Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns definitive Aaa rating to Series 4 issued by AXA Bank Europe SCF's covered bonds

Global Credit Research - 13 Dec 2011

London, 13 December 2011 -- Moody's Investors Service has assigned a definitive long-term rating of Aaa to the following covered bonds issued by AXA Bank Europe SCF (the issuer), under French SCF Law.

Series 4 -- EUR 1,500,000,000 floating rate Covered Bonds due 8 December 2021: Aaa; new rating.

RATINGS RATIONALE

A covered bond benefits from (i) the issuer's promise to pay interest and principal on the bonds; and (ii) if the issuer defaults, the economic benefit of a collateral pool (the cover pool). The ratings therefore take into account the following factors:

(i) The credit strength of the issuer based on the credit strength of AXA Bank Europe rated A2/P-1, acting as sponsor bank.

(ii) The value of the cover pool in the event of issuer default. The stressed level of losses modelled in event of issuer default (cover pool losses) for this transaction is 14.9%.

The analysis of the value of the cover pool considered:

- iia) The credit quality of the assets backing the covered bonds. The covered bonds are backed by Residential Mortgage Backed Securities notes (the RMBS notes), rated Aaa by Moody's as of the date of this publication. The RMBS notes are in turn backed by a portfolio of Belgian mortgage loans originated by AXA Bank Europe. The collateral score for the cover pool is 0%, consistent with the current Aaa rating of the RMBS notes.

- iib) The French legal framework of covered bonds, as the covered bonds are governed by the French SCF covered bonds law.

- iic) The exposure to interest rate risk and the hedging arrangements in place.

- iid) The over-collateralisation in the cover pool of AXA Bank Europe SCF. The minimum over-collateralisation level that is consistent with the Aaa rating target is 14.5%. Moody's analysis relies on a level of over-collateralisation of 14.5% on a voluntary basis.

The TPI assigned to this transaction is Probable. Moody's TPI framework does not constrain the rating as of the date of this publication.

The Aaa ratings assigned by Moody's address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: expected loss analysis and TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL) which determines expected loss as a function of the issuer's probability of default, measured by the issuer's rating, and the stressed losses on the cover pool assets following issuer default.

The cover pool losses for AXA Bank Europe SCF's covered bonds are 14.9%. This is based on Moody's most recent modelling and is an estimate of the losses Moody's currently models if issuer defaults. Cover pool losses can be split between Market Risk of 14.9% and Collateral Risk of 0%. Market Risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral Risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral Risk is derived from the Collateral Score, which for this programme is currently 0%, reflecting the current Aaa rating of the RMBS notes.

For further details on Cover Pool Losses, Collateral Risk, Market Risk, Collateral Score and TPI Leeway across all covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly. These figures are based on the latest data that has been analysed by Moody's and are subject to change over time. These numbers are updated quarterly in Performance Overview published by Moody's.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI) which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

For AXA Bank Europe SCF's Mortgage covered bonds, Moody's has assigned a TPI of Probable.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the credit strength of the issuer.

The number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework is measured by the TPI Leeway.

Based on the current TPI of Probable, the TPI Leeway for this programme is one notch, meaning the covered bonds might be downgraded as a result of a TPI cap once the issuer rating is downgraded below A3, all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances. Some examples might be (i) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (ii) a multiple notch downgrade of the issuer; or (iii) a material reduction of the value of the cover pool.

As noted in Moody's comment 'Rising Severity of Euro Area Sovereign Crisis Threatens Credit Standing of All EU Sovereigns' (28 November 2011), the risk of sovereign defaults or the exit of countries from the Euro area is rising. As a result, Moody's could lower the maximum achievable rating for covered bonds transactions in some countries, which could result in rating downgrades.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in March 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare the rating are the following : parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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