Mercurius Funding N.V./S.A. Compartment Mercurius-1

New Issue

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Capital Structure

Class	Amount (m)	Final Maturity	Rating	CE (%)[a]	Outlook	TT(%)[b]	TTLM(x)[c]
Class A	EUR3,200	April 2035	A+sf	21.90	Stable	80.0	34.18
Class B	EUR924	April 2037	NR	1.90	n.a.	20.0	8.55
Total Issuance	**EUR4,124**						

Closing occurred on 07 May 2012. The transfer of the portfolio to the issuer occurred on 07 May 2012. The ratings assigned above are based on the portfolio information as of 31 January 2012 provided by the originator
[a] Credit enhancement is provided in the form of subordination
[b] Tranche thickness percentage (TT%) – ratio of class size to collateral balance
[c] Tranche Thickness Loss Multiple – TT% divided by Fitch's base case loss expectation. See also *Structured Finance Tranche Thickness Metrics*, dated July 2011

Transaction Summary

The transaction is a static cash flow SME CLO originated by Dexia Bank Belgium N.V.-S.A. (the seller, Belfius, 'A-'/Stable/'F1'). The collateral portfolio comprises loans originated by Belfius to Belgian SMEs and self-employed individuals, part of Belfius' Retail & Commercial Banking (RCB) loan book. The transaction's two classes amortise sequentially and benefit from an initial EUR124m reserve fund.

Key Rating Drivers

Default Probability and Positive Selection: The three borrower segments (S10, S15, S20) of Belfius' RCB book show a 90 days past due probability of default (PD) in line with Fitch Ratings' expectation for the Belgian SME sector, which is 3% per year. Fitch has assigned an average annual PD of 2.31% for the transaction, which is a result of the portfolio's positive selection, based on Belfius' internal Masterscale.

Interest Rate and Payment Frequency: All underlying loans pay monthly interest and 98% of the portfolio pays principal on a monthly basis, while bullet loans account for 1.46% of the pool. Moreover, 99% of the pool relates to fixed-rate coupon loans. As the notes are paying fixed-rate interest monthly, Fitch views these pool characteristics as sufficient to mitigate the lack of any interest rate hedging mechanisms in the structure.

PDL and Cash Buffer: Principal Deficiency Ledgers (PDL) will be established on behalf of the issuer in respect of class A and class B notes (PDL A and PDL B respectively). The specific PDL mechanism records the expected loss amounts early in the structure, when a loan becomes 90 days in arrears. The mechanism retains all funds applied to reduce the PDL balance in a cash buffer that will be utilised to write down the full exposure of the loan (outstanding balance), at the time it is written-off.

Set-Off Deposit: If the seller is downgraded below 'BBB+'/'F2', and for as long its IDR remains below this rating, the seller will fund and maintain a deposit sized and available to cover the set-off risk for the transaction.

Servicing Continuity Risk: Belfius is the portfolio's servicer. While no back-up servicer has been appointed for the transaction at closing, servicing continuity risk is mitigated by operational features (notification and servicer termination triggers), as well as structural features (a reserve fund that provides liquidity to the class A notes; principal diverted from the principal waterfall in case of shortfall in interest available for the class A notes).

Rating Sensitivity[1]

This section provides an insight into the model-implied rating sensitivities the transaction faces when one risk factor is stressed, while holding others equal. The objective of this stress testing is not to eliminate rating changes through unrealistically conservative assumptions, but rather to ensure that a small change in input parameters does not result in a multi-category downgrade.

The results below should only be considered as one potential outcome, given that the transaction will be exposed to multiple risk factors that are all dynamic variables.

Rating Sensitivity to Default Rates

	Class A
Original rating	A+sf
Default rate multiplier of 1.25x	A+sf
Default rate multiplier of 1.50x	A+sf

Source: Fitch

Rating Sensitivity to Recovery Rates

	Class A
Original rating	A+sf
Recovery rate multiplier of 0.75x	A+sf
Recovery rate multiplier of 0.50x	A+sf

Source: Fitch

Rating Sensitivity to Correlation

	Class A
Original rating	A+sf
2x base case correlation for Belgium	A-sf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors

	Class A
Original rating	A+sf
Default rate multiplier of 1.25x and a recovery rate multiplier of 0.75x and 2x base correlation for Belgium	BBB-sf

Source: Fitch

Model, Criteria Application and Data Adequacy

Several criteria and models were applied in assigning the ratings to the notes, including Fitch's *Criteria for Rating European Granular Corporate Balance‑Sheet Securitisations (SME CLOs)*, dated 6 June 2011. Additional criteria used in the agency's analysis are listed under *Related Criteria*.

Belfius provided Fitch with a loan-by-loan data template as of 31 January 2012 as well as information on the portfolio's securities and collateral (on a borrower basis), historical default data from 1990 to Q211, cumulative recovery data from 2003 to 2011, dynamic delinquency data from 1995 to Q211 and prepayment data from 2005. The data received by Fitch was considered sufficient for the application of the above criteria.

Additionally, Fitch reviewed an agreed upon procedures (AUP) report regarding the data provided by the arranger. An internationally recognised accounting firm conducted the report,

Related Criteria

Criteria for Rating European Granular Corporate Balance-Sheet Securitisations (SME CLOs) (June 2011)

Counterparty Criteria for Structured Finance Transactions (March 2012)

Counterparty Criteria for Structured Finance Transactions: Derivative Addendum (March 2012)

Global Criteria for Cash Flow Analysis in CDOs (September 2011)

Criteria for Servicing Continuity Risk in Structured Finance (August 2011)

[1] These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

which included a detailed review of 449 loans of the 60,546 loan files. The auditing firm initially selected 457 files for the review; however, eight files of them were missing. Belfius has not managed to locate these files, but indicated that all information for such files was uploaded upon loan application and is available in its online systems. Additionally, the AUP report indicated exceptions in regards to the property valuations, which were not included in the loan files. According to Belfius, since approval for loan origination is based solely on credit criteria, a full property valuation is only carried out for properties with values above EUR700,000 (see *Appendix A: Origination and Servicing*).

For properties below EUR700,000, the value is determined by considering the property's contract and Belgian property index prices. Fitch is concerned there are no full valuations for all collateral properties. However, the agency only credited mortgage inscriptions in its recovery analysis and applied market value declines (MVD) on property values associated with mortgage inscriptions. Fitch's base case recovery rates are lower than Belfius' historical recovery data (see *Loan Security* and *Recovery Analysis* sections below).

The static portfolio was analysed in Fitch's portfolio Credit Model (PCM), tailored specifically for granular SME loan portfolios (see *Asset Analysis*). Furthermore, the agency analysed the structure using a proprietary cash flow model customised for the specific structural features, as described in the transaction's documentation.

