



## Fitch Affirms 10 French Covered Bond Programmes, Upgrades One

**Link to Fitch Ratings' Report:** French Covered Bond Programmes – Rating Action Report (<https://www.fitchratings.com/site/re/890445>)

Fitch Ratings-Paris/London-14 November 2016: Fitch Ratings has affirmed the Obligations Foncières (OF, French legislative covered bonds) of three French programmes, upgraded the OF of one French programme, affirmed the Obligations de Financement de l'Habitat (OFH, French legislative covered bonds) of three French programmes and affirmed the notes of four French programmes, all with Stable Outlooks. The rating actions follow the implementation of the agency's revised Covered Bonds Rating Criteria published on 26 October 2016.

The rating actions are as follows:

- BNP Paribas Public Sector SCF's (BNPP PS SCF) OF upgraded to 'AA+' from 'AA'; Outlook Stable
- AXA Bank Europe SCF's (ABE SCF) OF affirmed at 'AAA'; Outlook Stable
- Caisse Française de Financement Local's (CAFFIL) OF affirmed at 'AA'; Outlook Stable
- CIF Euromortgage's (CIF) OF affirmed at 'AA'; Outlook Stable
- Société Générale SFH's OFH affirmed at 'AAA'; Outlook Stable
- BNP Paribas Home Loan SFH's OFH affirmed at 'AAA'; Outlook Stable
- Crédit Mutuel-CIC Home Loan SFH's OFH affirmed at 'AAA'; Outlook Stable
- Zephyr Home Loans FCT's notes affirmed at 'AAA'; Outlook Stable
- CMNE Home Loans FCT's notes affirmed at 'AAA'; Outlook Stable
- CM-CIC Home Loans FCT's notes affirmed at 'AAA'; Outlook Stable
- FCT Evergreen HL1's notes affirmed at 'AAA'; Outlook Stable

### FRENCH OF ISSUERS

#### Issuer Default Rating (IDR) Uplift

French Société de Crédit Foncier (SCF) programmes are eligible for an IDR uplift given their exemption from bail-in in a resolution scenario, Fitch's assessment that resolution of the issuer will not result in the direct enforcement of recourse against the cover pool and the low risk of undercollateralisation at the point of resolution (see Fitch's Jurisdictional Analysis of the Risk of Undercollateralisation of Covered Bonds - Excel file).

BNPP PS SCF has been assigned a two-notch IDR uplift, given that its reference Long-Term IDR is driven by its Viability Rating (VR). CAFFIL, CIF and ABE SCF have been assigned a one-notch IDR uplift, given that their reference Long-Term IDRs are support driven by a parent with no VR, and in the case of ABE SCF, the SCF is in a different jurisdiction to its parent.

The increase in the IDR uplift for BNPP PS SCF to two notches from one notch, results in a new 'AA' floor rating for the OF.

#### Payment Continuity Uplift (PCU)

Fitch has assigned a PCU of six notches to ABE SCF, based on the soft-bullet OF's 12-month principal maturity extension and at least three months protection for interest payment.

Fitch has assigned BNPP PS SCF a PCU of five notches, based on the public sector programme's pre-maturity reserve, available to cover six-month of principal and interest payments on the OF.

We have assigned CAFFIL a PCU of three notches, based on the liquidity protection considered for the OF, in the form of the available liquid assets in the public sector cover pool and the additional mechanisms available to the SCF. Notably these include its ability to repo the eligible assets it holds on its balance sheet with the central bank to raise short-term liquidity. Together, we deem these mechanisms provide at least three months of interest and principal protection for the OF.

Fitch has assigned CIF a PCU of two notches, based on the liquidity protection considered for the OF, in the form of the available limited diversified liquid assets in its cover pool and the additional mechanisms available to the SCF. Notably these include its ability to repo the eligible assets it holds on its balance sheet with the central bank to raise short-term liquidity. Together, we deem these mechanisms to provide at least three months of interest and principal protection for the OF.

