutions (*Koninklijk Besluit van 11 oktober 2012 betreffende de uitgifte van Belgische covered bonds door kredietinstellingen naar Belgisch recht/Arrêté Royal du 11 octobre 2012 relatif à l'émission de covered bonds belges par des établissements de crédit de droit belge*) as subsequently amended and/or supplemented.

Day Count Fraction means, in respect of the calculation of an amount of interest for any Interest Period in accordance with Condition 4.2 (*Interest on Floating Rate Covered Bonds*):

(a) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(b) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(c) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(d) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(e) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(f) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless that day is the last day of February or such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless that day is the last day of February but not the Final Maturity Date or such number would be 31, in which case D_2 will be 30; and

(g) if **1/1** is specified in the applicable Final Terms, 1.

Dematerialised Covered Bonds has the meaning given in Condition 2.2 (*Form*).

Determination Date has the meaning given in the applicable Final Terms.

Determination Period means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including where either the Interest Commencement Date or if the final Interest Period End Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

Early Redemption Amount means the amount calculated in accordance with Condition 6.3 (*Early Redemption Amounts*).

Eligible Investor means a person who is entitled to hold securities through a so-called "X-account" (being an account exempted from withholding tax) in a settlement system in accordance with Article 4 of the Belgian Royal Decree of 26 May 1994 on the collection and refund of withholding tax (as amended, supplemented and/or replaced from time to time).

Euro or **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty, as amended, supplemented and/or replaced from time to time.

Eurozone means the region comprised of member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended.

Event of Default has the meaning given in Condition 8.1 (*Events of Default*).

Excess Swap Collateral means an amount equal to the value of any collateral transferred to the Issuer by the Hedging Counterparty under the Hedging Agreement that is in excess of the Hedging Counterparty's liability to the Issuer thereunder, (a) as at the termination date of the transaction entered into under such Hedging Agreement, or (b) as at any other date of valuation in accordance with the terms of the Hedging Agreement.

Exempt Investor has the meaning given in Condition 7 (*Taxation*).

Extraordinary Resolution has the meaning given in the Meeting Rules of Covered Bondholders.

Final Redemption Amount has the meaning given in the applicable Final Terms.

Fixed Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with Condition 4.1 (*Interest on Fixed Rate Covered Bonds*):

(a) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:

(i) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Period End Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of, (A) the number of days in such Determination Period, and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of, (I) the number of days in such Determination Period, and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of, (I) the number of days in such Determination Period, and (II) the number of Determination Dates that would occur in one calendar year;

(b) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of, (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(c) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(d) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(e) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(f) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(g) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless that day is the last day of February or such number would be 31, in which case D_1 will be 30;

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless that day is the last day of February but not the Final Maturity Date or such number would be 31, in which case D_2 will be 30; and

(h) if **1/1** is specified in the applicable Final Terms, 1.

General Estate means the estate of the Issuer excluding any special estate(s) of the Issuer constituted pursuant to Article 3 of Annex III to the Banking Law.

Interest Commencement Date means, in the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest.

Interest Determination Date has the meaning specified in the applicable Final Terms.

Interest Payment Date means, in the case of interest-bearing Covered Bonds, the Interest Payment Date(s) in each year specified in the applicable Final Terms.

Interest Period means, in the case of interest-bearing Covered Bonds, the period from (and including) an Interest Period End Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Period End Date.

Interest Period End Date means, in the case of interest-bearing Covered Bonds, the Interest Period End Date(s) in each year specified in the applicable Final Terms.

Issue Date has the meaning given in the applicable Final Terms.

Margin has the meaning given in the applicable Final Terms.

Maximum Rate of Interest means, in the case of Floating Rate Covered Bonds, the Rate of Interest (if any) specified as such in the applicable Final Terms.

Meeting Rules of Covered Bondholders has the meaning assigned to it in Condition 13 (*Meeting Rules of Covered Bondholders*).

Minimum Rate of Interest means, in the case of Floating Rate Covered Bonds, the Rate of Interest (if any) specified as such in the applicable Final Terms.

Mobilisation Law means the Law of 3 August 2012 on various measures to facilitate the mobilisation of receivables in the financial sector (*Wet van 3 augustus 2012 betreffende diverse maatregelen ter vergemakkelijking van de mobilisering van schuldvorderingen in de financiële sector/Loi du 3 août 2012 relative à des mesures diverses pour faciliter la mobilisation de créances dans le secteur financier)* as subsequently amended and/or supplemented.

NBB Cover Pool Monitor Regulation means the Regulation of the National Bank of Belgium addressed to the cover pool monitors of Belgian credit institutions that issue Belgian covered bonds dated 29 October 2012 *(Circulaire aan de portefeuillesurveillanten van kredietinstellingen naar Belgisch recht die Belgische covered bonds uitgeven/Circulaire aux surveillants de portefeuille auprès d'établissements de crédit de droit belge qui émettent des covered bonds belges*) as subsequently amended and/or supplemented.

NBB Covered Bonds Regulation means the Regulation of the National Bank of Belgium concerning the practical modalities for the application of the law of 3 August 2012 that establishes a legal regime for Belgian covered bonds dated 29 October 2012 (*Circulaire over de praktische regels*

voor de toepassing van de wet van 3 augustus 2012 tot invoering van een wettelijke regeling voor Belgische covered bonds/Circulaire sur les modalités pratiques d'application de la loi du 3 août 2012 instaurant un régime légal pour les covered bonds) as subsequently amended and/or supplemented.

Notice of Default has the meaning given to it in Condition 8 (*Events of Default and Enforcement*).

Operational Creditors means, (a) any servicer appointed to service the Cover Assets, (b) any account bank holding accounts or assets of the Issuer in relation to the Special Estate, (c) any stock exchange on which the Covered Bonds are listed and/or admitted to trading, (d) any auditor, legal counsel and tax advisor of the Issuer in relation to the Special Estate or the Programme, (e) any custodian of Cover Assets or assets in the Special Estate, (f) any rating agency appointed by the Issuer to rate the Programme or the Covered Bonds, (g) any agent or party appointed in accordance with the Programme Documents, (h) any other creditor of amounts due in connection with the management or administration of the Special Estate, and (i) any other creditor of the Issuer pursuant to any services provided or any transaction entered into in connection with the Covered Bonds, the Special Estate or the Programme, as notified by the Issuer to the Representative or as may from time to time be specified in the Conditions of any Covered Bonds issued under the Programme.

Ordinary Resolution has the meaning given in the Meeting Rules of Covered Bondholders.

Other Cover Pool Creditors means the Representative, any Cover Pool Administrator, the Cover Pool Monitor, the Agents, the Registrar, the Hedging Counterparties to Hedging Agreements constituting Cover Assets (if any), any Liquidity Facility Providers (if any) and any Operational Creditors.

Principal Amount Outstanding means, in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day, provided that the Principal Amount Outstanding in respect of a Covered Bond that has been purchased and cancelled by the Issuer shall be zero.

Programme Resolution has the meaning given in the Meeting Rules of Covered Bondholders.

Rate of Interest means, in the case of interest-bearing Covered Bonds, the rate of interest payable from time to time as described in Condition 4 (*Interest*).

Rating Agency means any rating agency (or its successor) who, at the request of the Issuer, assigns and for as long as it assigns, one or more ratings to the Covered Bonds under the Programme from time to time, which may include Moody's and Fitch.

Record Date has the meaning given in Condition 5.1(b) (*Payments in relation to Registered Covered Bonds*).

Reference Banks means the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent in its sole discretion.

Reference Price has, in respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.

Reference Rate has the meaning given in the applicable Final Terms.

Register of Cover Assets means the register of Cover Assets established by the Issuer for the Covered Bonds issued under the Programme in accordance with Article 15, §2 of Annex III to the Banking Law.

Registered Covered Bonds has the meaning given in Condition 2.2 (*Form*).

Related Security means all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate.

Residential Mortgage Loans means loans that are secured by a mortgage on residential real estate as defined in Article 2, 6° of the Covered Bonds Royal Decree.

Resolution means an Ordinary Resolution, an Extraordinary Resolution or a Programme Resolution.

Screen Rate Determination means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2 (*Interest on Floating Rate Covered Bonds*).

Securities Settlement System has the meaning given in Condition 2.2 (*Form*).

Series Principal Amount Outstanding means, in respect of a Series of Covered Bonds on any day, the aggregate of the Principal Amount Outstanding of each of the Covered Bonds comprised in that Series.

Settlement System Regulations means Belgian clearing regulations, including the Belgian law of 6 August 1993 on transactions in certain securities, its implementing Belgian Royal Decrees of 26 May 1994 and 14 June 1994 and the rules of the Securities Settlement System and its annexes, as issued or modified by the NBB from time to time.

Special Estate means the special estate (*bijzonder vermogen/patrimoine spécial*) of the Issuer constituted pursuant to Article 3 of Annex III to the Banking Law in relation to the Programme.

Specified Currency means the euro.

Specified Office means Havenlaan 2, B-1080 Brussels, Belgium or such office as notified to the Covered Bondholders by the Domiciliary Agent in accordance with Condition 19 (*Notices*).

Specified Time means 11am (Brussels time) in the case of EURIBOR.

Statutory Tests means the tests provided for in Article 2, §2 and §3 of Annex III to the Banking Law as further specified in Articles 5 and 7 of the Covered Bonds Royal Decree.

Subordinated Termination Payment means, subject as set out below, any termination payments due and payable to any Hedging Counterparty under a Hedging Agreement where such termination results from, (a) an Additional Termination Event "*Ratings Event*" as specified in the schedule to the relevant Hedging Agreement, (b) the bankruptcy of the relevant Hedging Counterparty, or (c) any default and/or failure to perform by such Hedging Counterparty under the relevant Hedging Agreement, other than, in the event of (a) or (b) above, the amount of any termination payment due and payable to such Hedging Counterparty in relation to the termination of such transaction to the extent of any premium received by the Issuer from a replacement hedging counterparty.

Sub-unit with respect to euro, means, one cent.

Target2 System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as **TARGET2**) System which was launched on 19 November 2007 or any successor thereto.

Treaty means the Treaty establishing the European Community, as amended, supplemented and/or replaced from time to time.

Winding-up Proceedings means winding-up proceedings *(liquidatieprocedures/procédures de liquidation*) within the meaning of Article 3, 59° of the Banking Law.

2. TYPE, FORM, DENOMINATION AND TITLE

2.1. Residential Mortgage Covered Bonds

The Covered Bonds under the Programme are issued as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) in accordance with the Belgian Covered Bonds Legislation. The Covered Bonds will be covered in accordance with the Belgian Covered Bonds Legislation by the same Special Estate of which the main asset category will consist of Residential Mortgage Loans, their Related Security and all monies derived therefrom from time to time in accordance with the Belgian Covered Bonds Legislation.

2.2. Form

The Covered Bonds can be issued in dematerialised form in accordance with Article 468 *et seq* of the Belgian Companies Code (**Dematerialised Covered Bonds**) or in registered form in accordance with Article 462 *et seq* of the Belgian Companies Code (**Registered Covered Bonds**).

Registered Covered Bonds will be registered in a register maintained by the Issuer or by the Registrar on behalf of the Issuer in accordance with Article 462 *et seq* of the Belgian Companies Code. Holders of Registered Covered Bonds can obtain a certificate demonstrating the registration of the Registered Covered Bonds in the register.

The Dematerialised Covered Bonds are issued in dematerialised form in accordance with Articles 468 *et seq* of the Belgian Companies Code. The Dematerialised Covered Bonds will be represented by a book entry in the records of the clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**). The Dematerialised Covered Bonds can be held by their holders through the participants in the Securities Settlement System, including Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking, société anonyme, Luxembourg (**Clearstream, Luxembourg**), SIX SIS Ltd, Switzerland (**SIX SIS, Switzerland**), Monte Titoli S.p.A., Italy (**Monte Titoli, Italy**), InterBolsa S.A., Portugal (**InterBolsa, Portugal**) and any other national or international NBB investors central securities depository (**NBB investor (I)CSDs**)[8], and through other financial intermediaries which in turn hold the Dematerialised Covered Bonds through Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs or other participants in the Securities Settlement System. The Dematerialised Covered Bonds are transferred by account transfer. Payments of principal, interest and other sums due under the Dematerialised Covered Bonds will be made in accordance with the rules of the Securities Settlement System through the NBB. Holders of Dematerialised Covered Bonds are entitled to exercise the rights they have, including exercising their voting rights and other associative rights (as defined for the purposes of Article 474 of the Belgian Companies Code) against the Issuer in accordance with the Conditions and without prejudice to the powers of the Representative, upon submission of an affidavit drawn up by the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs, or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing their position in the Dematerialised Covered Bonds (or the position held by the financial institution through which their Dematerialised Covered Bonds are held with the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland and Monte Titoli, Italy, InterBolsa, Portugal or such other participant, in which case an affidavit drawn up by that financial institution will also be required).

[8] The official list of participants as amended, supplemented and/or replaced from time to time can be consulted on the website of the NBB on http://www.nbb.be.

References to the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Domiciliary Agent.

The Dematerialised Covered Bonds and the Registered Covered Bonds may not be exchanged for Covered Bonds in bearer form. Registered Covered Bonds may not be exchanged for Dematerialised Covered Bonds.

2.3. Title and transfer

(a) Title

Title to and transfer of Registered Covered Bonds shall pass by registration of the transfer by the Issuer or by the Registrar in a register in accordance with Article 462 *et seq* of the Belgian Companies Code.

Title to and transfer of Dematerialised Covered Bonds will be evidenced only by records maintained by the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs, or other Securities Settlement System participants and in accordance with the applicable rules and procedures for the time being of the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs, or other Securities Settlement System participants, as the case may be.

Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Covered Bond shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, or its theft or loss and no person shall be liable for so treating the holder.

(b) Transfer

(i) Transfer documents and certificates

Upon a sale or transfer of Registered Covered Bonds, the seller thereof will be required to complete the relevant transfer documents and certificates which can be found on the website at www.kbc.com or obtained from the Registrar.

(ii) Transfer free of charge

Transfer of Covered Bonds on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer and/or the Registrar, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar may require).

(iii) Closed Period

No Covered Bondholder may require the transfer of a Registered Covered Bond to be registered, (A) during the period of 15 calendar days ending on the due date for redemption of that Registered Covered Bond, (B) after any such Registered Covered Bond has been called for redemption, or (C) during the period of 15 calendar days ending on (and including) the due date for payment of principal and/or interest in respect of Registered Covered Bonds.

2.4. Denomination

The Covered Bonds will be issued in such denomination as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms (the **Specified Denomination**) with a minimum specified denomination of Euro 100,000.

All Covered Bonds of the same Series will have the same Specified Denomination shown in the applicable Final Terms in relation to each Tranche comprising such Series.

2.5. Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds

The applicable Final Terms will indicate whether the Covered Bonds are Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds, or a combination of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

2.6. Issuer undertaking

For so long as the Covered Bonds are outstanding, the Issuer will ensure that:

(a) it will comply with the obligations applicable to it under the Belgian Covered Bonds Legislation;

(b) the value of the Residential Mortgage Loans registered as Cover Assets in the Register of Cover Assets calculated in accordance with the Belgian Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105% of the Series Principal Amount Outstanding of the Covered Bonds of all Series; and

(c) the Special Estate will at all times include liquid bonds meeting the criteria set out in Article 7 of the NBB Covered Bonds Regulation and which, (i) are eligible as collateral for Eurosystem monetary policy purposes and intra-day credit operations by the Eurosystem, (ii) have a credit quality step 1 as defined in the CRR, (iii) are subject to a daily mark-to-market and have a market value which, after applying the ECB haircut in accordance with the Guidelines of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy (as may be amended, supplemented, replaced and/or restated from time to time), is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months, (iv) have a remaining maturity of more than three months, and (v) are not debt issued by the Issuer or residential mortgage backed securities (RMBS) of which the underlying assets have been originated by the Issuer or by a group related entity.

3. STATUS OF THE COVERED BONDS

The Covered Bonds under the Programme are issued as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) in accordance with the Belgian Covered Bonds Legislation and will constitute direct, unconditional and unsubordinated obligations of the Issuer. The Covered Bonds rank *pari passu* and rateably without any preference or priority among themselves, irrespective of their Series, and at least *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general application. In addition, the Covered Bonds will be covered in accordance with the Belgian Covered Bonds Legislation by the Special Estate and the Covered Bondholders and the Other Cover Pool Creditors will have an exclusive right of recourse to the Special Estate.

4. INTEREST

4.1. Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest determined in accordance with this Condition 4.1. Interest will accrue in respect of each Interest Period and will be payable in arrear on the Interest Payment Date(s).

Interest shall be calculated in respect of any period by applying the Rate of Interest to, in the case of Dematerialised Covered Bonds, the relevant Series Principal Amount Outstanding or, in the case of a Registered Covered Bond, the Principal Amount Outstanding of such Registered Covered Bond and, in either case, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest Sub-unit, half of any such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

4.2. Interest on Floating Rate Covered Bonds

(a) Interest Period End Dates and Interest Payment Date

Each Floating Rate Covered Bond bears interest at the rate per annum (expressed as a percentage) equal to the Rate of Interest (determined in accordance with Condition 4.2(b) (*Rate of Interest*)), from (and including) the Interest Commencement Date. Interest will accrue in respect of each Interest Period and will be payable in arrear on the Interest Payment Date(s). The amount of interest payable shall be calculated in accordance with Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*). In the case of Fixed/Floating Rate Covered Bonds the applicable Final Terms shall specify during which Interest Periods interest will be applied in accordance with the provisions of Fixed Rate Covered Bonds and during which Interest Periods Interest shall be applied in accordance with the provisions on Floating Rate Covered Bonds. The Final Terms shall not provide an option for the Issuer to convert Fixed Rate Covered Bonds into Floating Rate Covered Bonds or vice versa.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be equal to the rate of interest determined in the following manner, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Covered Bonds

Where **ISDA Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph 4.2(b)(i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issuer or other person specified in the applicable Final Terms under an interest rate swap transaction if the Issuer or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**), and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is the period specified in the applicable Final Terms; and

(C) the relevant Reset Date is either, (I) if the applicable Floating Rate Option is based on the Euro-zone inter-bank offered rate (**EURIBOR**), the first day of that Interest Period, or (II) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph 4.2(b)(i), (1) **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions, and (2) **Euro-zone** means the region comprising the member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended, supplemented and/or replaced from time to time.

When this Condition 4.2(b)(i) (*ISDA Determination for Floating Rate Covered Bonds)* applies, in respect of each relevant Interest Period the Calculation Agent will be deemed to have discharged its obligations under Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this subparagraph 4.2(b)(i).

(ii) Screen Rate Determination

(A) Where **Screen Rate Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(I) the offered quotation (if there is only one quotation appearing on the relevant Screen Page); or

(II) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent.

(B) If the Reference Rate is EURIBOR, and

(I) the Relevant Screen Page is not available or if, in the case of (I) above, no such offered quotation appears or, in the case of (II) above, fewer than three such offered quotations appear, in each case as at the Specified Time on the Interest Determination Date in question, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question;

(II) on any Interest Determination Date,

(1) two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent; or

(2) fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest for the relevant Interest Period shall be the offered rate for deposits in euro for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in euro for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Calculation Agent suitable for such purpose) inform(s) the Calculation Agent it is quoting to leading banks in the Euro-zone inter bank market, as the case may be, plus or minus (as appropriate) the Margin (if any);

(III) five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations; and

(IV) the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

Where the Rate of Interest for any Interest Period is negative (whether by operation of a negative Margin or otherwise), then such Rate of Interest shall be deemed to be zero.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. The Calculation Agent will notify the Domiciliary Agent and the Issuer, as applicable, of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Calculation Agent will calculate the amount of interest (the **Interest Amount**) payable on the Covered Bonds for the relevant Interest Period by applying the Rate of Interest to, in the case of Dematerialised Covered Bonds, the relevant Series Principal Amount Outstanding or, in the case of a Registered Covered Bond, the Principal Amount Outstanding of such Registered Covered Bond and,

in either case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-unit, half of any such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

(e) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will promptly notify the Domiciliary Agent and the Issuer, as applicable, of each Interest Amount and the Domiciliary Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the other Agents and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and notice thereof to be published in accordance with Condition 19 (*Notices*) as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and to the Covered Bondholders in accordance with Condition 19 (*Notices*).

(f) Calculation Agent

If for any reason at any relevant time after the Issue Date, the Calculation Agent defaults in its obligation to determine the Rate of Interest and any Interest Amount in accordance with Conditions 4.2(b)(i) (*ISDA Determination for Floating Rate Covered Bonds*) or 4.2(b)(ii) above (Screen Rate Determination), and in each case in accordance with Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*), the Issuer or upon the opening of Winding-up Proceedings against the Issuer, the Cover Pool Administrator, if the Calculation Agent is not the Issuer or the Representative, if the Calculation Agent is the Issuer may determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it may think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Issuer, the Cover Pool Administrator or the Representative, as applicable, may calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances but taking into account the provisions of the applicable Final Terms. In making any such determination or calculation, the Issuer, the Cover Pool Administrator or the Representative, as applicable, may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). If such determination or calculation is made, the Issuer, the Cover Pool Administrator or the Representative, as applicable, shall as soon as reasonably practicable notify the Issuer, the Domiciliary Agent, the other Agents, the Issuer or the Representative, as applicable, and such stock exchange of such determination or calculation and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

(g) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (*Interest on Floating Rate Covered Bonds*), whether by the Issuer or the Representative shall (in the absence of wilful default, gross negligence, fraud or manifest error) be binding on the Issuer, the Domiciliary Agent, the other Agents and all Covered Bondholders and (in the absence as aforesaid) no liability to the Issuer or the Covered Bondholders, as applicable, shall attach to the Issuer or the Representative, as applicable, in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(h) Benchmark replacement

Without prejudice to the other provisions in this Condition 4, if the Issuer determines that a Benchmark Event occurs in relation to the relevant Reference Rate specified in the applicable Final Terms when any Rate of Interest (or the relevant component part thereof) remains to be determined by reference to such Reference Rat, then the following provisions shall apply to the relevant Covered Bonds:

(i) the Issuer shall use reasonable endeavours, as soon as reasonably practicable, to appoint and consult with an Independent Adviser with a view to the Issuer determining (without any requirement for the consent or approval of the Covered Bondholders) (A) a Successor Rate or, failing which, an Alternative Reference Rate, for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Covered Bonds and (B) in either case, an Adjustment Spread;

(ii) if the Issuer is unable to appoint an Independent Adviser prior to the IA Determination Cut-Off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may still determine (A) a Successor Rate or, failing which, an Alternative Reference Rate and (B) in either case, an Adjustment Spread in accordance with this Condition 4.2(h);

(iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with paragraphs (i) or (ii) above, such Successor Rate or, failing which, Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods or Reset Periods (as applicable) (subject to the subsequent operation of, and to adjustment as provided in, this Condition 4.2(h));

(iv) if the Issuer, following consultation with the Independent Adviser (if any) and acting in good faith, determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Issuer is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread;

(v) if the Issuer, following consultation with the Independent Adviser (if any) and acting in good faith, determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Issuer may (without any requirement for the consent or approval of the Covered Bondholders) also specify changes to these Conditions and/or the Agency Agreement in order to ensure the proper operation of such Successor Rate or Alternative Reference Rate or any Adjustment Spread (as applicable), including, but not limited to, (A) the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date, Reset Determination Date and/or the definition of Reference Rate applicable to the Covered Bonds and (B) the method for determining the fall-back rate in relation to the Covered Bonds. For the avoidance of doubt, the Agent and any other agents party to the Agency Agreement shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to the application of this Condition 4.2(h). No consent shall be required from the Covered Bondholders in connection with determining or giving effect to the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps to be taken by the Agent and any other agents party to the Agency Agreement (if required or useful); and

(vi) the Issuer shall promptly, following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable), give notice thereof to the Agent, the Calculation Agent and, in accordance with Condition 19 (*Notices*), the Covered Bondholders. Such notice shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread (if any) and any consequential changes made to the Agency Agreement and these Conditions (if any),

provided that the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) and any other related changes to the Covered Bonds, shall be made in accordance with the relevant Applicable Banking Regulations (if applicable).

An Independent Adviser appointed pursuant to this Condition 4.2(h) shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Agent, the Calculation Agent or the Covered Bondholders for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 4.2(h).

Without prejudice to the obligations of the Issuer under this Condition 4.2(h), the Reference Rate and the other provisions in this Condition 4 will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread (if any) and any consequential changes made to the Agency Agreement and the Conditions (if any).

For the purposes of this Condition 4.2(h):

Adjustment Spread means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Issuer, following consultation with the Independent Adviser (if any) and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to the Covered Bondholders as a result of the replacement of the Reference Rate or Mid-Swap Rate (as applicable) with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(b) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Issuer, following consultation with the Independent Adviser (if any) and acting in good faith, determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(c) if no such customary market usage is recognised or acknowledged, the Issuer, following consultation with the Independent Adviser (if any) and acting in good faith, determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(d) if no such industry standard is recognised or acknowledged, the Issuer, in its discretion, following consultation with the Independent Adviser (if any) and acting in good faith, determines to be appropriate.

Alternative Reference Rate means the rate that the Issuer determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes

of determining rates of interest (or the relevant component part thereof) in respect of bonds denominated in the Specified Currency of the Covered Bonds and of a comparable duration to the relevant Interest Period or Reset Period (as applicable), or, if the Issuer determines that there is no such rate, such other rate as the Issuer determines in its discretion is most comparable to the relevant Reference Rate.

Benchmark Event means:

(a) the relevant Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(b) a public statement by the administrator of the relevant Reference Rate stating that it will, by a specified date within the following six months, cease to publish the relevant Reference Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the relevant Reference Rate); or

(c) a public statement by the supervisor of the administrator of the relevant Reference Rate stating that the relevant Reference Rate has been or will be, by a specified date within the following six months, permanently or indefinitely discontinued; or

(d) a public statement by the supervisor or the administrator of the relevant Reference Rate that means that the relevant Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months; or

(e) it has become unlawful for the Agent, the Calculation Agent or any other agents party to the Agency Agreement to calculate any payments due to be made to any Covered Bondholders using the relevant Reference Rate.

IA Determination Cut-Off Date means no later than five Business Days prior to the relevant Interest Determination Date or Reset Determination Date (as applicable) relating to the next succeeding Interest Period or Reset Period (as applicable).

Independent Adviser means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case selected and appointed by the Issuer at its own expense.

Relevant Nominating Body means, in respect of a Reference Rate:

(a) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the Reference Rate relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof.

Successor Rate means the rate that the Issuer determines is a successor to, or replacement of, the Reference Rate which is formally recommended by any Relevant Nominating Body.

4.3. Accrual of Interest

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless

payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of: (a) the date on which all amounts due in respect of such Covered Bond have been paid; and (b) five days after the date on which the full amount of the moneys payable has been received by the Domiciliary Agent and notice to that effect has been given to the Covered Bondholders in accordance with Condition 19 (*Notices*).

4.4. Interest on Zero Coupon Covered Bonds

Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will, subject to Condition 4.5 (*Interest Payments up to the Extended Final Maturity Date*), not bear periodic interest. When a Zero Coupon Covered Bond becomes repayable prior to its Final Maturity Date, it will be redeemed at the Early Redemption Amount calculated in accordance with Condition 6.3 (*Early Redemption Amounts*). In the case of late payment the amount due and repayable shall be calculated in accordance with Condition 6.8 (*Late Payment for Zero Coupon Covered Bonds*).

4.5. Interest Payments up to the Extended Final Maturity Date

If the maturity of the Covered Bonds is extended beyond the Final Maturity Date in accordance with Condition 6.1(c) (*Final redemption*):

(a) the Covered Bonds then outstanding shall bear interest from (and including) the Final Maturity Date to (but excluding) the Extended Final Maturity Date or, if earlier, the relevant Interest Payment Date after the Final Maturity Date on which the Covered Bonds are redeemed, subject to Condition 4.3 (*Accrual of Interest*). In that event, interest shall be payable on the Covered Bonds at the rate determined in accordance with Condition 4.5(b) below on each Covered Bond then outstanding on each Interest Payment Date after the Final Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Final Maturity Date;

(b) the rate of interest payable from time to time under Condition 4.5(a) above will be as specified in the applicable Final Terms and, where applicable, determined by the Calculation Agent 14 Business Days after the Final Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and

(c) in the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 4.5, the principal amount outstanding of each Covered Bond shall be the total amount otherwise payable by the Issuer on the Final Maturity Date in respect of such Covered Bond less any payments made by the Issuer in respect of such amount in accordance with the Conditions.

