



Fitch Rates AXA Bank Europe SCF's 5th and 6th Series of Obligations Foncières

'AAA' Ratings Endorsement Policy

19 Apr 2012 7:31 AM (EDT)

Fitch Ratings-London-19 April 2012: Fitch Ratings has assigned AXA Bank Europe Societe de Credit Foncier's (ABE SCF) Series 5 and Series 6 Obligations Foncières (OF, French legislative covered bonds) a 'AAA' rating. Series 5, the EUR1bn fixed-rate series, is due in April 2017, whereas Series 6, the EUR500m floating-rate series, is due in April 2022. Both series benefit 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 remaining outstanding series, totalling EUR1.25bn.

The rating actions take into account that hedging agreements are now no longer solely concluded with swap counterparties external to the issuer group. This has been incorporated in Fitch's analysis via an increase in the Discontinuity-Factor (D-Factor) to 17.3% from 16.1% for the ABE SCF programme. It reflects Fitch's view that derivative counterparties belonging to the same banking group as the issuer would leave covered bond investors more vulnerable upon an assumed issuer default compared to programmes with no intra-group derivative exposures.

The updated 17.3% D-Factor for the ABE SCF programme, combined with ABE SCF's 'A+' Long-term Issuer Default Rating (IDR) still allows the OF 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. A one-notch uplift to 'AAA' remains achievable based on recoveries given default, provided that, in a 'AAA' scenario, the cover pool would generate 100% recoveries on the OF assumed to be in default. This recovery rate is compatible with an uplift of one notch rather than 51% as per Fitch's standard criteria, due to the time subordination of the OF under the SCF framework, as the legislation does not foresee any acceleration of the OF post insolvency of the issuer. All else being equal, the OF can remain rated 'AAA' as long as the issuer is rated at least 'BBB+'.

The level of OC enabling timely payment on the covered bonds in a 'AA+' stress scenario and also providing full recoveries on the covered bonds assumed to be in default in a 'AAA' scenario is 12%, which the issuer is expected to maintain. Fitch compares this ratio to the lowest OC of the past 12 months, which is currently 20%. The OC supporting the rating will be affected, among other things, by the profile of the cover assets versus covered bonds, which will change over time.

ABE SCF programme refinances senior tranches of RMBS issued by Royal Street NV/SA through its Compartment RS-2 and RS-3 and backed by a pool of residential mortgage loans originated by ABE in Belgium. Fitch rates the senior notes 'AAAsf'. Fitch has assumed that the notes would not default in a 'AAA' scenario. However, a downgrade of the RMBS notes may lead to a corresponding downgrade of the OF. As of April 2012, ABE SCF total assets amounted to EUR3.34bn and, following this issuance, its total OF amounted to EUR2.75bn. All cover assets and covered bonds are denominated in euros, so the programme is not exposed to currency risk. Open interest rate positions between the floating rate cover assets and the fixed rate covered bonds are hedged through privileged derivatives.

Contact:

Primary Analyst
Natasha Ahmed
Associate Director
+44 20 3530 1301
Fitch Ratings Limited
30 North Colonnade,
London E14 5GN

Secondary Analyst
Solena Gloaguen
Director
+44 20 3530 1126

Committee Chairperson

Helene Heberlein
Managing Director
+44 20 3530 1035

Media Relations: Christian Giesen, Frankfurt am Main, Tel: + 49 (0) 69 7680 762 32, Email:
christian.giesen@fitchratings.com.

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 13 March 2012, "Exposure Draft: Covered Bond Counterparty Criteria", dated 13 March 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Exposure Draft: Covered Bonds Counterparty Criteria
Covered Bonds Rating Criteria

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2012 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.