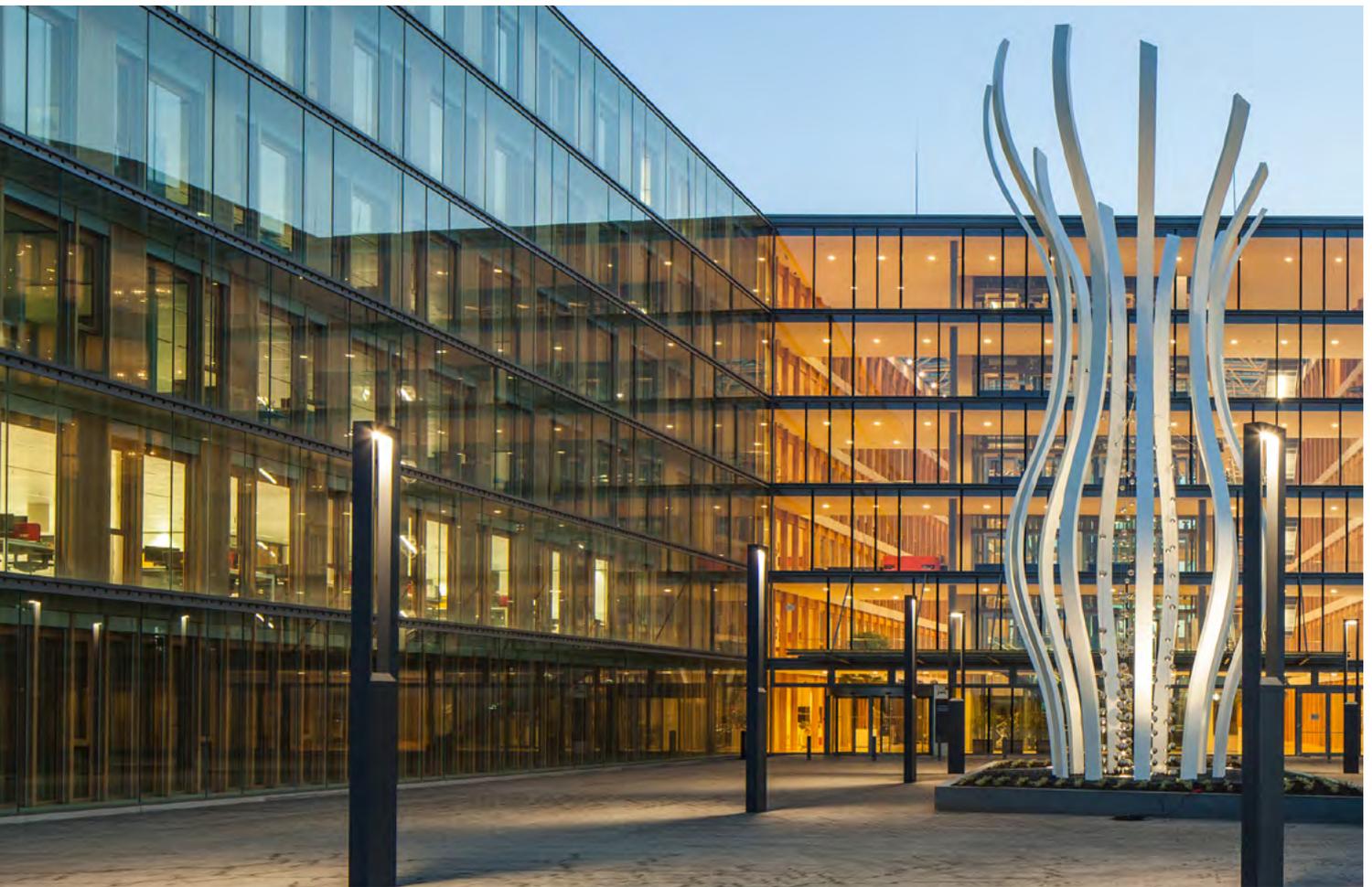


June 2017

Securitisation in Luxembourg

Illustrative financial statements



www.pwc.lu/securitisation

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Introduction

The quality of the financial information disclosed to third parties is crucial for a company. This illustrative example is intended to assist you to prepare annual accounts for a Luxembourg securitisation vehicle in good quality and required transparency.

As described in our publication “Securitisation in Luxembourg - A comprehensive guide” (available on www.pwc.lu/securitisation), a Luxembourg securitisation vehicle can take the form of a fund or a company. Irrespective of this choice, it has to be noted that the vast majority of Luxembourg securitisation vehicles are created as company (in the legal form of a SA or a SARL, and very rarely as SCA or SCoop SA). That is why we have decided to build the following illustrative example of financial statements on the basis of the legal requirements and best practice for annual accounts of a securitisation company being the most relevant. Nevertheless, the model can also be applied to the annual accounts of a Luxembourg securitisation fund managed by a management company (see section 2.3.1 of our publication “Securitisation in Luxembourg - A comprehensive guide” for details) or other financial reporting schemes, as appropriate.

The purpose of this illustrative example is to assist the persons in charge with the preparation of the annual accounts of a securitisation company. It shall enable a better understanding of the legal requirements and best practice with regards to layout and content of the annual accounts of a Luxembourg securitisation company.

The second part of this publication outlines additional disclosure requirements for multi-compartments vehicles.

The example follows a simplified approach and takes into account the most current securitisation transactions only. It should thus be used in conjunction with the PwC Luxembourg brochure “Handbook for the preparation of annual accounts under the Luxembourg accounting framework” and its 2016 Addendum, which are available in English, French and German and can be accessed via www.pwc.lu. That brochure provides general information on the presentation of the annual accounts and general accounting principles including the auditing and publishing of annual accounts.