4.6. Business Day Conventions

If a **Business Day Convention** is specified in the applicable Final Terms in relation to any date (including, for the avoidance of doubt, any Final Maturity Date or Extended Final Maturity Date) and, (a) if there is no numerically corresponding day in the calendar month in which such date should occur, or (b) if such date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(a) in the case of Floating Rate Covered Bonds, the **Floating Rate Convention**, the relevant Interest Period End Date, (A) in the case of (a) above, shall be the last day that is a Business Day in the relevant month and the provisions of, (II) below shall apply *mutatis mutandis*, or (B) in the case of (b) above, shall be postponed to the next day which is a Business Day, unless it would thereby fall into the next calendar month, in which event (I) such Interest

Period End Date shall be brought forward to the immediately preceding Business Day and (II) each subsequent Interest Period End Date shall be the last Business Day in the month;

(b) the **Following Business Day Convention**, such date shall be postponed to the next day which is a Business Day;

(c) the **Preceding Business Day Convention**, such date shall be brought forward to the immediately preceding Business Day.

5. PAYMENTS

5.1. Method of payment

(a) Payments in relation to Dematerialised Covered Bonds

Subject as provided below, all payments of principal or interest owing under the Dematerialised Covered Bonds shall be made through the Domiciliary Agent and the Securities Settlement System in accordance with the Settlement System Regulations and the Clearing Services Agreement.

(b) Payments in relation to Registered Covered Bonds

Payments of principal and interest in respect of Registered Covered Bonds shall be paid to the person shown on the register of the Registered Covered Bonds at the close of business on the fifteenth calendar day before the due date for payment thereof (the **Record Date**).

5.2. Payments subject to fiscal laws

Payments will be subject in all cases to, (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) as applicable, and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

No commissions or expenses shall be charged to the Covered Bondholders in respect of such payments.

5.3. Payment Day

If the date for payment of any amount in respect of any Covered Bond is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other payment in respect of any delay. For these purposes, **Payment Day** means any day which (subject to Condition 10 (*Prescription*)) is:

(a) a day on which the TARGET2 System is open; and

(b) a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Business Centre specified in the applicable Final Terms.

5.4. Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefore, pursuant to the Agency Agreement;

(b) the Final Redemption Amount;

(c) the Early Redemption Amount; and

(d) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.3(c)).

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefore, pursuant to the Agency Agreement.

6. REDEMPTION AND PURCHASE

6.1. Final redemption

(a) Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at the Final Redemption Amount specified in the applicable Final Terms in the Specified Currency on the Final Maturity Date.

(b) An Extended Final Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds.

(c) Only if the Issuer has failed to pay the Final Redemption Amount in full within 14 Business Days after the Final Maturity Date, then (subject as provided below) payment of the unpaid amount by the Issuer shall be deferred until the Extended Final Maturity Date and in such case the Final Redemption Amount will not be considered to have been due and payable on the Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the Extended Final Maturity Date.

(d) If, following the extension of the Final Maturity Date in accordance with Condition 6.1(c), the Issuer has, in the same month, the obligation to pay principal on two or more Series of Covered Bonds, it will make payments in respect of the Series of Covered Bonds where the Final Maturity Date has been extended prior to paying Series of Covered Bonds where the Final Maturity Date has not been extended. If the Issuer fails to pay the Final Redemption Amount in respect of such Covered Bonds with a later Final Maturity Date, payments of unpaid amounts shall be deferred in accordance with Condition 6.1(c).

(e) An extension of one Series shall not automatically result in an extension of any other Series.

(f) Any payments which shall be subject to an extension in accordance with this Condition 6.1 shall not be considered as unconditional for the purpose of Article 7, §1 of the Covered Bonds Royal Decree.

(g) The Issuer shall confirm to the Cover Pool Monitor, the Rating Agencies, any relevant Hedging Counterparty, the Representative, the Domiciliary Agent and the Paying Agent and any relevant stock exchange as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of any inability of the Issuer to pay in full the Final Redemption Amount

in respect of a Series of Covered Bonds within 14 Business Days after the Final Maturity Date. The Issuer shall give notice of the extension of the Final Maturity Date to the Extended Final Maturity Date to the Covered Bondholders of such Series as soon as reasonably practicable. Any failure by the Issuer to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

(h) Failure to pay in full by the Issuer on the Final Maturity Date shall not constitute an Event of Default. However, failure by the Issuer to pay the Final Redemption Amount on the Extended Final Maturity Date will constitute an Event of Default.

(i) If the maturity of any Covered Bonds is extended up to the Extended Final Maturity Date in accordance with this Condition 6.1, for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further Covered Bonds, unless the proceeds of issuance of such further Covered Bonds are applied by the Issuer on issuance in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

(j) This Condition 6.1 shall only apply if the Issuer has insufficient funds available to redeem Covered Bonds in full on the relevant Final Maturity Date (or within 14 Business Days thereafter).

6.2. Redemption for taxation reasons

If, on the occasion of the next payment due under the Covered Bonds, and as a result of any change in, or amendment to, the laws or regulations of Belgium or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds, the Issuer:

(a) has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*), or can no longer deduct payments in respect of the Covered Bonds for Belgian income tax purposes; and

(b) cannot avoid such obligation by taking reasonable measures available to it,

the Issuer may at its option redeem all, but not some only, of the Covered Bonds at any time (if the relevant Covered Bond is not a Floating Rate Covered Bonds) or on any Interest Payment Date (if the relevant Covered Bond is a Floating Rate Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Domiciliary Agent and the Representative and, in accordance with Condition 19 (Notices), the Covered Bondholders (which notice shall be irrevocable), provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Domiciliary Agent and the Representative a certificate signed by two directors of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Covered Bonds redeemed pursuant to this Condition 6.2 (*Redemption for taxation reasons*) will be redeemed at their Early Redemption Amount referred to in Condition 6.3 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.3. Early Redemption Amounts

For the purpose of Condition 5.4 (Interpretation of principal and interest), Condition 6.2 (*Redemption for taxation reasons*), Condition 6.4 (*Illegality*) and Condition 8 (Events of Default and

Enforcement), the Early Redemption Amount in respect of any Covered Bonds shall be calculated as follows:

(a) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Covered Bond (other than a Zero Coupon Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in the applicable Final Terms or, if no such amount is so specified in the applicable Final Terms, at its Principal Amount Outstanding; and

(c) in the case of a Zero Coupon Covered Bond, at an amount (the Amortised Face Amount) calculated in accordance with the following formula:

Early Redemption Amount = RP x (1+AY)y

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360.

6.4. Illegality

In the event that the Issuer determines that the performance of the Issuer's obligations under the Covered Bonds has or will become unlawful, illegal or otherwise prohibited in whole or in part as a result of compliance with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power, or in the interpretation thereof, the Issuer having given not less than ten nor more than 30 days' notice to Covered Bondholders and the Representative in accordance with Condition 16 (which notice shall be irrevocable), may, on expiry of such notice redeem all, but not some only, of the Covered Bonds of the relevant Series, each Covered Bond being redeemed at the Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Domiciliary Agent and the Representative a certificate signed by two directors of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

6.5. Purchases

The Issuer or any subsidiary, affiliate or holding company of the Issuer may at any time purchase or otherwise acquire Covered Bonds at any price in the open market either by tender or private agreement or otherwise.

Such Covered Bonds acquired by the Issuer may be held, reissued, resold or, at the option of the Issuer, transferred to the Domiciliary Agent for cancellation.

Unless otherwise indicated in the applicable Final Terms, Covered Bonds so acquired by the Issuer may be held in accordance with Article 12, §1 of Annex III to the Banking Law or cancelled in accordance with this Condition 6.5.

6.6. Subscription to own Covered Bonds

The Issuer may subscribe to its own Covered Bonds in accordance with Article 12, §1 of Annex III to the Banking Law.

Covered Bonds so subscribed by the Issuer may be held in accordance with Article 12, §1 of Annex III to the Banking Law or cancelled in accordance with Condition 6.5.

6.7. Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled.

6.8. Late Payment for Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Covered Bond pursuant to Conditions 6.1, 6.2 or 6.4 or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 6.3 above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Domiciliary Agent and notice to that effect has been given to the Covered Bondholders in accordance with Condition 19 (*Notices*).

7. TAXATION

All payments of principal and interest in respect of the Covered Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (Taxes) imposed, levied, collected, withheld or assessed by or on behalf of Belgium or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Covered Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Covered Bond:

(a) with respect to any payment in respect of any Dematerialised Covered Bond:

(i) held by a holder of a Dematerialised Covered Bond which is liable to Taxes in respect of such Dematerialised Covered Bond by reason of its having some connection with the jurisdiction by which such Taxes have been imposed, levied, collected, withheld or assessed other than the mere holding of the Dematerialised Covered Bond; or

(ii) where such withholding or deduction is imposed on a payment and is required to be made pursuant to FATCA; or

(iii) held by a holder of a Dematerialised Covered Bond who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another paying agent of the Issuer in a member state of the European Union; or

(iv) where such withholding or deduction is imposed because the holder of the Dematerialised Covered Bonds is not an Eligible Investor (unless that person was an Eligible Investor at the time of its acquisition of the relevant Bond but has since ceased (as such term is defined from time to time under Belgian law) being an Eligible Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof or by reason of another change which was outside that person's control), or is an Eligible Investor but is not holding the relevant Dematerialised Covered Bond in an exempt securities account with a qualifying clearing system in accordance with the Belgian law of 6 August 1993 relating to transactions in certain securities and its implementation decrees; or

(v) to a holder who is liable to such Taxes because the Dematerialised Covered Bonds were converted into registered Covered Bonds upon his/her request and could no longer be cleared through the Securities Settlement System; or

(vi) to a holder who is entitled to avoid such deduction or withholding by making a declaration of non-residence or other similar claim for exemption.

(b) with respect to any payment in respect of any Registered Covered Bond:

(i) held by a holder of a Registered Covered Bond which is liable to Taxes in respect of such Covered Bond by reason of its having some connection with the jurisdiction by which such Taxes have been imposed, levied, collected, withheld or assessed other than the mere holding of the Registered Covered Bond; or

(ii) where such withholding or deduction is imposed on a payment and is required to be made pursuant to FATCA; or

(iii) held by a holder of a Registered Covered Bond who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another paying agent of the Issuer in a member state of the European Union; or

(iv) where such withholding or deduction is imposed because the holder of the Registered Covered Bonds is not a holder who is an Exempt Investor (as defined below) (unless that person was an Exempt Investor at the time of its acquisition of the relevant Bond but has since ceased (as such term is defined from time to time under Belgian law) being an Exempt Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof or by reason of another change which was outside that person's control); or

(v) to a holder who is entitled to avoid such deduction or withholding by making a declaration of non-residence or other similar claim for exemption; or

(vi) presented for payment more than 30 calendar days after the Relevant Date (as defined below) except to the extent that the holder of the Registered Covered Bond would have been entitled to an additional amount on presenting the same for payment on the expiry of such period of 30 calendar days; or

(vii) which is issued as a Zero Coupon Covered Bond or any other Registered Covered Bond which provides for the capitalisation of interest.

As used in this Condition:

Exempt Investor means a holder of a Registered Covered Bond that, as of the relevant interest payment date, (A) is not resident for tax purposes in Belgium and does not use the income producing assets to exercise a business or professional activity in Belgium, (B) has been the legal owner (eigenaar/propriétaire) or usufructuary (vruchtgebruiker/usufruitier) of the Registered Covered Bond during the entire relevant interest period, (C) has been registered with the Issuer as the holder of the Registered Covered Bond during the entire relevant interest period, (D) has provided the Issuer with an affidavit in which it is certified that the conditions mentioned in points (A) and (B) are complied with, with respect to such interest payment on or before the date such affidavit is required to be delivered to the Issuer and (E) complies with any further requirement imposed by any successor provision to the current relevant Belgian tax provisions.

Relevant Date in respect of any payment means the date on which such payment first becomes due.

8. EVENTS OF DEFAULT AND ENFORCEMENT

8.1. Events of Default

If any of the following events occurs and is continuing (each an Event of Default):

(a) on the Extended Final Maturity Date in respect of any Series there is a failure to pay any amount of principal due on the Covered Bonds on such date and such default is not remedied within a period of 14 Business Days from the due date thereof; or

(b) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of 14 Business Days from the due date thereof,

then the Representative may or shall, if it has been so directed by a request in writing by the holders of not less than 25% of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding but excluding the Covered Bonds held by the Issuer for the calculation of the percentage (with the Covered Bonds of all Series taken together as a single Series) or if so directed by a Programme Resolution (subject to being indemnified and/or secured and/or prefunded to its satisfaction), serve a notice (a Notice of Default) on the Issuer (copied to the Cover Pool Monitor, the Supervisor, the Rating Agencies and, if appointed, the Cover Pool Administrator). Following the service of a Notice of Default, (i) no further Covered Bonds will be issued, and (ii) the Covered Bonds of each Series shall become immediately due and repayable on the date specified in the Notice of Default at the Early Redemption Amount, together with accrued interest thereon to the date of repayment.

8.2. Enforcement

The Representative may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or any other person as it may think fit to enforce the provisions of the Covered Bonds or any Programme Document.

No Covered Bondholder shall be entitled to proceed directly against the Issuer or to take any action with respect to the Programme Documents, the Covered Bonds, or the Cover Assets unless the Representative, having become bound so to proceed pursuant to a Resolution or a direction of the Covered Bondholders in accordance with the Conditions, as applicable, fails so to do within a reasonable period, 14 Business Days being considered reasonable in this respect, and such failure shall be continuing.

8.3. Covered Bondholders' Waiver

For the avoidance of doubt, the Covered Bondholders waive, to the fullest extent permitted by law, (a) all their rights whatsoever pursuant to Article 1184 of the Belgian Civil Code to rescind (*ontbinden/résoudre*), or demand in legal proceedings the rescission (*ontbinding/résolution*) of, the Covered Bonds, and (b) all their rights whatsoever in respect of Covered Bonds pursuant to Article 487 of the Belgian Companies Code (right to rescind (*ontbinding/résolution*)).

9. PRIORITIES OF PAYMENTS

9.1. Post Event of Default Priority of Payments

Following delivery of a Notice of Default all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account (if any)) shall be applied on any Business Day in accordance with the following order of priority of payments (the **Post Event of Default Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full) provided that any such amount that is due to be paid hereunder has not been paid by the Issuer using funds not forming part of the Special Estate:

(a) first, *pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts then due and payable to the Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Representative Appointment Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein, (ii) to pay all amounts then due and payable to the Cover Pool Monitor together with interest and applicable VAT (or other similar taxes) thereon, and (iii) upon its appointment in accordance with the Belgian Covered Bonds Legislation, to pay all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment and any costs and expenses incurred by or on behalf of the Special Estate;

(b) second, *pari passu* and pro rata according to the respective amounts thereof, to pay any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;

(c) third, *pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts of interest and principal then due and payable on any Covered Bonds, (ii) any amounts due and payable under any Hedging Agreement that constitutes a Cover Asset other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (iii) to pay all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;

(d) fourth, *pari passu* and pro rata, according to the respective amounts thereof, to pay any amount due and payable to any Hedging Counterparties under any Hedging Agreement that constitutes a Cover Asset arising out of any Subordinated Termination Payment; and

(e) fifth, once all Covered Bonds have been redeemed and following the payment in full of all items under (a) to (d) above, to pay any excess to the General Estate of the Issuer.

9.2. Early Redemption Priority of Payments

Following a decision by the Cover Pool Administrator to early redeem the Covered Bonds of all Series pursuant to Article 11, 6° or 7° of Annex III to the Banking Law and as long as no Notice of Default has been delivered all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or

otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account (if any)) shall be applied on any Business Day in accordance with the following order of priority of payments (the **Early Redemption Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full) provided that any such amount that is due to be paid hereunder has not been paid by the Issuer using funds not forming part of the Special Estate:

(a) first, *pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts then due and payable to the Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Representative Appointment Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein, (ii) to pay all amounts then due and payable to the Cover Pool Monitor together with interest and applicable VAT (or other similar taxes) thereon, (iii) upon its appointment in accordance with the Belgian Covered Bonds Legislation, to pay all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment and any costs and expenses incurred by or on behalf of the Special Estate, and (iv) to pay any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;

(b) second, *pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts of interest and principal then due and payable on any Covered Bonds, (ii) any amounts due and payable under any Hedging Agreement that constitutes a Cover Asset other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (iii) to pay all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;

(c) third, *pari passu* and pro rata, according to the respective amounts thereof, to pay any amount due and payable to any Hedging Counterparties under any Hedging Agreement that constitutes a Cover Asset arising out of any Subordinated Termination Payment; and

(d) fourth, once all Covered Bonds have been redeemed and following the payment in full of all items under (a) to (c) above, to pay any excess to the General Estate of the Issuer.

10. PRESCRIPTION

Claims against the Issuer for payment of principal and interest in respect of the Covered Bonds will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after their due date, unless application to a court of law for such payment has been initiated on or before such respective time. The due date for Covered Bonds of which the Final Maturity Date has been extended shall be the Extended Final Maturity Date.

11. AGENTS

(a) In acting under the Agency Agreement and in connection with the Covered Bonds, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Covered Bondholders.

(b) The initial Agents, the Registrar and their initial specified offices are set forth in the Base Prospectus. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent, Registrar or Calculation Agent and to appoint a successor Agent, Registrar or Calculation Agent and additional or successor paying agents provided, however, that:

(i) the Issuer shall at all times maintain a Domiciliary Agent and the Domiciliary Agent will at all times be a participant in the Securities Settlement System;

(ii) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Domiciliary Agent) with a specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority;

(iii) so long as there are Registered Covered Bonds, the Issuer shall maintain a Registrar for the relevant Series of Registered Covered Bonds (which may be itself);

(iv) in the case of Floating Rate Covered Bonds, the Issuer shall at all times maintain a Calculation Agent for the relevant Series of Covered Bonds (which may be itself); and

(v) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income, as amended from time to time, or any law implementing or complying with, or introduced in order to conform to, this Directive.

Notice of any change in any of the Agents, the Registrar or the Calculation Agent or in their specified offices shall promptly be given to the Covered Bondholders in accordance with Condition 19 (*Notices*).

12. COVERED BOND PROVISIONS

12.1. Criteria for the transfer of assets by the General Estate to the Special Estate

If the Issuer holds amounts as provided for in Article 3, § 2, 1, 4° of Annex III to the Banking Law, for the account of a Special Estate, and these amounts cannot be identified in the General Estate when the delivery of these assets is requested on behalf of the Special Estate, the ownership right in relation to these amounts that are part of the Special Estate will be transferred for a corresponding value to other unencumbered assets in the General Estate of the Issuer pursuant to Article 3, §2, second indent of Annex III to the Banking Law. These assets will be identified in accordance with the following criteria to be applied in the following order of priority:

(a) bonds that are ECB eligible (**ECB Eligible Bonds**);

(b) failing which, bonds other than ECB Eligible Bonds mentioned under (a) above;

(c) failing any of the above, such assets as the representative of the Special Estate (the Cover Pool Administrator, failing which the Cover Pool Monitor) may select in its own discretion.

12.2. Use of swap collateral

Any collateral provided to the Issuer in the context of a Hedging Agreement that constitutes a Cover Asset, may only be used in order to satisfy the obligations that relate to the Special Estate and in accordance with the provisions of the relevant Hedging Agreement.

12.3. Priority Rules regarding security interest securing both Cover Assets and assets in the General Estate

If a security interest (including any mortgage and mortgage mandate) secures both Cover Assets and assets in the General Estate, all sums received out of the enforcement of the security interest will be applied in priority to satisfy the obligations in relation to the relevant Cover Assets. Any proceeds of enforcement of such security interest can only be applied in satisfaction of the obligations of the relevant assets in the General Estate once all sums owed to the Special Estate in respect of the relevant Cover Assets are irrevocably repaid in full.

13. MEETING RULES OF COVERED BONDHOLDERS

The Meeting Rules of Covered Bondholders (the **Meeting Rules of Covered Bondholders**) are attached to, and form an integral part of, these Conditions. References in these Conditions to the Meeting Rules of Covered Bondholders include such rules as from time to time modified in accordance with the provisions contained therein and any agreement or other document expressed to be supplemental thereto.

Articles 568 to 580 of the Belgian Companies Code relating to the bondholders' meetings shall not apply to any Covered Bonds.

14. THE REPRESENTATIVE

The Representative has been appointed by the Issuer as representative of the Covered Bondholders in accordance with Article 14, §2 of Annex III to the Banking Law upon the terms and conditions set out in the Representative Appointment Agreement and herein.

As long as the Covered Bonds are outstanding, there shall at all times be a representative of the Covered Bondholders in accordance with Article 14, §2 of Annex III to the Banking Law, which has the power to exercise the rights conferred on it by these Conditions, the Meeting Rules of Covered Bondholders, the Representative Appointment Agreement and the Covered Bond Legislation in order to protect the interests of the Covered Bondholders.

By reason of holding Covered Bonds, each Covered Bondholder:

(a) recognises the Representative as its representative and (to the fullest extent permitted by law) agrees to be bound by any agreement entered into from time to time by the Representative in such capacity as if such Covered Bondholder were a signatory thereto; and

(b) acknowledges and accepts that the Issuer shall not be liable, except in case of fraud, in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Covered Bondholders as a result of the performance by the Representative of its duties or the exercise of any of its rights under these Conditions (including the Meeting Rules of Covered Bondholders).

The Representative may also be appointed to represent Other Cover Pool Creditors provided that such Other Cover Pool Creditors agree with such representation.

15. CONFLICTS OF INTEREST

In exercising any of its powers, and the authorities and discretions vested in it, the Representative shall have regard to the overall interests of the Covered Bondholders of all Series taken together and of the Other Cover Pool Creditors that have agreed to be represented by the Representative. The Representative shall not be obliged to have regard to any interests arising from circumstances particular to individual Covered Bondholders or such Other Cover Pool Creditors.

The Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Covered Bondholders and the Other Cover Pool Creditors that have agreed to be represented by the Representative but if, in the opinion of the Representative, there is a conflict between the interests the Covered Bondholders and those Other Cover Pool Creditors, the Representative will have regard solely to the interest of the Covered Bondholders.

16. MEETINGS OF COVERED BONDHOLDERS

16.1. Meetings of Covered Bondholders

The Meeting Rules of Covered Bondholders contain provisions for convening meetings of the Covered Bondholders of each Series to consider matters relating to the Covered Bonds, including the modification or waiver of any provision of the Conditions. For the avoidance of doubt any such modification or waiver shall be subject to the consent of the Issuer or, upon the opening of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, except as provided otherwise in the Meeting Rules of the Covered Bondholders.

All meetings of Covered Bondholders will be held in accordance with the Meeting Rules of Covered Bondholders. Articles 568 to 580 of the Belgian Companies Code shall not apply to any issuance of Covered Bonds.

16.2. Written Resolution

Except in relation to a Programme Resolution to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 11, 7° of Annex III to the Banking Law, a resolution in writing signed by or on behalf of holders of 50% of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding shall take effect as a Programme Resolution. A resolution in writing signed by or on behalf of holders of two thirds of the Series Principal Amount Outstanding of the relevant Series of Covered Bonds outstanding shall take effect as an Extraordinary Resolution. A written resolution signed by the holders of 50% of the Series Principal Amount Outstanding of the relevant Series of the Covered Bonds outstanding shall take effect as if it were an Ordinary Resolution. Such resolutions in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Covered Bondholders.

17. AMENDMENTS TO THE CONDITIONS AND WAIVERS

Amendments to and waivers of the Conditions shall be made in accordance with the Meeting Rules of Covered Bondholders.

18. FURTHER ISSUES

The Issuer may from time to time, subject to Condition 6.1(i), without the consent of the Covered Bondholders, create and issue further Covered Bonds having the same terms and conditions as the Covered Bonds in all respects (or in all respects except for the first payment of interest thereon, issue date and/or issue price) so as to form a single series with the Covered Bonds and provided that, (a) the Rating Agencies have been notified of such issuance, and (b) if applicable, in respect of any Series or Tranche, a Hedging Agreement is entered into.

19. NOTICES

Notices to be given by any holder of Covered Bonds (including notices to convene a meeting of Covered Bondholders) shall be in writing and given by lodging the same with the Domiciliary Agent and the Representative. Notices to be given to the holders of Dematerialised Covered Bonds (including notices to convene a meeting of Covered Bondholders) shall be deemed to have been duly given to the relevant Covered Bondholders if sent to the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs for communication by them to the holders of the Dematerialised Covered Bonds and shall be deemed to be given on the date on which it was so sent.

All notices to holders of Registered Covered Bonds (including notices to convene a meeting of Covered Bondholders) will be mailed by regular post or by fax to the holders at their respective addresses or fax numbers appearing in the register of Registered Covered Bonds.

If sent by post, notices will be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. If sent by fax, notices will be deemed to have been given upon receipt of a confirmation of the transmission.

So long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority and if the rules of the exchange so require, any notice shall also be published in accordance with the rules and regulations of such stock exchange or other relevant authority.

No notifications in any such form will be required for convening meetings of Covered Bondholders if all Covered Bondholders have been identified and have been given an appropriate notice by registered mail.

Notwithstanding the above, the Representative shall be at liberty to approve any other method of giving notice to Covered Bondholders if, in its opinion, such other method is reasonable having regard to the then-prevailing market practice and rules of the competent authority, stock exchange, clearing system or, as the case may be, quotation system on which the Covered Bonds are then admitted to trading.

20. GOVERNING LAW AND JURISDICTION

The Covered Bonds and all matters arising from or connected with the Covered Bonds (and any non-contractual obligations arising out of or in connection with the Covered Bonds) are governed by, and shall be construed in accordance with, Belgian law.

The Dutch speaking (*Nederlandstalige/néerlandophone*) courts of Brussels, Belgium are to have exclusive jurisdiction to settle any dispute, arising from or connected with the Covered Bonds (including any disputes relating to any non-contractual obligations arising out of or in connection with the Covered Bonds).

MEETING RULES OF THE COVERED BONDHOLDERS

PART 1 – GENERAL PROVISIONS

1. INTRODUCTION

(a) The purpose of these meeting rules of the Covered Bondholders (the Meeting Rules) is to co-ordinate the exercise of the rights of the Covered Bondholders and, more generally, to take any action necessary or desirable to protect the interest of the Covered Bondholders.

(b) The Meeting Rules in respect of each Series of Covered Bonds issued under the Programme by the Issuer apply concurrently with the issuance and subscription of the Covered Bonds and each such Series is governed by these Meeting Rules.

(c) The contents of the Meeting Rules are deemed to be an integral part of the Conditions of the Covered Bonds of each Series issued by the Issuer.

(d) The Meeting Rules shall remain in full force and effect until full repayment or cancellation of all the Covered Bonds of whatever Series.

(e) Each Covered Bondholder is a member of the meeting of Covered Bondholders held in accordance with these Meeting Rules.

(f) Articles 568 to 580 of the Belgian Companies Code shall not apply in relation to the meetings of Covered Bondholders.

2. DEFINITIONS

2.1. Definitions

In these Meeting Rules the following expressions have the following meanings:

Block Voting Instruction shall mean a document in Dutch or French (with a translation in English) issued by the Recognised Accountholder or Securities Settlement System and dated in which:

(a) it is certified that Dematerialised Covered Bonds (not being Dematerialised Covered Bonds in respect of which a Voting Certificate has been issued and is outstanding in respect of the meeting specified in such Block Voting Instruction and any such adjourned meeting) of a specified principal amount outstanding were (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to its order or under its control and blocked by it and that no such Dematerialised Covered Bonds will cease to be so held and blocked until the first to occur of:

(i) the conclusion of the meeting specified in such document or, if applicable, any such adjourned meeting; and

(ii) the giving of notice by the Recognised Accountholder or the Securities Settlement System to the Issuer in accordance with Clause 8.5 hereof, stating that certain of such Dematerialised Covered Bonds cease to be held with it or under its control and blocked by it and setting out the necessary amendment to the Block Voting Instruction;

(b) it is certified that each holder of such Dematerialised Covered Bonds has instructed such Recognised Accountholder or Securities Settlement System, that the vote(s) attributable to the Dematerialised Covered Bond(s) so held and blocked should be cast in a particular way

in relation to the resolution or resolutions to be put to such meeting or any such adjourned meeting and that all such instructions are during the period commencing three (3) Business Days prior to the time for which such meeting or any such adjourned meeting is convened and ending at the conclusion or adjournment thereof neither revocable nor capable of amendment;

(c) the nominal amount of the Dematerialised Covered Bonds so held and blocked is stated, distinguishing with regard to each resolution between those in respect of which instructions have been given as aforesaid that the votes attributable thereto should be cast in favour of the resolution and those in respect of which instructions have been so given that the votes attributable thereto should be cast against the resolution; and

(d) one or more persons named in such document (each hereinafter called a proxy) is or are authorised and instructed by such Recognised Accountholder or Securities Settlement System to cast the votes attributable to the Dematerialised Covered Bonds so listed in accordance with the instructions referred to in subparagraph (a)(ii) above as set out in such document.

Conditions means the Terms and Conditions of the Covered Bonds of the relevant Series or Tranche issued by the Issuer.

Extraordinary Resolution means a resolution passed at a meeting duly convened and held in accordance with these Meeting Rules with respect to the matters set out in Clause 6.1.

Ordinary Resolution means any resolution passed at a meeting duly convened and held in accordance with these Meeting Rules with respect to the matters set out in Clause 6.2 by a simple majority of at least 50% of the aggregate Principal Amount Outstanding of the Series of Covered Bonds for which votes have been cast plus one vote.