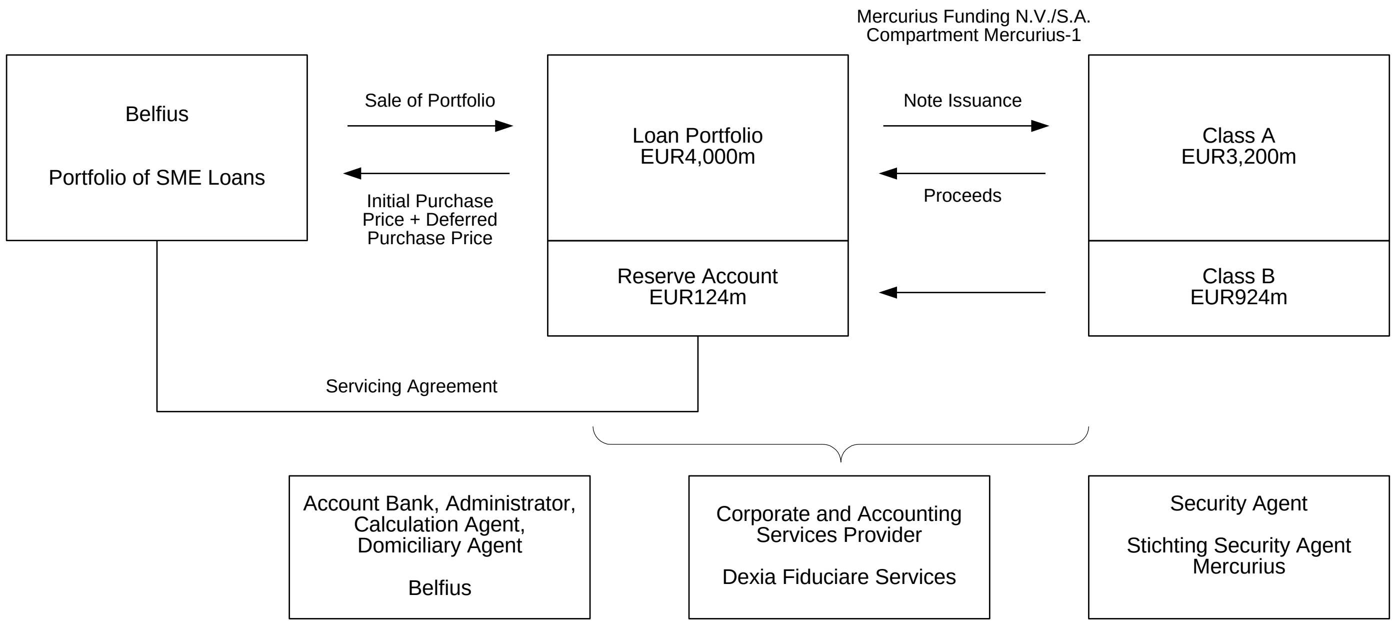
Recovery analysis for loans secured by mortgages on residential, commercial and other properties incorporates MVD assumptions for the Belgian market, in consultation with Fitch's RMBS and CMBS groups, as well as its *Criteria for Rating European Granular Corporate Balance‐Sheet Securitisations (SME CLOs)*, published 6 June 2011 and available at www.fitchratings.com.

Transaction and Legal Structure

The issuer, Mercurius Funding N.V./S.A., was created under the form of an institutional VBS/SIC. More specifically, it is an "institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht/société d'investissement en créances institutionnelle de droit belge" (Belgian institutional company for investment in receivables) subject to the UCITS

Figure 1

Structure Diagram



Source: Transaction documents

Act. The notes are issued by the issuer's first compartment, (Compartment Mercurius-1). The holders of the notes will not have any recourse to the assets of any other compartment the issuer may establish in the future.

The loan portfolio was transferred from the seller to the issuer's compartment Mercurius-1 by way of a true sale. No notification to the borrowers is required for the perfection of the true sale. The borrowers continue to pay interest and principal to Belfius until a notification event has occurred, after which the borrowers will pay interest and principal directly to the issuer (see *Notification Events*).

The purchase price of the loan receivables consists of the initial purchase price and the deferred purchase price. The issuer has financed the initial purchase price through the issuance of class A and class B notes, whereas the deferred purchase price amount will be paid to the seller, through the Interest and Principal Priority of Payments, throughout the transaction's life.

Fitch has reviewed the transaction's documents and legal opinions and considers that the transaction's structure is sufficiently delinked from the rating of Belfius.

Representations and Warranties

A full list of the representations and warranties contained in the transaction documents is available in the *Appendix* document entitled "Mercurius Funding N.V./S.A. - Compartment Mercurius-1 - Representations and Warranties", dated 7 May 2012 and available at www.fitchratings.com.

The representations and warranties (R&W) contained in the transaction documents are substantially comparable to those typically contained in European SME transactions, as described in Fitch's special report *Representations and Warranties and Enforcement Mechanisms in Global Structured Finance*, dated 17 April 2012.

Events of Default

1. Non-payment of interest or principal due by the issuer for 15 business days in respect of class A notes, when due to be paid in accordance with the terms and conditions.
2. Failure by the issuer to perform or observe any of its obligations and such failure is incapable of remedy or remains un-remedied for 30 days.
3. An order or an effective resolution is being passed for the winding up of the issuer or Compartment Mercurius-1.
4. Insolvency of the issuer or the issuer being unable to pay its debts allocated to Compartment-1.
5. Proceedings are initiated against the issuer or Compartment Mercurius-1 under any applicable liquidation, reorganisation, insolvency or other similar law.
6. Action is taken by any authority which results in the loss of the issuer of its status as an institutional VBS.

Upon the security agent becoming aware of an event of default or an event which through the passing of time would become an event of default, the security agent shall immediately notify the issuer, the seller and the administrator.

If the event of default stands and an enforcement notice is delivered, then all notes will become immediately due and payable at their outstanding principal amounts, including accrued interest up to the date in which all required amounts are paid in full.

Notification Events

Notification events relate to a breach of the seller's /servicer's obligations under the transaction's documents or to the occurrence of one of the following events, should one of the following events occur.

- If at any time an enforcement notice is served by the security agent.
- In case of a failure of the seller to duly perform or comply with any of its obligations and such a failure is not remedied within 15 business days after the seller receives knowledge of such a failure by the issuer or the security agent.
- If an order is made or an effective resolution is passed, for the winding-up (ontbinding/dissolution) or liquidation of the seller.
- An action is taken or is pending for the bankruptcy, liquidation, or safeguard measure of the seller or enforcement of any encumbrance over all or a material part of the seller's assets.
- A servicing termination event.
- The seller's Long-Term Rating or Short-Term Rating assigned by Fitch is downgraded below 'BB+' or 'F3'

Call Options

The transaction features several call options that provide Belfius with the flexibility to terminate the transaction early. Fitch considers the call options to be credit neutral, as all call options require all rated notes to be repaid in full with accrued interest. Fitch's analysis does not rely on any call option being exercised.

Permitted Variations

In relation to any loan, the servicer shall be entitled to consent to variations on its features, to the extent the following conditions are satisfied:

a. no enforcement notice has been given by the security agent at the date of the relevant variation;

b. the current balance of the loan shall not be reduced otherwise than as a result of an effective payment of principal;

c. any variation in the amortisation profile of the loan, other than an interest-only loan, will not cause the loan to be no longer payable by way of instalments or will imply a higher residual value payment at the final redemption date of such varied loan;

d. in case of a maturity extension of the loan, such extension will be in accordance with the terms of the loan documents of the relevant loan and the final redemption date of such varied loan will not be extended beyond the payment date falling four years prior to the final maturity date of the class A notes; additionally, the overall balance of all loans whose maturity is extended should not account for more than 7% of the portfolio's balance at closing;

e. any variation in the fixed interest rate in respect of the loan will be market conform at the time of such variation, will not cause the fixed interest rate to fall below 3.5% per annum and the sum of the current balance of all loans, in respect of which such variations have occurred from the closing date, does not exceed 15% of the current balance of the portfolio on the closing date;

f. any variation in respect of a resettable rate loan will not result in a change to the periodicity of the resets of the interest rate applicable to the loan;

g. any variation in respect of a resettable loan will not result in a change of the minimum interest rate, if any, applicable to the loan;

h. the variation will not cause the loan to no longer comply with all the sale asset warranties;

i. such variation shall be acceptable to the servicer acting as a reasonably prudent lender (bonus pater familias).