The annual accounts presented below are based on the provisions of the Luxembourg Law of 19 December 2002 (as amended) on the register of commerce and companies and the accounting and annual accounts of undertakings (“Accounting Law”) defining the accounting and disclosure requirements for Luxembourg companies.

Besides “standard” Luxembourg Generally Accepted Accounting Principles (“Lux GAAP”) accounting under the historical cost convention, the Accounting Law allows annual accounts to be prepared and filed in accordance with International Financial Reporting Standards (“IFRS”). Alternatively, it is possible to account for part of the assets at fair value within the Luxembourg accounting framework, i.e. without applying full IFRS (“fair value option”). This is mainly applied for financial instruments including derivatives.

Annual accounts in accordance with full IFRS are not illustrated in this publication since they are only used occasionally for Luxembourg securitisation companies. Nevertheless, for some companies or single compartments, an IFRS group reporting package may be requested by the consolidating entity. Those would then follow the individual group accounting rules.

Securitisation companies must file their annual accounts electronically and are subject to the Standard Chart of Accounts (“SCA”), except if they are supervised by the Commission de surveillance du secteur financier (“CSSF”). For these non-supervised entities, the trial balance must comply with the format of the SCA, and the balance sheet and profit and loss account must be presented and published in the form of a structured electronic file (“eCDF”).

The small number of supervised entities (currently 34 out of more than 1,100 securitisation vehicles incorporated in Luxembourg)¹ is exempt from the SCA and eCDF obligation and has to comply with the layout prescribed in the Accounting Law and a Grand-Ducal regulation.

The requirements for the notes to the annual accounts and electronic filing in general are equal for both supervised and non-supervised securitisation companies.

The illustrative example shows a typical structure of annual accounts of a non-supervised Luxembourg securitisation vehicle investing in financial assets, such as loans and other investments held as fixed assets, and being refinanced by the issue of bonds. The example is limited to the positions mainly affecting Luxembourg securitisation companies and does not provide a complete template for the annual accounts of every securitisation company.

If other assets like intangible or tangible assets are securitised, or if the securitisation vehicle is refinanced by equity, the balance sheet and profit and loss account components and notes explanations need to be adjusted or amended accordingly. Furthermore, we assumed that no disclosure for related-party transactions and consolidation is required, as is the case for most securitisation companies.

¹ Official CSSF list and PwC statistics based on the Mémorial, May 2017.

1. Annual accounts and management report of a Securitisation company (single compartment)

Layout

The layout of the balance sheet and the profit and loss account is prescribed by the eCDF forms (for non-supervised securitisation companies) and Art. 34 and 46 of the Accounting Law which refer to Grand-Ducal regulation of 18 December 2015, specifying the exact layout (for supervised securitisation companies).

For non-supervised securitisation companies, this layout, nomenclature and terminology cannot be adapted or combined. They have to use the SCA and the eCDF forms for filing the annual accounts, the latter constituting the official balance sheet and profit and loss account of the company.

For the time being, no mandatory mapping is prescribed between the accounts featured in the SCA and the balance sheet and profit and loss items. This remains at the discretion of management. However, the Commission des normes comptables (“CNC”) published several recommendations with regards to disclosure and accounts mapping (www.cnc.lu).

For supervised securitisation companies, flexibility was re-introduced with Grand-Ducal regulation of 15 December 2016 which allows certain derogations from the Accounting Law’s standard layout of balance sheet and profit and loss accounts for these companies. For example, it is possible to include more detailed subdivision or to add sub-totals and new items. Furthermore, the layout, nomenclature and terminology of items in the balance sheet and profit and loss account that are preceded by arabic numerals could be adapted where the special nature of an undertakings so requires.

The undertakings referred to in Art. 35 of the Accounting Law (small companies) may draw up their balance sheet in the form of an abridged balance sheet. Similarly, the undertakings referred to in Art. 47 of the Accounting Law (small and medium-sized companies) may use the abridged profit and loss account layout. These exemptions are, however, not permitted for companies with securities which are quoted on an EU-regulated market¹. Further requirements apply for those companies (see section 1.4 “Management report”).

Currency of presentation of annual accounts

The annual accounts are in general drawn up in the currency in which the subscribed capital is expressed. Nevertheless, in our opinion, nothing prevents a company from drawing up its annual accounts in a currency of its choice (please also refer to our comment in the section “Securitisation company with multi-compartment structure”).

¹ As defined by Article 4, paragraph 1, point 14 of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments.

Annual accounts as at ... (balance sheet date)/
for the period from ... to ... (balance sheet date)

Name of the company

Société anonyme/

Société à responsabilité limitée/

Société en commandite par actions/

Société coopérative organisée comme une SA¹

Address of the registered office

R.C.S. Luxembourg: Trade and Companies Register number

(amount of the share capital for limited liability companies)

¹ As per Art. 4 of the Law of 22 March 2004 on securitisation, the legal form of securitisation companies is limited to the above-mentioned types.

1.2 Profit and loss account

Profit and loss account for the year ended ... (balance sheet date)/
for the period from ... to ... (balance sheet date)

Denominated in (presentation currency)

Go to the eCDF website.

All the eCDF forms are available in French, German or English in a full or abridged version

<https://ecdf.b2g.etat.lu/ecdf/>

The image displays two pages of the eCDF Profit and Loss Account form. The left page (Page 1/2) includes the header with 'Annual Accounts Helpdesk' contact information, the company's RCS No. and Nomenclature, and the 'PROFIT AND LOSS ACCOUNT' title. It also features a table for the financial year from and to. The main table has columns for 'Reference', 'Current year', and 'Previous year'. The first section includes items like 'Net turnover', 'Variation in stocks of finished goods and work in progress', and 'Work performed by the undertaking for its own purposes and capitalised'. The right page (Page 2/2) continues the table with items such as 'Income from participating interests', 'Income from other investments and loans forming part of the fixed assets', 'Other interest receivable and similar income', 'Share of profit or loss of subsidiaries accounted for under the equity method', 'Value adjustments in respect of financial assets and of investments held as current assets', 'Interest payable and similar expenses', 'Tax on profit or loss', 'Profit or loss after taxation', and 'Expenses not shown under items 1 to 14'. Both pages conclude with the note: 'The notes in the annex form an integral part of the annual accounts'.