Programme Common Terms means Clauses 3 up to and including 12 of the Programme Common Terms Agreement, as may be amended from time to time in accordance with the provisions of the Programme Common Terms Agreement and the Meeting Rules.

Programme Resolution means any resolution passed at a meeting duly convened and held in accordance with these Meeting Rules with respect to the matters set out in Clause 6.3.

Recognised Accountholder means, in relation to one or more Dematerialised Covered Bonds, the recognised accountholder (erkende rekeninghouder/teneur de compte agréé) within the meaning of Article 468 of the Belgian Companies Code with which a Covered Bondholder holds such Dematerialised Covered Bonds on a securities account.

Resolution means an Ordinary Resolution, an Extraordinary Resolution or a Programme Resolution.

Series Reserved Matters means the matters referred to under Clause 6.1(f) to 6.1(i).

Voting Certificate shall mean a certificate in Dutch or French (with a translation in English) issued by the Recognised Accountholder or the Securities Settlement System and dated in which it is stated:

(a) that on the date thereof Dematerialised Covered Bonds (not being Dematerialised Covered Bonds in respect of which a Block Voting Instruction has been issued and is outstanding in respect of the meeting specified in such Voting Certificate and any such adjourned meeting) of a specified Principal Amount Outstanding were (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to its order or under its control and blocked by it and that no such Dematerialised Covered Bonds will cease to be so held and blocked until the first to occur of:

(i) the conclusion of the meeting specified in such certification or, if applicable, any adjourned such meeting; and

(ii) the surrender of the certificate to the Recognised Accountholder or Securities Settlement System who issued the same; and

(b) that until the release of the Dematerialised Covered Bonds represented thereby the bearer thereof is entitled to attend and vote at such meeting and any such adjourned meeting in respect of the Dematerialised Covered Bonds represented by such certificate.

Capitalised words used in these Meeting Rules and not otherwise defined herein, shall have the meaning and the construction ascribed to them in the Conditions.

2.2. Interpretation

All references in these Meeting Rules to:

(a) **Covered Bonds** are, unless the context otherwise requires, to the Covered Bonds of the relevant Series;

(b) a **Clause** shall, except where expressly provided to the contrary, be a reference to a Clause of these Meeting Rules; and

(c) a **meeting** are to a meeting of Covered Bondholders of a single Series of Covered Bonds (except in the case of a meeting to pass a Programme Resolution, in which case the Covered Bonds of all Series are taken together as a single Series) and include, unless the context otherwise requires, any adjournment.

3. CALLING OF THE GENERAL MEETING

3.1. The meeting of Covered Bondholders may be convened by the Issuer, and/or upon its appointment the Cover Pool Administrator, or the Representative and shall be convened by the Issuer, or upon its appointment the Cover Pool Administrator, as applicable, or the Representative upon the request in writing signed by Covered Bondholders holding not less than one fifth of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of the relevant Series.

3.2. The Issuer or upon its appointment the Cover Pool Administrator or the Representative can convene a single meeting of Covered Bondholders of more than one Series if in its opinion the subject matter of the meeting is relevant to the Covered Bondholders of each of those Series, in which case these Meeting Rules shall apply *mutatis mutandis*.

3.3. Every meeting of the Covered Bondholders shall be held at a time and place approved by the Representative.

3.4. At least 15 calendar days' notice (exclusive of the day on which the notice is given and the day on which the general meeting is held) specifying the day, time and place of meeting shall be given to the

Covered Bondholders in the manner provided by Condition 19 (*Notices*). Such notice shall include the agenda of the meeting. The agenda shall state the nature of the business to be transacted at the meeting thereby convened and specify the terms of any resolution to be proposed. Such notice shall include a statement to the effect that Dematerialised Covered Bonds must be held with or under the control of and blocked by, (a) a Recognised Accountholder, and/or (b) as the case may be, the Securities Settlement System for the purpose of obtaining Voting Certificates or appointing proxies until three Business Days before the time fixed for the meeting but not thereafter.

4. ACCESS TO THE GENERAL MEETING

4.1. With respect to Dematerialised Covered Bonds, save as expressly provided otherwise herein, no person shall be entitled to attend or vote at any general meeting of the Covered Bondholders unless he produces a Voting Certificate or is a proxy.

4.2. With respect to Registered Covered Bonds, save as expressly provided otherwise herein, no person shall be entitled to attend or vote at any general meeting of the Covered Bondholders unless, (a) it appears from the register held in accordance with Article 462 et seq of the Belgian Companies Code that the relevant person is registered as a holder of Registered Covered Bonds, or (b) is authorised and instructed, by means of a power of attorney that is duly dated and signed, by the person that is registered as a holder of Registered Covered Bonds to cast the votes attributable to such Covered Bondholder. The Issuer or the Cover Pool Administrator, as applicable, may determine the form of the power of attorney.

4.3. The Issuer, the Cover Pool Administrator, upon its appointment, the Representative and the Dealer(s) (through their respective officers, employees, advisers, agents or other representatives) and their financial and legal advisers as well as the chairman of the meeting of Covered Bondholders shall be entitled to attend and speak at any meeting of the Covered Bondholders.

4.4. Proxies need not to be Covered Bondholders.

5. QUORUM

5.1. The quorum at any meeting the purpose of which is to pass an Ordinary Resolution, an Extraordinary Resolution concerning matters referred to under Clause 6.1(a) to 6.1(e) or a Programme Resolution concerning matters referred to under Clause 6.3(a) to 6.3(d), will be one or more persons holding or representing at least 50% of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant Series (with the Covered Bonds of all Series taken together as a single Series in case of a Programme Resolution), or, at an adjourned meeting, one or more persons being or representing Covered Bondholders of the relevant Series for the time being outstanding, whatever the Principal Amount Outstanding of the Covered Bonds so held or represented.

5.2. At any meeting the purpose of which is to pass an Extraordinary Resolution concerning Series Reserved Matters, the quorum will be one or more persons holding or representing not less than two thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series or, at any adjourned meeting, one or more persons being or representing not less than one third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding.

5.3. At any meeting the purpose of which is to pass a Programme Resolution concerning matters referred to under Clause 6.3(e) the quorum will be one or more persons holding or representing not less than two thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series taken together as a single Series, including at an adjourned meeting.

5.4. No business (except choosing a chairman) shall be transacted at a meeting unless a quorum is present at the commencement of business. If a quorum is not present within 15 minutes from the time

initially fixed for the meeting, it shall, if convened on the request of the Covered Bondholders, be dissolved. In any other case it shall be adjourned until such date, not less than 14 nor more than forty-two (42) calendar days later, and time and place as the chairman may decide.

5.5. Covered Bonds held by the Issuer shall not be taken into account for the calculation of the required quorum.

5.6. For the avoidance of doubt, any modification (regardless of whether such modification is a Series Reserved Matter or not), shall require the consent of the Issuer or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, except that no such consent shall be required in relation to a Programme Resolution referred to under Clause 6.3(b) to 6.3(e).

6. POWERS OF THE MEETING OF COVERED BONDHOLDERS

6.1. Extraordinary Resolution

A meeting of Covered Bondholders shall, subject to the Conditions and only with the consent of the Issuer and/or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate and without prejudice to any powers conferred on other persons by these Meeting Rules, have power by Extraordinary Resolution:

(a) to approve any modification, abrogation, variation or compromise in respect of, (i) the rights of the Representative, the Issuer, the Covered Bondholders or any of them, whether such rights arise under the Programme Documents or otherwise, and (ii) these Meeting Rules, the Conditions, any Programme Document or any arrangement in respect of the obligations of the Issuer under or in respect of the Covered Bonds, other than a Series Reserved Matter;

(b) to discharge or exonerate, whether retrospectively or otherwise, the Representative from any liability in relation to any act or omission for which the Representative has or may become liable pursuant or in relation to these Meeting Rules, the Conditions or any Programme Document;

(c) to give any authority or approval which under these Meeting Rules or the Conditions is required to be given by Extraordinary Resolution;

(d) to authorise the Representative (subject to it being indemnified and/or secured to its satisfaction) or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;

(e) to waive any breach or authorise any proposed breach by the Issuer of its obligations in respect of the Covered Bonds or to waive the occurrence of an Event of Default;

(f) to reduce or cancel the amount payable or, where applicable, modify the method of calculating the amount payable or modify the date of payment or, where applicable, modify the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof;

(g) to alter the currency in which payments under the Covered Bonds are to be made;

(h) to alter the quorum or majority required to pass an Extraordinary Resolution; and

(i) to sanction any scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be

formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations.

6.2. Ordinary Resolution

A meeting shall, subject to the Conditions and only with the consent of the Issuer or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, and without prejudice to any powers conferred on other persons by these Meeting Rules, have power to decide by Ordinary Resolution on any business which is not listed under Clause 6.1 (*Extraordinary Resolution*) or under Clause 6.2(*Programme* Resolution).

6.3. Programme Resolution

A meeting shall, subject to the Conditions, and without prejudice to any powers conferred on other persons by these Meeting Rules, have power by Programme Resolution:

(a) with the consent of the Issuer and/or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, to amend the Programme Common Terms;

(b) to direct the Representative to serve a Notice of Default on the Issuer pursuant to Condition 8.1;

(c) to appoint, remove or replace, (i) the Representative, or (ii) the managing director of the Representative in accordance with Clause 6 of Part 2 of the Meeting Rules;

(d) to consider the decision or proposal of the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 11, 6° of Annex III to the Banking Law; and

(e) to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 11, 7° of Annex III to the Banking Law.

7. MANAGEMENT OF THE GENERAL MEETINGS

7.1. The Issuer may appoint a chairman (who may, but need not be, a Covered Bondholder). Failing such choice the Representative may appoint a chairman in writing, but if no such appointment is made or if the person appointed is not present within 15 minutes after the time fixed for the meeting of the Covered Bondholders, the meeting shall be chaired by the person elected by the majority of the voters present, failing which, the Representative shall appoint a chairman. The chairman of an adjourned meeting need not to be the same person as was chairman at the original meeting.

7.2. The chairman may with the consent of (and shall if directed by) the meeting, adjourn the same from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which could have been transacted at the meeting from which the adjournment took place.

7.3. Notice of any adjourned general meeting shall be given in the same manner as for an original general meeting, and such notice shall state the quorum required at the adjourned general meeting. Subject as aforesaid, it shall not be necessary to give any other notice of an adjourned meeting.

8. VOTING

8.1. Every question submitted to a meeting shall be decided in the first instance by a show of hands, then (subject to Clause 8.2) by a poll.

8.2. At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman, the Issuer or the Cover Pool Administrator, as applicable, one or more persons holding Voting Certificates in respect of the Dematerialised Covered Bonds or proxies holding or representing in the aggregate not less than 2% of the relevant Series of the aggregate Principal Amount Outstanding of the Covered Bonds, a declaration by the chairman that a resolution has passed or not passed shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

8.3. If at any meeting a poll is so demanded, it shall be taken in such manner and (subject as hereinafter provided) either at once or after such an adjournment as the chairman directs. The result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the question on which the poll has been demanded.

8.4. Any poll demanded at any meeting on the election of a chairman or on any question of adjournment shall be taken at the meeting without adjournment.

8.5. Any vote given in accordance with the terms of a Block Voting Instruction shall be valid notwithstanding the previous revocation or amendment of the Block Voting Instruction or of any Covered Bondholder's instructions pursuant to which it was executed, provided that no confirmation in writing of such revocation or amendment shall have been received from the Securities Settlement System or Recognised Accountholder by the Issuer at its headquarters (Havenlaan 2, 1080 Brussels, Belgium or such other address as notified to the Covered Bondholders in accordance with the Conditions) by the time being 24 hours before the commencement of the meeting or adjourned meeting at which the Block Voting Instruction is intended to be used.

8.6. In case Covered Bonds are held by the Issuer, the Issuer shall not have any voting rights with respect to such Covered Bonds.

8.7. In the case of an equality of votes the chairman shall have a casting vote in addition to any other votes which he may have.

8.8. An Extraordinary Resolution shall be validly passed by a voting majority of at least two thirds of the aggregate Series Principal Amount Outstanding of the Series of Covered Bonds for which votes have been cast. An Ordinary Resolution shall be validly passed by a simple majority of at least 50% of the aggregate Series Principal Amount Outstanding of the Series of Covered Bonds for which votes have been cast plus one vote. A Programme Resolution shall be validly passed by a simple majority of at least 50% of the aggregate Series Principal Amount Outstanding of the Covered Bonds of all Series for which votes have been cast plus one vote.

8.9. The formalities and procedures to validly cast a vote at a meeting in respect of Registered Covered Bonds shall be such formalities and procedures as described by the Representative.

9. VOTING CERTIFICATES AND BLOCK VOTING INSTRUCTIONS REGARDING DEMATERIALISED COVERED BONDS

9.1. Voting Certificates and Block Voting Instructions will only be issued in respect of Dematerialised Covered Bonds (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to the order or under the control and blocked by a Recognised Accountholder or Securities Settlement System not less than three (3) Business Days before the time for which the meeting or the poll to which the same relate has been convened or called and shall be valid for so long as the relevant Dematerialised Covered Bonds continue to be so held and blocked and during the validity thereof the holder of any such Voting Certificate or (as the case may be) the proxies named in any such Block Voting Instruction shall, for all purposes in connection with the relevant meeting of the Covered Bondholders, be deemed to be the holder of the Dematerialised Covered

Bonds to which such Voting Certificate or Block Voting Instruction relates and the Recognised Accountholder or Securities Settlement System with which such Dematerialised Covered Bonds have been deposited or to whose order or under whose control they are held or the person holding them blocked as aforesaid shall be deemed for such purpose not to be the holder of those Dematerialised Covered Bonds.

9.2. Each Voting Certificate and each Block Voting Instruction shall be deposited at the registered office of the Issuer not less than three Business Days before the time appointed for holding the meeting or adjourned meeting at which the holder of the Voting Certificate or the proxies named in the Block Voting Instruction propose to vote and in default of such deposit the Voting Certificate or Block Voting Instruction shall not be treated as valid unless the chairman of the general meeting decides otherwise before such meeting or adjourned meeting proceeds to business.

10. MINUTES

Minutes of all resolutions and proceedings at every such meeting as aforesaid shall be made and duly entered in books to be from time to time provided for that purpose by the Issuer and signed by the chairman and any such minutes as aforesaid shall be conclusive evidence of the matters therein contained, and until the contrary is proved each such meeting in respect of the proceedings of which minutes have been made and signed as aforesaid shall be deemed to have been duly held and convened and all resolutions passed or proceedings transacted thereat to have been duly passed or transacted. An attendance list will be attached to the minutes. Certified copies or extracts of the minutes shall be signed by two directors of the Issuer or the Cover Pool Administrator (as the case may be).

11. BINDING RESOLUTIONS

Any Extraordinary or Ordinary Resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with these Meeting Rules shall be binding on all the Covered Bondholders of the relevant Series, whether or not they are present at the meeting and whether or not they vote in favour of such resolution.

Any Programme Resolution passed at a meeting of the Covered Bondholders of all Series duly convened and held in accordance with these Meeting Rules shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting and whether or not they vote in favour of such resolution.

Save as the Representative may otherwise agree, the Issuer or the Cover Pool Administrator (as the case may be) shall give notice of the passing of a Resolution to the Covered Bondholders in accordance with Condition 19 (*Notices*) within 14 calendar days of the conclusion of the meeting, but failure to do so shall not invalidate the Resolution.

12. WRITTEN RESOLUTIONS

Except in relation to a Programme Resolution to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 11, 7° of Annex III to the Banking Law, a resolution in writing signed by or on behalf of holders of 50% of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding shall take effect as a Programme Resolution.

A resolution in writing signed by or on behalf of holders of two thirds of the Series Principal Amount Outstanding of the relevant Series of Covered Bonds outstanding shall take effect as an Extraordinary Resolution.

A written resolution signed by the holders of 50% of the Series Principal Amount Outstanding of the relevant Series of the Covered Bonds outstanding shall take effect as if it were an Ordinary Resolution.

Such resolutions in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Covered Bondholders.

13. FURTHER REGULATIONS

Subject to all other provisions contained in these Meeting Rules and with the consent of the Issuer or upon the initiation of Winding-up Proceedings against the Issuer or the Cover Pool Administrator on behalf of the Special Estate, the Representative may prescribe such further regulations regarding the holding of meetings of Covered Bondholders and attendance and voting as the Representative may determine in its sole discretion.

PART 2 – RESPRESENTATIVE

1. APPOINTMENT

The Representative has been appointed by the Issuer as representative of the Covered Bondholders in accordance with Article 14, §2 of Annex III to the Banking Law upon the terms and conditions set out in the Representative Appointment Agreement and herein.

A resolution to appoint the managing director of the Representative is made by Programme Resolution of the Covered Bondholders, except for the appointment of the first managing director of the Representative which will be Amsterdamsch Trustee's Kantoor B.V.

As long as the Covered Bonds are outstanding, there shall at all times be a representative of the Covered Bondholders in accordance with Article 14, §2 of Annex III to the Banking Law, which has the power to exercise the rights conferred on it by these Conditions, the Meeting Rules of Covered Bondholders, the Representative Appointment Agreement and the law in order to protect the interests of the Covered Bondholders.

By reason of holding Covered Bonds, each Covered Bondholder:

(a) recognises the Representative as its representative and (to the fullest extent permitted by law) agrees to be bound by any agreement entered into from time to time by the Representative in such capacity as if such Covered Bondholder were a signatory thereto; and

(b) acknowledges and accepts that the Issuer shall not be liable, except in case of fraud, in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Covered Bondholders as a result of the performance by the Representative of its duties or the exercise of any of its rights under the Conditions (including the Meeting Rules).

The Issuer shall pay to the Representative a remuneration for its services as Representative as agreed in the Representative Appointment Agreement.

2. POWERS, AUTHORITIES AND DUTIES

2.1. Powers and representation

The Representative, acting in its own name and on behalf of the Covered Bondholders shall have the power:

(a) to represent the Covered Bondholders as provided for in Article 14, §2 of Annex III to the Banking Law;

(b) to exercise all other powers and rights and perform all duties given to the Representative under the Conditions, including the Meeting Rules of Covered Bondholders, the Programme Documents and the Belgian Covered Bonds Legislation;

(c) upon service of a Notice of Default, to proceed against the Issuer to enforce the performance of the Programme Documents and the Conditions on behalf of the Covered Bondholders and the Other Cover Pool Creditors represented by it;

(d) to collect all proceeds in the course of enforcing the rights of the Covered Bondholders and the Other Cover Pool Creditors represented by it;

(e) to apply or to direct the application of the proceeds of enforcement in accordance with the Conditions; and

(f) generally, to do all things necessary in connection with the performance of such powers and duties.

The Representative may also be appointed to represent Other Cover Pool Creditors provided that such Other Cover Pool Creditors agree with such representation. In relation to any duties, obligations and responsibilities of the Representative to these Other Cover Pool Creditors in its capacity as agent of these Other Cover Pool Creditors, the Representative and these Other Cover Pool Creditors will agree and the Issuer will concur, that the Representative shall discharge these duties, obligations and responsibilities by performing and observing its duties, obligations and responsibilities as representative of the Covered Bondholders in accordance with the provisions of the Representative Appointment Agreement, the Programme Documents and the Conditions.

The Representative may act in court and represent the Covered Bondholders in any bankruptcy or similar insolvency proceedings, without having to reveal the identity of the Covered Bondholders it represents.

2.2. Delegation

The Representative 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 hereunder or under the Representative Appointment Agreement, the Representative shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of the obligations of the Representative 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 Representative's obligations hereunder or under the Representative Appointment Agreement.

2.3. Meetings and resolutions of the Covered Bondholders

Unless the relevant Resolution provides to the contrary, the Representative is responsible for implementing all Resolutions of the Covered Bondholders. The Representative has the right to

convene and attend meetings of Covered Bondholders to propose any course of action which it considers from time to time necessary or desirable provided that it shall convene a meeting, (a) upon the request in writing of Covered Bondholders holding not less than one fifth of the aggregate Series Principal Amount Outstanding of the relevant Series of the Covered Bonds, or (b) in the case of a proposed liquidation of the Special Estate in accordance with Article 11, 6° or 7° of Annex III to the Banking Law.

2.4. Consents given by the Representative

Any consent or approval given by the Representative in accordance with these Meeting Rules may be given on such terms as the Representative deems appropriate and, notwithstanding anything to the contrary contained in these Meeting Rules, such consent or approval may be given retrospectively.

The Representative may give any consent or approval, exercise any power, authority or discretion or take any similar action if it is satisfied that the interests of the Covered Bondholders will not be materially prejudiced thereby.

2.5. Discretions

Save as expressly otherwise provided herein, the Representative shall have absolute discretion as to the exercise or non-exercise of any right, power and discretion vested in the Representative by these Meeting Rules or by operation of law.

2.6. Instructions

In connection with matters in respect of which the Representative is entitled to exercise its discretion hereunder (including but not limited to forming any opinion in connection with the exercise or non-exercise of any discretion) the Representative has the right (but not the obligation) to convene a meeting of Covered Bondholders in order to obtain the Covered Bondholders' instructions as to how it should act. Prior to undertaking any action, the Representative shall be entitled to request that the Covered Bondholders indemnify it, prefund it and/or provide it with security to its satisfaction.

3. AMENDMENTS

The Representative may upon the request of the Issuer on behalf of the Covered Bondholders and without the consent or sanction of any of the Covered Bondholders of any Series or the Other Cover Pool Creditors it represents at any time and from time to time, concur with the Issuer or any other person in making:

(a) any modification (other than in respect of a Series Reserved Matter) of the terms and conditions applying to the Covered Bonds of one or more Series (including the Conditions and including the Programme Common Terms) or any Programme Document provided that in the sole opinion of the Representative such modification is not materially prejudicial to the interests of the Covered Bondholders of any such Series; or

(b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including the Conditions and including the Programme Common Terms) or any Programme Document which is in the sole opinion of the Representative of a formal, minor or technical nature or is to correct a manifest error or to comply with the mandatory provisions of law.

Any such modification shall be binding on the Covered Bondholders.

In no event may such modification be a Series Reserved Matter. The Representative shall not be bound to give notice to Covered Bondholders of any modifications to the Programme Documents

agreed pursuant to this Clause. The Issuer or the Cover Pool Administrator, as applicable, shall cause notice of any such modification to be given to the Rating Agencies and the Domiciliary Agent.

If, in the Representative's opinion, it is not sufficiently established that the proposed amendment or variation can be approved by it in accordance with this Clause, it will determine in its full discretion whether to submit the proposal to a duly convened meeting of Covered Bondholders or to refuse the proposed amendment or variation.

The Representative shall be bound to concur with the Issuer and any other party in making any of the above-mentioned modifications if it is so directed by a Resolution taken in accordance with the Meeting Rules and if it is indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

Upon the Issuer's request, the Representative shall, without the consent or sanction of any of the Covered Bondholders, concur with the Issuer in making any modifications to the Conditions, to these Meeting Rules or to the Programme Common Terms that the Issuer may decide in its discretion in order to comply with mandatory provisions of law or with any criteria of a Rating Agency which may be published after the signing of the initial agreement(s) for the issuance of and subscription for the Covered Bonds and which the Issuer certifies to the Representative in writing are necessary to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a Rating Agency to any Series of Covered Bonds, provided that the Representative shall not be obliged to agree to any modification which, in the sole opinion of the Representative, would have the effect of, (i) exposing the Representative to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction, or (ii) increasing the obligations or duties, or decreasing the protections, of the Representative in these Meeting Rules or the Conditions. For the avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

Notwithstanding the foregoing, upon the Issuer's request, the Representative shall, without the consent or sanction of any of the Covered Bondholders, concur with the Issuer in making any modifications to the Programme Common Terms set out in Clause 5 (*Issuer Undertaking*), Clause 8 (*Priorities of Payments*) and Clause 9 (*Covered Bonds Provisions*) of the Programme Common Terms Agreement that the Issuer may decide in its own discretion in relation to future issues of Covered Bonds under the Programme provided that, (A) such modifications will not affect the then current ratings assigned by a Rating Agency to any Series of Covered Bonds issued under the Programme, and (B) the Issuer certifies to the Representative in writing that these modifications will not affect the rights of Covered Bonds already issued under the Programme, provided that the Representative shall not be obliged to agree to any modification which, in the sole opinion of the Representative would have the effect of, (1) exposing the Representative to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction, or (2) increasing the obligations or duties, or decreasing the protections, of the Representative, in the Meeting Rules of Covered Bondholders. For the avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

4. WAIVERS

4.1. Waivers

The Representative may in its sole discretion, without the consent of the Covered Bondholders and 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 Covered Bondholders will not be materially prejudiced thereby, (a) 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 Representative Appointment Agreement, the Covered Bonds or any of the Programme Documents, or (b) determine that any breach shall not, or shall not be subject to specified conditions, be treated as such. Any such authorisation, waiver or determination pursuant to this Clause shall be binding on the Covered Bondholders and if, but only if, the Representative shall so require, notice thereof shall be given to the Covered Bondholders and the Rating Agencies.

4.2. 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 Programme Documents will be materially prejudicial to the interests of Covered Bondholders, the Representative 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.

5. CONFLICTS OF INTEREST

In connection with the exercise of its powers, authorities and discretions, the Representative shall have regard to the overall interests of the Covered Bondholders and of the Other Cover Pool Creditors that have agreed to be represented by the Representative. The Representative shall not be obliged to have regard to any interests arising from circumstances particular to individual Covered Bondholders or such Other Cover Pool Creditors.

The Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Covered Bondholders and the Other Cover Pool Creditors that have agreed to be represented by the Representative but if, in the opinion of the Representative, there is a conflict between the interests the Covered Bondholders and those Other Cover Pool Creditors, the Representative will have regard solely to the interest of the Covered Bondholders.

6. REPLACEMENT OF THE REPRESENTATIVE OR OF THE MANAGING DIRECTOR OF THE REPRESENTATIVE

6.1. Replacement of the Representative

The Covered Bondholders shall be entitled to terminate the appointment of the Representative by means of a Programme Resolution, provided that in the same resolution a substitute Representative is appointed.

Such substitute Representative must meet all legal requirements to act as Representative and accept to be bound by the terms of the Conditions and the Programme Documents in the same way as its predecessor.

Neither the managing director of the Representative nor the Representative so removed shall be responsible for any costs or expenses arising from any such removal.

Upon such appointment being made all rights and powers granted to the company then acting as Representative shall terminate and shall automatically be vested in the substitute Representative so selected. All references to the Representative in the Programme Documents shall where and when appropriate be read as references to the substitute Representative as selected and upon vesting of rights and powers pursuant to this Clause.

Such termination shall also terminate the appointment and power of attorney by the Other Cover Pool Creditors.

The Representative shall not be discharged from its responsibilities under the Representative Appointment Agreement until a suitable substitute Representative is appointed.

6.2. Replacement and resignation of the managing director of the Representative

The Covered Bondholders shall be entitled to terminate the appointment of the managing director of the Representative by means of a Programme Resolution, provided that in the same resolution a substitute managing director of the Representative is appointed.

Such substitute managing director of the Representative must meet all legal requirements to act as managing director of the Representative and accept to be bound by the terms of the Conditions and the Programme Documents in the same way as its predecessor.

Neither the managing director of the Representative nor the Representative so removed shall be responsible for any costs or expenses arising from any such removal.

Pursuant to the Representative's articles of association, its managing director ceases to hold office in the following cases:

(a) upon voluntary resignation, provided that a successor managing director is appointed;

(b) in the case of a legal entity, upon the ceasing to exist as legal entity, or, in the case of an individual, upon his/her death;

(c) upon the managing director being declared bankrupt, applying for a suspension of payments or petitioning for application of the debt restructuring provision referred to in the Dutch bankruptcy act in respect of the managing director, provided that a successor managing director is appointed;

(d) upon removal from office by the court in cases provided for by the laws of the Netherlands;

(e) upon removal from office by the board of the Representative, provided that a successor managing director is appointed; and

(f) upon removal from office by a Programme Resolution of the Covered Bondholders in accordance with Clause 6.2.

If the managing director has ceased to hold office without a successor managing director having been appointed by the board of the Representative, a successor managing director may be appointed by the Covered Bondholders by means of a Programme Resolution.

Unless the managing director is removed or resigns in accordance with this Clause, it shall remain in office until the date on which all Series of Covered Bonds have been cancelled or redeemed and on which all claims of the Other Cover Pool Creditors (to the extent represented by the Representative) against the Issuer and the Special Estate have been settled.

6.3. Representation of Other Cover Pool Creditors

Any resolution to appoint or to remove the Representative and any appointment, removal or resignation of its managing director shall also be binding upon the Other Cover Pool Creditors that have chosen to be represented by the Representative. The Other Cover Pool Creditors (to the extent represented by the Representative) must be notified of the replacement or resignation of the Representative and of the managing director of the Representative.