Non-Permitted Variations

In case any of the conditions above under *Permitted Variations* is considered not to be satisfied, such variation shall be deemed to be a non-permitted variation and the seller will have the obligation to repurchase the relevant loan at its outstanding balance plus interest accrued until the repurchase date less impairments.

Legal Opinion

Fitch has reviewed the legal opinion that covers Belgian law to confirm that its assumptions – which are being factored into the credit analysis for the transaction – are supported by the legal opinion.

Disclaimer

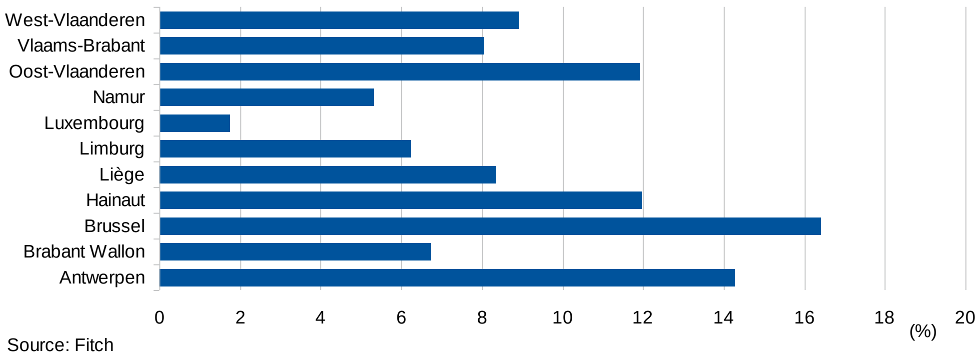
For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Asset Analysis

The EUR4.228bn portfolio, as of 31 January 2012, comprised 60,546 loans to 38,743 borrowers. Since loans can be originated to more than one company owned by the same borrowing entity, the total number of individual borrowers comprises 37,380 borrower groups. Fitch stressed the transaction by applying a cross-default definition among individual borrowers, meaning that in case a borrower group defaults, all loans under such borrower group are considered to default.

Figure 2

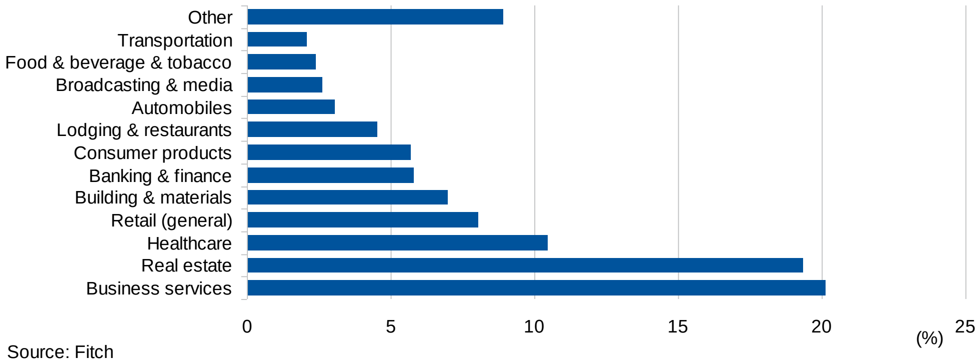
Regional Distribution



Source: Fitch

Figure 3

Industry Distribution



Source: Fitch

The portfolio is highly granular with the top borrower group concentration comprising 0.37% of the portfolio's notional and the top 10 borrower groups comprising 2.47% of the portfolio's notional. The largest Fitch industry (Business Services), accounts for 20.13% of the portfolio, while the second largest industry (Real Estate), stands at 19.32%.

Figure 4

Initial Portfolio Highlights

Outstanding portfolio balance as of 31 January 2012 (EUR)	4.228bn
Number of loans	60,546
Average loan amount (EUR)	69,831
Number of borrower groups	37,380
Top obligor group (%)	0.37
Top 5 obligor groups (%)	1.43
Top 10 obligor groups (%)	2.47
Biggest Fitch industry	Business services
Top Fitch industry (%)	20.13
Top 5 Fitch industries (%)	64.94

Source: Fitch

Loan Products

The portfolio comprises two loan types, Dexia Business Credits (DBC) and Investment Credits (IC), according to Belfius internal classification. Both types are medium to long-term credits, the purpose of which is to finance professional investments of SMEs and self-employed individuals with a maximum turnover of EUR10m (these form part of Belfius' RCB division (see *Origination and Servicing* in *Appendix A*).

The difference between the two loan types resides solely on the loan amount.

Dexia Business Credits (DBC)

Loan amount subject to a minimum of EUR2,500 and a maximum of EUR75,000. These loans make up 15.8% of the portfolio.

Investment Credits (IC)

Loan amount of more than EUR75,000 and subject to a maximum of EUR22.5m. These loans account for 84.2% of the portfolio.

Loan Security

The collateral for the portfolio consisted of mortgage inscriptions, mortgage mandates, cash pledges and personal or other kind of guarantees.

All-Sum Mortgages

In Belgium, most mortgage receivables relate to loans secured by a mortgage that is also used to secure all other amounts that the borrower owes, or in the future may owe to the originator, a so called "alle sommen hypotheek/hypothèque pour toutes sommes" (all-sums mortgage). All loans, which are secured by the same mortgage, rank pari passu and recovery proceeds are split among these loans pro rata.

According to Belgian law, new loans granted after the transaction's closing date and secured by an all-sum mortgage are legally subordinated to all loans originated before the closing date. Fitch specifically addressed this characteristic in its recovery analysis (see *Recovery Analysis* section).

Mortgage Mandates

Mortgage mandates are a particularity of the Belgian market and are driven by the high cost of mortgage registrations. A mandate is not an actual mortgage or security interest, but rather an agreement between the borrower which gives the originator the right to unilaterally create a mortgage for the benefit of the originator over a specific property.

Internal Rating Scales

All borrowers in Belfius' RCB division are split into three segments (S10, S15 and S20), each of which has an individual internal rating scale:

- S10 borrowers are assigned an internal rating following the Risk Business Indicator (RIBUS) rating scale. Borrowers in this segment are classified as self-employed individuals and SMEs with assets of less than EUR2m. The RIBUS scale and internal rating model is different for self-employed individuals and SMEs. Borrowers in the S10 segment make up 36.1% of the portfolio.
- S15 borrowers are assigned an internal rating following the Rating Small Corp (RSC) rating scale. Borrowers in this segment are classified as SMEs with similar characteristics as the S10 segment, but they are part of a company group or subject to foreign law. Unlike S10, S15 does not include self-employed individuals. S15 borrowers make up 21.1% of the portfolio.
- The S20 borrowers comprise the remaining SMEs in the RCB book and are assigned an internal rating according to the Rating Mid Corp (RMC) rating scale. The S20 segment accounts for 42.8% of the portfolio.

