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Fitch Downgrades BNP SCF & CFFL's Covered Bonds to 'AA+'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-London/Paris-17 July 2013: Fitch Ratings has downgraded BNP Paribas Public Sector SCF's (BNP SCF) and Caisse Francaise de Financement Local's (CFFL) Obligations Foncieres (OF, French legislative covered bonds) to 'AA+' with a Stable Outlook, from 'AAA'.

The rating actions follow the downgrade of France's Issuer Default Rating (IDR) to 'AA+' from 'AAA', on 12 July 2013 (see Fitch Downgrades France to 'AA+'; Outlook Stable at www.fitchratings.com). The two programmes are affected by the sovereign rating action as their cover pools contain exposures to the French sovereign or to French public sector entities.

KEY RATING DRIVERS - BNP SCF
BNP SCF's cover pool mainly consists of export and aircraft loans benefiting from guarantees granted by export credit agencies, with exposures to five sovereigns: France (AA+/Stable), Germany (AAA/Stable), the UK (AA+/Stable), the US (AAA/Negative) and Denmark (AAA/Stable). As an exception to its Global Rating Criteria for Single and Multi-Name Credit-Linked Notes, Fitch analysed the credit risk of the pool on a weakest link approach, with the default risk of the collateral being equivalent to that of the lowest-rated sovereign (see 'Global Rating Criteria for Single and Multi-Name Credit-Linked Notes', dated 21 February 2013). Previously, the lowest-rated sovereign represented in the pool was the UK and Fitch assumed that credit losses would materialise for the UK exposure (10.6% as of end-June 2013) in an 'AAA' scenario.

Fitch has recalculated the breakeven OC levels for the programme following the downgrade of France, to which the pool has a 24.1% exposure as of end-June 2013, by also assuming credit losses on the French exposure in a 'AAA' scenario. Under its analysis, the 'AAA' breakeven OC increases above the level of OC the agency gives credit to, which is the lowest level of OC observed for the programme over the last 12 months (10%). As a result, BNP SCF's OF have been downgraded to 'AA+'.

The breakeven OC for the 'AA+' rating is 5.2%. The level of OC Fitch gives credit to, together with the combination of BNP Paribas' IDR and the D-Cap of 4 for the programme, allow the OF to be rated 'AA+' on a probability of default (PD) basis. The Outlook on the OF is Stable, in line with that on the French and UK sovereigns, which are the lowest-rated sovereigns represented in the pool.

RATING SENSITIVITIES - BNP SCF
The 'AA+' rating would be vulnerable to a downgrade, all else being equal, if one of the following occurred: BNPP's IDR was downgraded to 'BBB'; the D-Cap fell to 0 (full discontinuity); the OC level decreased below 5.2%, which is the minimum OC in line with the 'AA+' covered bonds rating; the cash held with BNPP was considered as excessive, which could occur if this amount was more than what is due on the bonds over the next 12 months, as per Fitch's counterparty criteria; or if one of the sovereign exposures in the cover pool was downgraded below 'AA+'.

KEY RATING DRIVERS AND SENSITIVITIES - CFFL
CFFL's cover pool includes exposures to French public-sector entities. These represent approximately 70% of CFFL's balance sheet.

When analysing a cover pool consisting of public-sector entities concentrated in a country, Fitch models the sovereign default risk together with that of the public sector entities from the country. If the sovereign defaults during the simulation, which is likely to occur in a rating scenario above the rating of the sovereign, then all the sovereign assets as well as a high proportion of public sector entities are assumed to default. In that situation, Fitch assumes that defaulted public sector entities would be subject to the sovereign recovery assumption. Following the downgrade of France to 'AA+', these assumptions lead to increased modelled losses in a 'AAA' scenario for entities with exposures to French public sector assets.

Given CFFL's large exposure to French public sector entities, a significant proportion of CFFL's cover pool is assumed to default in a 'AAA' scenario and recoveries on all defaulted entities are assumed to be low. As a result, the 15.4% OC Fitch gives credit to, which is the lowest OC observed for the last 12 months, is now below the breakeven OC for the 'AAA' rating. Also, recoveries modelled on the OF in a 'AAA' scenario are insufficient to provide for full redemption of earlier maturing bonds and at least 51% on the aggregated longest dated bonds, therefore a one-notch recovery uplift cannot be granted and the OF have been downgraded to 'AA+'. The Stable Outlook on the OF reflects that on the French sovereign. Given the programme D-Cap is 3, the OF would not be downgraded below 'AA+' as long as the issuer is rated at least 'A-', all else being equal.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Covered Bonds Rating Criteria', dated 10 September 2012; 'Counterparty Criteria for Structured Finance and Covered Bonds' and 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum' both dated 13 May 2013; 'Asset Analysis for Covered Bonds of European Public Entities', dated 30 January 2013; 'Global Rating Criteria for Single and Multi-Name Credit-Linked Notes', dated 21 February 2013 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum
Asset Analysis Criteria for Covered Bonds of European Public Entities
Global Rating Criteria for Single- and Multi-Name Credit-Linked Notes
Covered Bonds Rating Criteria - Amended
Counterparty Criteria for Structured Finance and Covered Bonds

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