7. ACCOUNTABILITY, INDEMNIFICATION AND EXONERATION OF THE REPRESENTATIVE

If so requested in advance by the Issuer or the Cover Pool Administrator, as applicable, the Representative shall report to the meeting of Covered Bondholders on the performance of its duties under the Representative Appointment Agreement and the Programme Documents provided such request is notified by registered mail no later than ten (10) Business Days prior to the relevant meeting of Covered Bondholders. The Issuer or the Cover Pool Administrator, as applicable, shall require such report if so requested by those Covered Bondholders who have requested that such meeting be convened.

The Representative Appointment Agreement contains provisions governing the responsibility (and relief from responsibility) of the Representative and providing for its indemnification in certain circumstances, including provisions relieving the Representative from taking enforcement proceedings unless indemnified to its satisfaction.

The Representative shall not be liable to the Issuer or any of the Covered Bondholders or the Other Cover Pool Creditors represented by it 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 therefrom, except that the Representative shall be liable for such loss or damage that is caused by its gross negligence, wilful misconduct or fraud.

The Representative shall not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Cover Assets, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Issuer or any agent or related company of the Issuer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons.

The Representative shall have no liability for any breach of or default under its obligations under the Representative Appointment Agreement if and to the extent that such breach is caused by any failure on the part of the Issuer or any of the Other Cover Pool Creditors (other than the Representative) to duly perform any of their material obligations under any of the Programme Documents. In the event that the Representative is rendered unable to duly perform its obligations under the Representative Appointment Agreement by any circumstances beyond its control (*overmacht/force majeure*), the Representative shall not be liable for any failure to carry out its obligations under the Representative Appointment Agreement and, for so long as such circumstances continue, its obligations under the Representative Appointment Agreement which are thus affected will be suspended without liability for the Representative.

The Representative shall not be responsible for monitoring the compliance by any of the other parties (including the Issuer and the Cover Pool Monitor) with their obligations under the Programme Documents. The Representative may, until it has actual knowledge or express notice to the contrary, assume the Issuer and the Cover Pool Monitor are observing and performing all their obligations under any of the Programme Documents and in any notices or acknowledgements delivered in connection with any such Programme Documents.

The Representative shall not be responsible for ensuring that the Issuer complies with the obligations applicable to it under the Belgian Covered Bonds Legislation or that any asset is duly registered in the Register of Cover Assets and that the Register of Cover Assets is duly maintained.

Except if such meeting is convened by the Representative, but only to the extent that any defect has arisen directly from the Representative's gross negligence, wilful misconduct or fraud, the Representative shall not be liable for acting upon any resolution purporting to have been passed at any meeting of the Covered Bondholders 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 Covered Bondholders.

If the Representative has acted upon such resolution, each Covered Bondholder shall forthwith on demand indemnify the Representative for its pro rata share in any liability, loss or expense incurred or expected to be incurred by the Representative in any way relating to or arising out of its acting as Representative in respect of that resolution, except to the extent that the liability or loss arises directly from the Representative's gross negligence, wilful misconduct or fraud. The liability shall be divided between the Covered Bondholders pro rata according to the respective Principal Amount Outstanding of the Covered Bonds held by each of them respectively.

8. INSTRUCTIONS AND INDEMNITY

The Representative shall not be bound to take any action under its powers or duties unless:

(a) it shall have been directed to do so by an Extraordinary Resolution of the Covered Bondholders or in relation to the service of a Notice of Default pursuant to Condition 8.1 (*Events of Default*) it shall have been requested to do so by a request in writing by the holders of not less than 25% of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding but excluding the Covered Bonds held by the Issuer for the calculation of the percentage or if so directed by a Programme Resolution; 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 Covered Bondholders are or can be affected in the opinion of the Representative, the Representative may – if indemnified to its satisfaction – take legal action on behalf of the Covered Bondholders and represent the Covered Bondholders in any insolvency proceedings and any other legal proceedings initiated against the Issuer or any other party to a Programme Document.

The Representative can under no circumstances, including the situation wherein Covered Bondholders' 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 Representative 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.

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

COVER ASSETS

Main category of Cover Asset – Residential Mortgage Loans

The Special Estate may be composed of assets of each of the five categories (residential mortgage loans (including Residential Mortgage Backed Securities (**RMBS**)) (category 1), commercial mortgage loans (including Commercial Mortgage Backed Securities (**CMBS**)) (category 2), public exposures (including Public Asset Backed Securities) (category 3), exposures to credit institutions (category 4) and Hedging Agreements (category 5)). See *Section 5 Assets to be included in the Special Estate* under *Summary of the Belgian Covered Bonds Legislation*.

Please see the Summary of the Belgian Covered Bonds Legislation for a description of the valuation criteria and the Statutory Tests.

The main asset category of the Special Estate will consist of category 1, i.e., Residential Mortgage Loans (excluding RMBS) where the mortgage receivables are secured by a mortgage on residential real estate located in Belgium.

The value of Cover Assets out of this category 1 (Residential Mortgage Loans including RMBS) must represent at least 85% of the aggregate Principal Amount Outstanding of all Covered Bonds of all Series outstanding (the **85% Asset Coverage Test**). In exceptional circumstances the Supervisor may decrease the minimum percentage of 85% of the 85% Asset Coverage Test.

In addition, the Issuer has undertaken that for so long as the Covered Bonds are outstanding, the Issuer will ensure that the value of the Residential Mortgage Loans registered as Cover Assets in the Register of Cover Assets calculated in accordance with the Belgian Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105% of the Series Principal Amount Outstanding of the Covered Bonds of all Series (See Condition 2.6 (*Issuer undertaking*)).

Description of the Residential Mortgage Loans

Interest Rates

The interest rate on each Residential Mortgage Loan has been fixed for an interest period as of the date of the origination of the relevant Residential Mortgage Loan.

The interest period can be equal to the term of the Residential Mortgage Loan, in which case the interest rate is called a fixed interest rate.

If the interest period is not equal to the term of the Residential Mortgage Loan, the interest rate will change at the end of the relevant interest period. The interest period can vary from one to 20 years. In this case, the interest rate is called a variable interest rate. The change to the interest rate is based on the change in an underlying reference index. Changes to the interest rate are subject to a maximum increase and decrease agreed upon origination of the relevant Residential Mortgage Loan. The maximum increase of the interest rate may not exceed the maximum decrease. Furthermore, if the first interest revising period lasts less than 3 years, a variation of the interest cannot have the effect (i) that the interest variation applicable to the second year is higher than 1 percentage point of the initial interest rate; or (ii) that the interest variation applicable to the third year is higher than 2 percentage point of the initial interest rate. In case the initial rate of the loan is lower than the applicable reference index, the rate of the loan cannot be more than doubled.

Upon origination of the relevant Residential Mortgage Loan, the Issuer may grant certain discounts on the initial (fixed or variable) interest rate. Such discounts may be granted depending on, among other things, customer loyalty. The discounts are often granted if the Borrower satisfies and continues to satisfy the conditions for the discount. If the Borrower would no longer satisfy the conditions for the discount, the

Issuer may revoke such discount (conditional" discounts). Beside "conditional" discounts, KBC Bank may grant "commercial" discounts which are granted for commercial reasons and which can under no circumstance be withdrawn from the customer.

Types of Residential Mortgage Loans

The Residential Mortgage Loans can be categorised according to their repayment schedules. The two most commonly used are:

(a) Linear Residential Mortgage Loans; and

(b) Annuity Residential Mortgage Loans.

The types of Residential Mortgage Loans set forth under (a) and (b) are fully amortising, which means that the repayment schedules are designed so that the amount of the outstanding balance of the Residential Mortgage Loans is zero after the last scheduled periodical payment has been made.

A Linear Residential Mortgage Loan is a Residential Mortgage Loan under which the Borrower (re)pays periodically a fixed amount of principal plus interest. Due to the gradually decreasing outstanding principal balance, the interest payments decrease proportionally. As a result, the gross mortgage payments (repayment of principal plus interests) decrease over time.

An Annuity Residential Mortgage Loan is a Residential Mortgage Loan under which the Borrower repays periodically and degressiely a fixed gross (repayment of principal plus interests) payment. With an Annuity Residential Mortgage Loan, the interest payments decrease over time, whereas the repayments of principal increases over time.

Residential Mortgage Loans with other repayment schedules such as Residential Mortgage Loans with progressive repayments (this type of repayment is no longer sold since February 2015) and with monthly interest-only instalments are also possible.

Loan Security

Each Residential Mortgage Loan is secured by:

(a) a first ranking mortgage; or

(b) a lower ranking mortgage provided that the Issuer also has the benefit of all higher ranking mortgages on the same real estate and, as the case may be, a mandate to create mortgages.

Mortgage

A mortgage creates a priority right to payment out of the mortgaged assets, subject to mandatory statutory priorities (including beneficiaries of prior ranking mortgages).

Each Residential Mortgage Loan is secured by a mortgage which is used to also secure all other amounts which the Borrower owes or in the future may owe to the Issuer, a so-called all sums mortgage (*alle sommen hypotheek/hypothèque pour toute somme*) (**All Sums Mortgage**). Part of the Residential Mortgage Loans relate to facilities which have the form of a revolving facility (*kredietopening/ouverture de crédit*). The mortgage that is granted as security for this type of loan is used to secure all advances (*voorschotten/avances*) made available under such revolving facility.

Pursuant to Article 81quater and 81quinquies of the Law of 16 December 1851 on mortgages (the **Mortgage Law**) a receivable secured by an All Sums Mortgage which is registered in the Register of Cover Assets shall rank in priority to any receivable which arises after the date of the registration and which is also secured by the same All Sums Mortgage. Whereas the receivable registered in the Register of Cover Assets ranks in priority to further loans, it will have equal ranking with loans or debts which existed at the time of the

registration and which were secured by the same All Sums Mortgage, unless stipulated otherwise in the issue conditions.

Pursuant to Article 81quater §2 of the Mortgage Law, advances granted under a revolving facility secured by a mortgage can be registered in the Register of Cover Assets. The advance will benefit from the privileges and mortgages securing the revolving facility. The advance registered in the Register of Cover Assets will rank in priority to further advances that are granted after the date of registration. However, an advance registered in the Register of Cover Assets will have equal ranking with other advances which existed at the time of the registration transfer and which were secured by the same Mortgage, unless stipulated otherwise in the issue conditions.

Condition 12.3 of the Conditions provides that if a security interest (including any mortgage and mortgage mandate) secures both Cover Assets and assets in the General Estate, all sums received out of the enforcement of the security interest will be applied in priority to satisfy the obligations in relation to the Cover Assets. Any proceeds of enforcement of such security interest can only be applied in satisfaction of the obligations of the relevant assets in the General Estate once all sums owed to the Special Estate in respect of the relevant Cover Assets are irrevocably repaid in full.

Mortgage Mandate

A mortgage mandate is often used in addition to a mortgage to limit registration duties payable by the Borrower.

A mortgage mandate does not create an actual security interest and does not therefore create an actual priority right of payment out of the proceeds of a sale of the mortgaged assets. The mortgage mandate is an irrevocable mandate granted by a Borrower or a third party collateral provider to certain attorneys to create a mortgage as security for the Residential Mortgage Loan and all other amounts which the Borrower owes or in the future may owe to the Issuer. Only after creation of the mortgage, the beneficiary of the mortgage will have a priority right to payment out of the proceeds of a sale of the mortgaged assets. See further *Risk Factors – Mortgage Mandates*.

The mortgage loans may, as the case may be, be further secured by:

(a) life insurance policies and hazard insurance policies;

(b) an assignment of salary by the Borrower; and/or

(c) any pledge, set-off or unicity of account rights of the Issuer pursuant to its applicable general banking terms and conditions.

Pursuant to Article 3, §2, 3° of Annex III to the Banking Law all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate are automatically part of the Special Estate.

Origination process of the assets

1. UNDERWRITING AND APPROVAL PROCESS

1.1. Application process

All loan applications are processed through a local branch of KBC Bank and the majority of these applications is approved at this level (83 % approval rate (in numbers) and 88 % approval rate (in amount) in 2016).

A loan application must be registered in an electronic registration system "KPD" (*Kredieten Particuliere Doeleinden,* translated as Retail Purpose Loans). The applicant must provide, with

documentary evidence where necessary, information on the project, personal data (income, family situation, etc) as well as information on assets and liabilities. Since May 2015 this information is digitally stored. A financing scheme and the terms of the mortgage are agreed between the borrower and KBC Bank. The borrower certifies the accuracy of the information by signing the application form. Credit applications are completed at the local KBC Bank office level.

1.2. Debt-to-income ratio (DTI)

The total debt-to-income ratio is calculated by dividing the total monthly debt obligations of the borrower by the monthly net income of the borrower. The monthly net income is defined as the income remaining after the deductions for social security and income taxes. The total debt obligations are defined as all financial obligations of a borrower at the time the credit application is submitted to KBC Bank.

The KBC Bank guideline is that the minimum household budget (i.e., income after deduction of all loan payments) is since April 2014 at least Euro 670 in the case of one borrower or Euro 990 in the case of two or more borrowers. In case of children Euro 290 has to be added to these amounts.

1.3. Loan-to-value ratio (LTV)

According to internal guidelines of KBC Bank, the maximum LTV should not exceed 100%. In cases where the LTV is higher than 100% the basic interest rate can be increased by 1%.

LTV = Loan to value: the value is the selling value of the real estate of a borrower on which a mortgage or power of attorney to mortgage is taken for the considered loan. Customers can apply over time for different loans; each application can consist of different agreements which leads to different calculations.

LTV is not used as such in the application processes of KBC Bank. However, other policies lead to similar limitations. Among them specific policies on minimum down payments (depending on, for example, the purpose of the loan, risk level and amount) and on the "lending rate", a LTV variant, are applied (see definition below). The mortgage loan can be approved in the branches to a maximum lending rate of 90% of the value (excluding registration and notary costs) of the property over which the mortgage is granted. For reliable clients a mortgage loan can be approved to maximum lending rate of 100% of the value of the property. However, this situation is rather exceptional and as soon as the percentage exceeds 100% the borrower must pay a higher interest rate.

The **lending rate** is defined as a ratio between:

(a) the loan amount, diminished by the non-mortgage collateral value (securities pledged basket); and

(b) the "free" selling value of the real estate, on which a mortgage or power of attorney to mortgage exists linked to the loan and which is usable in case of delinquency.

"Free" means the value is diminished with the outstanding non-covered amounts of other loans linked to the same real estate.

The lending rate does not take into account the amount of the mortgage or power of attorney to mortgage or other loans which are not linked to the real estate. The lending rate is used in the application process together with other elements such as the total collateral amounts, the totality of all loans to that customer and the application score.

The lending rate is calculated by the complex formula:

$$\frac{\text{loan amount} - \sum_{non\ mortgage\ \ collateral} \text{collateral value}}{\sum_{x} (\text{selling value} - \text{mortgage amounts in preceding rank}) - \sum_{y}^{>0} (\text{outstanding amount} - \sum_{z} \text{other collateral value})} * 100$$

where:

x is real estate linked to the new loan application by the mortgage(s) or power(s) of attorney to mortgage;

y is other KBC Bank loans having also a mortgage or power of attorney on the real estate considered in x; and

z is all collaterals (as well as mortgages and powers of attorney as pledged baskets) linked to the loans considered in y.

1.4. Property valuation

KBC Bank requires no official appraisal. Exceptionally, an external appraisal can be requested.

1.5. Credit History

Before taking a decision, the KPD registration system automatically checks the borrower in the internal Risk and Damage database (*Risico en Schade Bestand* or RSB) and the external Retail Loan database (*Centrale voor Kredieten aan Particulieren* or CKP). This external database contains negative and positive external information. The information from the CKP database is compared with the information the borrower has provided to KBC Bank. When negative information is available in CKP, the loan will automatically be declined. If a loan is declined on the basis of this negative information, the applicant can file a new application with the Head Office directly, and can, exceptionally, still be granted a loan if there is proof that the financial problems are solved.

1.6. Income check

The borrower's income is verified from an original pay stub or bank statement. The income must be registered in the KPD registration system. A proof of the income (pay stub or bank statement) has to be kept in the (electronic) credit application file (at the head office). The head office checks whether it has received these documents in the file.

1.7. Approval process

The collected information that is registered in the KPD registration system is used for a first risk assessment. On the basis of the risk assessment and the analysis of the guarantees, the KPD registration system automatically delivers a "decision advice". Delegation authority restrictions are based on this advice. The decision advice provides the loan manager with an indication as to whether a loan can be, given or not, and if not, what must be changed in the loan application (for example, a guarantee, involvement of another employee of KBC Bank with more decision delegation). In some cases (9.34 % (in numbers) and 18.71% (in amount) in 2016) the decision must be taken at the head offices of KBC Bank.

2. PROPERTY VALUATION

KBC Bank requires an in-house appraisal for every property to be financed. The relevant staff members at the local KBC Bank branches use a desk-top approach for the valuation[9].

For the **purchase of an existing home or building plot**, the sale price of that property (as registered in the sales agreement) is used as a proxy for the market value of the home at the time of purchase.

For **new properties**, the plans and the cost estimate made by the architect (the specifications) are reviewed by KBC Bank. The property is valued as follows:

- 100% of the value of the building plot (valuation as described above); and
- 90% of the specifications (inclusive of VAT).

For **renovating an existing property**, the plans and the cost estimate by the architect (the specifications) will be reviewed by KBC Bank. The property is valued as follows:

- 100% of the estimated value of the existing property; and
- 75% of the specifications (inclusive of VAT).

Since end October 2013 a physical proof for the value (sales agreement, cost estimation of the architect, …) is an obligatory document in the (electronic) loan file.

3. DISBURSEMENT OF FUNDS

For the purchase of a home, full disbursement (by bank cheque or by transfer) is made following the execution of the (notarial) deed.

If the loan is used for building or renovating a home, funds can only be drawn down by presenting bills showing the purpose of the loan granted. The funds are transferred to the borrower's account and the borrower has to pay the supplier or furnisher. The funds must be drawn down within 12 months after the date of the (notarial) deed. The period of disbursement can be prolonged once by a maximum of 12 months. The borrower only pays interest on the portion of the loan which has been drawn. From the beginning of the sixth month after the (notarial) deed has been executed, the borrower must pay a commitment fee on the amount of the loan which has not yet been drawn down.

4. COLLECTION OF PAYMENTS

Payments of interest and principal are made by direct debit from a KBC Bank bank account or savings account on a monthly basis.

5. SALES CHANNELS

Mortgage loans are originated entirely through KBC Bank's office network. No agents or brokers are used.

6. CHARACTERISTICS

Credit facility agreement (*kredietopening*)

KBC Bank enters into a "credit facility agreement" with the borrower, under which the borrower has the right to draw down one or more advances up to the agreed maximum amount of the facility. Each

[9] A desk-top valuation is a process performed using publicly available information or sale contracts in order to assess the value of a property. The bank will evaluate comparable sales in the area or budget estimates from an architect to determine the value of the property. Desk-top valuation does not include a physical inspection of the property.

"advance" is a loan with its own characteristics. The mortgage secures all the advances made pursuant to the credit facility.

There are two kinds of credit facility agreements in KBC Bank's portfolio:

(a) From 1 September 1998 to 5 December 2004: a credit facility agreement under which the borrower had the right to draw down from time to time one or more advances up to the agreed maximum amount of the facility. Each advance was a loan with its own characteristics. The mortgage secured all the advances made pursuant to the credit facility. The borrower could ask for one or more advances up to the agreed maximum amount of the facility (the bank had to agree on every advance). The term of the credit facility agreement was unlimited.

(b) From 6 December 2004: a credit facility agreement under which the borrower has the right to draw down one or more advances within a limited period (30 years) after granting the credit facility agreement. Thereafter no more advances can be drawn down. The term of the credit facility agreement is limited to the term of the advance with the longest duration.

Characteristics of the Advances

Characteristics	**Possibilities**
Repayment schemes	equal instalments (annuity" method)
	equal principal repayments (linear" method)
	progressive repayments (only in portfolio- no new loans since February 2015)
	monthly interest only instalments (not frequent)
Formulae of "variability"	annually (1-1-1)
	every three years (3-3-3)
	every five years (5-5-5)
	every five years after an initial period of ten years (10-5-5) (only in portfolio- no new loans since February 2015)
	every five years after an initial period of 20 years (20-5-5) (only in portfolio- no new loans since February 2015)
	fixed rates (from 3 to 30 years)
Caps and Floors	cap and floor for variable rate loans:
	1. +5%/-5% pa
	2. +2%/– unlimited downward
	3. +0%/– unlimited downward (only in portfolio)
	4. +3%/-3%
Formula of revision	for advances under the mortgage law from 1998:

Characteristics	Possibilities
	$MR_1 = MR_0(I_1 - I_0)$ where: I_0 is the monthly based reference index as specified in the original contract I_1 is the monthly based reference index of the month preceding the month of the interest rate review The reference indexes are official indexes specified on a monthly basis by the Belgian government and published in the Belgian Official Gazette MR_1 is the new monthly interest rate MR_0 is the monthly interest rate originally agreed for the first period. For advances under the mortgage law from 1992: $MR_1 = \frac{MR_0 \times I_1}{I_0}$ where: I_0 is the yearly based reference index as specified in the original contract I_1 is the yearly based reference index of the second month preceding the month of the interest rate review The reference indexes are official indexes specified on a monthly basis by the Belgian government and published in the Belgian Official Gazette MR_1 is the new monthly interest rate MR_0 is the monthly interest rate originally agreed for the first period.
Amount (size of the advance)	minimum Euro 2,500 maximum depending on purpose, guarantees and DTI
Maturity	maximum 30 years

KBC Bank also provides bridge loans to finance the period between the purchase of a new home and the sale of the previous home. Bridge loans have a maturity of a maximum of one year. Principal and interest are paid at the same time when the funds of the new mortgage loan are available. A prepayment penalty (a reinvestment fee) is not paid by the borrower in case of early repayment on a bridge loan.

Security and insurance

A right to attach the customer's salary in case of default is granted to KBC Bank at the time of the loan origination by all customers. This clause is part of the contract, which the customer signs at the inception of the loan. In the event the customer is married, Belgian law requires that both spouses sign the loan documentation, including the above mentioned clause. In this way, KBC Bank can, if necessary, attach both of the spouses´ salaries.

A mortgage is a security that is often used in Belgium because of the benefit of a tax deduction or tax credit with respect to interest and principal which only exists if a home loan is accompanied by a mortgage. The majority of the residential mortgage loans of KBC Bank are secured by a mortgage.

A reduced portion of the KBC Bank residential mortgage loans are granted without a mortgage. In that case, a "power of attorney" or "mortgage mandate" (in the form of a notarial deed) to create a mortgage is granted by the customer to KBC Bank. This process can be used for very creditworthy customers to reduce the mortgage registration costs. A combination of a mortgage (for a limited amount) and a mortgage mandate is becoming the norm in the current market (which is interesting for tax reasons).

Since 1995 a "negative pledge agreement" is included in the home loan documentation of KBC Bank. This clause generally stipulates that the customer, (a) promises not to grant another mortgage on the same property to another bank, and (b) promises not to sell the property.

KBC Bank does not require credit insurance in connection with its mortgages. However, most borrowers understand the advantage of maintaining a life insurance policy. Neither the life insurance nor the hazard insurance policy is annexed to the notary deed.

Discounts

Most financial institutions apply a basic rate for their mortgage loans. Loyal customers can be granted a more favourable arrangement.

A distinction is made between "conditional" discounts and "commercial" discounts.

A "conditional" discount is a discount that depends on one or more conditions (i.e., taking out a life or hazard insurance policy). As long as the conditions are fulfilled, the conditional discount is granted. From the moment one of the conditions is no longer satisfied, the discount no longer applies.

A "commercial" discount is a discount that is granted to the customer for commercial reasons, i.e. to convince him to take the loan with KBC Bank. Once a "commercial" discount is granted, it can under no circumstances be withdrawn from the customer.

Until 5 December 2006, KBC Bank had only applied commercial discounts. From 5 December 2006, a combination of conditional and commercial discounts is possible.

Prepayments

A borrower may repay his/her mortgage loan in part or in full at any time (see Article VII.145 of the Belgian Code of Economic Law).

In case of a partial repayment, the borrower can choose either to shorten the maturity of the mortgage loan (and thus keep the same monthly payments as scheduled) or reduce the amount of the monthly payments (and thus keep the maturity as scheduled).

The borrower must pay a prepayment penalty (a reinvestment fee) equivalent to three months of interest on the amount of principal prepaid.

Monitoring of the performance of the Cover Assets (delinquencies, LTV)

(a) Credit risk monitoring and follow-up: various phases

Credit risk management of delinquent borrowers (i.e., borrowers who are in arrears on their mortgage loan or on any other credit product) can be divided into a number of phases:

(i) the Monitoring Phase;

(ii) the Special Mention Phase;

(iii) the Possible Loss Phase;

(iv) the Irrecoverable Phase; and

(v) the Write-off Phase.

(b) Separation of responsibilities between local offices and head office

In the Monitoring Phase, the local office is responsible for the credit risk supervision and is the point of contact for the borrower.

As soon as the credit risk is in the Special Mention Phase, the head office is responsible for supervision. As from that moment, the responsibility of the local office is limited to providing relevant information to the head office.

(c) Start of credit risk monitoring – automatic processes

Credit risk monitoring and follow-up is triggered by risk warning signals. For mortgage loans, these signals arise primarily from the detection of arrears in payment.

Supervision is backed up by automatic processes. The main automatic processes are:

(i) the monthly review of the credit portfolio: at the end of the month, the entire credit portfolio is scanned. If a borrower is more than five days in arrears with at least one credit product, an electronic file is created and sent to the Monitoring Phase;

(ii) the daily review of the credit portfolio: each day, the entire credit portfolio is scanned. If a borrower is a certain number of days overdue on at least one credit product, the file is allocated to the head office and transferred to the Special Follow-up Phase. For mortgage loans, this occurs automatically after the borrower is 45 days in arrears; and

(iii) the dunning procedure: borrowers are sent reminders about their delinquent credit situation. The letters are individualised per credit product. For mortgage loans, 15 days after non-payment of the instalment, a friendly reminder is sent. If the borrower fails to pay the arrears, a notice of default is sent to the borrower by registered mail after he/she has been in arrears for 35 days. This notice of default is repeated every month until the arrears are paid or the credit product becomes due and payable.

(d) The Monitoring Phase

At the beginning of each month, the local office has to screen those customers for whom a new electronic file has been created. The local office can check the status of the followed-up customers in a special IT application.

Each month, a list of borrowers who are monitored is sent to the relevant local office. Based on this selection, the local office can take a number of measures:

(i) contact the borrower personally (by telephone);

(ii) set-off the arrears against credit balances on the borrower's accounts, subject to certain legal limits;

(iii) make arrangements with the customer to clear the arrears or change the repayment schedule of the mortgage loan;

(iv) create an additional mortgage by exercising the mortgage mandate, if any;

(v) encourage the borrower to sell his property voluntarily;

(vi) encourage the borrower to transfer his credit to another financial institution; and

(vii) transfer the responsibility of the follow-up to the head office.

The local office records the actions taken in the electronic file of the customer.

If it is not possible to normalise the delinquent credit situation, the borrower's file is transferred to the next follow-up phase.

(e) The Special Mention Phase

The borrower's file is automatically transferred to the Special Mention Phase when he/she becomes delinquent on at least one credit product for a certain number of days. For mortgage loans, the transfer to the Special Mention Phase occurs after the borrower is 45 days in arrears.

The files of the borrowers can also be transferred to the Special Mention Phase sooner:

(i) at the request of the local office;

(ii) if the local office makes arrangements with the borrower to clear the arrears on his/her mortgage loan; and

(iii) if serious credit events occur (for example, fraud).

In this phase, the head office will endeavour to have the borrower regularise his/her delinquent status. The measures that the head office may take are similar to those listed for the monitoring phase. Head office can consult the electronic file in order to know which measure the local office has already taken.

As from this phase, the local office loses all decision authority. All accounts of the borrower (with or without an overdraft facility) are automatically blocked in order to avoid additional limit overruns.

(f) The Possible Loss Phase

The borrower is transferred to the Possible Loss Phase if, at the end of the month, he/she has been delinquent on at least one credit product for at least 90 days.

This phase is an extension of the Special Mention Phase.

In this phase the head office tries to normalise the borrower's status. If it does not succeed, the credit products on which the borrower is in arrears are accelerated to the extent contractually and legally possible.

(g) Conciliation proceeding

For mortgage loans, as a rule, legal conciliation proceedings are initiated before the loan is accelerated. The conciliation proceedings are initiated once the borrower has missed three complete repayment instalments. The conciliation phase can last for three months.

In the conciliation proceeding, the borrower is required to appear before the competent court (Court of first instance) in order to provide KBC Bank with the possibility to foreclose the mortgaged assets.

If the court rules that no conciliation is possible, KBC Bank accelerates the loan without delay. If the court rules in favour of conciliation, the borrower has a certain period in which to pay the instalments that are in arrears. If the borrower subsequently fails to comply with the payment arrangements, KBC Bank is entitled to accelerate the loan immediately.

(h) The Irrecoverable Phase

A borrower is transferred to the Irrecoverable phase when KBC Bank is required to terminate the credit agreement or when there is no possibility of recovering the debt via the usual procedures.

