

AXA Bank Europe SCF (/gws/en/esp/issr/89198863)**Fitch Affirms AXA Bank Europe SCF's OF at 'AAA'; Outlook Stable**

Fitch Ratings-Paris-18 December 2017: Fitch Ratings has affirmed AXA Bank Europe SCF's obligations foncieres (OF, French legislative covered bonds) at 'AAA' with Stable Outlook, following an update to the programme's structure.

Under the new structure, the RMBS senior note collateral is, in a first instance, replaced with a pool of Belgian residential loan assets originated by AXA Bank Belgium (ABB) and previously backing the senior RMBS notes. This pool is transferred directly to the SCF by way of a true sale. The update also allows, at a later stage, for the SCF to include secured loans as collateral, secured against a pledge of Belgian residential loan assets originated by ABB, in accordance to the EU Collateral Directive (transfer en pleine propriete a titre de garantie, under articles 211-38 of the French Monetary and Financial Code). The existing promissory notes collateral - secured by pledged pools of French residential guaranteed-loans originated by AXA Banque in France - remains unchanged.

Under the new structure, the SCF has also entered into a number of asset swaps to hedge the fixed-rate of interest received on the underlying Belgian residential loan assets against the post-swap floating-rate interest due on the majority of the OF. In each case, the notional of the swap is equal to a corresponding OF or subordinated loan issue. Those fixed-rate OF whose terms match the promissory notes collateral continue to be un-hedged.

KEY RATING DRIVERS

The breakeven overcollateralisation (OC) for the 'AAA' OF rating has increased to 8.5% from 5% following the amendment to the programme structure. This notably reflects the increase in the credit loss component to 2.9% from 0.2% and the SCF's direct exposure to the underlying Belgian collateral performance, representing approximately 85% of the total cover pool. Under the previous structure, no losses were modelled for the 'AAAs' RMBS senior notes collateral, which themselves benefited from credit enhancement and structural protection.

The asset disposal loss component is 3.6% and reflects the maturity mismatches between the assets and the liabilities and the resulting loss from asset sales needed to repay the OF in Fitch's driving scenario. The cash flow valuation component of 1.9% reflects the well-matched post-swap interest-rate positions of the assets and liabilities and the small but positive excess spread generated under the structure. These do not quite offset the gap between the stressed weighted average life of the assets and of the liabilities of 2.2 years.

The OF rating is based on ABB's Long-Term Issuer Default Rating (IDR), which acts as reference IDR for the programme. The one-notch IDR uplift, the six-notch payment continuity uplift (PCU) and the two-notch recovery uplift for the OF remain unchanged. The 'AAA' OF rating is based on a 'AA' tested rating on a probability of default (PD) basis and a two-notch recovery uplift. The 12.3% OC that Fitch relies upon in its analysis provides more protection than the 8.5% breakeven OC.

The Stable Outlook on the OF reflects that of ABB's Long-Term IDR and Fitch's view on the underlying Belgian and French residential loan assets' performance.

Fitch's weighted average (WA) foreclosure frequency for the combined French and Belgian cover pools is 10.7% in the driving 'AA' PD scenario, with a WA recovery rate of 73.5%.

IDR Uplift

The unchanged one-notch IDR uplift on the OF reflects the support-driven nature of the reference Long-Term IDR, whose parent has no Viability Rating and is located in a different jurisdiction to the SCF.

PCU

The unchanged six-notch PCU on the OF reflects liquidity protection for the soft-bullet OF, in the form of a 12-month principal maturity extension and a reserve covering three months of protection for interest payment and senior costs. No hard-bullet OF have been issued.

Recovery Uplift

The unchanged two-notch recovery uplift for the OF reflects that the 12.3% OC that Fitch takes into account compensates for credit losses modelled in a stress scenario corresponding to the OF rating.

Criteria Variation

Fitch's analysis of the French Credit-Logement (CL) guaranteed loans pledged as collateral for the promissory note assets of the SCF include a foreclosure frequency adjustment of 0.6x. The total residential loan book of AXA in France is primarily made up of such CL-guaranteed loans. Fitch was not provided with historical performance data on the non-CL-guaranteed loan book on a standalone basis but was provided with performance data on the bank's combined and separate CL book. For our analysis, we were unable to establish a representative pool based on a combination of the bank's guaranteed and mortgage loans and instead used the available performance data provided by the bank in conjunction with the data of other French guaranteed-residential loan lenders to establish the foreclosure frequency adjustment used in the analysis. This is a variation to Fitch's European RMBS Rating Criteria. The variation has no rating impact.

RATING SENSITIVITIES

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

Fitch's breakeven OC 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 for the covered bond ratings cannot be assumed to remain stable over time.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Covered Bonds Rating Criteria (pub. 01 Dec 2017) (<https://www.fitchratings.com/site/re/906615>)

European RMBS Rating Criteria (pub. 27 Oct 2017) (<https://www.fitchratings.com/site/re/905365>)

Fitch's Cover Assets Refinancing Spread Level (RSL) Assumptions - Excel File (pub. 30 Oct 2017) (<https://www.fitchratings.com/site/re/10008155>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/894478>)

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 18 Sep 2017) (<https://www.fitchratings.com/site/re/903496>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

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