Note:

CSSF-supervised Luxembourg securitisation vehicles shall not use the eCDF webpage to upload their annual accounts but directly eRCS instead. Furthermore, they are not subject to the obligation to use the eCDF forms.

1.3 Notes to the annual accounts

65(1)

The notes to the annual accounts must be presented in the same order as the items related to them in the balance sheet and the profit and loss account.

1.3.1 General information

(Name of the Company) (hereafter the “Company”) was incorporated on (date of incorporation) and is organised under the laws of Luxembourg as a (legal form) for an unlimited period/for a period of ... years and is subject to the Law of 22 March 2004 on securitisation (the “Securitisation Law”).

The registered office of the Company is established in (town, Luxembourg).

The Company’s financial year starts on ... and ends on ... of each year.

The main activity of the Company is ...

(Include description of the Company’s main type of transactions and/or corporate objects of securitisation vehicle, e.g.: “In general, the Company may take measures and carry out any operation or transaction which it considers necessary or useful to accomplish and develop its corporate objectives, to the greatest extent permitted under the Securitisation Law”).

[if applicable]

Multi-compartment

In accordance with the Company’s articles of incorporation, the Board of Directors/Managers/ Management is/ are authorised to create one or more compartments, each corresponding to a distinct part of the Company’s assets and liabilities.

(please see also section 2 of this illustrative example for additional disclosure requirements.)

Audit Committee

If the Company has issued transferable securities which are quoted on an EU-regulated market¹, please disclose whether the Company has an Audit Committee.² For example, if the functions are taken over by the Board as a whole or the asset-backed securities exemption applies you may state the following:

“Based on Art. 52 (1) of the Law of 23 July 2016 concerning the audit profession, the Company is classified as public-interest entity and required to establish an audit committee. However, in accordance with Art. 52 (2), the Company has chosen not to establish a separate audit committee but to have those functions performed by the Board as a whole.”

Or

“Based on Art. 52 (1) of the Law of 23 July 2016 concerning the audit profession, the Company is classified as public-interest entity and required to establish an audit committee. However, the Company’s sole business is to act as issuer of asset-backed securities as defined in Art. 52 (5). Therefore, it is exempted from the audit committee obligation. The Company has concluded that the establishment of a dedicated audit committee is neither necessary nor appropriate for the nature and extent of the Company’s business.”

¹ As defined by Art. 4, paragraph 1, point 14 of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments.

² Based on Art. 52 (1) of the Law of 23 July 2016 concerning the audit profession, public interest entities (which includes those companies having issued transferable securities which are listed on an EU-regulated market) are required to establish an audit committee unless certain exemptions apply.

1.3 Notes to the annual accounts (continued)

65(1)^o

1.3.2 Summary of significant accounting policies

26

1.3.2.1 Basis of preparation

51
64bis
64 sexies

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements under the historical cost convention (*to be adapted if the fair-value option is used for financial instruments and/or certain other categories of assets*). Accounting policies and valuation rules are, besides the ones laid down by the Law of 19 December 2002, determined and applied by the Board of Directors/Managers/Management.

The preparation of annual accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors/Managers/Management to exercise its/their judgement when applying the accounting policies. Changes in assumptions may have a significant impact on the annual accounts for the period in which the assumptions changed. Management believes that the underlying assumptions are appropriate and that the annual accounts therefore present the financial position and results fairly.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1.3.2.2 Significant accounting policies

The main valuation rules applied by the Company are the following:

a) Formation expenses

The formation expenses of the Company are directly charged to the profit and loss account of the year/period in which they are incurred.

Or

53 (1) a)

Formation expenses are written off on a straight-line basis over a period of (XX years, YY months).

b) Financial fixed assets

55 (1), (2)

Historical cost model

Valuation at purchase price

55 (1) c) bb)

Investments held as fixed assets/Other loans (fixed assets) are valued at purchase price/nominal value (other loans) including the expenses incidental thereto.

In case of durable depreciation in value according to the opinion of the Board of Directors/Managers/Management, value adjustments are made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

1.3 Notes to the annual accounts (continued)

Or

Valuation at the “lower of cost or market value”

Investments held as fixed assets/Other loans (fixed assets) are valued at the lower of purchase price including the expenses incidental thereto or market recovery value.

Market value and/or recovery value corresponds to:

55 (1) c) aa)

- The latest available quote on the valuation day for securities actively traded on a stock exchange or other recognised market; or
- The probable market or recovery value estimated with due care and in good faith by the Board of Directors/Managers/Management for unlisted securities or securities that are not actively traded on a recognised market, for securities where the latest quote is not representative and for the loans shown under “Assets”.

Or

Fair value model

Investments held as fixed assets are initially recorded at purchase price, including the expenses incidental thereto. They are subsequently measured at fair value determined on the following basis:

64bis

64bis (5bis)

Description of valuation method used, e.g.:

The fair value corresponds to:

64ter

- The latest available quote in the valuation day for financial instruments (or transferable securities) listed on a stock exchange or traded on another recognised market; or
- The fair value estimated through the following valuation models and techniques based on assumptions made by the Board of Directors/Managers/Management and on the market conditions existing at the balance sheet date.

(Please disclose details on the significant underlying assumptions on the valuation models and techniques.)