For mortgage loans, the rule is that the loan is accelerated if the court rules that no conciliation is possible or if the borrower fails to comply with the payment arrangements imposed by the court (see paragraph (g)).

The consequences of the irrecoverable classification are:

(i) the credit is transferred from the normal accounting system to default claims accounting;

(ii) a special debt recovery account is opened. All future repayments are transferred to this account; and

(iii) specific provisions are booked.

The head office has a number of alternatives to recover these mortgage loans. Procedures are conducted as a matter of principle at the lowest expense for both KBC Bank and the borrower:

(A) payment arrangements may be allowed;

(B) an application can be submitted to exercise the mortgage mandate, if any, to create a mortgage;

(C) the borrower can be encouraged to sell his/her property voluntarily;

(D) the borrower can be encouraged to transfer his/her loan to another financial institution;

(E) notice can be served on the borrower's employer with a view to assigning the borrower's salary; and

(F) the file can be transferred to an attorney to commence the forced sale of the property.

The repayment of these mortgage loans generally occurs through a voluntary or forced sale of the mortgaged property. If the proceeds of the foreclosed property do not cover the outstanding amount of the mortgage loan, payment arrangements are discussed with the borrower.

A property is foreclosed on average after two to three years.

(i) The Write-off Phase

A borrower's file is transferred to the Write-off phase if there is no longer any possibility of recovering the debt via the usual procedures. The claims outstanding in this case are written off. For mortgage loans, this is the balance remaining after the mortgaged property has been sold.

KBC Bank must be able to justify the write-off to the tax authorities:

(i) KBC Bank holds a certificate of uncollectibility (from a bailiff);

(ii) the payments received are not sufficient to pay accruing interest (these are perpetual payment arrangements);

(iii) the borrower's name has been officially removed from registers of births, deaths and marriages (in other words, has gone missing);

(iv) the amount of the claim is not significant enough to justify the expense of active follow-up;

(v) the claim is forgiven by law (for example, under a collective debt settlement or if a bankrupt's debts are excused);

(vi) the borrower has died and left no heirs; or

(vii) KBC Bank has reached a compromise settlement with the borrower.

In this phase it is still possible to make new payment arrangements on demand of the customer.

(j) Collective debt settlements

The Act of 5 July 1998 on collective debt settlement for private persons has been in effect since 1 January 1999. This legislation is designed to enable individuals with excessive and structural debt problems to clear this debt. If a borrower starts such proceedings, this affects credit risk supervision. All ongoing legal procedures are suspended immediately. The competent court will in principle allow an out of- court settlement. If this is not possible, it imposes a court settlement (with a maximum term of five years). If the borrower has a mortgage loan, the court will generally decide that the credit repayments must continue to be made on the relevant due dates to enable the borrower to continue to occupy the home. In this case, the mortgage loan is not treated as irrecoverable, but will continue to be considered a normal credit.

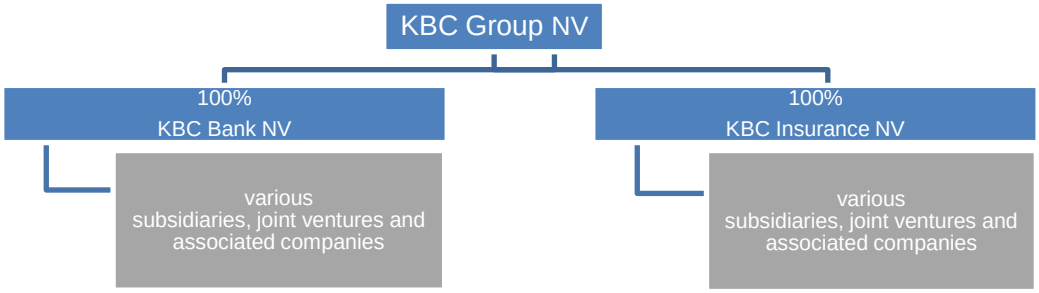
INFORMATION RELATING TO THE ISSUER

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 enterprise number 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 11 11. As KBC Bank is a wholly-owned subsidiary of KBC Group NV, KBC Bank is indirectly controlled by the shareholders of KBC Group NV (in this Base Prospectus KBC Group NV together with its subsidiaries is referred to as **KBC Group**).

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 (the **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. KBC Bank together with all subsidiaries in the scope of consolidation is referred to as the **Group**.



As at the date of this Base Prospectus, 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. The share capital is fully paid up. The shares of KBC Bank's parent company, KBC Group NV, are listed on Euronext Brussels. An overview of the shareholding of KBC Group NV is available on the website at www.kbc.com. 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.

2. THE STRATEGIC PLAN OF KBC GROUP

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 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 in Brussels and on 21 June 2017 KBC Group organised an Investor Visit in Dublin. On both occasions KBC Group presented, among other things, an update of its strategy and targets. The presentations and press releases from both events are available on the website at www.kbc.com. The main messages are the following:

- KBC Group wants to build on its strengths and be among Europe's best-performing, retail focused financial institutions. It intends to achieve this aim by further strengthening its bank insurance business model for retail, small and medium-sized enterprises (**SMEs**) 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 Central European core countries (the Czech Republic, the Slovak Republic, Hungary and Bulgaria), KBC Group is targeting at least integrated distribution, so that commercial synergies can be realised as soon as possible. In Ireland, insurance products are offered through partnerships.

- 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, with the aim of creating 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 should 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 Chief Risk Officer (**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. Therefore, everything at KBC Group needs to be based on the client's needs and not on the banking or insurance products and services. That is why the different channels are accorded equal status at KBC Group 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 is 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 expand beyond its current geographical footprint. In its core markets (Belgium, Ireland, the Czech Republic, Hungary, the Slovak Republic and Bulgaria), 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). As announced in February 2017, KBC Group has named Ireland as one of its core markets, alongside Belgium, Bulgaria, the Czech Republic, Hungary and the Slovak Republic (see further).

- During the Investor Visit in Dublin on 21 June 2017, KBC Group elaborated on the updated KBC Group strategy, the updated capital deployment plan and financial guidance 2020, and KBC Bank Ireland's Digital First Customer Centric strategy. KBC Group's strategy after 2017 continues to build on the existing fundamentals (see above). KBC Group will focus on strengthening in a highly cost-efficient way the integrated bank-insurance business model for retail, SME, private banking and mid-cap clients in its core markets (Belgium, Czech Republic, Slovak Republic, Hungary, Bulgaria,

Ireland), sustainable and profitable growth within the framework of solid risk, capital and liquidity management and creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach. As the Group finds itself in an ever changing environment and is faced with changing client behaviour and expectations, changing technology and digitalisation, a challenging macroeconomic environment, increasing competition, etc., the group will fundamentally change the way it implements this strategy. A diversified income basis becomes more and more important. Therefore it aims to increase income generation through fee business and insurance business (in addition to interest income). Client-centricity will be further fine-tuned into 'think client, and design for a digital world'. Clients will continue to choose the channel of their choice: physical branch or agency, smartphone, website, contact centre or apps. The human interface will still play a crucial role but will be augmented by digital capabilities. Clients will drive the pace of action and change. Technological development will be the driver and enabler. KBC Group intends to invest a further 1.5 billion euros group-wide in digital transformation between 2017 and year-end 2020.

- KBC Group has put its updated strategy into its capital deployment plan and has updated guidance on certain financial parameters and indicators (see table below).

Financial guidance KBC Group		By
Compound Annual Growth Rate (**CAGR**) total income ('16-'20) (excl. MTM valuation of ALM derivatives)	≥ 2.25%	2020
Cost/income ratio banking (excl./ incl. banking tax)	≤ 47% / ≤ 54%	2020
Combined ratio	≤ 94%	2020
Dividend payout ratio (incl. coupon paid on AT1)	≥ 50%	-
Regulatory requirements KBC Group*		**By**
Common equity tier-1 ratio (excl. / incl. P2G)	≥ 10.6% / ≥ 11.6%	2019
MREL ratio**	≥ 25.9%	2019
NSFR	≥ 100%	-
LCR	≥ 100%	-

- Common equity tier-1 ratio: fully loaded, Danish compromise, P2G = additional pillar 2 guidance. MREL stands for 'minimum requirement for own funds and eligible liabilities'; NSFR stands for 'net stable funding ratio'; LCR stands for 'liquidity coverage ratio'.

- Moreover, KBC Group aims to be one of the better capitalised financial institutions in Europe. Therefore as a starting position, it assesses each year the common equity tier 1 (**CET1**) ratios of a peer group of European banks active in the retail, SME, and corporate client segments and positions itself on the fully loaded median CET1 ratio of the peer group. KBC Group summarises this capital policy in its 'Own Capital Target', which on 31 December 2017 amounted to 14% CET1. On top of this, KBC Group wants to keep a flexible additional buffer of up to 2% CET1 for potential add-on mergers and acquisitions in its core markets. This buffer comes on top of the 'Own Capital Target' of KBC Group, and all together forms the Reference Capital Position, which currently amounts to 16%. KBC Group reconfirmed its pay-out ratio policy (i.e. dividend + coupon paid on the outstanding Additional Tier 1 instruments) of at least 50% of consolidated profit, including an annual interim dividend of 1 euro per share paid in November of each accounting year as an advance on the total dividend. On top of the pay-out ratio of 50% of consolidated profit, each year, the Board of Directors will take a decision, at its discretion, on the distribution of the capital above the Reference Capital Position'.

- The resolution plan for KBC Group is based on a Single Point of Entry (**SPE**) approach at the level of KBC Group NV. In this approach, bail-inable debt instruments positioned for loss absorption purposes are issued by KBC Group NV (i.e. top level). KBC Group NV down-streams the proceeds of these instruments to KBC Bank NV in the form of subordinated instruments. This means that

losses will be transferred to the top level of the group and that, if resolution occurs, the group will be resolved as a whole. Hence, this approach safeguards the bank-insurance model in a resolution Bail-in is identified as the preferred resolution tool. Bail-in implies a recapitalisation and stabilisation of the bank by writing down certain unsecured liabilities and issuing new shares to former creditors as compensation. The SPE approach at KBC Group level reflects KBC Group's business model which relies heavily on integration, both commercially (e.g. banking and insurance) and organisationally (e.g. risk, finance, treasury, etc.). Debt instruments that are positioned for bail-in will be issued by KBC Group NV. This approach keeps the KBC Group intact in resolution and safeguards the bank-insurance model in going concern. It is crucial that there are adequate liabilities eligible for bail-in. This is measured by the minimum requirement for own funds and eligible liabilities (**MREL**). As at 30 June 2018, the MREL ratio based on instruments issued by KBC Group NV stood at 25.1% of risk weighted assets ('point of entry' view). Based on the broader SRB definition, which also includes eligible instruments of KBC Bank NV, the MREL ratio amounted to 26.4% (the 'consolidated view'). The SRB requires KBC Group to achieve a ratio of 25.9% by 1 May 2019 using eligible instruments of both KBC Group NV and KBC Bank NV.

- Ireland has become one of KBC Group's core markets, alongside Belgium, Czech Republic, Bulgaria, the Slovak Republic and Hungary. As a consequence, KBC Bank Ireland plc will strive to achieve at least a market share of 10% in retail and micro SME segments and will plan to develop bank-insurance similar to other core markets of the group. KBC Group will pursue a fully-fledged sustainable growth strategy based on the implementation of a 'Digital First' customer-centric strategy. KBC Bank Ireland plc 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. KBC Ireland will facilitate 'always-on 24/7 accessibility' in terms of distribution and service. It will further 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, it will also cater for the new emerging digital savvy consumer in the future. Insurance products (life and non-life) are offered through partnerships and collaboration. KBC Bank Ireland plc will continue to cultivate its current relationships with insurance product providers. To digitalise and innovate faster, KBC Bank Ireland plc will intensify its collaboration with other Group entities and leverage proven innovations and learnings from other core markets of the Group. KBC Bank Ireland plc also has a unique business model with its integrated distribution model (with online and mobile supported by a contact centre and physical hubs), which can be an example for other Group core countries. Through its integrated distribution business model, KBC Bank Ireland plc will be given the support to innovate. Moreover, the Group's new core banking system with an open architecture will allow KBC Bank Ireland plc 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 the KBC Group.

- Sustainability is embedded in the strategy of KBC Group. This primarily means the ability to live up to the expectations of all stakeholders and to meet obligations, not just today but also in the future. KBC Group's sustainability strategy has three cornerstones:
  - enhancing the positive impact on society;
  - limiting the negative impact KBC Group might have; and
  - encouraging responsible behaviour on the part of all employees.
- KBC Group's summarises its strategy as follows: KBC Group's strategy rests on a number of principles:
  - it places its clients at the centre of everything it does;

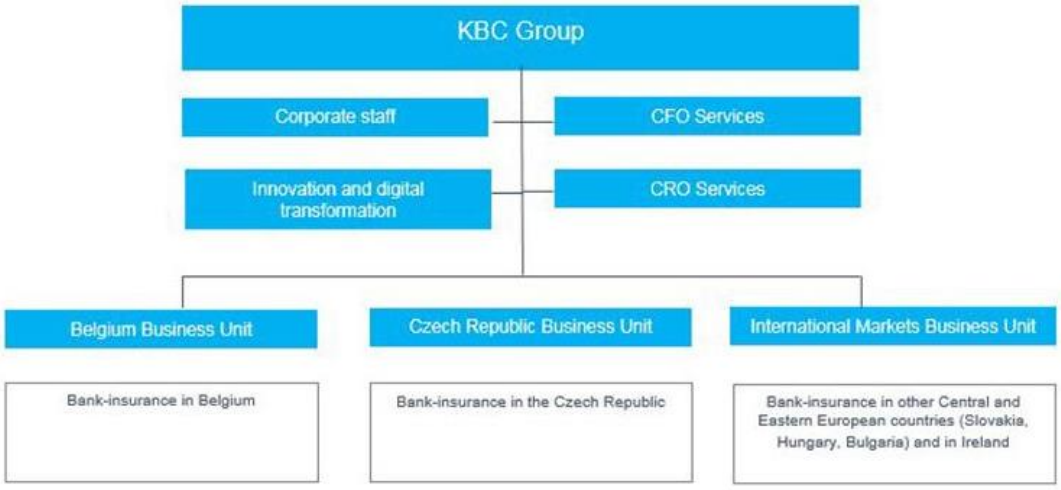
- it looks to offer its clients a unique bank-insurance experience;
- it focuses on KBC Group's long-term development and aims to achieve sustainable and profitable growth;
- it meets its responsibility to society and local economies; and
- it implements its strategy within a strict risk, capital and liquidity management framework.

A definition of the above-mentioned ratios can be found in the glossaries of the Annual Reports of KBC Group and KBC Bank, available on the website at www.kbc.com.

3. MANAGEMENT STRUCTURE

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

Structure as at the date of this Base Prospectus:



The management structure of both KBC Group and KBC Bank essentially comprises:

(a) the three business units, which focus on local business and are expected to contribute to sustainable profit and growth:

- Belgium Business Unit;
- Czech Republic Business Unit; and
- International Markets Business Unit: this encompasses the other core countries in Central and Eastern Europe (the Slovak Republic, Hungary and Bulgaria) and Ireland;

(b) the pillars 'CRO Services' and 'CFO Services' (which act as an internal regulator, and whose main role is to support the business units), 'Corporate Staff' (which is a competence centre for strategic know-how and best practices in corporate organisation and communication) and 'Innovation and digital transformation'.

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

4. SHORT PRESENTATION OF THE ISSUER

Shareholders (30 June 2018)	Number of shares
KBC Group NV	915,228,481
KBC Insurance NV	1
Total	915,228,482

The shareholdership of KBC Group NV (parent company of KBC Bank) is available on the website at www.kbc.com.

Network

Network (as at 31 December 2017)

Bank branches in Belgium: 659

Bank branches in Central and Eastern Europe (Czech Republic, Slovak Republic, Hungary and Bulgaria): 835

Bank branches in the rest of the world (including rep. offices):..... 27*

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

5. SELECTED FINANCIAL INFORMATION OF THE ISSUER

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 2016 and 31 December 2017, and each of the two first six months periods of 2017 and 2018.

Note: As of 2018, KBC Bank has started applying IFRS 9. In simplified terms, this means that the classification of financial assets and liabilities, as well as the impairment methodology, have changed significantly. As a result, some of the profit and loss and balance sheet figures are not fully comparable to the 2017 and 2016 reference figures (which are still based on IAS 39, as KBC Bank is making use of transition relief for comparative data). More information on the transition to IFRS 9 is provided in KBC Bank's half-year report 1H2018 (p. 15-32), available on www.kbc.com.

Highlights of the consolidated income statement KBC Bank (in millions of EUR)	Full year 2016	Full year 2017	First half 2017	First half 2018
Net interest income	3,635	3,546	1,762	1,989
Dividend income	27	20	15	18
Net result from financial instruments at fair value through profit or loss	551	860	443	86
Net realised result from available-for-sale assets	134	114	50	-
Net realised result from debt instruments at fair value through other comprehensive income	-	-	-	8
Net fee and commission income	1,753	2,023	1,017	1,050
Other net income	140	25	82	83
TOTAL INCOME	**6,240**	**6,588**	**3,368**	**3,233**
Operating expenses	-3,399	-3,568	-1,893	-2,001
Impairment	-145	44	67	57
Share in results of associated companies and joint-ventures	23	8	6	8

RESULT BEFORE TAX	**2,719**	**3,073**	**1,549**	**1,297**
Income tax expense	-525	-891	-273	-262
RESULT AFTER TAX	**2,195**	**2,182**	**1,276**	**1,035**
Attributable to minority interest	169	179	89	88
Attributable to equity holders of the parent	**2,026**	**2,003**	**1,187**	**947**

Balance Sheet

The table below sets out highlights of the information extracted from KBC Bank's consolidated balance sheet statement as at 31 December 2016 and 31 December 2017 and 30 June 2018.

Note: As of 2018, KBC Bank has started applying IFRS 9. In simplified terms, this means that the classification of financial assets and liabilities, as well as the impairment methodology, have changed significantly. As a result, some of the profit and loss and balance sheet figures are not fully comparable to the 2017 and 2016 reference figures (which are still based on IAS 39, as KBC Bank is making use of transition relief for comparative data). More information on the transition to IFRS 9 is provided in KBC Bank's half-year report 1H2018 (p. 15-32), available on www.kbc.com.

Highlights of the consolidated balance sheet, KBC Bank (in millions of EUR)	**31-12-2016**	**31-12-2017**	**30-06-2018**
Total assets	239,333	256,322	266,379
Loans and advances to customers (excluding reverse repos*)	131,528	139,090	143,277
Securities (equity and debt instruments)	52,180	47,995	45,390
Deposits from customers and debt securities (excluding repos**)	178,388	194,257	193,862
Risk weighted assets (Basel III, fully loaded)	78,482	83,117	83,624
Total equity	14,158	15,656	15,724
of which parent shareholders' equity	12,568	14,083	13,115

* and ** The term 'reverse repos' or a reverse repurchase agreement refers to the purchase of securities with the agreement to sell them at a specific future date. For the party selling the security (and agreeing to repurchase it in the future) it is a repurchase agreement or repo. For the other party on the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

6. RATINGS OF KBC BANK

Long-term credit ratings (as at 31 August 2018)	
Fitch	A
Moody's	A1
Standard and Poor's	A+

Ratings can change. Various ratings exist. Investors should look at 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 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 such Regulation.[10]

[10] A list of credit rating agencies registered under Regulation (EC) No. 1060/2009 is published on the website of ESMA (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk).

7. MAIN COMPANIES WHICH ARE SUBSIDIARIES OF KBC BANK OR IN WHICH IT HAS SIGNIFICANT HOLDINGS AS OF 30 JUNE 2018

Company	Registered office	Ownership percentage of KBC Bank	Activity (simplified)
CBC Banque SA	Brussels – BE	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 Autolease NV	Leuven – BE	100.00	Leasing
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
KBC IFIMA SA	Luxemburg – LU	100.00	Funding
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt.	Budapest – HU	100.00	Credit institution
Loan Invest NV	Brussels – BE	100.00	Securitisation
United Bulgarian Bank	Sofia – BG	99.91	Credit institution

A full list of companies belonging to the Group at year end 2017 is provided in its 2017 annual report.

8. GENERAL DESCRIPTION OF ACTIVITIES OF THE ISSUER

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

Its geographic focus is on Europe. In its "home" (or "*core*") markets Belgium, Czech Republic, Slovak Republic, Hungary, Bulgaria and Ireland, the Group has important and (in some cases) even leading positions.[11] The Group is also present in other countries where the primary focus is on supporting the corporate clients of the home markets.

The 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 most of its home markets, the 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.

9. PRINCIPAL MARKETS AND ACTIVITIES

Activities in Belgium

Market position of the bank network in Belgium, end of 2017	
Market share (own KBC Bank estimates)	Banking products* 20% Investment funds 33%
Bank branches	659

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

[11] Source: KBC Bank NV.

The Group has a network of 659 bank branches in Belgium: KBC Bank branches in Flanders, CBC Banque branches in Wallonia and KBC Brussels branches in the Brussels area. The branches focus on providing clients with a broad area of credit (including mortgage loans), deposit, investment fund and other asset management products, insurance products (in cooperation with KBC Bank's sister company, KBC Insurance NV) and other specialised financial banking products and services. The 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, CBC Banque and KBC Brussels 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 KBC Group level, serving the entire KBC Group, and not just the bank or insurance businesses separately. It is the 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 cooperation that exists between the bank branches and the insurance agents of KBC Insurance NV and CBC Assurance, 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.

At the end of 2017, the Group had (see table above), based on its own estimates, a 20% share of traditional banking activities in Belgium (the average of the share of the lending market and the deposit market). Over the past few years, KBC Bank has built up a strong position in investment funds too, with an estimated market share of approximately 33%.

the 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. That includes the various mobile banking apps for smartphones and tablets, which are being continuously improved and expanded.

In the 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 their Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group (Belgium) and KBC Securities.

The Group's aim in Belgium is:

- to focus on an omnichannel approach and invest in the seamless integration of the different distribution channels (bank branches, insurance agencies of KBC Insurance, regional advisory centres, websites and mobile apps). KBC Group is also investing specifically in the further digital development of its banking and insurance services. Where necessary, KBC Group will collaborate with partners through 'eco-systems' which enable it to offer its clients comprehensive solutions;
- to exploit the potential in Brussels more efficiently via the separate new brand, KBC Brussels, which reflects the capital's specific cosmopolitan character and is designed to better meet the needs of the people living there;
- to expand bank-insurance services at CBC Banque in specific market segments and to expand its presence and accessibility in Wallonia;
- to work on the ongoing optimisation of the bank-insurance model in Belgium;
- to continue the pursuit of becoming the reference bank for SME's and mid-cap enterprises based on thorough knowledge of the client and a personal approach; and
- that its commitment to Belgian society is reflected in initiatives in areas including environmental protection, financial literacy, entrepreneurship and demographic ageing, as well as in KBC Group's active participation in the mobility debate.

Activities in Central and Eastern Europe

Market position of the bank network in the home countries of Central and Eastern Europe, at the end of 2017		Czech Republic	Slovak Republic	Hungary	Bulgaria
Market share (own KBC Bank estimates)	Banking products*	20%	11%	11%	10%
	Investment funds	22%	7%	13%	13%
Bank branches	Total	270**	122	207	236

** Average of the share in credits and the share in deposits*
*** ČSOB Bank branches + Postal Savings Bank financial centres + Era branches.*

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

In its four home countries, the Group caters to over five 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 and Eastern European region. The 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. As is the case in Belgium, the Group's 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, KBC 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, 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 Group's estimated market share (the average of the share of the lending market and the deposit market, see table above) amounted to 20% in the Czech Republic, 11% in the Slovak Republic, 11% in Hungary, and 10% in Bulgaria (rounded figures). The Group also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 22% in the Czech Republic, 7% in the Slovak Republic, 13% in Hungary and 13% in Bulgaria).

In the 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 the Group's activities in the Czech Republic, consisting primarily of the activities of the ČSOB group (under the ČSOB, Era, Postal Savings Bank, Hypotečni 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 UBB (including CIBANK) in Bulgaria, plus KBC Bank Ireland's Irish operations.

The focus of the Group in the future is the following:

- in relation to the Czech Republic Business Unit:
    - to move from largely channel-centric solutions to solutions that are client-centric and are based on an integrated model that brings together clients, third parties and the Group's bank-insurer;
    - to offer new products and services to add value for clients and to further enhance client satisfaction, taking use of digital opportunities and taking account of new trends, shifting client behaviour and new regulations;
    - to continue to concentrate on simplifying products, IT capabilities, organisation, the bank distribution network, the head office and branding in order to achieve even greater cost efficiency;
    - to expand the bank-insurance activities through steps like introducing a progressive and flexible pricing model, developing combined banking and insurance products, and strengthening the insurance sales teams;
    - to keep expanding in traditionally strong fields, such as lending to businesses and providing home loans. The Group also wants to advance in areas – for example in relation to SME and consumer loans – where it has yet to tap its full potential; and
    - its social commitment is expressed in the focus on environmental awareness, financial literacy, entrepreneurship and demographic ageing;
- in relation to the International Markets Business Unit (excluding Ireland):
    - to move from a branch-oriented distribution model to an omnichannel model;
    - to target income growth in Hungary through vigorous client acquisition in all banking segments and through more intensive cross-selling, in order to raise market share and profitability, and to simplify products and processes;
    - to maintain robust growth in strategic products in the Slovak Republic (e.g., home loans, consumer finance, SME funding and leasing), partly through cross-selling to ČSOB group clients. As is the case in Hungary, simplifying products and processes is another key focus;
    - to focus in Bulgaria on substantially increasing the share of the lending market in all segments, while applying a strict risk framework. The acquisition of United Bulgarian Bank fits this strategy perfectly; and
    - to implement a socially responsible approach in all relevant countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.

On 30 December 2016, KBC Group NV announced that it and the National Bank of Greece S.A. (**NBG**), the Greek parent company of United Bulgarian Bank (**UBB**), reached an agreement for KBC Group NV to acquire ownership of 99.9% of the shares in the share capital of UBB, the fourth largest bank in Bulgaria in terms of assets. KBC Group NV also acquired all shares in Interlease, the third largest provider of leasing services in Bulgaria. The total consideration amounted to EUR 610 million. This acquisition was completed mid-June 2017.

With these acquisitions, KBC Group aims to become the reference in bank-insurance in Bulgaria – a country with strong macroeconomic fundamentals and attractive opportunities for the further development of financial services. This also results in the Issuer now being active in leasing, asset management and factoring in Bulgaria, enabling the Group to offer its clients a full range of financial services there.

In December 2017, KBC Asset Management sold 100% of the shares in its wholly-owned subsidiary KBC TFI in Poland to the PKO Bank Polski group, the largest bank in Poland. This deal is fully in line with the strategy of KBC Group, which focuses on retail clients, SMEs and midcaps in its core markets of Belgium, the Czech Republic, the Slovak Republic, Hungary, Bulgaria and Ireland. The deal had a negligible impact on KBC Group's results. KBC TFI was established in 2002, targeting private and professional clients with a broad range of investment products through a diverse distribution network of primarily leading Polish banks, but also insurers, brokers and financial intermediaries. KBC TFI manages local funds and private mandates, but also distributes foreign funds denominated in PLN.

Activities in the rest of the world

A number of companies belonging to the 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 7 – "*Main companies which are subsidiaries of the Group or in which it has significant holdings as of 31 December 2017*") or the full list in the 2017 annual report of KBC Bank.

The loan portfolio of KBC Bank Ireland plc stood at approximately EUR 12 billion as at the end of June 2018, approximately 90% of which relates to mortgage loans. At the end of June 2018, approximately 36% (EUR 4.4 billion) of the total Irish loan portfolio was impaired (of which EUR 2.3 billion more than 90 days past due). For the impaired loans, approximately EUR 1.9 billion impairments have been booked. The Group estimates its share of the Irish retail market in 2017 at 8%. It caters for around 0.3 million clients there. KBC Bank Ireland has sixteen branches (hubs) in Ireland, next to its digital channels. A full profit and loss scheme for Ireland is available in KBC Bank's segment reporting[12].

Note: on 8 August 2018, KBC Bank Ireland reached an agreement with Goldman Sachs to sell part (approximately 1.9 billion euros) of its legacy portfolio, comprising of non-performing corporate loans, non-performing Irish buy-to-let mortgage loans, and performing & non-performing UK buy-to-let mortgage loans (with buy-to-let mortgage loans being mortgage loan arrangements in which an investor borrows money to purchase property in order to let it out to tenants). As a result of the transaction, KBC Bank Ireland's impaired loans ratio reduces by roughly 11 percentage points to around 25% pro forma at end 2Q2018. The transaction is expected to result in a net profit impact of +14 million euros (based on 1Q2018 numbers and including all costs related to the transaction), a release of risk-weighted assets of approximately 0.4 billion euros at KBC Bank, leading to an improvement of the KBC Bank's common equity ratio of 8 basis points. The transaction is expected to close in the 4th quarter of 2018.