#### Recovery Uplift

ABE SCF and CIF's OF benefit from a two-notch recovery uplift, as the overcollateralisation (OC) that Fitch takes into account compensates for credit losses modelled in a stress scenario corresponding to the level of OF's rating.

We have assigned BNPP PS SCF's OF a one-notch recovery uplift, reflecting good recovery expectations from the public sector cover pool in the event of a covered bonds default. However, the OC that Fitch relies upon in its analysis does not offset the stressed credit loss in a higher rating scenario.

CAFFIL's public sector cover pool is mainly exposed to one country - France (AA/Stable). Given the current 'AA' floor rating for the OF, Fitch therefore assigned CAFFIL's OF a zero-notch recovery uplift.

#### Breakeven OC for the Ratings

The breakeven OC for the ratings of the OF issued under ABE SCF, BNPP PS SCF, CAFFIL and CIF's programmes remains unchanged at 5%. In each case this reflects the minimum regulatory OC levels for SCF programmes in France.

#### FRENCH OFH ISSUERS

##### IDR Uplift

French Societe de Financement de l'Habitat (SFH) programmes are eligible for an IDR uplift given their exemption from bail-in in a resolution scenario, Fitch's assessment that resolution of the issuer will not result in the direct enforcement of recourse against the cover pool and the low risk of undercollateralisation at the point of resolution (see Fitch's Jurisdictional Analysis of the Risk of Undercollateralisation of Covered Bonds - Excel file).

We have assigned BNPP HL SFH and SG SFH a two-notch IDR uplift, given that their reference Long-Term IDRs are driven by the VRs.

Fitch has assigned CM-CIC HL SFH a two-notch IDR uplift, given that its reference IDR is based on its integration in a mutual support scheme.

##### PCU

Fitch has assigned a PCU of three notches to BNPP HL SFH based on the OFH principal and interest protection, provided by a six month pre-maturity reserve.

Fitch has assigned a PCU of four notches to CM-CIC HL SFH and SG SFH, based on the OFH principal protection, in each case provided by a nine month pre-maturity reserve and the three-month protection available for interest payments.

#### Recovery Uplift

BNPP HL SFH, CM-CIC HL SFH and SG SFH's OFH benefit from a two-notch recovery uplift, as the OC that Fitch takes into account compensates for credit losses modelled in a stress scenario corresponding to the OFH ratings.

#### Breakeven OC for the Ratings

The breakeven asset percentage (AP) for the rating of BNPP HL SFH's OFH has increased to 94.5% from 94.0%, based on the credit loss at the instrument rating level.

The breakeven AP for the rating of CM-CIC HL SFH's OFH has increased to 89.5% from 85.5%, based on the credit loss at the instrument rating level.

The breakeven OC for the rating of SG SFH's OFH has increased to 6.5% from 5.0%, given that the credit loss at the instrument rating level is higher than the breakeven OC on a probability of default (PD) basis.

## FRENCH FCT ISSUERS

### IDR Uplift

French Fonds Commun de Titrisation (FCT) programmes are eligible for an IDR uplift given their exemption from bail-in in a resolution scenario, Fitch's assessment that resolution of the issuer will not result in the direct enforcement of recourse against the cover pool and the low risk of undercollateralisation at the point of resolution (see Fitch's Jurisdictional Analysis of the Risk of Undercollateralisation of Covered Bonds - Excel file).

Fitch has assigned FCT Evergreen a two-notch IDR uplift, given that its reference Long-Term IDR is driven by its VR.

CM-CIC HL FCT, CMNE HL FCT and Zephyr HL FCT have been assigned a two-notch IDR uplift, given that their reference IDRs are based on integration in a mutual support scheme.

### PCU

Fitch has assigned a PCU of eight notches to CM-CIC HL FCT, CMNE HL FCT, Zephyr HL FCT and FCT Evergreen, based on the notes' maturity date, which extends beyond the longest maturing asset in their respective cover pools, under the pass-through amortisation of the notes. The assessment is also based on the programme's three-month protection for interest payments.