The change in fair value is recorded in the profit and loss account.

c) Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is either uncertain or compromised at the closing date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

d) Derivative financial instruments

The Company may enter into derivative financial instruments such as options, swaps, futures or foreign-exchange contracts. These derivative financial instruments are initially recorded at cost.

Historical cost model

At each balance sheet date, unrealised losses are recognised in the profit and loss account, whereas gains are accounted for when realised. In the case of hedging of an asset or liability which is not recorded at fair value, unrealised gains or losses are deferred until the realised gains or losses on the hedged item are realised. Commitments relating to options/swaps/futures/foreign-exchange contract transactions are disclosed in the notes to the annual accounts.

1.3 Notes to the annual accounts (continued)

Or

Fair value model

64bis Derivative financial instruments are fair valued based on the market value/valuation techniques described below. Unrealised gains and losses are recorded in the profit and loss account.

Description of valuation method used, e.g.:

64ter The fair value corresponds to:

- The latest available quote on the valuation day for derivatives listed on a stock exchange or traded on another recognised market; or
- The fair value estimated through the following valuation models and techniques based on assumptions made by the Board of Directors/Managers/Management and on the market conditions existing at the balance sheet date.

(Please disclose details on the significant underlying assumptions on the valuation models and techniques.)

e) Foreign currency translation

The Company maintains its books and records in (currency).

Transactions expressed in currencies other than (currency of the annual accounts) are translated into (currency of the annual accounts) at the exchange rate effective at the time of the transaction. Financial fixed assets and formation expenses expressed in currencies other than (currency of the annual accounts) are translated into (currency of the annual accounts) at the exchange rate effective at the time of the transaction. At the balance sheet date, these assets are translated at historical exchange rates.

Cash at bank is translated at the exchange rate effective at the balance sheet date. Exchange losses and gains are recorded in the profit and loss account of the year/period.

Other assets and liabilities are translated separately at the lower or at the higher of the value converted at the historical exchange rate or the value determined on the basis of the exchange rates effective at the balance sheet date. Solely the unrealised exchange losses are recorded in the profit and loss account. The exchange gains are recorded in the profit and loss account at the moment of their realisation.

Where there is an economic link between an asset and a liability, both are valued in total according to the method described above, while the net unrealised exchange losses are recorded in the profit and loss account and the net unrealised exchange gains are not recognised.

Where applicable

Assets and liabilities items that are fair valued are converted at the exchange rates effective at the balance sheet date. Foreign exchange differences on these items that are accounted for at fair value are recognised in the profit and loss account or revaluation reserves with the change in fair value.

Or

Monetary items are converted at the exchange rates effective at the balance sheet date whereas non-monetary items are converted at the exchange rate effective at the time of the transaction. The realised and unrealised exchange losses are recorded in the profit and loss account. The unrealised exchange gains are recorded as deferred income, whereas the realised exchange gains are recorded in the profit and loss account at the moment of their realisation.

1.3 Notes to the annual accounts (continued)

Where there is an economic link between an asset and liability, both are valued in total according to the method described above and solely the net unrealised losses are items recorded in the profit and loss account whereas the net unrealised exchange gains are not recognised.

Where applicable

Non-monetary assets and liabilities that are fair valued are converted at the exchange rates effective at the balance sheet date. Foreign exchange differences on these items that are accounted for at fair value are recognised in the profit and loss account or revaluation reserves with the change in fair value.

42 *f) Prepayments*

Prepayments include expenditure incurred during the financial year but relating to a subsequent financial year.

44 *g) Provisions*

51 (1bis)

Provisions are intended to cover losses or debts, whose nature is clearly defined and which, at the date of the balance sheet, are either likely to be incurred or certain to be incurred but with uncertainty as to their amount or as to the date on which they will arise.

Provisions may also be created to cover charges that have originated in the financial year under review or in a previous financial year, the nature of which is clearly defined and which, at the date of the balance sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

64 *h) Debts*

Debts are recorded at their reimbursement value.

Discounted debts

63

Where the amount repayable is greater than the amount received, the difference is shown as an asset and is written off over a debt period based on the straight-line/actuarial method.

Or

Where the amount repayable on account is greater than the amount received, the difference is recorded in the profit and loss account when the debt is issued.

Equalisation provision

Due to the limited recourse nature of the securities issued, losses during the year as a result from sales, default, lower market values or cost may reduce the value of the securities issued. Such shortfalls are normally borne by the security holders (or subordinated loan lenders, if any) in inverse order of the priority of payments.

Consequently, a provision for diminution in value will be made and deducted from the amount repayable of the securities issued and subordinated loans and booked in the profit and loss account as “Equalisation provision” under “Other operating income”.

1.3 Notes to the annual accounts (continued)

Similarly, the amount repayable of a debt is increased if the reimbursement value is directly linked to the value of the related assets and if it is likely that cash flow from the related assets exceeds the amount received. In this case, the Company has increased the book value of the debt and recognised an unrealised loss as “Equalisation provision” included under “Other operating charges” in the profit and loss account.¹

Tax debts

The difference between the tax liability estimated by the Company and the advance payments for the financial years are recorded under the “Tax debts” caption.

Or

The tax liability estimated by the Company for the financial years are recorded under the “Tax debts” caption. The advance payments are shown in the assets of the balance sheet under the “Other receivables” item.

45

i) Deferred income

Deferred income includes income received during the financial year but relating to a subsequent financial year.

j) Value adjustments

Value adjustments are deducted directly from the related asset, i.e. using the net book value disclosure.

1.3.3 Formation expenses

Formation expenses comprise expenses arising from the creation / extension of the company (further details might be added).

