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# New Issue: La Banque Postale Home Loan SFH

## Up To €10 Billion OHs (Obligations de Financement de l'Habitat)

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# New Issue: La Banque Postale Home Loan SFH

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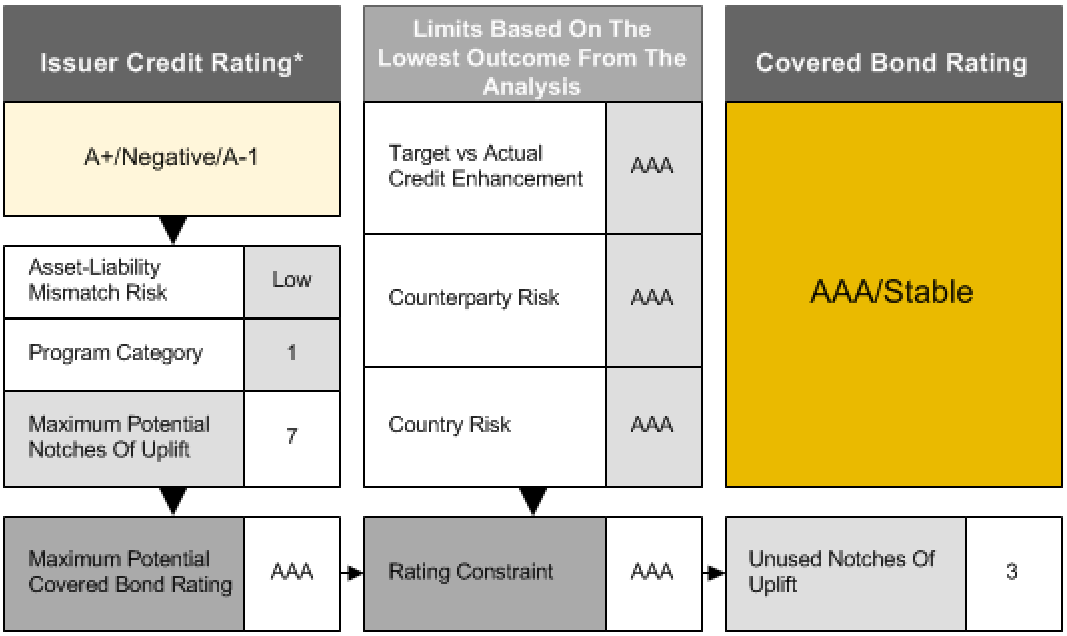
## Ratings Detail




*According to our criteria, the ratings uplift starts from the rating on the parent entity, La Banque Postale.

**Table 1**

| Description Of The Covered Bonds | | | |
|---|---|---|---|
| | **Credit rating*** | **Outstanding amount of covered bonds (bil. €)** | **Expected Maturity Date** |
| French obligation de l'habitat series 1 | AAA/Stable | 1.0 | September 2020 |

*Standard & Poor's ratings addresses timely payment of interest and ultimate payment of principal on the final maturity date.

**Table 2**

| Supporting Ratings | |
|---|---|
| European Central Bank (through Banque de France) as issuer Bank account | AAA (see the "Issuer Account Bank" section below) |
| La Banque Postale as Collection loss reserve provider and issuer bank account | A+/Negative/A-1 |

## Program Summary

Standard & Poor's Ratings Services has assigned its 'AAA' credit ratings to the covered bond program and inaugural issuances of "obligations de financement de l'habitat" (OH) series 1 issued under La Banque Postale Home Loan SFH's covered bond program. The outlook is stable.

Under the program terms, La Banque Postale Home Loan SFH issues OHs and uses the proceeds to fund a credit facility made available to La Banque Postale.

The advances match the covered bonds' terms and conditions to ensure full and timely payment of interest and principal on the covered bonds (taking into account swaps attached to the covered bonds, if any).

If a borrower event of default were to occur, a pool of prime French residential loans as well as cash in the collection loss reserve account would be transferred to the issuer in accordance with the collateral framework agreement. The security over these assets is granted to the issuer according to the special collateral regime of article L.211-38 of the French monetary and financial code.

A specific controller, an independent third party not affiliated with the issuer's group, has been appointed with the regulator's consent to monitor the société de financement de l'habitat's (SFH) legal asset and liability requirements, similar to a société de crédit foncier (SCF) framework.

Our ratings reflect our level of confidence in the French legal framework for the issuance of covered bonds. They also reflect the credit quality of the underlying assets and the adequacy of stressed cash flows to support our ratings on the covered bonds.