As regards the Group's strategy in Ireland, please refer to section 2 'The strategic plan of 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 the Group's financial reporting, KBC Bank Ireland is included in the International Markets Business Unit, while 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**). 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.

[12] Segment reporting based on the management structure in the Financial Statements of the annual and semi-annual reports, available on www.kbc.com.

10. COMPETITION

All of the Issuer'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, specialised finance companies, asset managers, private bankers, investment companies, fintech companies, etc.

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

In Belgium, the Group is perceived as belonging to the top three (3) financial institutions. For certain products or activities, the 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, the Group is one of the important financial groups, occupying significant positions in banking. In this respect, the 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, the Group's presence mainly consists of KBC Bank Ireland plc, which is active in Ireland, and a limited number of branches and subsidiaries. In the latter case, the Group faces competition both from local companies and international financial groups.

KBC Bank Ireland plc is a challenger bank. Given that it has only launched its retail strategy in 2014, it has a small single digit market share of the outstanding stock in all products except mortgage loans, in which it has a market share of approximately 10%. Its main competitors are the large domestic banks such as Allied Irish Banks plc and Bank of Ireland plc.

11. STAFF

As at the end of 2017, the Group had, on average and on a consolidated basis, about 29,000 employees (in full time or equivalent-numbers), the majority of whom were located in Belgium (largely in KBC Bank) and Central and Eastern Europe. These figures take account of all acquisitions and divestments. More specifically, they include the acquisition of UBB and Interlease in Bulgaria (as these companies were only acquired mid 2017, only their figures of the last six months of 2017 have been included in the Group's average figures mentioned above (1,156 full time or equivalent). In addition to consultations, at works council meetings and at meetings with union representatives and with other consultative bodies, the Group also works closely in other areas with employee associations. There are various collective labour agreements in force.

12. 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 risks, 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 the risk management is available in the 2017 Risk Report, which is available on the website at www.kbc.com[13].

[13] www.kbc.com/en/risk-reports.

Risk governance

Below follows a description of credit risk, market risk (relating to trading and 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 under "*Credit Risk*" and "*Asset and Liability Management (market risks in non-trading activities)*".

- 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.

- 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 the Group's liquidity management is to be able to fund such needs and to enable the core business activities of the 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 the 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 portfolio. It includes all payment credit, guarantee credit, standby credit and credit derivatives, granted by KBC Group to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included.

Since 1Q2018 a switch has been made in the reported 'outstanding' figures from drawn principal to the new IFRS 9 definition of gross carrying amount (**GCA**), i.e. including reserved and accrued interests. The additional inclusion of reserved interests led, among others, to an increase in the reported amount of impaired loans. Furthermore, the transaction scope of the credit portfolio was extended and now additionally

includes the following 4 elements: (1) bank exposure (money market placements, documentary credit, accounts), (2) debtor risk KBC Commercial Finance, (3) unauthorized overdrafts, and (4) reverse repo (excl. central bank exposure).

	31 December 2014	31 December 2015	31 December 2016	31 December 2017	30 June 2018
Total loan portfolio (in billions of euro)					
Portfolio outstanding + undrawn	166	174	181	191	207
Portfolio outstanding	139	143	148	154	167
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)					
Belgium	64%	65%	65%	63%	65%
Czech Republic	14%	14%	15%	16%	15%
International Markets	18%	18%	17%	18%	17%
Group Centre (IFRS 5 scope)	4%	3%	3%	3%	2%
Total	100%	100%	100%	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)					
Non-financial services	11%	11%	12%	12%	11%
Retail and wholesale trade	8%	8%	8%	8%	7%
Real estate (risk)	7%	7%	7%	7%	7%
Construction	4%	4%	4%	4%	4%
Impaired loans (in millions of euro or %)					
Amount outstanding	13,692	12,305	10,583	9,186	9,175
Stage 3 loan impairments	5,709	5,517	4,874	4,039	4,403
Credit cost ratio, per business unit					
Belgium	0.23%	0.19%	0.12%	0.09%	0.08%
Czech Republic	0.18%	0.18%	0.11%	0.02%	-0.03%
International Markets	1.06%	0.32%	-0.16%	-0.74%	-0.71%
Group Centre	1.17%	0.54%	0.67%	0.40%	-0.93%
Total	0.42%	0.23%	0.09%	-0.06%	-0.10%
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of euro or %)					
Impaired loans that are more than 90 days past due	7,676	6,936	5,711	5,242	5,348
Stage 3 loan impairments	4,384	4,183	3,603	3,361	3,621
Ratio of impaired loans that are more than 90 days past due, per business unit					
Belgium	2.2%	2.2%	1.7%	1.4%	1.2%
Czech Republic	2.9%	2.5%	1.9%	1.6%	1.5%
International Markets	19.0%	16.0%	13.4%	11.3%	11.5%
Group Centre	6.3%	6.1%	5.8%	7.3%	8.9%
Total	5.5%	4.8%	3.9%	3.4%	3.2%
Cover ratio (Stage 3 loan loss impairment)/(impaired loans)					
Total	42%	45%	46%	44%	48%
Total, excluding mortgage loans	51%	53%	54%	54%	57%

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. PD class 11 is assigned to obligors that are more than 90 days past due (in arrears or overdrawn), but that 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. 'Defaulted' status is fully aligned with 'non-performing' status and 'impaired' status. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with 'non-defaulted' and 'non-impaired' status.

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 SME's 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 class 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. **IRB** refers to the Internal Rating-Based Approach. Under the Basel II guidelines, (certain) banks are allowed to make their own assessment of counterparties and exposures to calculate their capital requirements for credit risk. The IRB refers to such internal risk parameters for the purpose of calculating regulatory capital.

As of 2018, impairment losses are recorded according to the IFRS9 requirements (calculated on a lifetime expected credit loss (**ECL**) basis for defaulted borrowers and on a twelve-month or lifetime ECL basis for non-defaulted borrowers depending on whether there has been a credit risk deterioration and a corresponding shift from 'stage 1' to 'stage 2'.

Under IFRS9, files are allocated in three stages: 'stage 1' allocates performing files, 'stage 2' allocates underperforming files and 'stage 3' allocates non-performing files (PD 10-12, as mentioned above). At origination, all files are allocated to 'stage 1'. If a file experiences a negative change in credit risk, compared to its origination, it will shift from 'stage 1' to 'stage 2', or to 'stage 3' in case the file would go into default.

Structured credit exposure KBC Group (CDOs and other ABS)

As at 31 December 2017, at EUR 1.0 billion, the total net portfolio (i.e., excluding de-risked positions) of structured credit products (consisting primarily of European residential mortgage-backed securities (RMBS)) decreased by EUR 0.4 billion on its level at year-end 2016, due to redemptions. No new investments have been made in 2017.

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

The main technique KBC Group 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 Group also uses other techniques such as the gap analysis, scenario analysis and stress testing (both from a regulatory capital perspective and from a net income perspective). More details are available in the 2017 annual report of KBC Bank.

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

Average of 1Q 2015	-63
Average of 2Q 2015	-46

Average of 3Q 2015	-33
Average of 4Q 2015	-30
As at 31 December 2015	-30
Average of 1Q 2016	-24
Average of 2Q 2016	-35
Average of 3Q 2016	-50
Average of 4Q 2016	-83
As at 31 December 2016	-83
Average of 1Q 2017	-79
Average of 2Q 2017	-74
Average of 3Q 2017	-73
Average of 4Q 2017	-76
As at 31 December 2017	-76

Market risk management

The Group is exposed to market risk via the trading books of its dealing rooms in Belgium, the Czech Republic, the Slovak Republic and Hungary, as well as via a minor presence in the UK and Asia. Limited trading activities are also carried out at the recently acquired United Bulgarian Bank (UBB) in Bulgaria (regulatory capital charges for market risk amounted to EUR 6 million at the end of 2017). The dealing rooms, with the dealing room in Belgium accounting for the largest part of the limits and risks, focus on trading in interest rate instruments, while activity on the foreign exchange 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.

As regards the legacy CDO business, the remaining small positions were completely closed out in April 2017, which resulted in the definitive and complete closure of this business line. The reverse mortgages and insurances derivatives legacy business lines have been transferred from KBC Investments Limited to KBC Bank, as only a small quantity of contracts remain (accounting for approximately 1% of the total regulatory capital charges for market risk set out in the table at the end of this section). The fund derivatives legacy business line has been almost completely wound down, which means that KBC Investments Limited will be dissolved in the near future.

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.

More details are available in the 2017 annual report of KBC Bank.

Market risk HVaR [1] (Ten-day holding period, in millions of euro)

	KBC Bank
Average, 1Q 2015	14
Average, 2Q 2015	15
Average, 3Q 2015	15
Average, 4Q 2015	16
End of period	*18*
Maximum in year	*21*
Minimum in year	*12*

Average, 1Q 2016	16
Average, 2Q, 2016	15
Average, 3Q 2016	15
Average, 4Q 2016	14
End of period	*20*
Maximum in year	*20*
Minimum in year	*11*
Average, 1Q 2017	19
Average, 2Q 2017	26
Average, 3Q 2017	27
Average, 4Q 2017	22
End of period	*18*
Maximum in year	*31*
Minimum in year	*15*
Average, 1Q 2018	18
Average, 2Q 2018	16

Regulatory capital charges for market risk

As shown in the table below, in 2017 approximately 90% of the regulatory capital requirements were calculated using Approved Internal Models (**AIMs**). In previous years, this used to be the sum of the regulatory capital requirements calculated using the AIMs of KBC Bank NV, KBC Investments Limited – both models were authorised by the Belgian regulator – and ČSOB in the Czech Republic, whose model was authorised by the Czech Republic regulator. In June 2017, the ECB approved the integration of the European equity derivatives trading activities (the only trading activity in KBC Investments Limited's AIM) into KBC Bank's AIM, thus resulting in two AIMs instead of three (cutting costs and reducing complexity). The two AIMs 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 an 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. The period of stress is calibrated at least once a year by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions.

The resulting capital requirements for trading risk at year-end 2016 and 2017 are shown in the table below. It shows the regulatory capital requirements by risk type, as assessed by the internal model. The regulatory capital requirements for the trading risk of local KBC entities (where, for reasons of materiality, approval was not sought from the regulator to use an internal model for capital calculations), as well as the business lines not included in the VaR calculations, are measured according to the Standardised approach and likewise shown by risk type.

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

	Interest rate risk	Equity risk	FX risk	Commodity risk	Resecuritisation	Total
31-12-2016						
Market risks assessed by HVaR	57	2	7	-	-	156

internal model	SVaR	74	2	14	-		
Market risks assessed by the Standardised Approach		18	4	13	0	1	37
Total		150	8	34	0	1	193
31-12-2017							
Market risks assessed by internal model	HVaR	77	3	5	-	-	235
	SVaR	129	7	14	-		
Market risks assessed by the Standardised Approach		18	6	9	0	0	33
Total		225	16	28	0	0	269

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**), acting as the supervisory authority for prudential supervision of significant financial institutions. 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 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 the 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 the realisation of 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 and stockbroking firms (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**, and 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. BRRD has formally been transposed into Belgian Law by amending the Banking Law with effect from 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

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 jeopardises 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 10 working days.

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 organisation, 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 cooperate 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 NBB. Within the context of the European System of Central Banks, the NBB issues certain recommendations regarding monetary controls.

The Banking Law has introduced a prohibition in principle on proprietary trading as from 1 January 2015. 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.

The Banking Law establishes a range of instruments to tackle potential crises of credit institutions at three stages:

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 to their financial position. 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 situation, 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 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 Single Resolution Board or the 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.

Early intervention

The ECB/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.

Resolution

In relation to credit institutions falling within the scope of the Single Supervisory Mechanism, such as KBC Bank NV (and KBC Group NV), the Single Resolution Board 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 Single Resolution Board 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 if it considers that all of the following circumstances are present: (i) the determination has been made by the resolution authority, after consulting the competent authority, that a credit institution is failing or is likely to fail, (ii) there is no reasonable prospect that any alternative private sector measures or supervisory action can be taken to prevent the failure of the institution, and (iii) resolving the credit institution is necessary from a public interest perspective. 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 through the Royal Decree of 18 December 2015 implementing the Banking Law. Bail-in is a mechanism to write down the eligible 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 also applies to existing debt instruments. 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 powers 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 amending 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 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 Group 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 14 December 2017 by the Board of Directors of KBC Group NV, KBC Bank and KBC Insurance NV and has been sent to the NBB.

KBC Bank also has a Corporate Governance Charter which is published on www.kbc.com.

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. 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.

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.

The minimum solvency ratios required under CRD IV/CRR are 4.5% for the common equity tier-1 (**CET1**) ratio, 6.0% for the tier-1 capital ratio and 8.0% for the total capital ratio (i.e., the pillar 1 minimum ratios). As a result of its supervisory review and evaluation process (**SREP**), the competent supervisory authority (in KBC Group's case, the ECB) can require KBC Group to maintain higher minimum ratios (i.e., the pillar 2 requirements which in 2016 have been split by the ECB in a pillar 2 requirement and a pillar 2 guidance) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. On top of this, a number of additional buffers have to be put in place, including a capital conservation buffer of 2.5% (to be phased in between 2016 and 2019), a buffer for systemically important banks (**O-SII buffer**, to be determined by the national competent authority) and a countercyclical buffer in times of credit growth (between 0% and 2.5%, likewise to be determined by the national competent authority). These buffers need to be met using CET1 capital, the strongest form of capital.

In the context of its supervisory authority, the ECB requires KBC Group to maintain (i) a pillar 2 requirement (P2R) of 1.75% CET1 and (ii) a pillar 2 guidance (P2G) of 1.0% CET1.

The capital requirement for KBC Group is not only determined by the ECB but also by decisions of the various local competent authorities in KBC Group's core markets. The Czech and Slovak competent authorities require a countercyclical buffer requirement of 1.25% on relevant credit exposures in their jurisdiction, which corresponds with an additional CET1 requirement at Group level of 0.35%. The NBB requires an additional capital buffer for other systemically important banks of 1.5% in 2018.

The capital conservation buffer currently stands at 1.875% for 2018, and will increase to 2.50% in 2019. These buffers come on top of the minimum CET1 requirement of 4.5% under pillar 1. Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise[14]) to 10.60% with an additional 1% pillar 2 guidance.

Furthermore, since part of the requirements are gradually built up by 2019, the relevant requirement (under the Danish compromise) for 2018 on a phased in basis is at a lower level, i.e., 9.875% CET1.

The following table provides an overview of the phased in CET1 requirement for 2018 and the fully loaded CET1 requirement:

KBC Group	2018	Fully loaded
Pillar 1 minimum requirement (P1 min)	4.50%	4.50%
Pillar 2 requirement (P2R)	1.75%	1.75%
Conservation buffer	1.875%	2.50%
O-SII buffer	1.50%	1.50%
Countercyclical buffer	0.25%	0.35%
Overal capital requirement (OCR) = MDA threshold*	9.875%	10.60%

**Maximum Distributable Amount under CRD IV*

KBC Group clearly exceeds these targets: on 30 June 2018, the fully loaded CET1 ratio for KBC Group came to 15.8%, (16.3% at 31 December 2017) which represented a capital buffer of EUR 14,175 million

[14] The Danish compromise deals with the treatment of insurance holdings within conglomerates for the purpose of calculating the CRR capital ratios.

relative to the minimum requirement of 10.60%. The leverage ratio (Basel III, fully loaded) stood at 6% (6.1% at 31 December 2017) relative to the minimum requirement of 3%.

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 (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing by the law of 18 September 2017 on the prevention of money laundering, terrorist financing and on the limitation of the use of cash (the **Law of 18 September 2017**). 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. A risk-based approach assumes that the risks of money laundering and terrorism financing may take various forms. Accordingly, businesses/individuals subject to the Law of 18 September 2017 do have to proceed to a global assessment of the risks they are facing and formulate efficient and adequate measures. The definition of politically exposed people is being broadened. It will encompass not only national persons who are or who have been entrusted with prominent public functions residing abroad, but also those residing in the country. Member States also have to set up a central register which identifies the ultimate beneficial owner of companies and other legal entities. Payments/donations in cash are capped at EUR 3,000. Member States must also provide for enhanced customer due diligence measures for the obliged entities to apply when dealing with natural persons or legal entities established in high-risk third countries.

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, subsection 1, 2°-4° of the Criminal Code) and sanctions them with a jail term of a minimum of fifteen days and a maximum of five years and/or a fine 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 be 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 Belgian mixed financial holding company (KBC Group NV) and part of a financial conglomerate, KBC Bank is also subject to the supplementary supervision by 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)" (a **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 of 3 August 2012 on certain forms of collective management of investment portfolios (the **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 the statutory auditor.

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 the Group being under an obligation or entitlement that is material to KBC Bank's ability to meet its obligations to Covered Bondholders.

15. RECENT EVENTS

Information about recent events in relation to the Issuer can be found in the following sections: "*2. The strategic plan of KBC Group*" (pages 169 to 173), "*3. Management structure*" (page 173), "*4. Short presentation of the Issuer*" (page 174), "*8. General description of activities of the Issuer*" (page 176), "*9. Principal markets and activities*" (pages 176 to 180), "*12. Risk management*" (pages 181 to 187), "*13. Banking supervision and regulation*" (pages 187 to 193) and "*21. Litigation*" (pages 199 to 205).

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. For the avoidance of doubt, the information available on the KBC website, www.kbc.com, shall not be incorporated by reference in, or form part of, this Base Prospectus, unless otherwise specified in the "*Documents Incorporated By Reference*" section.

16. TREND INFORMATION

The main sources for this section are the European Banking Authority, the European Central Bank (the **ECB**) and the European Commission.

Banking sector

After ongoing recapitalisation in the aftermath of the Eurocrisis, banks in the Eurozone continued to strengthen their balance sheet, closely monitored by the European Central Bank. At the same time, they adjusted their business models to the evolving regulatory and challenging operating environment. While overall progress is significant, the results remain uneven across institutions and countries, with Italian and Portuguese banks still facing the toughest challenges. On the other hand, the asset quality of banks in core countries such as Belgium withstood the recent crises years rather well and continue to be good. The Czech and Slovakian banking systems are also characterised by good asset quality, while in Hungary and Bulgaria high non-performing loans are decreasing.

Loan growth in the Eurozone is strengthening. Looking forward, enhanced economic governance and the banking union, which still needs to be completed, significantly strengthened the Eurozone architecture and offer a more stable banking sector environment than in the pre-crisis years. Amid a benign macroeconomic environment – despite significant emerging risks – profitability continues to improve, but significant challenges remain to enhance cost efficiency in a competitive environment and to withstand ongoing pressure on revenue growth. At the same time new technologies trigger new challenges to business models. Banks with a large customer and diversified income base are likely best suited to cope with these challenges.

General economic environment and risks

The global economy continues to perform solidly. In the United States, annual real gross domestic product (**GDP**) growth in 2017 accelerated to 2.3% after its dip in 2016 (1.5%). Growth in the United States was driven primarily by strong private consumption, which was underpinned by improving labour market conditions. Additionally, business spending picked up markedly.. After a somewhat weaker Q1 2018 growth figure, Q2 GDP growth reached 1.0% qoq (4.2% annualised). The sharp acceleration was driven by the large growth contribution from private consumption, strong federal spending and an exceptionally high growth contribution of net trade. Corporate sentiment indicators – although down from their recent highs – also continue to signal optimism. Furthermore, the tax reform which the Republicans approved in the United States at the end of 2017 together with more government spending is expected to deliver some additional, albeit modest, boost to growth in 2018-2019. Therefore, average annual GDP growth in the United States is expected to slightly accelerate and reach its peak in 2018. The growth pace will then likely decline in the following years, reflecting the late-cyclical state of the United States economy, the tighter policy of the Federal Reserve System (**Fed**) and tightness of the United States labour market. For now, activity and inflation trends will support the Federal Reserve to continue with their gradual monetary policy path as planned. Also for the Eurozone economy, 2017 was a very strong year with an average annual growth rate of 2.5%, which was far more than expected. Private demand played an important role in the growth uptick, but net trade also made a substantial growth contribution. Moreover, business investment, although not fully recovered from the crisis, was an essential growth contributor during the year. In the first half of 2018, euro area GDP growth was somewhat lacklustre compared to the strong 2017 figures, with domestic demand the main driver. Economic sentiment in the Eurozone declined in the first half of 2018. However, it remains at elevated levels, after having reached a seventeen-year high in December 2017. Nevertheless, optimism remains for the Eurozone economy and above-potential growth in the coming years is still expected.. The main risks for the euro area economy will be the adverse effects of the ongoing trade conflicts and negative consequences from Brexit.

Headline inflation is picking up in the euro area. This is mainly driven by oil price movements. Core inflation, excluding prices of energy, food, tobacco and alcohol, remains subdued in the region of 1%. Nevertheless, wage growth measures in several euro area economies have been rising recently, suggesting more inflation support from that corner in the coming months. Nevertheless, we still expect inflation to

approach but not reach the ECB's medium-term target of below but close to 2%. This persistent shortfall from its inflation target explains the rather dovish stance of the ECB and its very gradual monetary policy normalisation plans with a first rate hike at the earliest after the summer of 2019. The combination of a dovish central bank, disappointing economic data, sticky core inflation, flight to quality capital flows, scarcity of German benchmark bonds and a continued presence of excess liquidity in the euro area will delay and slow down the normalisation of the term premium on euro area bond markets.

Momentum remains supportive for the US dollar in the short-term as the interest rate differentials with the Eurozone have again reached multi-year highs. However, in the medium to longer term, most factors are pointing to an appreciation of the euro against the US dollar. Expectations of a first ECB rate hike and the consequences of late-cyclical fiscal stimulus (twin deficits) in the United States will lead to a strengthening of the Euro.

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 its 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.

As at the date of this Base Prospectus, the members of the Board of Directors of KBC Bank are the following:

Name and business address	**Position**	**Expiry date of current term of office**	**External offices**
LEYSEN Thomas KBC Bank NV Havenlaan 2 1080 Brussel	Chairman	2019	Chairman of the Board of Directors of Corelio NV Non-executive Director of Booischot NV Chairman of the Board of Directors of KBC Verzekeringen NV Chairman of the Board of Directors of KBC Group NV Chairman of the Board of Directors of Mediahuis NV
HOLLOWS John CSOB Ceskoslovenska obchodni banka Radlicka 333/150 Praha 5 150 57 Czech Republic	Executive Director	2021	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	Executive Director	2021	Executive Director of KBC Verzekeringen NV Member of the Executive Committee of KBC Groep NV Chairman of the Board of Directors of K&H Bank Zrt. Chairman of the Supervisory Board of K&H Biztosito Zrt. Chairman of the Board of Directors of Start it Fund NV Chairman of the Board of Directors of KBC Asset Management NV Member of the Management Board of KBC Bank NV, Dublin Branch Chairman of the Board of Directors of KBC Bank Ireland plc Chairman of the Board of Directors of KBC Securities NV Chairman of the Supervisory Board of Ceskoslovenska Obchodna Bank a.s. (SR) Chairman of the Supervisory Board of United Bulgarian Bank AD Member of the Management Board of CSOB Poistovna a.s. Chairman of the Supervisory Board of DZI General Insurance JSC Chairman of the Supervisory Board of DZI Life Insurance JSC
THIJS Johan KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director/CEO	2021	Executive Director/CEO of KBC Verzekeringen NV Chairman of the Board of Directors of Febelfin Executive Director/CEO of KBC Group NV Non-executive Director of VOKA Non-executive Director of European Banking Federation Non-executive Director of Museum Nicolaas Rockox Non-executive Director of Gent Festival van Vlaanderen
VAN RIJSSEGHEM Christine KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2022	Executive Director KBC Group NV Executive Director KBC Verzekeringen NV Non-executive Director of K&H Bank Zrt Non-executive Director of KBC Bank Ireland plc Member of the Supervisory Board of Ceskoslovenska Obchodni Banka a.s. (CR) Member of the Management Board of KBC Bank NV, Dublin Branch Member of the Supervisory Board of United Bulgarian Bank AD
ARISS Nabil 16 Chiddingstone street London SW6 3TG United Kingdom	Non-executive Director	2022	Executive Director AF Law
DEPICKERE Franky Cera-KBC Ancora Muntstraat 1 3000 Leuven	Non-executive Director	2019	Executive Director of Cera CVBA Executive Director of Cera Beheersmaatschappij NV Non-executive Director of BRS Microfinance Coop CVBA Non-executive Director

			of CBC Banque SA Non-executive Director of KBC Group NV Non-executive Director of KBC Verzekeringen NV Executive Director of Almancora Beheersmaatschappij NV Non-executive Director of International Raiffeisen Union e.V. Non-executive Director of Euro Pool System International BV Member of the Supervisory Board of Ceskoslovenska Obchodni Banka a.s. (CR) Executive Director of KBC Ancora Comm.VA
CALLEWAERT Katelijn Cera Beheersmaatschappij Muntstraat 1 3000 Leuven	Non-executive Director	2021	Executive Director of Cera Beheersmaatschappij NV Member of the Executive Committee of Cera CVBA Non-executive Director of KBC Group NV Non-executive Director of KBC Verzekeringen NV Executive Director of Almancora Beheersmaatschappij NV
DE BECKER Sonja MRBB CVBA Diestsevest 40 3000 Leuven	Non-executive Director	2020	Non-executive Director of Acerta CVBA Non-executive Director of M.R.B.B. CVBA – Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of Directors of SBB Accountants en Belastingconsulenten BV CVBA Non-executive Director of Agri Investment Fund CVBA Non-executive Director of KBC Group NV Non-executive Director of KBC Verzekeringen NV Executive Director of SBB Bedrijfsdiensten CVBA Non-executive Director of BB-Patrim CVBA Chairman of the Board of Directors of Boerenbond
WITTEMANS Marc MRBB cvba Diestsevest 40 3000 Leuven	Non-executive Director	2022	Non-executive Director of KBC Group NV Chairman of the Board of Directors of Arda Immo NV Non-executive Director of Acerta CVBA Non-executive Director of Acerta Consult CVBA Non-executive Director of SBB Accountants en Belastingconsulenten BV CVBA Executive Director/CEO of M.R.B.B. CVBA - Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of Agri Investment Fund CVBA Chairman of the Board of Directors of Aktiefinvest CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director Acerta Public NV Non-executive Director of Shéhérazade Développement CVBA Non-executive Director of AVEVE NV – Aan- en verkoopvennootschap van de Belgische Boerenbond Non-executive Director of AVEVE NV – Aan- en verkoopvennootschap van de Belgische Boerenbond Member of the Supervisory Board of Ceskoslovenska Obchodni Banka a.s. (CR)
FALQUE Daniel KBC	Executive	2020	Non-executive Director of CBC Banque SA

Bank NV Havenlaan 2 1080 Brussels	Director		Executive Director of KBC Verzekeringen NV Member of the Executive Committee of KBC Group NV Non-executive Director of BVB Non-executive Director of Union Wallonne des Entreprises ASBL
MAGNUSSON Bo KBC Bank NV Havenlaan 2 1080 Brussels	Non-executive Director	2020	Chairman of the Board of Directors of Carnegie Holding AB Chairman of the Board of Directors of Carnegie Investment Bank AB Chairman of the Board of Directors of SBAB AB Chairman of the Board of Directors of Sveriges Sakerstallda obligationer AB Non-executive Director of Bmag AB Chairman of the Board of Directors of Rikshem AB Chairman of the Board of Directors of Rikshem Intressenter AB
NONNEMAN Walter Universiteit Antwerpen Prinsstraat 13 2000 Antwerpen	Non-executive Director	2021	Non-executive Director of Cera Beheersmaatschappij NV Non-executive Director of KBC Group NV Non-executive Director of KBC Verzekeringen NV Non-executive Director of Fluxys NV
VANHOVE Matthieu Cera Muntstraat 1 3000 Leuven	Non-executive Director	2021	Non-executive Director of BRS Microfinance Coop CVBA Non-executive Director of KBC Group NV Non-executive Director of KBC Verzekeringen NV Non-executive Director Cera Beheersmaatschappij NV
LUTS Erik KBC Bank NV Havenlaan 2 1080 Brussels	Executive Director	2021	Executive Director of Ambassadors Club Slovenia in Belgium ASBL Non-executive Director of De Bremberg VZW Non-executive Director of Thanksys NV Non-executive Director of Joyn International NV Non-executive Director of KBC Start it Fund NV Non-executive Director of Storesquare NV Executive Director of KBC Verzekeringen NV Member of the Executive Committee of KBC Group NV Non-executive Director of Isabel NV Non-executive Director of Belgian Mobile Wallet ID NV Non-executive Director of Bancontact Company NV
SCHEERLINCK Hendrik KBC Bank NV Havenlaan 2 1080 Brussels	Executive Director	2021	Executive Director of KBC Group NV Executive Director of KBC Verzekeringen NV Non-executive Director of KBC Credit Investments NV

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.

The members of the Audit Committee of KBC Bank are:

- Marc Wittemans (chairman);
- Nabil Ariss (independent director); and
- Bo Magnusson (independent director).