The movements for the year/period are as follows:

	N (currency)	N-1 (currency)
Gross book value – opening balance
Additions for the year/period
Disposals for the year/period
Gross book value – closing balance
Accumulated value adjustment – opening balance	(.....)	(.....)
Allocations for the year/period
Reversals for the year/period
Accumulated value adjustment – closing balance	(.....)	(.....)
Net book value – closing balance
Net book value – opening balance

¹ Application of the equalisation provision concept depends on the structuring of the priority of payments of the securities issued. In some cases, a surplus is not paid to the security holders but rather to the arranger or another third party. This should then not be accounted for as equalisation provision on the issued securities but in a separate provision instead.

1.3 Notes to the annual accounts (continued)

1.3.4 Financial fixed assets

39 (3)

For financial fixed assets following the historical cost model¹

The movements for the year/period are as follows:

	Participating interests	Loans to [...] participating interests	Investments held as fixed assets	Other Loans	Total N	Total N-1
	(currency)	(currency)	(currency)	(currency)	(currency)	(currency)
Gross book value – opening balance
Additions for the year/period
Disposals for the year/period	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)
Transfers for the year/period
Gross book value – closing balance
Accumulated value adjustments – opening balance	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)
Allocations for the year/period	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)
Reversals for the year/period
Transfers for the year/period
Accumulated value adjustments – closing balance	(.....)	(.....)	(.....)	(.....)	(.....)	(.....)
Net book value – closing balance
Net book value – opening balance

¹ Select as appropriate.

1.3 Notes to the annual accounts (continued)

Ref. to Article of
Accounting Law

The Board of Directors/Managers/Management is of the opinion that the fair value of each investment is above the book value and hence has not booked any impairment.

Or

65 (1) 17° b)

Financial fixed assets that are not fair valued and that are accounted for at an amount above their fair value can be summarised as follows:

Category of financial fixed assets	Book value (currency)	Fair value (currency)
(Describe category)
...

The Board of Directors/Managers/Management has assessed that the decrease in market value is not permanent ... (explain the reasons) and therefore no value adjustment is recorded on those financial assets in the annual accounts of the Company.

For financial fixed assets following the fair value model^{1,2}

64bis

64quinquies

The movements for the year/period in the profit or loss/revaluation reserve are as follows:

	Investments held as fixed assets	
	N (currency)	N-1 (currency)
Acquisition cost – opening
Additions for the year/period
Disposals for the year/period	(.....)	(.....)
Transfers for the year/period
Acquisition cost – closing balance
Accumulated fair value adjustments – opening balance
Fair value adjustment of the year/the period
Accumulated fair value adjustments – closing balance
Fair value – closing balance
Fair value – opening balance

In case fair value is not determined by reference to a market value, the significant assumptions underlying the valuation models and techniques should be disclosed (Art. 64quinquies).

¹ Select as appropriate.

² Shares in affiliated undertakings and shares in undertakings with which the Company is linked by virtue of participating interests can be fair valued, given that they can be fair valued under IFRS (Art. 64bis (5bis)). In this case, the additional disclosure required by IFRS should also be included in the notes to the annual accounts. Please refer to our brochure "IFRS illustrative financial statements" available on our website www.pwc.lu.

1.3 Notes to the annual accounts (continued)

Ref. to Article of
Accounting Law

65 (1) 2°

For financial fixed assets constituting participations of at least 20%¹

Undertakings in which the Company holds at least 20% of the share capital or in which it is a general partner are as follows:

Name of undertaking	Registered office	Ownership	Last balance sheet date	Net equity at the balance sheet date of the company concerned	Profit or loss for the last financial year
(legal form)		%		(currency)	(currency)
.....
.....
Total			

1.3.5 Derivative financial instruments^{1,2}

65 (1) 17°a)
64quinquies

On (closing date), the Company entered into foreign exchange contracts as detailed below:³

Currency	Amount purchased	Currency	Amount sold	Maturity date	Fair value (presentation currency)	Variation recorded in profit and loss account (presentation currency)
.....
.....
Total				

1.3 Notes to the annual accounts (continued)

The Company has purchased option contracts as detailed below:¹

Type of options	Number of options	Exercise price (currency)	Exercise period/ Maturity date	Fair value (presentation currency)	Variation recorded in profit and loss account (presentation currency)
.....
.....
.....
Total			

The Company has entered into interest rate swaps as detailed below:¹

Maturity date	Currency	Nominal amount (in original currency)	Interest rate received ² (%)	Interest rate paid ² (%)	Fair value (presentation currency)	Variation recorded in profit and loss account (presentation currency)
.....
.....
.....
Total			

If applicable¹

Fair value has been obtained based on the following model and technique: (provide details on methods and techniques used). The main assumptions underlying those techniques are summarised below: (provide details).

¹ If applicable.

² Or reference (Euribor, Libor, etc.).

1.3 Notes to the annual accounts (continued)

1.3.6 Current assets

1.3.6.1 Other debtors

65 (1) 14° The position of (currency) consists of ...

1.3.6.2 Cash at bank

The amount of (currency) is held with XXX Bank SA, Luxembourg.

1.3.7 Subscribed capital

48 LCL²
183 LCL² The subscribed capital amounts to (currency) (amount) and is divided into x shares/corporate units fully paid-up/paid up to (currency) (amount) with a nominal value of (currency) (amount)/ without par value.

The authorised capital amounts to (currency) (amount).