### Recovery Uplift

CM-CIC HL FCT, CMNE HL FCT, Zephyr HL FCT and FCT Evergreen's notes benefit from a two-notch recovery uplift, as the OC that Fitch takes into account compensates for credit losses modelled in a stress scenario corresponding to the notes' rating.

#### Breakeven OC for the Ratings

The breakeven AP for the rating of CM-CIC HL FCT's notes has increased to 87.0% from 84.0%, based on the credit loss at the instrument rating level.

The breakeven AP for the rating of CMNE HL FCT's notes has increased to 83.0% from 81.5%, based on the credit loss at the instrument rating level.

The breakeven AP for the rating of Zephyr HL FCT's notes has increased to 80.5% from 79.0%, based on the credit loss at the instrument rating level.

The breakeven AP for the rating of FCT Evergreen's notes remained at 89.5%, reflecting the credit loss at the instrument rating level, which is higher than the breakeven AP on a PD basis.

A summary of rating steps for the programmes in this commentary is included in the Excel file "French Covered Bond Programmes - Rating Action Report" dated 14 November 2016 and available at [www.fitchratings.com](http://www.fitchratings.com) or by clicking the link above.

## KEY RATING DRIVERS

### ABE SCF

The OF issued by ABE SCF are rated 'AAA'/Stable. This is based on an IDR uplift of one-notch, the newly assigned PCU of six notches and a recovery uplift of two notches. The 12.3% OC that Fitch relies upon in its analysis provides more protection than the 5% breakeven OC for the 'AAA' OF-rating. The rating is based on a 'AA' tested rating on a PD basis and a two-notch recovery uplift. The Stable Outlook on the OF reflects the Stable Outlook on AXA Bank Europe's Long-Term IDR (ABE SCF's reference IDR) and the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

### BNPP PS SCF

Fitch has upgraded BNPP PS SCF's OF to 'AA+' from 'AA' The Outlook is Stable. This is based on a newly assigned IDR uplift of two-notch, the newly assigned PCU of five notches and a recovery uplift of one notches. The minimum legislative OC of 5% that Fitch relies upon in its analysis is in line with the 5% breakeven OC for the 'AA+' OF-rating. The rating is based on a one-notch recovery uplift above the 'AA' floor rating for the OF. The Stable Outlook on the OF reflects the Stable Outlook on BNP Paribas' Long-Term IDR (BNPP PS SCF's reference IDR) and the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

### CAFFIL

CAFFIL's OF are rated 'AA'/Stable. This is based on an IDR uplift of one-notch and the newly assigned PCU of three notches. The minimum legislative OC of 5% that Fitch relies upon in its analysis is in line with the 5% breakeven OC for the 'AA' OF-rating. The rating is based on the 'AA' floor OF-rating, which is achievable irrespective of the actual OC protection available. The Stable Outlook on the OF reflects the Stable Outlook on SFIL's Long-Term IDR - CAFFIL's reference IDR - and the buffer against a downgrade due to the different uplift factors above the reference IDR.

### CIF

CIF's OF are rated 'AA'/Stable. This is based on an IDR uplift of one notch, a newly assigned PCU of two notches and a recovery uplift of two notches. The 'AA' breakeven OC is set at the legal minimum OC of 5.0%. The rating is based on a two-notch recovery uplift above the 'A+' floor rating for the OF. The Stable Outlook on the OF reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

### BNP Paribas Home Loan SFH

BNPP HL SFH's OFH are rated 'AAA'/Stable. This is based on an IDR uplift of two notches, a newly assigned PCU of three notches and a recovery uplift of two notches. The AP of 92.5% that Fitch relies upon in its analysis provides more protection than the breakeven AP of 94.5% for a 'AAA' rating. The rating is based on a two-notch recovery uplift above the 'AA' floor rating for the OFH. The Stable Outlook on the OFH reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