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, which is available on www.kbc.com.

The members of the Risk and Compliance Committee of KBC Bank are:

- Franky Depickere (chairman);
- Nabil Ariss (independent director); and
- Bo Magnusson (independent director).

20. STATUTORY AUDITORS

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. The financial statements of KBC Bank have been audited in accordance with International Standards on Auditing by PwC for the financial years ended 31 December 2016 and 31 December 2017 and resulted in an unqualified audit opinion.

PwC is a member of the *Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*.

The report of the auditor of KBC Bank on (i) the audited consolidated annual financial statements of KBC Bank and its consolidated subsidiaries for the financial years ended 31 December 2016 and 31 December 2017 and (ii) the unaudited consolidated interim financial statements of KBC Bank and its consolidated subsidiaries for the first six months ended 30 June 2018 are incorporated by reference in this Base Prospectus, with the consent of the auditor.

21. LITIGATION

This section sets out 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.

Other litigation

(a) In March 2000, the Belgian State, Finance Department, summoned Rebeo (currently Almafin Real Estate Services) and Trustimmo, two former subsidiaries of former Almafin, now 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 has been conducted. 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.

On 9 May 2014 the civil court in Antwerp decided that Broeckdal Vastgoedmaatschappij NV, which was no longer represented as it was dissolved and liquidated, implicitely renounced its claim in refuting the taxation.

On 22 February 2017, the Belgian State reactivated the civil lawsuit which was pending in Brussels between itself, Rebeo, Trustimmo and the four former members of the board and which had been suspended pending a final judgment in the tax lawsuit in Antwerp.

The civil lawsuit pending in Brussels has been suspended pending a final judgement in the tax lawsuit in Antwerp. An adjusted provision of EUR 28.4 million (at 30 June 2018) 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 2 November 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.

(b) In 2009, KBC Bank and subsidiaries such as K&H Bank and ČSOB 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.

In 2010, 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 Bank. At this stage one case is pending in first instance, two cases are still pending in degree of appeal. In June 2018 the highest court (Cassation) refuted the appeal of a corporate.

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 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 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 ČSOB 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.

(c) 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**. The merger between KBC Bank and Antwerpse Diamantbank NV (**ADB**) on 1 July 2015 entails that KBC Bank is now a party to the proceedings below, both in its own name and in its capacity as legal successor to ADB.

However, for the sake of clarity, further reference is made to ADB on the one hand and KBC Bank on the other hand as they existed at the time of the facts described.

Fact summary

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 for payment of commercial invoices for an amount of (initially) approximately USD 9 million. LKB launched separate proceedings for payment of commercial invoices for (initially) an amount of approximately USD 38 million.

At the end of 2009, ADB terminated LK's credit facilities. After LK failed to repay the amount outstanding of USD 45 million, ADB started proceedings before the Commercial Court of Antwerp, section Antwerp, for the recovery of said amount. In a bid to prevent having to pay back the amount owed, LK in turn initiated several legal proceedings against ADB and/or KBC Bank in Belgium and the USA. These proceedings, which are summarised below, relate to, *inter alia*, 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 as well as allegations that LK was deprived out of circa USD 140 million by DD Manufacturing and other Daleyot entities in cooperation with ADB.

Overview Legal Proceedings

(i) Belgian proceedings (overview per court entity)

Commercial Court of Antwerp, section Antwerp

Proceedings were initiated by ADB against LKI in order to recover the monies owed to it under the terminated credit facility (approximately USD 45 million in principal). LKB voluntarily intervened in this proceeding and claimed an amount of USD 350 million from ADB. LKI launched a counterclaim of USD 500 million against ADB (from which it claims any amount awarded to LKB must be deducted).

On 23 January 2014, LK appealed a decision of the Commercial Court of 23 October 2013 in which a briefing round was scheduled. On 15 July 2016 LKI issued a summons against Ernst & Young to intervene in these appeal proceedings before the Antwerp Court of Appeals and to indemnify LKI in case LKI would be ordered to pay the amounts claimed by KBC Bank. On 24 October 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 susceptible to appeal in the first place. Furthermore, the Court granted KBC Bank's counterclaim for damages for reckless and vexatious appeal and ordered LKI and LKB jointly to pay an amount of EUR 5,000 in damages to KBC Bank.

LK filed an appeal with the Court of Cassation against this judgment of the Antwerp Court of Appeals. On 14 September 2017, the Court of Cassation dismissed the appeal. Moreover, the Court decided that LK's appeal was reckless and vexatious and ordered LK to pay EUR 10,000 in damages.

As a result of the judgment of 24 October 2016 of the Antwerp Court of Appeals, the case was again brought before the Commercial Court of Antwerp, section Antwerp. KBC Bank then took procedural measures to reactivate the case.

By decision of 2 January 2017, the Commercial Court postponed its decision to set a briefing schedule and a hearing date to 30 March 2017. However, LK appealed this decision with the Antwerp Court of Appeals. This appeal was scheduled for an introductory hearing before the Antwerp Court of Appeals on 18 September 2017. A briefing round and a hearing for 16 November 2017 were scheduled. However, the case before the Court of Appeals was suspended given the proceedings started by LK before the Court of Cassation to have the case withdrawn from the Court of Appeals.

On 30 March 2017, the Commercial Court set a briefing schedule and a hearing date on 12 December 2017. LK also appealed this decision. This appeal was scheduled for an introductory hearing before the Antwerp Court of Appeals on 2 October 2017. On 26 October 2017, the Court of Appeals set a briefing round and a hearing for 16 November 2017. However, the case before the Court of Appeals also was suspended given the proceedings started by LK before the Court of Cassation to have the case withdrawn from the Court of Appeals.

On 16 November 2017, 7 December 2017, 11 December 2017 and 21 February 2018 LK filed twenty-two separate petitions with the Court of Cassation to have the case withdrawn from both the Commercial Court of Antwerp and the Antwerp Court of Appeals in this case and all satellite cases. After having considered that twenty petitions were not manifestly inadmissible, the Court of Cassation scheduled hearings on the merits for these twenty cases on 22 February 2018. During this hearing the Public Prosecutor ('Advocaat-Generaal') asked the Court of Cassation to reject all petitions and to condemn LK for reckless and vexatious appeal.

By judgments of 29 March 2018, the Court of Cassation rejected the twenty admissible requests. KBC Bank was granted compensation of EUR 10,000 per petition for reckless and vexatious appeal. LK was also condemned to a fine of EUR 2,500 per petition to the Belgian

State for using judicial proceedings only for manifestly delaying and unlawful purposes. The two remaining cases were heard by the Court of Cassation on 19 April 2018. By judgments of the same day the Court of Cassation decided those two petitions were clearly inadmissible and LK was dismissed.

After cassation the Court of Appeals set a new briefing schedule and a hearing date on 16 November 2018.

Commercial Court of Antwerp, section Antwerp

LK launched proceedings against ADB and certain Daleyot entities. This claim is aimed 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. The court postponed the case sine die.

Commercial Court of Antwerp, section Antwerp

On 10 December 2014, LKB filed a proceeding against ADB and KBC Bank claiming an amount of approximately 77 million USD, based on the allegedly wrongful grant and maintenance of credit facilities by ADB and KBC Bank to the Daleyot entities. In its last court brief LKB claimed an additional amount of approximately 5 million USD.

By decision of 7 February 2017 the Commercial Court dismissed LK's claims. Moreover, the court decided that the proceedings initiated by LK were reckless and vexatious and ordered LK to pay EUR 250,000 in damages, as well as the maximum indemnity for legal expenses allowed, being EUR 72,000.

LKB appealed against the decision of 7 February 2017. This appeal is still pending before the Antwerp Court of Appeals. Parties are exchanging briefs and the court set hearing for 10 January 2019.

LKI – which was not a party to the first instance proceedings – commenced third-party opposition proceedings against the same decision with the Commercial Court of Antwerp, section Antwerp. These proceedings are still pending. Parties are exchanging briefs and a court hearing is set for 9 April 2019.

Commercial Court of Antwerp, section Antwerp

LKB initiated proceedings against KBC Bank claiming that the bank acted as de facto director of the bankrupted Daleyot entities. LKB filed a damage claim against KBC Bank for a provisional amount of USD 90 million. Moreover, LKB contests KBC Bank's claim and preferential position in the bankruptcy proceedings of DD Manufacturing and KT Collections (which are Daleyot entities). The liquidators of both bankrupted companies were also involved in these proceedings, so that the decisions to be taken by the Commercial Court could be declared binding on them. By decision of 14 February 2018, the Commercial Court dismissed LKB's claim and ordered LKB to pay an indemnity for legal expenses, being EUR 18,000. This decision cannot be appealed and is therefore final.

Court of First Instance of Antwerp, section Antwerp

Proceedings launched by LK against KBC Bank, ADB and Erez Daleyot, his wife and certain Daleyot entities. This claim was aimed at having the security interests granted in favour of either KBC Bank or ADB declared null and void or at least not opposable against

LK. LK also filed claims against ADB for a provisional amount of USD 120 million and against both ADB and KBC Bank for a provisional amount of USD 60 million based on the alleged third-party complicity of ADB. By decision of 18 January 2018, the Court dismissed LK's claim. Moreover, the Court decided that the proceedings initiated by LK were reckless and vexatious and ordered LK to pay a compensation of EUR 30,000, as well as the maximum indemnity for legal expenses allowed, being EUR 33,000. This decision is final since LK did not file a timely notice of appeal.

Criminal complaint

At the end of March 2017, KBC Bank was informed by the Investigating Magistrate at the Dutch speaking Court of First Instance of Brussels that a criminal complaint was brought against KBC Bank. This complaint was already filed on 13 October 2016.

At the end of May 2018, KBC Bank at its request received a copy of the criminal complaint and was granted permission by the investigating magistrate to have access to the criminal file. The criminal complaint is based on: embezzlement, theft and money-laundering.

KBC Bank has lent its full co-operation to the investigation and is convinced that it has always complied with all legal and regulatory requirements in this case. This investigation is still ongoing and although it started on initiative of LK, it follows its own course and will be submitted at the end of it to the chambers section of the criminal court for a judgment (either dismissal of charges or referral to the criminal court).

(ii) US proceedings

A complaint of USD 500 million was initiated by LKI against both ADB and KBC Bank in 2011, alleging violations of the RICO Act (which provides for trebling of any damage award) and numerous other claims under state law. This complaint is, in fact, a non-cumulative duplicate of the one LKI brought before the Commercial Court of Antwerp, section Antwerp. The United States District Court for the Southern District of New York granted ADB's and KBC Bank's motions to dismiss in 2012 on the basis of the doctrine of "*forum non conveniens*", holding that the case should be heard in Belgium. In 2013, the United States Court of Appeals for the Second Circuit reversed and remanded the case back to the District Court for further proceedings. The Court of Appeals ordered the District Court to first resolve which of two contested forum selection clauses applied to LKI's claims prior to ruling on forum non conveniens or any other grounds on which ADB and KBC Bank moved to dismiss.

Following the remand, and in accordance with the Court of Appeals's order, the District Court ruled that the parties were to engage in limited discovery related to the contested forum selection clauses. This included both document discovery and limited depositions. This limited discovery was completed by April 2016. The District Court stayed LKI's discovery related to the merits of the complaint, which is still in effect.

On 14 and 15 February 2017, an evidentiary hearing took place to determine which of the two disputed forum selection clauses applied. After the hearing, the parties submitted proposed findings of fact for the District Court to rule on. In addition, shortly after the hearing, LKI moved to strike the testimony of one of KBC Bank's witnesses and filed a motion for sanctions against KBC Bank alleging nondisclosure of an agreement related to the relationship between KBC Bank and ADB (KBC Bank disclosed the agreement years ago, and the District Court considered the agreement in making its findings of fact).

On 30 June 2017, the District Court issued its Findings of Facts and denied LKI's motion to strike the testimony of KBC Bank's witness. The District Court's Findings of Fact rejected

all of the facts that supported LKI's arguments and agreed with KBC Bank's description of those facts.

On 14 July 2017, LKI filed a motion for reconsideration in connection with the District Court's Findings of Fact. The District Court denied this motion on 16 August 2017.

The District Court allowed LKI to file a motion for leave to amend its complaint on 8 September 2017. By order dated 25 September 2017, the District Court granted LKI's motion for leave to file an amended complaint which was filed on 26 September 2017. The District Court set a briefing schedule with regard to the motion to dismiss and the motion for sanctions. At the end of December 2017, all briefs were exchanged and parties are awaiting a judgement. On 28 March 2018, LKI's 'motion for sanctions' was dismissed.

By Opinion and Order of 29 August 2018, the District Court granted KBC Bank / ADB's motion to dismiss, ruling that the case must be heard in Belgium. This ruling is based on an analysis of the forum selection clauses and a forum non conveniens analysis. LKI has now until 28 September 2018 to file a notice of appeal in the United States Court of Appeals for the Second Circuit.

TAXATION

The following summary describes the principal Belgian tax considerations of acquiring, holding and selling the Covered Bonds. This information is of a general nature based on the Issuer's understanding of current law and practice and does not purport to be a comprehensive description of all Belgian tax considerations that may be relevant to a decision to acquire, to hold or to dispose of the Covered Bonds. In some cases, different rules may apply. This summary does not describe the tax consequences for a holder of Covered Bonds that are redeemable in exchange for, or convertible into assets, of the exercise, settlement or redemption of such Covered Bonds or any tax consequences after the moment of exercise, settlement or redemption. The summary is based on laws, treaties and regulatory interpretations in effect in Belgium on the date of this Base Prospectus, all of which can be amended in the future, possibly implemented with retroactive effect. Furthermore, the interpretation of the tax rules may change. Investors should appreciate that, as a result of evolutions in law or practice, the eventual tax consequences may be different from what is stated below. Investors should note that the Belgian state adopted tax reform legislation on 25 December 2017. This tax reform legislation has been further amended by the law of 30 July 2018.

Prospective holders of Covered Bonds are urged to consult their own professional advisers with respect to the tax consequences of an investment in the Covered Bonds, taking into account their own particular circumstances and the possible impact of any regional, local or national laws.

General

For the purpose of the summary below, a Belgian resident is, (a) an individual subject to Belgian personal income tax (i.e. an individual who has his domicile in Belgium or has his seat of wealth in Belgium, or a person assimilated to a Belgian resident for purposes of Belgian tax law), (b) a legal entity subject to Belgian corporate income tax (i.e. a company that has its registered office, its main establishment, its administrative seat or its seat of management in Belgium), (c) an Organisation for Financing Pensions subject to Belgian corporate income tax (i.e., a Belgian pension fund incorporated under the form of an Organisation for Financing Pensions) or (d) a legal entity subject to Belgian income tax on legal entities (i.e. an entity other than a legal entity subject to corporate income tax, having its registered office, its main establishment, its administrative seat or its seat of management in Belgium). A Belgian non-resident is any person that is not a Belgian resident.

For Belgian income tax purposes, interest includes (i) periodic interest income, (ii) any amounts paid by the Issuer in excess of the issue price (upon full or partial redemption whether or not at maturity, or upon purchase by the Issuer), and (iii) if the Covered Bonds qualify as "fixed income securities" (in the meaning of Article 2, §1, 8° Belgian Income Tax Code), in case of a realisation of the Covered Bonds between interest payment dates, the pro rata of accrued interest corresponding to the detention period. "Fixed income securities" are defined as bonds, specific debt certificates issued by banks (*kasbon/bon de caisse*) and other similar securities, including securities where income is capitalised or securities which do not generate a periodic payment of income but are issued with a discount corresponding to the capitalised interest up to the maturity date of the security.

The interest component of payments on the Covered Bonds made by or on behalf of the Issuer is as a rule subject to Belgian withholding tax, currently at a rate of 30% on the gross amount of such interest. Both Belgian domestic tax law and applicable tax treaties may provide for a lower or zero rate subject to certain conditions.

Belgian interest withholding tax exemption for certain holders of Dematerialised Covered Bonds (X/N securities settlement system of the NBB)

The holding of the Dematerialised Covered Bonds in the X/N securities settlement system of the NBB (the **Securities Settlement System**) permits investors to collect interest on their Dematerialised Covered Bonds free of Belgian withholding tax if and as long as at the moment of payment or attribution of interest the Dematerialised Covered Bonds are held by certain investors (the **Eligible Investors**, see below) in an exempt

securities account (**X-account**) that has been opened with a financial institution that is a direct or indirect participant (a **Participant**) in the Securities Settlement System of the NBB. Euroclear Clearstream Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal and any other NBB investor (I)CSDs are directly or indirectly Participants for this purpose.

Holding the Dematerialised Covered Bonds through the Securities Settlement System enables Eligible Investors to receive the gross interest income on their Dematerialised Covered Bonds and to transfer the Dematerialised Covered Bonds on a gross basis.

Participants to the Securities Settlement System must keep the Dematerialised Covered Bonds which they hold on behalf of Eligible Investors on an X-account, and those which they hold on behalf of non-Eligible Investors in a non-exempt securities account (**N-account**). Payments of interest made through X-accounts are free of withholding tax; payments of interest made through N-accounts are subject to withholding tax, currently at a rate of 30%, which is withheld by the NBB from the interest payment and paid by the NBB to the tax authorities.

Eligible Investors are those entities referred to in Article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax (*koninklijk besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing/arrêté royal du 26 mai 1994 relatif à la perception et à la bonification du précompte mobilier*), which includes *inter alia*:

(a) Belgian resident companies referred to in Article 2, §1, 5°, b) of the Belgian Income Tax Code of 1992 (*wetboek van inkomstenbelastingen 1992/code des impôts sur les revenus 1992*) (**BITC**);

(b) without prejudice to Article 262, 1° and 5° of the BITC, the institutions, associations or companies referred to in Article 2, §3 of the law of 9 July 1975 with respect to the control of insurance companies other than those referred to in 1° and 3°;

(c) semi-governmental institutions (*institutions parastatales/parastatalen*) for social security or institutions assimilated therewith referred to in Article 105, 2° of the Royal Decree of 27 August 1993 implementing the BITC (*koninklijk besluit tot uitvoering van het wetboek inkomstenbelastingen 1992/arrêté royal d'exécution du code des impôts sur les revenus 1992*) (**RD/BITC**);

(d) non-resident investors referred to in Article 105, 5° of the RD/BITC whose holding of the Dematerialised Covered Bonds is not connected to a professional activity in Belgium;

(e) investment funds referred to in Article 115 of the RD/BITC;

(f) investors referred to in Article 227, 2° of the BITC that are subject to non-resident income tax (*belasting van niet inwoners/impôt des non-résidents*) in accordance with Article 233 of the BITC and which have used the Covered Bonds for the exercise of their professional activities in Belgium;

(g) the Belgian State, in respect of investments which are exempt from withholding tax in accordance with Article 265 of the BITC;

(h) investment funds governed by foreign law (such as *beleggingsfondsen/fonds de placement*) that are an undivided estate managed by a management company for the account of the participants, provided the funds' units are not publicly issued in Belgium or traded in Belgium; and

(i) Belgian resident companies, not referred to under (a), whose activity exclusively or principally exists of granting credits and loans.

Eligible Investors do not include, *inter alia*, Belgian resident individuals and Belgian non-profit organisations, other than those mentioned under (b) and (c) above.

Transfers of Dematerialised Covered Bonds between an X-account and an N-account give rise to certain adjustment payments on account of withholding tax:

(i) a transfer from an N-account (to an X-account or N-account) gives rise to the payment by the transferor non-Eligible Investor to the NBB of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date;

(ii) a transfer from an X-account (or N-account) to an N-account gives rise to the refund by the NBB to the transferee non-Eligible Investor of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date; and

(iii) transfers of Dematerialised Covered Bonds between two X-accounts do not give rise to any adjustment on account of withholding tax.

When opening an X-account for the holding of Dematerialised Covered Bonds, an Eligible Investor will be required to certify its eligible status on a standard form approved by the Belgian Minister of Finance and send it to the participant to the Securities Settlement System where this account is kept. This statement needs not be periodically reissued (although Eligible Investors must update their certification should their eligible status change). Participants to the Securities Settlement System are however required to annually make declarations to the NBB as to the eligible status of each investor for whom they hold Dematerialised Covered Bonds in an X-account during the preceding calendar year.

An X-Account may be opened with a Participant by an intermediary (an **Intermediary**) in respect of Dematerialised Covered Bonds that the Intermediary holds for the account of its clients (the **Beneficial Owners**), provided that each Beneficial Owner is an Eligible Investor. In such case, the Intermediary must deliver to the Participant a statement on a form approved by the Minister of Finance confirming that (i) the Intermediary is itself an Eligible Investor and (ii) the Beneficial Owners holding their Dematerialised Covered Bonds through it are also Eligible Investors. A Beneficial Owner is also required to deliver a statement of its eligible status to the Intermediary.

These identification requirements do not apply to central securities depositaries, as defined by Article 2, §1, 1) of Regulation (EU) n° 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositaries and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, acting as Participants to the Securities Settlement System provided that (i) they only hold X-accounts, (ii) they are able to identify the holders for whom they hold Dematerialised Covered Bonds in such account and (iii) the contractual rules agreed upon by these central securities depositaries acting as Participants include the contractual undertaking that their clients and account owners are all Eligible Investors.

Hence, these identification requirements do not apply to Dematerialised Covered Bonds held in Euroclear Clearstream Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy, InterBolsa, Portugal or any other central securities depository as Participants to the Securities Settlement System, provided that (i) Euroclear Clearstream Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy or InterBolsa, Portugal only hold X Accounts, (ii) they are able to identify the holders for whom they hold Dematerialised Covered Bonds in such account and (iii) the contractual rules agreed upon by these central securities depositaries include the contractual undertaking that their clients and account owners are all Eligible Investors.

Belgian interest withholding tax exemption for certain holders of Registered Covered Bonds

Payments of interest and principal by the Issuer under the Registered Covered Bonds (other than Zero Coupon Covered Bonds and other Registered Covered Bonds which provide for the capitalisation of interest) may be made without deduction of withholding tax if the following conditions provided for in either Articles 107, §2, 5°, b) and 118, §1, 1° of the RD/BITC or in Articles 107, §2, 8° and 118, §1, 2° of the RD/BITC, are cumulatively met:

(a) the Registered Covered Bonds are registered in the name of the holder of the Registered Covered Bonds with the Issuer during the entire relevant interest period;

(b) the holder of the Registered Covered Bonds is the legal owner (*eigenaar/propriétaire*) or usufructuary (*vruchtgebruiker/usufruiter*) of the Registered Covered Bonds during the entire relevant interest period;

(c) the holder of the Registered Covered Bonds is either, (i) not resident for tax purposes in Belgium and does not use the income producing assets to exercise a business or professional activity in Belgium, or (ii) a financial institution or institution which is assimilated therewith, provided for in Article 105, 1º of the RD/BITC, or (iii) a state regulated institution (*parastatale instelling/institution parastatale*) for social security, or institution which is assimilated therewith, provided for in Article 105, 2º of the RD/BITC; and

(d) upon each interest payment, the holder of the Registered Covered Bonds must provide the Issuer with an affidavit in which it is certified that the conditions mentioned in points (b) and (c) are complied with.

If Belgian withholding tax was levied by the Issuer further to the non-compliance of condition (b) above, then the transferor and/or the transferee have the right, subject to certain time limitations and provided conditions (a) and (c) are fulfilled, to file a claim with the Belgian tax authorities to request a refund of the Belgian withholding tax on the pro rata amount of interest attributable to them.

Each holder of Registered Covered Bonds that wishes to receive interest on the Registered Covered Bonds without deduction of Belgian withholding tax pursuant to Article 107, §2, 5°, b) or Article 107, §2, 8° of the RD/BITC must deliver to the Issuer the validly executed affidavit mentioned under (d) above. Each such holder further undertakes to inform the Issuer about any change that could affect the correctness of the affidavit. The Issuer shall be entitled to conclusively rely on the affidavit, it being understood that by signing and returning such affidavit, such holder of the Registered Covered Bonds shall have attested to the accuracy of the information set forth therein.

Belgian income tax and capital gains

Belgian resident individuals

For individuals who are Belgian residents for tax purposes, *i.e.*, who are subject to the Belgian personal income tax (*personenbelasting/impôt des personnes physiques*) and who hold the Covered Bonds as a private investment, payment of the 30% withholding tax fully discharges them from their personal income tax liability with respect to these interest payments (*bevrijdende roerende voorheffing/précompte mobilier libératoire*). This means that they do not have to declare the interest obtained on the Covered Bonds in their personal income tax return, provided that the Belgian withholding tax of 30% was levied on these interest payments.

Belgian resident individuals may nevertheless elect to declare the interest (as defined above in the Section "*Belgian withholding tax*") in their personal income tax return. Where the beneficiary opts to declare them, interest payments will normally be taxed at the interest withholding tax rate of 30% or at the progressive personal tax rate taking into account the taxpayer's other declared income, whichever is lower. No local taxes will be due. If the interest payment is declared, the Belgian withholding tax retained is creditable in accordance with the applicable legal provisions.

Capital gains realised on the transfer of the Covered Bonds are in principle tax exempt, unless the capital gains are realised outside the scope of the normal management of one's private estate (in which case the capital gain will be taxed at 33% plus local taxes) or unless and to the extent the capital gains qualify as interest (as defined in the section "*Belgian Withholding Tax"*). Capital losses realised upon the disposal of the Covered Bonds held as non-professional investment are in principle not tax deductible.

Other tax rules apply to Belgian resident individuals who do not hold the Covered Bonds as a private investment**.**

Belgian resident companies

Corporations Covered Bondholders who are Belgian residents for tax purposes, i.e. who are subject to Belgian Corporate Income Tax (*vennootschapsbelasting/impôt des sociétés*) are subject to the following tax treatment in Belgium with respect to the Covered Bonds.

Interest derived by Belgian corporate investors on the Covered Bonds and capital gains realised on the Covered Bonds are taxable at the ordinary corporate income tax rate of 29.58% (including the 2% crisis tax) and 25% as of 2020 (i.e., for financial years starting on or after 1 January 2020). Subject to certain conditions, a reduced corporate income tax rate of 20.4% (including the 2% crisis tax) and of 20% as of 2020 (i.e., for financial years starting on or after 1 January 2020) applies for small and medium sized enterprises (as defined by Article 15, §1 to §6 of the Belgian Companies Code) on the first EUR 100,000 of taxable profits.

Any Belgian interest withholding tax retained will generally, subject to certain conditions, be creditable against any corporate income tax due and the excess amount will be refundable. Capital losses realised upon the transfer of the Covered Bonds are in principle tax deductible.Other tax rules apply to investment companies within the meaning of Article 185*bis* BITC.

Belgian legal entities

Belgian legal entities subject to the Belgian legal entities tax (*rechtspersonenbelasting/impôt des personnes morales*) which do not qualify as Eligible Investors (as defined in the section "*Belgian Withholding Tax"*) and/or which do not hold the Covered Bonds through an X-account in the Securities Settlement System are subject to a withholding tax of 30% on any interest payments received under the Covered Bonds. Such withholding tax then generally constitutes the final taxation in the hands of the relevant beneficiaries.

Belgian legal entities which qualify as Eligible Investors (as defined in the section "*Belgian Withholding Tax"*) and which hold the Covered Bonds through an X-account in the Securities Settlement System, and which consequently have received gross interest income on the Covered Bonds are required to report and to pay the 30% withholding tax to the Belgian tax authorities themselves. Capital gains realised on the transfer of the Covered Bonds are in principle tax exempt, unless and to the extent the capital gains qualify as interest (as defined above). Capital losses are in principle not tax deductible.

Organisation for Financing Pensions

Interest and capital gains derived by Organisations for Financing Pensions in the meaning of the Law of 27 October 2006 on the activities and supervision of institutions for occupational retirement provision are in principle not subject to Belgian corporate income tax. Capital losses are in principle not tax deductible.

Subject to certain conditions, any Belgian withholding tax that has been levied on interest income received by an Organisation for Financing Pensions can be credited against any corporate income tax due by it, and any excess amount is in principle refundable.

Belgian non-residents

Dematerialised Covered Bonds

Covered Bondholders who are non-residents of Belgium for Belgian tax purposes and are not holding the Dematerialised Covered Bonds through a Belgian establishment, do not invest the Dematerialised Covered Bonds in the course of their Belgian professional activity and do not carry out any other activities in Belgium that exceed the normal management of one's private estate will not incur or become liable for any Belgian tax on income or capital gains by reason only of the acquisition, ownership or disposal of the Dematerialised Covered Bonds, provided that they qualify as Eligible Investors and hold their Covered Bonds in an X-account.

If the Dematerialised Covered Bonds are not entered into an X-account by the Eligible Investor, withholding tax on the interest is in principle applicable at the current rate of 30%, possibly reduced pursuant to a tax treaty, on the gross amount of the interest.

Registered Covered Bonds

Covered Bondholders who are non-residents of Belgium for Belgian tax purposes and are not holding the Registered Covered Bonds through a Belgian establishment, do not invest the Registered Covered Bonds in the course of their Belgian professional activity and do not carry out any other activities in Belgium that exceed the normal management of one's private estate will not incur or become liable for any Belgian tax on income or capital gains by reason only of the acquisition, ownership or disposal of the Registered Covered Bonds, save, as the case may be, in the form of withholding tax.

