



Fitch Affirms AXA Bank Europe SCF's OF at 'AAA' on Addition of Promissory

Notes Collateral Ratings Endorsement Policy

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Fitch Ratings-Paris-18 November 2014: Fitch Ratings has affirmed AXA Bank Europe SCF's (ABE SCF) EUR 3.9bn Obligations Foncières (OF, French legislative covered bonds) at 'AAA' with a Stable Outlook. The breakeven overcollateralisation (OC) for the rating has been revised down to 5% from 9%.

ABE SCF's EUR4.7bn cover pool has been increased to include EUR450m of promissory notes, backed by a pool of French home loans guaranteed by Credit Logement. This is in addition to the 'AAAsf'-rated senior notes issued under the Belgian Royal Street 2 and Royal Street 3 RMBS transactions, both of which are backed by pools of Belgian residential mortgage loans.

KEY RATING DRIVERS

The 'AAA' rating is based on AXA Bank Europe's (ABE) Long-Term Issuer Default Rating (IDR) - which acts as reference IDR for the programme -, an unchanged IDR uplift of '1' and an unchanged Discontinuity-Cap (D-Cap) of 4 (moderate). In its analysis, Fitch relies on a nominal OC of 19.6%, which is the projected OC after the OF issuance and the collateral addition mentioned below. This level provides more protection than the updated 'AAA' breakeven OC of 5%.

Fitch's 'AAA' breakeven OC has decreased to 5% from 9%, following issuance of Series 9 on 18 November 2014 and the addition of promissory notes in the cover pool over the course of November 2014. The 5% 'AAA' breakeven OC is driven by the asset disposal loss component of 8.9%, compared to 16.5% previously. This decrease results from lower refinancing spread assumptions and the increasing number of OF outstanding, which reduces maturity mismatches. The second driver is the cash flow valuation component of -3.9%, compared to -7.5% previously. This slight deterioration is mainly explained by the open interest rate position following the addition of fixed rate assets. The third component, the cover pool credit loss was increased to 0.9% from 0% following the addition of the promissory notes. It is not a key driver of the OC as the cover pool is mainly composed of 'AAA' rated RMBS (90% of the cover pool).

This rating considers a two-notch uplift for recoveries given default on a 'AA' tested rating on a probability of default (PD) basis. The asset disposal loss component is in line with the 'AA' rating scenario that is tested for timely payments, while the other breakeven OC components represent 'AAA' stresses. This, plus Fitch's testing for at least 91% recoveries rather than 100% to assign two notches credit for recoveries given default, is why the sum of the breakeven OC drivers is higher than ABE SCF's 'AAA' breakeven OC.

The unchanged D-Cap of '4' (moderate) for the programme is driven by Fitch's moderate risk assessment of the liquidity gap and systemic risk, which takes into account the 12-month maturity extension of the OF and the satisfactory protection against interest rate payment interruptions.

RATING SENSITIVITIES

The 'AAA' rating of the OF would be vulnerable to a downgrade if any of the following occurs: (i) the reference IDR was downgraded to 'BBB' or below; (ii) the total number of notches represented by the IDR uplift and the D-Cap is reduced to two or lower; (iii) the level of OC that Fitch gives credit to in its analysis decreases below Fitch 'AAA' breakeven OC of 5%.

The Fitch breakeven OC for the OF rating will be affected, amongst others, by the profile of the cover assets relative to outstanding OF, which can change over time, even in the absence of new issuance. Therefore the breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

Contact:

Primary Analyst
Will Rossiter
Director
+33 1 44 29 91 47 
Fitch France S.A.S.

60 rue de Monceau
75008 Paris

Secondary Analyst
Francois Le Roy
Associate Director
+33 1 44 29 91 75

Committee Chairperson
Emmanuelle Ricordeau
Senior Director
+33 1 44 29 91 48

Media Relations: Christian Giesen, Frankfurt am Main, Tel: +49 69 768076 232, Email:
christian.giesen@fitchratings.com.

Additional information is available on www.fitchratings.com

Sources of information: the sources of information used to assess this rating were AXA Bank Europe.

Applicable criteria: 'Covered Bonds Rating Criteria', dated 8 August 2014; 'Counterparty Criteria for Structured Finance and Covered Bonds' and 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum', both dated 14 May 2014; 'EMEA RMBS Master Rating Criteria', dated 28 May 2014; 'EMEA Criteria Addendum - France' and 'EMEA Criteria Addendum - Belgium', both dated 4 June 2014; 'Covered Bonds Rating Criteria - Mortgage Liquidity and Refinancing Stress Addendum', dated 4 February 2014; 'Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds', dated 11 April 2014; and 'Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds', dated 23 January 2014, all available at www.fitchratings.com.

Applicable Criteria and Related Research:

Covered Bonds Rating Criteria
Counterparty Criteria for Structured Finance and Covered Bonds
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum
EMEA RMBS Master Rating Criteria
Criteria Addendum: France - Residential Mortgage Loss and Cash Flow Assumptions - Amended
Criteria Addendum: Belgium - Residential Mortgage Loss and Cash Flow Assumptions
Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds
Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds
Covered Bonds Rating Criteria – Mortgage Liquidity and Refinancing Stress Addendum

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