The different internal rating scales are combined in a general masterscale with associated probabilities of default (see Figure 5).

Figure 5

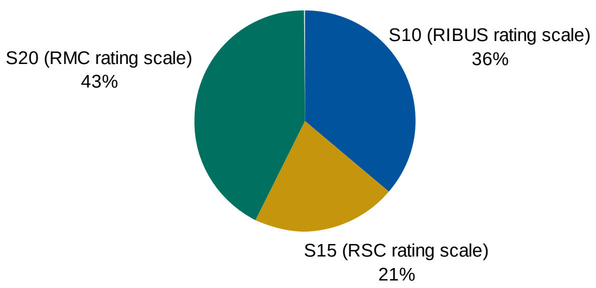
Internal Rating Scales - Basel II Expected PD

Masterscale	PD Masterscale (%)	RIBUS Self-Employed	RIBUS Enterprises	Rating Small Corp	Rating Mid Corp
>= A-	0.07	>=B	>=B	A-	>=BBB+
BBB+	0.18	C		BBB+	
BBB+	0.34	D	C	BBB+	BBB
BBB-	0.71		D	BBB-	BBB-
BB+	0.88	E		BB+	
BB	1.15	F	E	BB	BB+
BB	1.15	F	F	BB	BB+
BB-	2.68	G		BB-	BB
B+	3.95	H	G	B+	BB-
B+	3.95	H	H	B+	B+
B	9.07		I	B	B
B-	13.84	JKL		B-	B-
CCC	30.87		JKL	CCC	CCC

Source: Transaction documents

Figure 6

Internal Rating Scales



Source: Fitch

Transaction Default Probability – Credit for Positive Selection

Fitch has determined a base case probability of default (PD) for Belgium at 3% a year, reflecting a forward-looking five-year expectation. This is based on macroeconomic data, as well as recent historical default rates and insolvency statistics provided by central banks and individual lenders.

Fitch reviewed the historical default data, based on a Basel 90 days past due (dpd) definition, provided by Belfius for the three borrower segments (S10, S15, S20). The performance of Belfius' borrower segments shows a default rate in line with Fitch's default expectation for the Belgian SME market.

Fitch incorporated in its analysis the three internal rating scales (RIBUS, RSC, RMC) used for each borrower segment (S10, S15, S20), to quantify any positive or negative selection, using a mapping approach according to its SME CLO Criteria.

The transaction's base case PD for the S10, S15 and S20 borrower segments was estimated to be 2.3%, 2.0% and 2.5% respectively, which implies a positive selection for the reference portfolio compared to Belfius' balance sheet. This positive selection reflects the transaction's eligibility criteria, according to which the portfolio was selected excluding all obligors with an internal rating lower than 'B' as of the Belfius' Internal Rating Masterscale (expected Basel II PD higher than 9.07%).

Taking into account the breakdown of the three borrower segments in the portfolio, the weighted average (WA) transaction base case PD is estimated at 2.31%, reflecting a forward-looking five-year annual average expectation.

Cure Rate: In Line With Comparable European SME Lenders

Fitch's base case default analysis is based on a 90 dpd default definition. The historical data that Belfius provided shows that not all borrowers that become overdue for more than 90 days will end up in foreclosure, since a percentage of them return to performing status. Fitch derived an inferred base case cure rate by analysing two sets of data — historical foreclosure vintages and data reflecting the cumulative percentage of loans that moved from 90 dpd default to foreclosure — by year of default.

The implied base case cure rate estimated by Fitch is approximately 40%, which is in line with the cure rates the agency has observed for other European SME transactions. Fitch considers that the cure rate is a function of economic stress; therefore, according to Fitch's SME CLO Criteria, the agency applied a tiering of 45% to the base case, to derive a cure rate of 18% at the 'A+' level.

Recovery Analysis

Fitch gave credit in its analysis only to first-lien mortgage inscriptions and considered all loans secured by mortgage mandates, cash pledges and guarantees as unsecured. However, given the high level of mortgage mandates, pledges and guarantees, and after having reviewed the historical recovery rates of Belfius' RCB loan book, Fitch increased the base case unsecured recovery rate to 60% from 30% and the 'A+' unsecured recovery rate to 30% from 15%. The total breakdown of the collaterals securing the portfolio can be seen in Figure 7.

Figure 7

Portfolio Collaterals

Type of security	Current balance (EUR)	(%)	No. of loans	(%)	Average loan (EUR)
Cash	31,020,999	0.73	699	1.15	44,379.1
Mortgage Inscription	2,667,597,614	63.09	17,886	29.54	149,144.4
Mortgage Mandate	348,585,128	8.24	3,148	5.20	110,732.3
Other	573,874,271	13.57	7,860	12.98	73,012.0
Unsecured	606,936,849	14.36	30,953	51.12	19,608.3
Total	**4,228,014,861**	**100.00**	**60,546**	**100.00**	**69,831.4**

Source: Fitch, transaction documents

The aggregated amount of first-lien mortgage inscriptions as of the cut-off date stands at EUR1.35bn and accounts for 31.9% of the portfolio's balance. Fitch has calculated loan-by-loan recoveries, based on property type and geographic location, by applying MVDs to the collateral values, in consultation with its RMBS and CMBS groups.

As also indicated in the *Loan Security* section, according to the transaction's documentation – supported by the legal opinion – all mortgage receivables will be allocated pro-rata among all loans originated to the borrower until closing that are secured by the same property, including those transferred to the SPV and those remaining in Belfius' balance sheet. All loans further advanced to the same borrower after closing are legally subordinated.

To estimate the recovery receivables related to all-sum mortgage inscriptions, Belfius provided the total amount of mortgage inscriptions under each collateral property and the total outstanding amount of all loans (securitised and remaining in Belfius' balance sheet) that will benefit from the mortgage inscription receivables.

Fitch applied the MVDs on each collateral property's value; since the agency gave credit only to the mortgage inscription on each property, the total recovered amount from each collateral security was estimated as follows:

Estimated Recovery Amount = Minimum (Property Value after MVD, Total Mortgage Inscription Amount).

The estimated recovery amount was shared pro-rata among all loans (securitised and remaining in Belfius' balance sheet) that benefit from each collateral property.

Portfolio Credit Model (PCM)

Figure 8 shows the rating default rates (RDR), rating recovery rates (RRR) and rating loss rates (RLR) for the portfolio under 'AAAsf', 'A+sf' and mean (base case) rating stress scenarios.

The WA life (WAL) of the portfolio is 5.77 years, estimated by modelling on PCM the loan-specific amortisation profiles provided by the originator. For the 'A+sf' rating scenario, the expected cumulative foreclosures over the life of the transaction are 23.53%, resulting in expected losses of 14%**.**

Figure 8

Portfolio Credit Model Results

(%)	RDR (90 dpd)	Cure rate	Foreclosure rate	RRR	RLR
AAA	35.9	10.0	32.3	19.5	26.0
A+	28.7	18.0	23.5	40.4	14.0
Base case	12.6	40.0	7.6	69.0	2.3

RDR = Rating default rate
RRR = Rating recovery rate
RLR = Rating loss rate
Source: Fitch

Financial Structure and Cash Flow Modelling

Fitch analysed the structure using a proprietary cash flow model customised for the specific structural features, as described in the transaction documents. The timing of defaults and recoveries, and interest rate scenarios under different rating stresses, were tested in the cash flow model to determine if there would be sufficient cash flows to pay interest and principal according to the terms of the notes.