Pursuant to the Law of 16 December 2015 implementing into Belgian national law the provisions of the Directive 2014/107/EU on administrative cooperation in direct taxation (see the sections "*Common Reporting Standard*" and "*Exchange of Information*"), Belgian financial institutions are required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities with fiscal residence in another EU Member State.

In addition to the aforementioned Belgian withholding tax of 30%, profits derived from the Covered Bonds may therefore be subject to a system of automatic exchange of information between the relevant tax authorities.

Exchange of Information – Common Reporting Standard (CRS)

The exchange of information is governed by the Common Reporting Standard (**CRS**). On 7 August 2018, 103 jurisdictions signed the MCAA, which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent bilateral exchanges coming into effect between those signatories that file the subsequent notifications.

More than 50 jurisdictions have committed to exchange information as from 2018.

Under CRS, financial institutions resident in a CRS country are required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (which includes trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

On 9 December 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation (**DAC2**), which provides for mandatory automatic exchange of financial information between EU Member States as foreseen in CRS. DAC2 amends the previous Directive on administrative cooperation in direct taxation, Directive 2011/16/EU.

The Belgian government has implemented DAC2, respectively the CRS, per the Law of 16 December 2015.

As a result of the Law of 16 December 2015, the mandatory automatic exchange of information applies in Belgium (i) as of income year 2016 (first information exchange in 2017) towards the EU Member States (including Austria, irrespective the fact that the automatic exchange of information by Austria towards other EU Member States is only foreseen as of income year 2017), (ii) as of income year 2014 (first information exchange in 2016) towards the US and (iii), with respect to any other jurisdictions that have signed the MCAA, as of a date to be further determined by Royal Decree. In a Royal Decree of 14 June 2017, it was determined that the automatic provision of information has to be provided as from 2017 (for the 2016 financial year) for a first list of 18 jurisdictions, and as from 2018 (for the 2017 financial year) for a second list of 44 jurisdictions. For Nigeria, information will be exchanged as of income year 2018 (first information exchange in 2019).

The Covered Bonds are subject to DAC2. Therefore, Belgian financial institutions holding Covered Bonds for tax residents in another CRS contracting state shall report financial information regarding the Covered Bonds (income, gross proceeds, etc.) to the Belgian competent authority, who shall communicate the information to the competent authority of the state of the tax residence of the beneficial owner.

Investors who are in any doubt as to their position should consult their professional advisers.

Tax on stock exchange transactions

A tax on stock exchange transactions (*beurstaks*/*taxe sur les opérations de bourse*) is due on the purchase and sale (and any other transaction for consideration) of the Covered Bonds on a secondary market if such transaction is either concluded or carried out in Belgium through a professional intermediary. The rate applicable for secondary sales and purchases of Covered Bonds in Belgium through a professional intermediary is 0.12%. with a maximum amount of EUR 1,300 per transaction and per party. The tax is due separately from each party to any such transaction, i.e. the seller (transferor) and the purchaser (transferee), both collected by the professional intermediary. The acquisition of Covered Bonds upon their issuance (primary market) is not subject to the tax on stock exchange transactions.

Following the Law of 25 December 2016, the scope of application of the tax on stock exchange transactions has been extended as of 1 January 2017 to secondary market transactions of which the order is directly or indirectly made to a professional intermediary established outside Belgium by (i) a private individual with habitual residence in Belgium or (ii) a legal entity for the account of its seat or establishment in Belgium (both referred to as a **Belgian Investor**). In such a scenario, the tax on stock exchange transactions is due by the Belgian Investor, unless the Belgian Investor can demonstrate that the tax on stock exchange transactions due has already been paid by the professional intermediary established outside Belgium. In such a case, the foreign professional intermediary also has to provide each client (which gives such intermediary an order) with a qualifying order statement (*bordereau/borderel*), at the latest on the business day after the day the transaction concerned was realised. The qualifying order statements must be numbered in series and a duplicate must be retained by the financial intermediary. The duplicate can be replaced by a qualifying daytoday listing, numbered in series. Alternatively, professional intermediaries established outside Belgium could appoint a stock exchange tax representative in Belgium, subject to certain conditions and formalities (**Stock Exchange Tax Representative**). Such Stock Exchange Tax Representative will then be liable toward the Belgian Treasury for the tax on stock exchange transactions due and for complying with the reporting obligations and the obligations relating to the order statement (*bordereau/borderel*) in that respect. If such a Stock Exchange Tax Representative would have paid the tax on stock exchange transactions due, the Belgian Investor will, as per the above, no longer be the debtor of the tax on stock exchange transactions.A tax on repurchase transactions *(taks op de reportverrichtingen/taxe sur les reports*) at the rate of 0.085% is due from each party to any such transaction entered into or settled in Belgium in which a stockbroker acts for either party (with a maximum amount of Euro 1,300 per transaction and per party).

However, neither the tax on stock exchange transactions nor the tax on repurchase transactions is payable by exempt persons acting for their own account including investors who are not Belgian residents provided they

deliver an affidavit to the financial intermediary in Belgium confirming their non-resident status and certain Belgian institutional investors as defined in Article 126.1 2° of the Code of miscellaneous taxes and duties (*Code des droits et taxes divers/Wetboek diverse rechten en taksen*) for the tax on stock exchange transactions and Article 139, second paragraph, of the same code for the tax on repurchase transactions.

As stated below, the European Commission has published a proposal for a Directive for a common financial transactions tax (**FTT**). The Draft Directive currently stipulates that once the FTT enters into force, the Participating Member States shall not maintain or introduce taxes on financial transactions other than the FTT (or VAT as provided in the Council Directive 2006/112/EC of November 28, 2006 on the common system of value added tax). For Belgium, the tax on stock exchange transactions should thus be abolished if and once the FTT enters into force. The Draft Directive is still subject to negotiation between the Participating Member States and therefore may be changed at any time. The Draft Directive is further described below (see the section entitled "*Financial Transaction Tax*").

Tax on securities accounts

Pursuant to the law of 7 February 2018 introducing a tax on securities accounts, a tax of 0.15% is levied on Belgian resident and non-resident individuals on their share in the average value of the qualifying financial instruments (including but not limited to shares, notes and units of undertakings for collective investment) held on one or more securities accounts during a reference period of twelve consecutive months starting on 1 October and ending on 30 September of the subsequent year (the **Tax on Securities Accounts**). The first reference period starts on the day of entry into effect of the Law (i.e., 10 March 2018) and ends on 30 September 2018.

No Tax on Securities Accounts is due provided the holder's share in the average value of the qualifying financial instruments on those accounts amounts to less than EUR 500,000. If, however, the holder's share in the average value of the qualifying financial instruments on those accounts amounts to EUR 500,000 or more, the Tax on Securities Accounts is due on the entire share of the holder in the average value of the qualifying financial instruments on those accounts (and, hence, not only on the part which exceeds the EUR 500,000 threshold).

Qualifying financial instruments held by non-resident individuals only fall within the scope of the Tax on Securities Accounts provided they are held on securities accounts with a financial intermediary established or located in Belgium. Note that pursuant to certain double tax treaties, Belgium has no right to tax capital. Hence, to the extent the Tax on Securities Accounts is viewed as a tax on capital within the meaning of these double tax treaties, treaty protection may, subject to certain conditions, be claimed.

A financial intermediary is defined as (i) a credit institution or a stockbroking firm as defined by Article 1, §2 and §3 of the Law of 25 April 2014 on the status and supervision of credit institutions and investment companies and (ii) the investment companies as defined by Article 3, §1 of the Law of 25 October 2016 on access to the activity of investment services and on the legal status and supervision of portfolio management and investment advice companies, which are, pursuant to national law, admitted to hold financial instruments for the account of customers.

The Tax on Securities Accounts is in principle due by the financial intermediary established or located in Belgium if (i) the holder's share in the average value of the qualifying financial instruments held on one or more securities accounts with said intermediary amounts to EUR 500,000 or more or (ii) the holder instructed the financial intermediary to levy the Tax on Securities Accounts due (e.g. in case such holder holds qualifying financial instruments on several securities accounts held with multiple intermediaries of which the average value does not amount to EUR 500,000 or more, but of which the holder's share in the total average value of these accounts amounts to at least EUR 500,000). Otherwise, the Tax on Securities Accounts would have to be declared and would be due by the holder itself unless the holder provides evidence that the Tax on Securities Accounts has already been withheld, declared and paid by an intermediary which is not established or located in Belgium. In that respect, intermediaries located or established outside of Belgium could appoint a Tax on the Securities Accounts representative in Belgium,

subject to certain conditions and formalities (**Tax on the Securities Accounts Representative**). Such a Tax on the Securities Accounts Representative will then be liable towards the Belgian Treasury for the Tax on the Securities Accounts due and for complying with certain reporting obligations in that respect.

Belgian resident individuals will have to report in their annual income tax return various securities accounts held with one or more financial intermediaries of which they are considered as a holder within the meaning of the Tax on Securities Accounts. Non-resident individuals have to report in their annual Belgian non-resident income tax return various securities accounts held with one or more financial intermediaries established or located in Belgium of which they are considered as a holder within the meaning of the Tax on Securities Accounts.

Prospective investors are strongly advised to seek their own professional advice in relation to the Tax on Securities Accounts.

Financial Transaction Tax (FTT)

The European Commission has published on 14 February 2013 a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and the Slovak Republic (the **participating Member States**). On 8 December 2015, Estonia however expressed its intention not to introduce the FTT.

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds (primary market transaction) should, however, be exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Covered Bonds 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 dealings is issued in a participating Member State.

The rates of the FTT shall be fixed by each participating Member State but for transactions involving financial instruments other than derivatives the rates shall amount to at least 0.1% of the taxable amount. The taxable amount for such transactions shall in general be determined by reference to the consideration paid or owed in return for the transfer. The FTT shall be payable by each financial institution established or deemed established in a participating Member State if it is either a party to the financial transaction, or acting in the name of a party to the transaction or if the transaction has been carried out on its account. Where the FTT due has not been paid within the applicable time limits, each party to a financial transaction, including persons other than financial institutions, may become jointly and severally liable for the payment of the FTT due.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. The proposed FTT may still be abandoned or repealed. Additional EU Member States may decide to participate. Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (FATCA) impose a new reporting regime with respect to certain payments to any non-U.S. financial institutions (a "foreign financial institution", or FFI (as defined by FATCA)) (i) in a jurisdiction that hasn't a signed IGA or (ii) in a jurisdiction that hasn't reached agreements in substance and that didn't became a Participating FFI by entering into an agreement with the U.S. Internal Revenue Service (IRS) and is not otherwise exempt from or

in deemed compliance with FATCA. The list of approved jurisdictions and jurisdictions that have reached agreements in substance can be consulted on the IRS' website: http://www.treasury.gov/resource-center/tax-policy/treaties/Pages/FATCA-Archive.aspx The Issuer is classified as a reporting Model 1 FFI.

The new withholding regime was phased in beginning 1 July 2014 for payments from sources within the United States and will thus not apply to foreign passthru payments. In a later phase, it might be possible that withholding would apply to foreign passthru payments.

In execution of the FATCA legislation, an Intergovernmental Agreement (IGA) was signed on 23 April 2014 between Belgian and the United States and a Belgian law implementing the FATCA legislation was adopted by Belgian parliament (*Wet tot regeling van de mededeling van inlichtingen betreffende financiële rekeningen, door de Belgische financiële instellingen en de FOD Financiën in het kader van automatische uitwisseling van inlichtingen op internationaal niveau en voor belastingdoeleinden/Loi réglant la communication des renseignements relatifs aux comptes financiers, par les institutions financières belges et le SPF Finances, dans le cadre d'un échange automatique de renseignements au niveau international et à des fins fiscales* of 16 December 2015). This law implies that Belgian financial institutions holding the Covered Bonds for "US accountholders" and for "Non US owned passive Non Financial Foreign entities" shall report financial information regarding the Covered Bonds (income, gross proceeds, etc.) to the Belgian competent authority, who shall communicate the information to the US tax authorities.

FATCA is particularly complex. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Covered Bonds

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

In a dealer programme agreement dated 15 November 2017 (as amended and/or supplemented and/or restated from time to time, the **Dealer Programme Agreement**), the Dealer has agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under *Form of the Covered Bonds* and *Terms and Conditions of the Covered Bonds* above. In the Dealer Programme Agreement, the Issuer has agreed to reimburse the Dealer(s) for certain of their expenses in connection with the establishment of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealer(s) against certain liabilities incurred by them in connection therewith.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealer(s) following a change in a relevant law, regulation or directive.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Neither the Issuer nor the Dealer(s) represent(s) that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

The Dealer has represented and agreed, and each further Dealer(s) appointed under the Programme will be required to represent and agree, that it shall, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes this Base Prospectus, any other offering material or any Final Terms and, that it will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws, regulations and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries, and neither the Issuer nor any Dealer shall have any responsibility therefor.

Prohibition of Sales to EEA Retail Investors

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA.

For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of the MIFID II; or

  (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of the MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

Prohibition of sales to consumers in Belgium

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and it will not offer or sell the Covered Bonds to, any consumer (*consument/consommateur*) within the meaning of the Belgian Code of Economic Law (*Wetboek van economisch recht/Code de droit économique*) in Belgium.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Relevant Member State as defined above, the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, it has not made and will not make an offer of Covered Bonds with a denomination of less than Euro 100,000 which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State.

United States

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act and that would not result in the Issuer becoming subject to registration under the Investment Company Act of 1940, as amended, or to regulation under the Commodity Exchange Act, as amended.

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Covered Bonds, (a) as part of their distribution at any time, or (b) otherwise until 40 days after the completion of the distribution as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. The Dealer has further agreed and each further Dealer appointed under the Programme will be required to agree that it will send to each dealer to which it sells any Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act, as amended.

Until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Fixed Rate Covered Bonds or Floating Rate Covered Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer or Dealers may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms.

United Kingdom

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business, and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes

of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000, as amended (**UK FSMA**) by the Issuer;

(b) 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 UK FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the UK FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the UK FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Spain

This Base Prospectus has not been registered with the Spanish Securities Market Regulator (*Comisión Nacional del Mercado de Valores*). Accordingly, this Base Prospectus is not intended for any public offer of Covered Bonds in Spain, as defined pursuant to Law 24/1988 and Royal Decree 1310/2005, both as amended, and any regulation issued thereunder.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan, as amended (Act No 25 of 1948; the **FIEA**) and the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and sold and will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

France

This Base Prospectus and any applicable Final Terms have not been prepared in the context of a public offering in France within the meaning of Article L.411-1 of the French *Code Monétaire et Financier* and Title I of Book II of the *Réglement Général* of the *Autorité des Marchés Financiers* (the **AMF**), both as amended , and therefore has not been approved by, registered or filed with the AMF. The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, any Covered Bonds to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Base Prospectus, the applicable Final Terms or any other offering material relating to the Covered Bonds and such offers, sales and distributions have been and will be made in France only to, (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) when acting for their own account, qualified investors (*investisseurs qualifiés*) other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2, L.412-1 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

The Netherlands

The Covered Bonds may not be offered to the public in the Netherlands in reliance on Article 3(2) of the Prospectus Directive (as defined in Article 1:1 of the Dutch Financial Supervision Act, as amended, (*Wet op*

het financieel toezicht) unless, (a) such offer is made exclusively to persons or entities which are qualified investors as defined in the Prospectus Directive, or (b) standard exemption wording is disclosed as required by Article 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), provided that no such offer of Covered Bonds shall require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Zero Coupon Covered Bonds in definitive bearer form and other Covered Bonds in definitive bearer form on which interest does not become due and payable during their term but only at maturity (savings certificates or spaarbewijzen as defined in the Dutch Savings Certificates Act, as amended (*Wet inzake spaarbewijzen*; the **SCA**)) may only be transferred and accepted, directly or indirectly, within, from or into the Netherlands through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. with due observance of the provisions of the SCA and its implementing regulations (which include registration requirements). No such mediation is required, however, in respect of, (i) the initial issue of such Covered Bonds to the first holders thereof, (ii) the transfer and acceptance by individuals who do not act in the conduct of a profession or business, and (iii) the issue and trading of such Covered Bonds if they are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

Republic of Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or distributed, and will not offer, sell or distribute any Covered Bonds or any copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No 11971 of 14 May 1999, as amended (**Regulation No 11971**); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007, as amended, and Legislative Decree No 385 of 1 September 1993, as amended(the Banking Act); and

(ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or any other Italian authority.

Czech Republic

No permit for the issue of the Covered Bonds has been obtained (including the obtaining of the approval of the terms and conditions of the Covered Bonds) from the Czech National Bank under the Act of the Czech Republic No 190/2004 Coll, on Bonds, as amended (the **Bonds Act**). No approval of a prospectus has been sought or obtained from the Czech National Bank with respect to the Covered Bonds. No action has been taken to passport a prospectus approved by the competent authority of a Member State of the European

Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) into the Czech Republic by delivery of a certificate of the competent authority of the Relevant Member State to the Czech National Bank attesting that a prospectus approved by the other Relevant Member State authority has been drawn up in accordance with the law of the European Union.

No action has been taken (including the obtaining of the prospectus approval from the Czech National Bank and the admission to trading on a regulated market (as defined in Section 55 of the Act of the Czech Republic No 256/2004 Coll, on Conducting Business in the Capital Market, as amended (the **Capital Market Act**)) for the purposes of the Covered Bonds to qualify as listed securities.

The Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it has not offered or sold, and will not offer or sell, any Covered Bonds in the Czech Republic through a public offering, being – subject to several exemptions set out in the Capital Market Act (for example, (a) an offer of the Covered Bonds addressed solely to qualified investors (as defined under the Capital Market Act), (b) an offer of the Covered Bonds addressed to fewer than 150 natural or legal persons per Relevant Member State, other than qualified investors, and (c) an offer of the Covered Bonds addressed to investors where the minimum permitted investment amounts at least to Euro 100,000 per investor) — any communication to a broader circle of persons containing information on the securities being offered and the terms under which they may acquire the securities and which are sufficient for the Investor to make a decision to subscribe for, or purchase, such securities.

Accordingly, any person making or intending to make any offer within the Czech Republic of Covered Bonds which are the subject of the placement contemplated in this Base Prospectus should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to produce a prospectus for such offer. Neither the Issuer nor the Dealer(s) have authorised, nor do they authorise, the making of any offer of Covered Bonds through any financial intermediary, other than offers made by Dealers which constitute the final placement of Covered Bonds contemplated in this Base Prospectus.

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, with the Issuer and each other Dealer that it has complied with and will comply with all the requirements of the Capital Market Act and the Bonds Act and has not taken, and will not take, any action which would result in the Covered Bonds being deemed to have been issued in the Czech Republic, the issue of the Covered Bonds being qualified as "accepting of deposits from the public" by the Issuer in the Czech Republic under Sections 2(1) and 2(2)(a) of the Act of Czech Republic No 21/1992 Coll, on Banks, as amended (the **Banks Act**) or requiring a permit, registration, filing or notification to the Czech National Bank or other authorities in the Czech Republic in respect of the Covered Bonds in accordance with the Capital Markets Act, the Bonds Act, the Banks Act or the practice of the Czech National Bank.

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, with the Issuer and each other Dealer that it has complied with and will comply with all the laws of the Czech Republic applicable to the conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in the Czech Republic) in respect of the Covered Bonds.

Poland

This Base Prospectus has not been approved by the Polish Financial Supervisory Authority (**PFSA**) nor notified to the PFSA by the CSSF in accordance with applicable procedures. Accordingly, the Covered Bonds may not be offered in the Republic of Poland (**Poland**) in a public offering, as defined in the Polish Act on Public Offerings, the Conditions Governing the Introduction of Financial Instruments to Organised Trading System and Public Companies dated 29 July 2005 (as amended) as providing information, made in any form and by any means, if such information is addressed to 100 or more people or to an unspecified addressee, about securities and conditions of their purchase, which constitute a sufficient basis to make a decision on the purchase of these securities (a **Public Offering**). The Dealer has confirmed, and each further

Dealer appointed under the Programme will be required to confirm, that it is aware that no approval has been obtained from PFSA nor such notification made and has represented, and each further Dealer appointed under the Programme will be required to represent, that it has not offered, sold or delivered and will not offer, sell or deliver the Covered Bonds in Poland in a manner defined as a Public Offering as part of their initial distribution or otherwise to residents of Poland or in Poland. The Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the acquisition and holding of the Covered Bonds by residents in Poland may be subject to restrictions imposed by Polish law (including foreign exchange regulations) and that the offers and sales of the Covered Bonds to Polish residents or within Poland in secondary trading may also be subject to restrictions.

Hong Kong

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Covered Bonds (except for Covered Bonds which are a "structured product" as defined in the Securities and Futures Ordinance (Cap 571) of Hong Kong, as amended (the **SFO**)) other than, (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent), or (ii) to "professional investors" as defined in the SFO and any rules made under the SFO, or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap 32) of Hong Kong, as amended (the **CO**) or which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Covered Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Republic of Singapore

This Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore and the Covered Bonds will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore, as amended (the **Securities and Futures Act**). Accordingly, the Covered Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Covered Bonds be circulated or distributed, whether directly or indirectly, to any person in the Republic of Singapore other than, (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased the Covered Bonds, namely a person who is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Covered Bonds under Section 275 of the Securities and Futures Act except:

(A) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1A) of the Securities and Futures Act respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or

(B) where no consideration is or will be given for the transfer; or

(C) where the transfer is by operation of law; or

(D) pursuant to Section 276(7) of the Securities and Futures Act.

Korea

The Covered Bonds have not been and will not be registered under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively, the **FSCMA**). Accordingly, the Dealer has represented and agreed, and each new Dealer further appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, directly or indirectly, in Korea or to any Korean resident (as such term is defined in the Foreign Exchange Transaction Law and its subordinate decrees and regulations, as amended (collectively, **FETL**)), except as otherwise permitted under applicable Korean laws and regulations, including the FSCMA and FETL. Furthermore, the Covered Bonds may not be resold to Korean residents unless the purchaser of the Covered Bonds complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the FETL) in connection with the purchase of the Covered Bonds.

Hungary

The Dealer has represented and agreed, and each new Dealer further appointed under the Programme will be required to represent and agree, that if the Covered Bonds are offered in a private placement in Hungary, (a) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement, (b) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial or legal situation and its expected development, including that which was discussed in any personal consultation with an investor, and (c) the following standard wording will be included in all such written communication:

"Pursuant To Section 18 of Act Cxx of 2001 on the Capital Markets, this [Name Of Document] was prepared in connection with a Private Placement in Hungary."

Slovak Republic

No approval of this Base Prospectus has been sought or obtained from the National Bank of the Slovak Republic in accordance with the Slovak Securities Act, as amended (No 566/2001 Coll) in respect of the Covered Bonds. No application has been filed nor has any permission been obtained for accepting, nor has any other arrangement for trading, the Covered Bonds on any public market in the Slovak Republic been made. Accordingly, the Dealer has represented and agreed, and each new Dealer further appointed under the Programme will be required to represent and agree, that it has not offered or sold or made any other arrangement, and will not offer or sell or make any other arrangement, in respect of the Covered Bonds for their trading in the Slovak Republic, in a manner that would require the approval of this Base Prospectus by the National Bank of the Slovak Republic under the applicable laws valid in the Slovak Republic. Accordingly, any person making or intending to make any offer within the Slovak Republic for Covered Bonds which are the subject of the placement contemplated in this Base Prospectus shall only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to have a prospectus for such offer approved by the Slovak prudential authorities.

People's Republic of China

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that this Base Prospectus may not be circulated or distributed in the People's Republic of China (**PRC**) (excluding Hong Kong, Macau and Taiwan), and it has not offered or sold and will not offer or sell any of the Covered Bonds in the PRC, or to residents of the PRC directly or indirectly unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

GENERAL INFORMATION

Authorisation

The update of the Programme has been duly authorised by resolutions of the Issuer's Executive Committee (*directiecomité/comité de direction*) dated 16 December 2014.

Listing and admission to trading of Covered Bonds on Euronext Brussels

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the **FSMA**) in its capacity as competent authority under Article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the **Belgian Prospectus Law**) to approve this document as a base prospectus (the **Base Prospectus**). Application has also been made to Euronext Brussels for the Covered Bonds to be listed on Euronext Brussels. References in the Base Prospectus to the Covered Bonds being listed (and all related references) shall mean that the Covered Bonds have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments as amended, supplemented and/or replaced from time to time.

Documents Available

So long as any of the Covered Bonds are outstanding, copies of the following documents will be available during normal business hours at the registered office of the Issuer and from the specified office of the Domiciliary Agent (where applicable, with an English translation thereof):

(a) the constitutional documents of the Issuer;

(b) a copy of the Representative Appointment Agreement;

(c) a copy of the Programme Common Terms Agreement; and

(d) a copy of the Agency Agreement (including its Schedules).

For the period of 12 months following the date of this Base Prospectus, copies and, where appropriate, English translations of the following documents will be available on the website at www.kbc.com and during normal business hours at the registered office of the Issuer:

(i) a copy of this Base Prospectus;

(ii) the audited annual consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2016 and 31 December 2017, together, in each case, with the related statutory auditors' report;

(iii) the interim financial statements of the Issuer for the half year ended 30 June 2018; and

(iv) any future prospectuses, base prospectuses, information memoranda and supplements including Final Terms relating to Covered Bonds which are listed on Euronext Brussels or offered in a Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (whether or not listed on Euronext Brussels).

Copies of each Final Terms (together with the relevant Base Prospectus) relating to Covered Bonds which are either admitted to trading on any other regulated market in the European Economic Area or offered in any other Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will be available for viewing in accordance with Article 14(2) of

the Prospectus Directive and the rules and regulations of the relevant regulated market. Copies of each Final Terms relating to any other Covered Bonds (together with the relevant Base Prospectus) will only be available for viewing by a holder of such Covered Bonds upon production of evidence satisfactory to the Issuer as to the identity of such holder.

Clearing Systems

The Covered Bonds have been accepted for clearance through the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS, Switzerland and Monte Titoli, Italy, InterBolsa, Portugal or will be accepted through any other NBB investor (I)CSDs. The appropriate Common Code and ISIN for each Tranche will be specified in the applicable Final Terms. If the Covered Bonds are to be cleared through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of the Securities Settlement System is Boulevard de Berlaimont 14, BE-1000 Brussels. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, the address of SIX SIS, Switzerland is SIX SIS Ltd, Baslerstrasse 100, CH-4600 Olten, the address of Monte Titoli, Italy is Monte Titoli S.p.A., Piazza degli Affari, 6, Milan MI 20123 and the address of InterBolsa, Portugal is Av. Da Boavista 3433, 4100-078 Porto. The address of any alternative clearing system will be specified in the applicable Final Terms.

Conditions for Determining Price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been:

(a) no significant change in the financial or trading position of the Issuer or the the Group since 30 June 2017; and

(b) no material adverse change in the financial position, business or prospects of the Issuer since 31 December 2016.

Auditors

PricewaterhouseCoopers Bedrijfsrevisoren BCVBA (*erkende revisor/réviseur agréé*), represented by R. Jeanquart and G. Joos, with offices at Woluwedal 18, B-1932 Sint-Stevens-Woluwe (Brussels) (**PwC**), has been appointed as Statutory Auditor of the Issuer for the financial years 2016-2018. PwC is a member of the *Instituut der Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises.*The report of the auditor of the Issuer on the Issuer's consolidated financial statements are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors.

Post-issuance information

The Issuer will publish quarterly Investor Reports, which will contain information regarding the Covered Bonds and the Cover Assets, including statistics relating to the financial performance of the Cover Assets. Such reports will be available to the prospective investors in the Covered Bonds and to the Covered Bondholders at the offices of the Domiciliary Agent, on Bloomberg and on the website at www.kbc.com.

THE ISSUER

KBC Bank NV
Havenlaan 2, B-1080 Brussels
Belgium

ARRANGER AND DEALER

KBC Bank NV
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DOMICILIARY AND PAYING AGENT

KBC Bank NV
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REGISTRAR

KBC Bank NV
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LISTING AGENT

KBC Bank NV
Havenlaan 2,
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REPRESENTATIVE

Stichting KBC Residential Mortgage Covered Bonds Representative
Prins Bernhardplein 200
1097 JB Amsterdam, The Netherlands

MANGING DIRECTOR OF THE REPRESENTATIVE

Amsterdamsch Trustee's Kantoor B.V.
Prins Bernhardplein 200
1097 JB Amsterdam, The Netherlands

COVER POOL MONITOR

KPMG Bedrijfsrevisoren
Bourgetlaan 40
1130 Brussels, Belgium

LEGAL ADVISER

To the Dealer as to Belgian law

Stibbe
Loksumstraat 25
1000 Brussels, Belgium

STATUTORY AUDITOR

To the Issuer

PricewaterhouseCoopers Bedrijfsrevisoren BCVBA
Woluwedal 18
B-1932 Sint-Stevens-Woluwe (Brussels), Belgium