65(1)3°,4° *Additional disclosure if share subscriptions during the financial year and if several share classes issued.*

1.3.8 Legal reserve

72 LCL²
197 LCL² Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.

1.3.9 Provisions

64 *Detailed description of the composition of the provisions, if material.*

1 Applicable if fair value model is chosen and if fair values are based on generally accepted models and techniques.

2 Art. of the Luxembourg Commercial Law (LCL) of 10 August 1915.

1.3 Notes to the annual accounts (continued)

Ref. to Article of
Accounting Law

1.3.10 Debenture loans¹

The debenture loans are compromised as follows:

65 (1) 6°	<i>Within one year</i>	<i>After one year and within five years</i>	<i>After more than five years</i>	Total N	Total N-1
	(Currency)	(Currency)	(Currency)	(Currency)	(Currency)
Notional					
Class A	_____	_____	_____	_____	_____
Class B	_____	_____	_____	_____	_____
Class C	_____	_____	_____	_____	_____
Subordinated notes	_____	_____	_____	_____	_____
Total issued	_____	_____	_____	_____	_____
Equalisation provision					
Accumulated equalisation provision - opening balance	_____	_____	_____	_____	_____
Equalisation provision adjustment of the year/the period	_____	_____	_____	_____	_____
Accumulated equalisation provision - closing balance	_____	_____	_____	_____	_____
Net book value	_____	_____	_____	_____	_____

(General description of the Notes and the waterfall structure)

65 (1) 14° The total interest payable on the above debts amounts to (currency) (amount) for the year (N-1: (currency) (amount)).
The accrued interest payable as at (balance sheet date) amounts to (currency) (amount)
(N-1: (currency) (amount)).

65 (1) 6° An amount of (currency) (amount) of debts is secured by collateral on assets at the balance sheet date.
The collateral of (currency) (amount) consists of (describe its nature and form).

65 (1) 5° The Company has issued one/more than one convertible debenture bond(s)² with the following specifications:
(specify the currency, nominal value, date of payment, interest rate and conversion terms).

1.3.11 Other creditors

Description of the material components of other creditors, as applicable.

1.3.12 Income and charges

Description of the material components of the income and charges of the securitisation transaction, as applicable.

¹ Please note that the balance sheet layout no longer makes the distinction between subordinated and non-subordinated debts.

² Similar disclosure is required to for profit units, warrants, options or similar securities or rights.

1.3 Notes to the annual accounts (continued)

1.3.13 Taxation

The Company is subject to all Luxembourg tax regulations applicable to companies subject to the Securitisation Law.

I.e. subject to corporate income and municipal income tax but exempted from net wealth tax, except for the minimum net wealth tax.

65 (1) 16°

1.3.14 Auditor's fees^{1,2}

The total fees expensed by the Company and due for the current financial period to the auditor/audit firm are presented as follows:

	N (currency)	N-1 (currency)
Audit fees
Audit-related fees
Tax related fees
Other fees
Total

1.3.15 Off-balance sheet commitments

65 (1)7° and 7bis°

Description of the derivatives (if off-balance) and other off-balance sheet commitments, like:

In order to manage interest rate risk, the Company has entered into an interest rate swap agreement with a nominal amount of EUR _____. The Company will swap a fixed interest rate of x% with a variable interest rate, 3-month-EURIBOR. The maturity date is 29 December, N+12.

65 (1)18°

1.3.15 Subsequent events

Nature and financial impact of significant post balance-sheet date events must be disclosed.

1 Small-sized and medium sized companies are allowed to not disclose such information (Art. 67 (2)). Companies that are admitted to trading on a EU-regulated market are subject to the same obligations as "large" companies. This disclosure can be omitted if the Company is included in the consolidated financial statements presenting this information.

2 Auditor's fees must be disclosed for each different auditor/audit firm separately.

1.4 Management report - other information not part of the annual accounts

Introduction

- 68 Companies incorporated under Luxembourg law must draw up a management report. This report is usually published together with (but not as part of) the annual accounts and its responsibility lies with the management of the company (usually the Board of Directors (for SA) or the Board of Managers (for SARL)).
- 68 (3) Companies referred to in Art. 35 of the Accounting Law (small-sized companies) are not obliged to prepare a management report, provided that they include in their notes to the accounts the information concerning any acquisition of their own shares. Companies referred to in Art. 47 (medium-sized companies) are exempt from providing non-financial information. However, both exemptions do not apply to companies with securities which are quoted on an EU-regulated market.¹
- 68 (1) d)

Securitisation companies that do not issue securities quoted on an EU-regulated market, would normally qualify for above mentioned exemptions.

For those securitisation companies drawing up a management report, Art. 47 of the Law of 22 March 2004 on securitisation (“Securitisation Law”) prescribes that their management reports must contain all material information relating to their financial situation which could affect the rights of investors.

Securitisation companies with transferable securities quoted on an EU-regulated market may also have to comply with further disclosure requirements pursuant to the Transparency Directive² and/or the Prospectus Regulation.³ For example, the Prospectus Regulation requires the historical financial information to contain a cash flow statement which may have to be added to the annual accounts under LuxGAAP. However, the stand-alone financial information may still be prepared according to national accounting standards, i.e. LuxGAAP. An obligation to use IFRS exists only for consolidated financial statements, which a Luxembourg securitisation vehicle as passive, non-controlling vehicle should be exempted from.

Contents of the management report

- 68 (1) a) The management report must include at least a fair review of the development of the company’s business, its results and position which provides clarification on the data shown in the annual accounts, together with a description of the main risks and uncertainties the company is facing. This description consists of a balanced and exhaustive description of the evolution of the business, results and financial situation of the company, linked to the volume and complexity of the business.
- 68 (1) b) c) To understand the evolution of the business, results and financial position of the company, this analysis should include key indicators of performance for both financial and non-financial aspects which impact the activity of the company and in particular information related to environmental and personnel matters. In presenting its analysis, the management report should make cross-references to the amounts indicated in the annual accounts and give other related additional explanations.

¹ As defined by Art. 4, paragraph 1, point 14 of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments.

² Directive 2004/109/EC of the European Parliament and of the Council; transposed into Luxembourg law by the Law of 11 January 2008 (the “Transparency Law”).

³ Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC.