### Credit Mutuel-CIC Home Loan SFH

The OFH issued by CM-CIC HL SFH are rated 'AAA'/Stable. This is based on an IDR uplift of two notches, a newly assigned PCU of four notches and a recovery uplift of two notches. The AP of 74.9% that Fitch relies upon in its analysis provides more protection than the breakeven AP of 89.5% for a 'AAA' rating. The rating is based on a two-notch recovery uplift above the 'AA' floor rating for the OFH. The Stable Outlook on the OFH reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

### Societe Generale SFH

SG SFH's OFH are rated 'AAA'/Stable. This is based on an IDR uplift of two notches, a newly assigned PCU of four notches and a recovery uplift of two notches. The OC of 8.5% that Fitch relies upon in its analysis provides more protection than the breakeven OC of 6.5% for a 'AAA' rating. The breakeven OC corresponds to a 'AA' tested rating on a PD basis and a two-notch recovery uplift. The Stable Outlook on the OFH reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

#### CM-CIC HL FCT

CM-CIC HL FCT's notes are rated 'AAA'/Stable. This is based on an IDR uplift of two notches, a newly assigned PCU of eight notches and a recovery uplift of two notches. The AP of 82.5% that Fitch relies upon in its analysis provides more protection than the breakeven AP of 87.0% for a 'AAA' rating. The rating is based on a two-notch recovery uplift above the 'AA' floor rating for the notes. The Stable Outlook on the notes reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

#### CMNE HL FCT

CMNE HL FCT's notes are rated 'AAA'/Stable. This is based on an IDR uplift of two notches, a newly assigned PCU of eight notches and a recovery uplift of two notches. The AP of 81.3% that Fitch relies upon in its analysis provides more protection than the breakeven AP of 83.0% for a 'AAA' rating. The rating is based on a two-notch recovery uplift above the 'AA' floor rating for the notes. The Stable Outlook on the notes reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

#### Zephyr HL FCT

Zephyr HL FCT's notes are rated 'AAA'/Stable. This is based on an IDR uplift of two notches, a newly assigned PCU of eight notches and a recovery uplift of two notches. The AP of 78.4% that Fitch relies upon in its analysis provides more protection than the breakeven AP of 80.5% for a 'AAA' rating. The rating is based on a two-notch recovery uplift above the 'AA' floor rating for the notes. The Stable Outlook on the notes reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

#### FCT Evergreen

FCT Evergreen's notes are rated 'AAA'/Stable. This is based on an IDR uplift of two notches, a newly assigned PCU of eight notches and a recovery uplift of two notches. The AP of 87.7% that Fitch relies upon in its analysis provides more protection than the breakeven AP of 89.5% for a 'AAA' rating. The breakeven AP corresponds to a 'AA' tested rating on a PD basis and a two-notch recovery uplift. The Stable Outlook on the notes reflects the significant buffer against a downgrade due to the different uplift factors above the reference IDR.

#### RATING SENSITIVITIES

##### AXA Bank Europe SCF (ABE SCF)

The 'AAA' rating of ABE SCF's Obligations Foncières (OF, French legislative covered bonds) would be vulnerable to a downgrade if the reference Long-Term Issuer Default Rating (IDR) was downgraded by five notches to 'BB+' or below.

##### BNP Paribas Public Sector SCF (BNPP PS SCF)

The 'AA+' rating of BNPP PS SCF's OF is vulnerable to a downgrade if any of the following occurs: (i) the reference Long-Term IDR is lowered by six notches to 'BB+' or below.

##### Caisse Française de Financement Local (CAFFIL)

The 'AA' rating of CAFFIL's OF would be vulnerable to a downgrade if any of the following occurs: (i) the reference Long-Term IDR was downgraded by five notches to 'BBB' or below; (ii) the breakeven OC for the OF rating increases above the 5% minimum legislative OC level that Fitch relies upon; (iii) France was downgraded below 'AA'. The rating could be upgraded if France was upgraded above 'AA'.

##### CIF Euromortgage (CIF)

The 'AA' rating of CIF Euromortgage's OF would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR is lowered by three notches to 'BBB' or below; (ii) the relied upon OC, which is the contractual OC, decreases below the legal minimum OC of 5.0%.