The results of the cash flow model were compared against the available credit enhancement (CE) available to the notes. The class A notes benefit from an initial CE of 21.9% provided by the subordination of class B notes and a cash reserve fund.

Fitch regards sequential amortisation, PDLs, the cash buffer mechanism and the reserve fund as positive structural features for the senior class A notes.

Priority of Payments: Support for Class A Notes

The transaction features an interest and a principal priority of payments. The notes will be redeemed sequentially, starting from the senior class A notes.

To the extent that, on any payment date, the interest available funds are insufficient to pay the interest due on class B notes, the payment of such shortfall shall be deferred and such amount will be debited to the class B interest deficiency ledger. Moreover, to the extent that class A notes are still outstanding and the interest available funds are insufficient for the issuer to pay the senior fees and class A interest items — (1) to (3) of the pre-enforcement interest priority of payments — principal will be redirected from the principal priority of payments to cover this shortfall.

The transaction features a PDL mechanism, which traps excess spread if the PDL is debited by funding a cash buffer. This trapping mechanism prevents proceeds from being paid to items junior in the two priorities of payments and is a benefit to the transaction (see *Principal Deficiency Ledger and Cash Buffer* below)

Figure 9
Pre-Enforcement Interest Priority of Payments

1	Senior expenses
2	Other fees and expenses incurred in the normal course of business, not included in (1)
3	Class A interest
4	Replenishment of the reserve fund up to reserve fund level 1
5	Class A PDL
6	Class B PDL
7	Replenishment of the reserve fund up to reserve fund level 2 or if more than 50% of class A notes has amortised up to the reserve fund required amount.
8	Class B interest deficiency ledger
9	Class B interest
10	Remaining funds in payment of the deferred purchase price

Source: Transaction documents

Figure 10
Pre-Enforcement Principal Priority of Payments

1	Redirected principal to cover any shortfall on items (1) to (3) of the interest priority of payments
2	Redemption of class A
3	Redemption of class B
4	Remaining funds in payment of the deferred purchase price

Source: Transaction documents

After enforcement, all proceeds received by the issuer or standing in its accounts, will be applied in accordance with the post-enforcement priority of payments.

Figure 11
Post-Enforcement Priority of Payments

1	Senior expenses
2	Other fees and expenses incurred in the normal course of business, not included in (1)
3	Class A interest due
4	Redemption of class A
5	Class B interest due or overdue
6	Redemption of class B
7	Remaining funds in payment of the deferred purchase price

Source: Transaction documents

Reserve Fund: Two-Step Replenishment Provides Liquidity to Class A Notes

The issuer will use part of the proceeds of the class B issuance to establish and maintain a reserve fund, which will be held in the issuer's account bank (minimum rating trigger 'BBB+'/'F2'). The reserve fund balance can be used if there are insufficient interest proceeds to meet certain obligations under the interest priority of payments.

On the closing date, the reserve account will be funded by EUR124m (less the accrued interest component of the purchase price), which accounts for 3.1% of the initial portfolio's balance. After the first payment date and as long as the class A notes are outstanding, the reserve fund will be replenished up to 3.6% of the initial portfolio's balance (reserve fund level 2). After the class A notes have amortised by more than 50% of their initial balance, the reserve fund replenishment target will be 3.1% of the initial portfolio balance (reserve fund required amount).

A particularity of the transaction is the two-step replenishment of the reserve fund through the interest priority of payments. On each payment date and after class A interest has been paid, the transaction utilises the interest available funds to increase the reserve fund up to the reserve fund level 1, which accounts for 1.2% of the portfolio's initial balance (EUR48m). This amount is a type of liquidity facility for the class A interest payments, which is reserved on every note payment date before the replenishment of the PDLs; hence, it does not provide credit enhancement to the structure. The reserve fund level 1 provides liquidity for at least four monthly interest payments of the class A notes, at a 0% prepayment assumption.

After the interest available funds are allocated to the PDLs, the reserve fund is replenished up to the reserve fund level 2 (3.6% of initial portfolio, or EUR144m) or the Reserve fund required amount (3.1% of initial portfolio, or EUR124m), depending on the amortisation percentage of the class A notes.

On the first payment date after the class A notes have amortised in full, the amount standing in the reserve account will be released to the principal priority of payments.

Interest Rate Risk and Excess Spread

The issuer will receive fixed-rate interest from 99% of the portfolio, whereas floating-rate interest loans make up 1% of the portfolio.

While 81.5% of the portfolio comprises fixed-rate loans the coupon of which can not be reset until the loans' amortisation, 17.5% of the pool relates to fixed-rate coupon loans, the coupon of which is resettable following a specific frequency of three, five or ten years, as seen in Figure 12. The originator provided Fitch with the historical interest rates of Belfius' RCB loan book since 1990, which the agency incorporated in its analysis.

Figure 12

Interest Rate Reset Frequency

Type of interest reset	Current balance (EUR)	(%)	No. of loans	(%)	Average loan (EUR)
Semi-annually	328,611	0.01	1	0.00	328,611.00
Annually	43,768,257	1.04	309	0.51	141,644.84
3-3-3 (years)	73,286,066	1.73	448	0.74	163,584.97
5-5-5 (years)	397,766,205	9.41	2,114	3.49	188,158.09
10-5-5 (years)	267,089,231	6.32	1,214	2.01	220,007.60
Fixed	3,445,776,490	81.50	56,460	93.25	61,030.40
Total	**4,228,014,860**	**100.00**	**60,546**	**100.00**	**69,831.45**

Source: Fitch, transaction documents

The agency stressed the resettable fixed-rate and the floating-rate loans in decreasing, increasing and stable interest rates environments, according to the agency's *Criteria for Interest Rate Stresses*.

All underlined loans pay monthly interest and 98% of the pool pays principal on a monthly frequency, while bullet loans account for 1.46% of the pool. Fitch views this pool characteristic, combined with the large proportion of fixed-rate loans in the pool, as sufficient to mitigate the lack of any interest hedging mechanisms in the transaction.

The WA coupon of the portfolio is 4.5%, while the fixed-rate coupon of the rated class A notes is 3%, allowing for positive excess spread for the transaction even in a high default scenario.

PDL and Cash Buffer

The PDL prevents excess spread from being paid to items subordinated to the specific PDL (with a recorded balance) in the priority of payments.

PDLs will be established on behalf of the issuer in respect of class A and class B notes (PDL A and PDL B respectively). The PDL will reserve excess spread against losses. Normally, PDLs based on losses provide less benefit than if based on defaults as: i) they are registered at a later stage and ii) record smaller amounts.

However, the specific PDL mechanism counters these setbacks by recording:

- expected loss amounts, when a loan is 90 days in arrears (loan reduction provisions) as well as the increase in loan reductions provisions up to the total exposure amount (outstanding balance), at the time the loan is written off. The loan reduction provision amount may change over time, according to changes in the provisions. This increase or decrease will be reflected on the PDL.