1.4 Management report - other information not part of the annual accounts (continued)

68 (2)

The management report shall also give an indication of the company's likely future development and further information on the company's use of financial instruments (when this is relevant for the valuation of its assets, liabilities, financial situation and profit or loss). This shall comprise the objectives and policy of the company in terms of financial risk management (including its policy concerning the hedging of each main category of transactions for which hedge accounting is used) and its exposure to market, credit, liquidity and treasury risks. The other items to be disclosed in accordance with Art. 68 (2) of the Accounting Law are generally not applicable for securitisation companies.

Corporate governance statement

68bis

Each company with securities which are quoted on an EU-regulated market must include a declaration on corporate governance in the management report. The information required can alternatively be presented in a separate report published with the management report, or a reference can be made in the management report indicating details of the company's website where such information is publicly available.

This corporate governance statement forms a specific section in the management report and includes as a minimum the items listed in Art. 68ter of the Accounting Law. However, companies which only have securities other than shares quoted on an EU-regulated market are exempt from the disclosure of points a), b), e) and f). This is the case for securitisation companies since the usually issue debt instruments and, if at all, have those quoted on an EU-regulated market. Furthermore, point d) referring to information required in case of takeover bids would normally not apply for securitisation companies.

Therefore, the corporate governance statement of a securitisation company fulfilling the criteria would mainly have to describe the principal characteristics of internal control systems and risk management procedures in relation to financial reporting processes.

2. Additional disclosure for multi-compartment structures

General remarks regarding multi-compartment vehicles

One of the specificities of Luxembourg securitisation vehicles is that they may be divided into one or more separate compartments, each corresponding to a distinct part of its assets financed by distinct securities. This compartment segregation - a technique often applied to investment funds in Luxembourg - also typifies the great flexibility securitisation transactions provide in Luxembourg. The securitisation company's articles of incorporation or the securitisation fund's management regulations need to explicitly mention whether there is the possibility to create multiple compartments. Each compartment is then created by a simple resolution of the Board of Directors/Managers/Management. General expenses of the vehicle as a legal entity that do not relate to a specific compartment (e.g. taxes) should, in principle, be allocated in a manner prescribed in the articles of incorporation.

Compartment segregation means that the assets and liabilities of the vehicle can be split into different compartments, each treated as a separate entity making distinct transactions. The rights of investors and creditors are therefore limited to the risks on the assets of the respective compartments. Each of the compartments can be liquidated separately without negatively impacting the vehicle's remaining compartments, i.e. without triggering the liquidation of the other compartments. If the securitisation vehicle is created as a corporate entity, all compartments can be liquidated without necessarily liquidating the corporate entity.

As a result, a securitisation vehicle with several compartments can be seen as a combination of several companies under one legal entity. Regarding the disclosure of financial information of a multi-compartment structure, it should be noted that the disclosure of a combined balance sheet and a combined profit and loss account alone will not

provide a true and fair view of the securitisation vehicle's activities and financial situation. Therefore, the financial statements of a multi-compartment vehicle must include a breakdown of assets and liabilities per compartment and clearly state the financial data for each compartment.¹ Generally, separate balance sheets and profit and loss accounts for each compartment are disclosed in the notes to the annual account in addition to the combined ones. Alternatively, a specific note could be added to describe the compartment structure, including the assets and liabilities and the income and charges of each compartment. An illustrative example is provided below. The compartment disclosure should be added to (and not replace) the legally required disclosure following the order of the items related to it in the balance sheet and the profit and loss account.

It is also possible to issue securities and acquire assets for one or more compartments in a currency other than the currency of the share capital (or the currency used for the presentation of the annual accounts). In such cases, it may be appropriate to account for these compartments in the currency of their securities issued and assets acquired. The financial information for these compartments may be presented in this currency in the notes to the annual accounts. For the purpose of including these compartments into the combined balance sheet and profit and loss account of the securitisation company, the financial data of the compartments shall be translated into the presentation currency following the foreign currency translation outlined in the significant accounting policies of the company.

For significant captions (e.g. financial fixed assets, debenture loans), we recommend adapting the disclosure in the respective note in such a way that the relevant information is separated by compartment or by groups of compartments. Alternatively, balance sheets and profit and loss accounts per compartment may be disclosed (see example below).

¹ This has also been explicitly requested by the CSSF for supervised securitisation vehicles in its Frequently Asked Questions on securitisation (last updated on www.cssf.lu).

2.1 Additional information in “Note X - General information”

If the Company is set-up as multi-compartment vehicle, this should be indicated in the notes to the annual accounts, e.g.:

In accordance with the Company’s articles of incorporation, the Board of Directors/Managers/Management is/are authorised to create one or more compartments, each corresponding to a distinct part of the Company’s assets and liabilities. As at financial year-end, there were [X] active compartments (pro vide further details on newly created or liquidated compartments during the financial year).

Each compartment corresponds to a distinct and segregated part of the Company’s assets and liabilities, and in addition, (i) the rights of instrument holders of a compartment are limited to the assets of such a compartment, and (ii) the assets of a compartment are exclusively available to satisfy the rights of the instrument holders of such a compartment. In the relationship between the instrument holders, each compartment is deemed to be a separate entity.

For the time being, the particular rights or limitations attached to instruments, as may be specified in the Articles, are the following: if a compartment is liquidated, its assets shall be applied (a) firstly, in payment or satisfaction of all fees, costs, charges, expenses, liabilities and other amounts, including any taxes required to be paid (other than amounts referred to in paragraph (b) below) attributable or allocated to such compartments; and (b) secondly, pro rata in payment of any amounts owed, directly or indirectly, sued per compartment, assets will be subject to compliance with any priority of payment arrangement as defined in the relevant appendix applicable to such instruments.

