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Fitch Rates AXA Bank Europe SCF's 4th Series of Obligations Foncieres 'AAA'

Ratings Endorsement Policy
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Fitch Ratings-London-08 December 2011: Fitch Ratings has assigned AXA Bank Europe Societe de Credit Foncier's (ABE SCF) Series 4 Obligations Foncieres (OFs, French legislative covered bonds), totalling EUR1.5bn, a 'AAA' rating. The series is due in December 2021 and benefits from an extended maturity date of one year after the expected due date upon default of parent AXA Bank Europe (ABE). Fitch has also affirmed the 'AAA' rating of the outstanding series, totalling EUR1.25bn.

The rating of the OFs is based on ABE SCF's Long-term IDR of 'A+' and a Discontinuity Factor (D-Factor) of 16.1%, the combination of which enables the OFs to be rated as high as 'AA+' on a probability of default (PD) basis, provided that the overcollateralisation (OC) between the cover assets and the covered bonds is sufficient to sustain the corresponding stress scenario. The agency also modelled expected recoveries from the cover pool in case of a default of the covered bonds in a 'AAA' stress scenario. Fitch found a supporting OC of 12.0%, which the issuer is expected to maintain, to be sufficient for its cash-flow model to sustain a 'AA+' level of stress. The lowest OC of the last 12 months was 20%. The supporting OC of 12% also provides outstanding recoveries on the covered bonds in a 'AAA' scenario, justifying a one-notch uplift from the PD rating, under Fitch covered bonds rating criteria. This percentage will be affected, among other things, by the profile of the cover assets versus covered bonds, which will change over time. All else being equal, the covered bonds can remain rated 'AAA' as long as the issuer is rated at least 'BBB+'.

The D-Factor has increased to 16.1% from 15.1% due to a change in the collateralisation posting for the swap agreements for Series 1 and Series 3, whereby mark-to-market exposure will be netted between both exposures under one master agreement. This is not in line with Fitch's criteria, and leaves the programme open to slightly increased replacement risk upon the swap counterparty becoming ineligible. This is mitigated by the fact that the swaps for both Series 1 and 3 are concluded with a counterparty that is external to the group of the first debtor of recourse. In addition, the Fitch-calculated OC supporting the rating may increase if the swap counterparty is downgraded below 'F1'/'A' and the collateral posting deviates from Fitch's criteria.

The programme's D-Factor of 16.1% is mainly influenced by the segregation of the cover assets under the French SCF law from the bankruptcy estate of ABE, and by the one-year extendible maturity on the bonds upon a default of ABE aimed at overcoming any liquidity gaps. The D-Factor further reflects the feasibility of the transition to an alternative manager following a default of ABE and supervision from the French banking authorities.

The covered bonds are secured by all of the SCF's assets. The cover pool, which initially consisted solely of senior RMBS notes issued by Royal Street NV/SA, a Belgian securitisation vehicle, through its compartment RS-2, now also consists of senior notes issued through compartment RS-3. For both compartments, the notes are backed by residential mortgage loans originated by ABE in Belgium and are rated 'AAAsf' (for more information, see "Fitch Assigns Royal Street NV-SA, Compartment RS-3 RMBS 'AAAsf' Rating", dated 8 December 2011 on www.fitchratings.com). Fitch has assumed that the notes would not default in a 'AAA' scenario. However, a downgrade of the RMBS notes may lead to a downgrade of the OFs. As of December 2011, the notes total EUR3.34bn, providing a nominal OC of 21.4%.

The notes issued by RS-2 and RS-3 will start to amortise five years from inception, over a period of 30 years, whereas the OFs have maturities ranging between 2016 and 2021. In a wind-down situation for the issuer, this creates the need to refinance part of the cover pool to meet payments on the covered bonds. Fitch has simulated the cost of refinancing the cover pool when modelling the OC supporting the assigned rating. The agency assumed that nine months would be necessary to refinance the cover pool in a stressed situation. Interest mismatches in the programme are minimal, as all cover assets bear a floating rate of interest whereas the OFs have either been issued at a floating rate (Series 4), or have been swapped into a floating rate of interest (Series 1 and Series 3).

ABE SCF is a fully-owned French subsidiary of Belgium-based ABE, which in turn is 100%-owned by AXA Holdings Belgium. AXA Holdings Belgium is the holding company of AXA's operating companies in Belgium, notably AXA Belgium. ABE SCF is licensed as a Societe de Credit Foncier authorised to issue OFs and is supervised by the French bank regulator. It was established in September 2010 as a refinancing vehicle for the mortgage business of ABE in Belgium.

ABE SCF's ratings ('A+' / Stable, Support Rating '1') are based on potential support in case of need from AXA Belgium (Insurer Financial Strength 'AA-'/Stable) given ABE SCF's strong integration with and strategic importance to AXA's activities in Belgium.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Covered Bonds Rating Criteria', dated 12 August 2011, 'Covered Bonds Counterparty Criteria', dated 14 March 2011, Counterparty Criteria for Structured Finance Transactions, dated 14 March 2011, Counterparty Criteria for Structured Finance Transactions: Derivative Addendum - Amended, dated 14 March 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Covered Bonds Rating Criteria
Covered Bonds Counterparty Criteria
Counterparty Criteria for Structured Finance Transactions

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