All amounts that are allocated through the interest priority of payments to reduce the PDLs will be retained in a cash buffer and will be used in the following circumstances.

a. When a loan is written-off, the amount standing in the cash buffer will be released in the principal priority of payments to redeem the balance of the notes.

b. The loan reductions amount, which is recorded in the PDL, may decrease if a loan that becomes 90 dpd cures or the loan's estimated expected loss amount reduces. In that case, the cash buffer amount in excess of the amount recorded in the PDLs will be released to the interest priority of payments waterfall.

Class B Interest Deficiency Ledger

Class B notes pay monthly interest on a fixed-rate coupon of 4.5%. If on any Payment date the interest available funds are insufficient to pay the interest due on the class B notes (according to the interest priority of payments), the payment of such shortfall will be debited on the class B interest deficiency ledger that is established on the transaction and the payment will be deferred to the next payment date.

Waiver of the Class B Notes

After the payment date falling on 24 December of every year, the class B notes' notional amount will be adjusted to an amount equals to the higher of: i) the class B notes' notional less the class B waiver; and ii) EUR1 per note.

The class B waiver amount is capped at the reserve fund required amount (3.1% of initial portfolio balance or EUR124m) and equals the difference between the loan reduction provisions and the PDL allocations within the accounting year.

During the accounting year, if available funds in the interest priority of payments are insufficient to redeem the amount recorded on the PDLs since the beginning of the accounting year, the class B notes notional is written down by an amount equal to the class B waiver, as described above.

Counterparty Risk

Servicing Continuity Risk

As the servicer of the portfolio will be the originator, Dexia Bank Belgium N.V./S.A. (Belfius), the transaction documents specify certain events that will constitute both termination and notification events. While no back-up servicer is appointed at closing, the management company will need to appoint a back-up servicer within 180 days upon the downgrade of the servicer's Long-Term IDR below 'BBB-'.

According to the transaction's documentation, the servicer will assist the issuer to appoint a suitable back-up servicer and at the same time the issuer will appoint within a period of 20 calendar days a back-up servicer facilitator to assist in finding a suitable back-up servicer.

The back-up servicer, when appointed, will be under an obligation to review the servicer's monthly reports as well as all portfolio-related periodical information that the servicer receives. The back-up servicer must generally be in a position to immediately perform the services included in the servicing agreement in case of a servicer termination event.

A servicer termination event would occur, if among other things, one of the following events takes place.

- The servicer does not comply with its obligation to pay or transfer any amount when due or fails to perform or observe any of its material covenants and obligations in accordance with the servicing agreement and such default is unremedied for 10 business days.
- Upon the occurrence of an insolvency event, in relation to the servicer.
- It is or it becomes unlawful for the servicer to perform any of its obligations under the transaction documents.

If a servicer termination event has taken place, this would constitute a notification event under which Belfius would: i) notify the relevant borrowers for the transfer of the loans and the pledges to the issuer; and ii) instruct the borrowers to pay any amounts due directly to the issuer.

Fitch considers that the arrangements included in the servicing agreement are sufficient to offset the servicing continuity risk, according to the agency's criteria *Servicing Continuity Risk Criteria for Structured Finance Transactions*, published 12 August 2011

Account Bank

The issuer holds its accounts with Belfius. The account bank agreement includes downgrade provisions in accordance with Fitch's counterparty criteria. If the account bank's rating is downgraded below 'BBB+'/'F2', then the issuer should transfer its accounts to an institution rated at least 'BBB+'/'F2' within 30 calendar days.

Commingling and Liquidity Risks

All loans are repaid by direct debit into the collection accounts under each borrower's name, held at Belfius. The collection amounts are transferred daily to the issuer's account, minimising the commingling exposure horizon to one business day.

After a notification event occurs, borrowers will be notified to divert their payments directly to the issuer's accounts. Fitch estimates the time it would take the borrowers to start transferring payments to the issuer's account could be up to one month. This period could disrupt the cash flows, which would normally be transferred to the issuer. In the agency's view, the impact of such a disruption is mitigated by the reserve fund level 1, which can be applied to cover any interest shortfalls in the payment of class A note interest and can cover at least four monthly interest payments on the class A notes, at a 0% prepayment assumption.

Set-Off/ENAC Defence

Under Belgian law, set-off is allowed between amounts owed by a borrower to the seller and vice versa. However, in order for set-off to take place, the conditions for set-off need to be met; this means that both debts should be due and payable between the same parties and only such "due and payable" amounts may be liable for set-off.

The seller has committed to compensate the issuer for any amounts set-off by the borrower under a securitised loan.

If the seller defaults or is insolvent and can no longer be relied upon to compensate the issuer as mentioned above, set-off risk is mitigated by notification.

Fitch understands from legal opinions that notification to the borrower is sufficient to invalidate set-off for amounts due after notification. Notification implies informing each borrower that the relevant loan has been transferred to the issuer and that payments should be made directly to the issuer's account.

Amounts due prior to notification can still be set-off. Fitch is comfortable with this risk, based on the aforementioned notification events (see *Notification Events* section). Furthermore, Fitch views the dynamic deposit amount (see *Set-Off/ENAC Defence Deposit* below) as being adequately sized to cover the potential set-off risk in the transaction.

In certain circumstances, a borrower may be entitled to claim other legal defences (such as ENAC Defence) against the issuer post-notification. The (legal and factual) availability and the extent thereof must however be considered on a transaction-by-transaction basis.

Furthermore, Fitch analysed the risk of borrowers using the ENAC Defence to set-off their deposit/savings at Belfius. Belgium has a deposit guarantee scheme that covers deposits up to EUR100,000 per depositor and per bank. This deposit guarantee is available to all private individuals, associations, non-profit associations and SMEs, irrespective of their nationality or place of residence.

This guarantee covers, in particular, all amounts owed by the insolvent bank in respect of a deposit of funds (eg in current accounts, saving accounts, time-deposit accounts) denominated in euros or in the currency of a European Economic Area country. Deposits of funds denominated in the currency of another country will only qualify for protection under the deposit guarantee scheme if they have a direct link with the purchase or repayment of financial instruments (eg shares, units, bonds).

Fitch gives full benefit to the Belgian deposit guarantee mechanism under all rating scenarios, including 'AAAsf'. Fitch may reassess the benefit given to the deposit guarantee scheme in case of a sovereign downgrade by one category.

Nevertheless, despite a strong legal framework in Belgium, Fitch considers that part of the set-off exposure for amounts above the Belgian deposit guarantee scheme might be liable for set-off and therefore treated as a loss. Fitch views the above dynamic deposit amount as being adequately sized to cover this loss in the transaction.

Set-Off/ENAC Defence Deposit

In order to mitigate the set-off and ENAC Defence risks, the transaction includes a deposit event trigger.

For as long as class A notes are outstanding and a law abolishing set-off has not been enacted and entered into effect — in case the seller (Belfius) is downgraded below 'BBB+'/'F2' (and as long its IDR remains below 'BBB+'/'F2') — the seller will fund and maintain a deposit amount equal to:

50% * (1-foreclosure rate under 'A+sf' rating scenario[2])* the sum of all borrowers' minimum of (Current Balance, maximum(0, deposits – amount covered by the deposit guarantee scheme)).

The deposit amount will be updated on every note payment date to account for the dynamic set-off and ENAC Defence and will be held at the account bank.