##### BNP Paribas Home Loan SFH (BNPP HL SFH)

The 'AAA' rating of BNPP HL SFH's Obligations de Financement de l'Habitat (OFH, French

legislative covered bonds) would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR was downgraded by four notches to 'BBB' or below; (ii) the relied upon asset percentage (AP), which is the contractual AP, rises above Fitch's 'AAA' breakeven AP of 94.5%.

#### Credit Mutuel-CIC Home Loan SFH (CM-CIC HL SFH)

The 'AAA' rating of CM-CIC HL SFH's OFH would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR was downgraded by five notches to 'BBB-' or below; (ii) the relied upon AP, which is the contractual AP, rises above Fitch's 'AAA' breakeven AP of 89.5%.

#### Societe Generale SFH (SG SFH)

The 'AAA' rating of SG SFH's OFH would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR was downgraded by four notches to 'BBB-' or below; (ii) the relied upon OC, which is the contractual OC, decreases below Fitch's 'AAA' breakeven OC of 6.5%.

#### CM-CIC Home Loans FCT (CM-CIC HL FCT)

The 'AAA' rating of CM-CIC HL FCT's notes would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR was downgraded by nine notches to 'B+' or below; (ii) the relied upon AP, which is the contractual AP, rises above Fitch's 'AAA' breakeven AP of 87.0%.

#### CMNE Home Loans FCT (CMNE HL FCT)

The 'AAA' rating of CMNE HL FCT's notes would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR was downgraded by nine notches to 'B+' or below; (ii) the relied upon AP, which is the contractual AP, rises above Fitch's 'AAA' breakeven AP of 83.0%.

#### Zephyr Home Loans FCT (Zephyr HL FCT)

The 'AAA' rating of Zephyr HL FCT's notes would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR was downgraded by nine notches to 'B+' or below; (ii) the relied upon AP, which is the contractual AP, rises above Fitch's 'AAA' breakeven AP of 80.5%.

#### FCT Evergreen HL1 (FCT Evergreen)

The 'AAA' rating of FCT Evergreen's notes would be vulnerable to a downgrade if any of the following occurs: (i) the bank's Long-Term IDR was downgraded by eight notches to 'B+' or below; (ii) the relied upon AP, which is the contractual AP, rises above Fitch's 'AAA' breakeven AP of 89.5%.

Fitch's breakeven OC/AP for a given covered bond rating will be affected by, among other factors, the profile of the cover assets relative to outstanding covered bonds, which can change over time even in the absence of new issuance. Therefore, breakeven OC/AP for the covered bond ratings cannot be assumed to remain stable over time.

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### **Applicable Criteria**

Asset Analysis Criteria for Covered Bonds and CDOs of European Public Entities (pub. 20 Jan 2016) (<https://www.fitchratings.com/site/re/876457>)

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016) (<https://www.fitchratings.com/site/re/886006>)

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 18 Jul 2016) (<https://www.fitchratings.com/site/re/884964>)

Covered Bonds Rating Criteria (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888874>)

Criteria Addendum: Belgium - Residential Mortgage Assumptions (pub. 29 May 2015) (<https://www.fitchratings.com/site/re/866260>)

Criteria Addendum: France (pub. 14 Apr 2016) (<https://www.fitchratings.com/site/re/879779>)




Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 26

Oct 2016) (<https://www.fitchratings.com/site/re/888492>)  
EMEA RMBS Rating Criteria (pub. 18 May 2016) (<https://www.fitchratings.com/site/re/881836>)  
Fitch's Cover Asset Refinancing Spread Level (RSL) Assumptions - Excel File (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888877>)  
Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 May 2016) (<https://www.fitchratings.com/site/re/880522>)  
Global Bank Rating Criteria (pub. 15 Jul 2016) (<https://www.fitchratings.com/site/re/884135>)  
Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016) (<https://www.fitchratings.com/site/re/877128>)

### **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form  
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