If the realised net assets of any compartment are insufficient to pay the amounts otherwise payable on the relevant class in full the relevant security holders shall have no claim against the Company for or in respect of any shortfall, and shall have no claim against any other compartment or any of the Company’s other assets.

2.2 Additional “Note Y – Balance sheet and profit and loss account per compartment”

The Company’s **balance sheet** as at (balance sheet date) can be split into compartments as follows:¹

ASSETS	Combined B/S	General compartment²	Compartment 1	Compartment ...	Compartment N
C. Fixed assets	X	Y	Y	Y	Y
<i>III. Financial assets</i>	X	Y	Y	Y	Y
5. Investments held as fixed assets	X	Y	Y	Y	Y
6. Other loans	X	Y	Y	Y	Y
D. Current assets	X	Y	Y	Y	Y
<i>II. Debtors</i>	X	Y	Y	Y	Y
4. Other debtors	X	Y	Y	Y	Y
<i>IV. Cash at bank and in hand</i>	X	Y	Y	Y	Y
E. Prepayments	X	Y	Y	Y	Y
TOTAL ASSETS	(SUM)	(SUM)	(SUM)	(SUM)	(SUM)
CAPITAL, RESERVES AND LIABILITIES	Combined B/S	General compartment	Compartment 1	Compartment ...	Compartment N
A. Capital and reserves	X	Y	Y	Y	Y
<i>I. Subscribed capital</i>	X	Y	Y	Y	Y
<i>II. Share premium account</i>	X	Y	Y	Y	Y
<i>IV. Reserves</i>	X	Y	Y	Y	Y
<i>V. Profit or loss brought forward</i>	X	Y	Y	Y	Y
<i>VI. Profit or loss for the financial year</i>	X	Y	Y	Y	Y
B. Provisions	X	Y	Y	Y	Y
3. Other provisions	X	Y	Y	Y	Y
C. Creditors	X	Y	Y	Y	Y
1. Debenture loans	X	Y	Y	Y	Y
b) Non-convertible loans	X	Y	Y	Y	Y
2. Amounts owed to credit institutions	X	Y	Y	Y	Y
8. Other creditors	X	Y	Y	Y	Y
D. Deferred income	X	Y	Y	Y	Y
TOTAL	(SUM)	(SUM)	(SUM)	(SUM)	(SUM)

¹ Contrary to the combined balance sheet, the layout used for the balance sheet per compartment may be adapted/abridged as per the Company’s requirements or preferences. The layout shown here is based on the 2017 eCDF forms.

² Sometimes called “Equity compartment”, “Compartment 0”, “Legal entity” or similar.

2.2 Additional “Note Y – Balance sheet and profit and loss account per compartment” (continued)

The Company’s **profit and loss account** for the year ending (balance sheet date) can be split into compartments as follows:¹

	Combined P&L	General compartment	Compartment 1	Compartment ...	Compartment N
4. Other operating income ²	X	Y	Y	Y	Y
5. Raw materials and consumables and other external expenses	X	Y	Y	Y	Y
<i>b) other external expenses</i>	X	Y	Y	Y	Y
8. Other operating expenses ³	X	Y	Y	Y	Y
10. Income from other investments and loans forming part of the fixed assets	X	Y	Y	Y	Y
<i>b) other income not included under a)</i>	X	Y	Y	Y	Y
11. Other interest receivable and similar income	X	Y	Y	Y	Y
<i>b) other interest and similar income</i>	X	Y	Y	Y	Y
13. Value adjustments in respect of financial assets and of investments held as current assets	X	Y	Y	Y	Y
14. Interest payable and similar expenses	X	Y	Y	Y	Y
<i>b) other interest and similar expenses</i>	X	Y	Y	Y	Y
15. Tax on profit or loss	X	Y	Y	Y	Y
16. Profit or loss after taxation	X	Y	Y	Y	Y
17. Other taxes not shown under items 1 to 16	X	Y	Y	Y	Y
18. PROFIT OR LOSS FOR THE FINANCIAL YEAR	(SUM)	(SUM)	(SUM)	(SUM)	(SUM)

¹ Contrary to the combined profit and loss account, the layout used for the profit and loss account for specific compartments may be adapted or abridged as per the Company’s requirements or preferences. The layout shown here is based on the 2017 eCDF forms.

² Normally includes the income relating to a decreased equalisation provision.

³ Normally includes the charges relating to an increased equalisation provision.



3. How we can help

We consider one of our roles to be a key driver in promoting a better understanding of the securitisation and structured-finance industry, emphasising both the benefits and the potential pitfalls, as well as developing ideas for the future direction of the industry.

To meet this challenge, PwC Luxembourg is part of the Global Structured Finance Group (SFG), which is composed of experts and professionals with extensive knowledge of securitisation and structured finance in all the main jurisdictions around the world. Many PwC professionals across Europe, the US and Asia provide clients with advice, in-depth market insight and pre-eminent transaction support in securitisation and structured-finance deals. We provide services in the following areas:



Audit services

Our global presence allows us to provide all audit services for special purpose entities used for securitisations and structured finance transactions.



Tax strategies and structuring

We can provide tax advice in connection with all aspects of your securitisation, from deal structuring to implementation and monitoring. Through our network of securitisation tax specialists within PwC's global network, we are able to deliver quality tax advice in all major territories. We ensure our clients get answers with respect to tax opinions and tax advice relating to securitisations quickly.



Accounting and regulatory advice

We provide advice on the accounting treatment of securitisation and structured finance structures under IFRS & Luxembourg GAAP and other accounting frameworks. We can help you comply with applicable regulations through regulatory advice and guidance on the latest developments in accounting and regulatory rules and their impact on structures.



Education & training

Provided through PwC's Academy, we run tailored training courses to educate and train clients new to the securitisation and structured-finance market.

Should you have any questions, please do not hesitate to contact us

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