The amounts standing in the deposit will only be available on each note payment date to indemnify the issuer against any losses resulting from a borrower claiming set-off or other defences.

[2] Foreclosure Rate under 'A+sf' rating scenario is 23.53%

Performance Analytics

Fitch will monitor the transaction periodically and as warranted by events, with a review conducted, on average, at least annually. The transaction manager will provide a report (investor report) on a monthly basis to Fitch, which provides details on the outstanding note balances, payments according to the priority of payments, balances in the relevant transaction accounts, portfolio characteristics on an aggregate basis and set-off and ENAC defence exposure as regards the portfolio's borrowers.

Surveillance follows the same process outlined in *Asset Analysis* and *Financial Structure and Cash Flow Modelling*; however, all analysis is conducted on the basis of the then-current portfolio. Fitch's goal is to ensure that the assigned ratings remain an appropriate reflection of the issued notes' credit risk. Fitch will report the performance of this transaction in the report *SME CLO Compare*, which will be available, along with other details of the transaction's performance, to subscribers at www.fitchratings.com. Further information on this service is available at www.fitchratings.com.

Figure 13

Counterparties and Triggers

Key parties	Name	Current Rating	Triggers	Action upon breach of trigger
Issuer	Mercurius Funding N.V./S.A. Compartment Mercurius-1	NR	n.a.	
Seller/Originator	Dexia Bank Belgium NV/SA (Belfius)	'A-'/'F1'	'BB+'/'F3'	A downgrade below 'BB+'/'F3' would trigger: 1. A notification event. The borrowers would be notified of the sale and assignment of the loans and the underlined securities in favour of the secured parties. 2. A ratings downgrade event. The issuer may at its option redeem all (but not some) outstanding class A and class B notes.
			'BBB+'/'F2'	A deposit event would be triggered. For as long as a deposit event has occurred and is continuing, the deposit account will maintain an amount to indemnify the issuer against any losses resulting from a borrower claiming a set-off right or ENAC defence. This amount will be updated in every note payment date.
Arranger/ Calculation Agent/ Administrator	Dexia Bank Belgium NV/SA (Belfius)	'A-'/'F1'	n.a.	
Security Agent	Stichting Security Agent Mercurius	NR	n.a.	
Account Bank (Issuer Account Bank)	Dexia Bank Belgium NV/SA (Belfius)	'A-'/'F1'	'BBB+'/'F2'	The issuer will: (i) transfer the balance of all issuer account to another bank that meets this rating; or (ii) find a third party that would guarantee the obligations of the issuer account bank, according to the account bank agreement; or (iii) take other steps to maintain the rating of the notes.
Servicer	Dexia Bank Belgium NV/SA (Belfius)	'A-'/'F1'	'BBB-'	An appointment trigger event would be triggered. Upon the servicer's rating being downgraded below 'BBB-', the servicer will assist the issuer in appointing a suitable back-up servicer (BUS) within 180 days. At the same time, upon a downgrade of the servicer below 'BBB-', the issuer will appoint a BUS facilitator within 20 calendar days. If upon the termination of the appointment of the servicer no BUS has been appointed, the BUS facilitator shall, according to the servicing agreement, identify and approach a BUS.

Source: Transaction documents

Appendix A: Origination and Servicing

The Originator

Dexia Bank Belgium N.V./S.A. (Belfius) was created and developed as a financial institution for municipalities. Since 1990 the bank has established a network of branches and has been operating on the international market by providing credit to private individuals. In 1996 it joined Dexia Credit Local and Banque Internationale a Luxembourg to form Dexia Group, a European Banking group.

Following the restructuring of Dexia Group, Belfius was acquired by Federal Holding and Investment Company (FHIC) acting on behalf of the Belgian State, on 20 October 2011.

The SME Business Segment

Belfius' Retail and Commercial Banking arm is among the top three Belgian retail and commercial banks, serving more than 4 million clients.

Belfius provides a variety of products specifically to its more than 190,000 self-employed and SME customers through a network of more than 800 branches (the second-largest branch network in Belgium).

Belfius is the fourth largest bank for Belgian SMEs and self-employed individuals, with a market share of 16.6%. For the last six years, Belfius has been expanding its business operations, averaging an annual growth in its business customers of 3.87%.

Origination

All SME loans are granted through Belfius' branch network (not through brokers), consisting of approximately 800 branches, grouped in 128 regional clusters. The first step in the origination process involves assessing the client's requests, based on Belfius' principles of credit policy and the client's characteristics and repayment capacity. The initial assessment is carried-out on a branch level via an integrated internal system, Crednet.

Crednet incorporates information provided by the client, such as borrower characteristics (eg balance sheet information, number of employees, historical information of the business) and credit characteristics (eg purpose, amount, proposed duration, payment plan) in order to reach an automated decision regarding the granting of the loan. The client also provides valuation details for the proposed loan collateral guarantees; however, these do not affect the loan assessment decision. In addition to the assessment decision, Crednet also provides a pricing proposition for the loan.

Depending on the loan amount and the client's exposure and rating, Crednet can either provide automated decisions or refer applications for higher approval levels, as follows:

Automated Granting: The loan application is automatically accepted by the Crednet system.

Full Advice: The final decision is taken at branch level. The assessment is however controlled by a risk specialist at head office.

Partial Advice: The assessment involves analysis at branch level; however, the decision is taken jointly with a risk specialist at head office.

Head Office: The analysis is carried out by a credit analyst at head office and a credit committee may be involved in the assessment.

The four loan assessment routes are outlined in Figure 14.

Figure 14
Loan Origination Authorisation Levels

Crednet decision	Max loan	Max exposure	Internal rating	Decision level
Automatic Decision	<EUR100,000	-	Very Good, Good	Front Office (FO)
Full Advice (branch decision)	< EUR 100,000	-	Very Good, Good	FO or branch manager for eligible branches (where branch account manager has authority to approve)
	< EUR250,000	<= EUR500,000	Very Good, Good, Average	FO (top branches only)
Partial Advice (underwriter decision)	< EUR250,000	< EUR500,000	Bad, Very Bad, No Rating	FO + Credit Operations[a]
	< EUR500,000	<= EUR1,000,000	ALL	FO + Credit Operations[a]
Head Office Decision	< EUR100,000	-	Average, Bad, No Rating	Credit Risk + Business Banker (BB)[b]
	< EUR100,000 - EUR500,000	<= EUR2,000,000	ALL	Credit Risk + BB[b]
		> EUR2,000,000	ALL	Credit Risk Management (CRM) + BB[b]
	> EUR500,000	-	ALL	CRM + BB[b]

[a] Risk specialists from head office may be involved if the decision is escalated
[b] Committee decision and risk department may be involved if the decision is escalated
Source: Fitch

All loans that require head office authorisation are reviewed by one of a team of 12. This team comprises junior analysts, senior analysts and experts. The junior analysts will review smaller size loans with lower risk characteristics, whereas the experts will look at larger loans or those with higher risk elements. The experts tend to be industry professionals with a minimum of 10 years' loan underwriting experience.

Quality Control

An automatic check is performed by the Front Office (ie branch level) as all documents are scanned and assigned a barcode for future tracking.

A central team completes a basic check on all accepted loan applications to ensure appropriate documentation was received and due process was followed. More thorough checks are completed on almost one in five files after the release of funds.

Every branch receives an additional audit by the Risk Management team twice yearly. Branches receive feedback from every loan file check and audit. Although branches are incentivised by sales performance, remuneration will be adversely affected if quality control checks produce negative results. As such, branches are actively incentivised to ensure the accuracy of their application data and decision making. In some cases, lending mandates will be removed from branch staff if multiple errors are identified.

Servicing

Loan management through the Servicing team begins immediately following the release of funds. The team is split into After-Sales and Guarantees and deals with the general day-to-day servicing operations via a full image and workflow solution, ensuring straight-through processing.

Most change requests do not have a risk impact and are dealt with by the servicing team. However, some change requests result in an increased risk to the bank (eg an increase in credit line, or extension of contract duration). The servicing team will always involve the branch in the completion of a new application, a full re-underwriting, or if appropriate, the issuance of a new contract.

Collections and Recoveries

Arrears management starts from the first day following a missed payment. Files are allocated to either Credit Operations (CO) or Credit Risk Management (CRM) depending on the nature of the loan.

a. Credit Operations handles the three segments (S10, S15, S20) where the outstanding exposure is less than EUR250,000.

b. Credit Risk Management handles S15/S20 segments where the outstanding exposure is more than EUR250,000 and for files that are on watchlist.

c. The legal department is involved in case of recoveries.

CO utilises a workflow management tool which is supported by an automated telephony system and automated letter strategy.

Three days after the due date for payment the client is contacted through the local branch. If payment is not made, the following steps are followed.

- 30 days after the due date, an automatically generated letter is sent to the borrower notifying them that the payment is late.
- 40 to 60 days past due: a second reminder letter is sent which indicates that the payment is still delinquent and that a default to pay may result in the issuance of a notice of default. Moreover, the letter will inform the borrower that the delinquency will be reported to the National Bank of Belgium, once the loan becomes 90 days in arrears.
- Two weeks after the second letter, head office contacts the borrower in order to determine the reasons for non-payment and to identify possible solutions, such as a repayment plan.
- If such contact with the borrower does not result in a solution, when the loan becomes 75 to 90 days in arrears it is denunciated and transferred to another department, depending on the outstanding amount and guarantees:
  - outstanding <EUR50,000 without property guarantees: collections team within Credit Operations;
  - outstanding <EUR50,000 with property guarantees: legal department;
  - outstanding >EUR50,000: legal department; and

After the loan is transferred to the collections or legal department, a third letter will be sent to the borrower notifying them about the termination of the loan and that a wage constraint or a foreclosure procedure may be initiated.

If an agreement cannot be found with the client seven days after the third letter is sent, the loan is either transferred to the legal department or written-off.

Appendix B: Transaction Overview

Figure 15

Capital Structure

Class	Ratings	Size (m)	CE (%)[a]	Fixed rate coupon (%)	PMT frequency	Maturity	TT (%)	TTLM (X)
Class A	A+sf	EUR3,200	21.90	3.00	Monthly	April 2035	80.0	34.18
Class B	NR	EUR924	1.90	4.50	Monthly	April 2037	20.0	8.55
Total issuance		**EUR4.124**						

Source: Transaction documents

Key Information

Closing date	7 May 2012	**Parties**	
Location of assets	Belgium	**Account bank**	Dexia Bank Belgium NV/SA (Belfius)
Location of SPV	Belgium	**Security agent**	Stichting Security Agent Mercurius
Credit enhancement type	Subordination	**Issuer**	Mercurius Funding N.V./S.A. – Compartment Mercurius-1
Portfolio composition	Loans granted to SMEs & self-employed individuals	**Seller/Servicer**	Dexia Bank Belgium NV/SA (Belfius)
Structure	Cash flow/Static/Sequential amortisation	**Manager**	Dexia Bank Belgium NV/SA (Belfius)
Primary analyst	Georgios Elekidis	**Arranger**	Dexia Bank Belgium NV/SA (Belfius)
Secondary analyst	Selena Dewitya	**Calculation agent/ Administrator**	Dexia Bank Belgium NV/SA (Belfius)

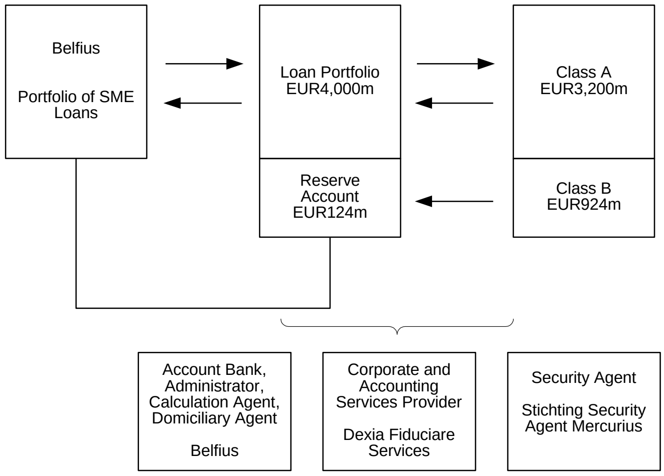
Source: Transaction documents

Collateral Information

Outstanding portfolio balance	EUR4.0bn
Top obligor group (%)	0.37
Top 10 obligor groups (%)	2.47
Number of obligor groups	37,380
Number of loans	60,546
Average loan amount	69,831
WAL (years)	5.77
Weighted average seasoning (years)	3.56
Weighted average term to maturity	10.06
Largest Fitch industry	Business services
Top Fitch industry (%)	20.13
Top 5 Fitch Industries (%)	64.94

Source: Transaction documents

Simplified Structure Diagram



Source: Transaction documents

Key Rating Drivers

Default Probability and Positive Selection: The three borrower segments (S10, S15, S20) of Belfius' RCB book show a 90 dpd PD, in line with Fitch's expectation for the Belgian SME sector, which is 3% per year. Fitch has assigned an average annual PD of 2.31% for the transaction, which is a result of the portfolio's positive selection based on Belfius' internal Masterscale.

Underlined Portfolio Interest Rate and Payment Frequency: All underlined loans pay monthly interest and 98% of the portfolio pays principal on a monthly basis, while bullet loans account for 1.46% of the pool. Moreover, 99% of the pool relates to fixed-rate coupon loans. As the notes are paying fixed-rate interest monthly, Fitch views these pool characteristics as sufficient to mitigate the lack of any interest rate hedging mechanisms in the structure.

PDL and Cash Buffer Mechanism: PDLs will be established on behalf of the issuer in respect of class A and class B notes (PDL A and PDL B respectively). The specific PDL mechanism records the expected loss amounts early in the structure, when a loan becomes 90 days in arrears. It retains all funds applied to reduce the PDL balance in a cash buffer that will be utilised to write down the full exposure of the loan (outstanding balance), at the time it is written-off.

Set-Off Deposit: If the seller is downgraded below 'BBB+'/'F2', and as long as its IDR remains below this rating, the seller will fund and maintain a deposit, sized and available to cover the set-off risk for the transaction.

Servicing Continuity Risk: Belfius is the portfolio's servicer. While no back-up servicer has been appointed for the transaction at closing, servicing continuity risk is mitigated by operational features (notification and servicer termination triggers), as well as structural features (a reserve fund that provides liquidity to the class A notes; principal diverted from the principal waterfall in case of a shortfall in interest available for the class A notes).

Source: Fitch

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.