## Key Analytical Factors:

- The issuer is an SFH (a special-purpose financial institution) owned by La Banque Postale (A+/Negative/A-1). La Banque Postale Home Loan SFH issues OHs, a type of French legislation-enabled covered bonds.
- Under our bank group methodology, we consider that the issuer is a core entity to the parent bank. Therefore, we evaluate the number of notches of ratings uplift on the rating on the covered bonds and the program from our long-term issuer credit rating (ICR) on La Banque Postale.
- La Banque Postale is a subsidiary of the La Poste Group (the French Post). The bank has 10.6 million active private customers and 446,000 corporate and institutional customers. It is a retail bank, focused on the French market, which commenced mortgage lending activity only several years ago.
- The assets are all residential loans in France originated by La Banque Postale.
- The weighted-average seasoning of the cover pool of 39 months is however in line with similar French covered bond programs.
- In our cash flow analysis, we assumed a seven-year maturity for the covered bonds issuance. Should the program issue shorter maturities, this may affect the asset-liability mismatch (ALMM) and the target credit enhancement. However, under our ALMM criteria, there are currently three unused notches of ratings uplift to mitigate the risk of possible movements in ALMM risk, and the available credit enhancement is significantly higher than the target credit enhancement.

## Rating Rationale

Our covered bond ratings process follows the methodology and assumptions outlined in "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 26, 2012, on RatingsDirect. We assess legal risk using our "European Legal Criteria For Structured Finance Transactions," published on Aug. 28, 2008.

As part of our analysis, we conducted a review of La Banque Postale's mortgage operations. We believe satisfactory procedures are in place to support our ratings on the covered bonds.

The portfolio comprises solely French residential mortgage loans. For French residential mortgage loans, our weighted-average foreclosure frequency (WAFF) assumption is mainly derived from the debt-to-income ratio of the underlying borrowers, whereas we derive the our weighted-average loss severity (WALS) assumption from the current loan-to-original-value ratio and the expected market value decline of the property. The weighted-average debt to income for this pool is equal to 27.53% as of July 31, 2013, which is lower than other similar French cover pools. The weighted-average LTV ratio is equal to 66.12%, which is in line with other similar French cover pools.

We reviewed the asset information provided as of July 31, 2013, and performed a cash flow analysis based on the covered bond program's liability profile. We applied our five-step approach for rating covered bonds outlined in our asset-liability mismatch (ALMM) criteria (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, published on Dec. 16, 2009). According to these criteria, the covered bond program category of '1' and asset-liability mismatch of "low" result in a maximum ratings uplift of seven notches from our long-term ICR on La Banque Postale. Given the bank's current long-term ICR of 'A+', under our ALMM criteria, four notches of uplift are needed to achieve the maximum 'AAA' ratings on the covered bonds. Based on our cash flow and market value risk analysis, we believe the target credit enhancement commensurate with the maximum achievable ratings on the covered bonds is below the available credit enhancement for the program.

We consider country risk by applying our nonsovereign ratings criteria (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011). This covered bond program has low country risk assessment under these criteria. The maximum amount of uplift from the sovereign rating is six notches for an investment-grade rated sovereign. All of the underlying mortgages in the cover pool are based in France. Therefore, country risk does not constrain our ratings on the covered bonds.

## Outlook

According to our five-step approach for rating covered bonds under our ALMM criteria, there are three unused notches of ratings uplift to cover the risk of possible movements in the ALMM classification and ICR. Consequently, we have based our stable outlook on the fact that adverse movements in the ICR or the ALMM measure would not automatically result in a change to our ratings on the covered bonds.

## Program Description

Under the program, La Banque Postale Home Loan SFH will make the issuance proceeds available to the borrower (La Banque Postale) through secured loans ranking pari passu with each other.

The date of each principal and interest payment due under the advances matches (taking into account swaps attached to the covered bonds, if any) those of:

- The corresponding principal and interest payments under the relevant series of covered bonds, and
- All of the issuer's senior expenses.

Therefore, provided the borrower remains solvent, the assets remain with the borrower, which pays the interest and principal on the covered bonds. The borrower also incurs any interest rate or currency mismatches between the covered bonds and the collateral security (taking into account swaps attached to the covered bonds, if any).

If the borrower were to fail to pay any sums due under the credit facility, a borrower event of default would occur. The collateral security, i.e., the cover pool and cash from the collection loss reserve account, secures the borrowers' loans.

Given that all loans that form part of the cover assets pay a fixed interest rate and the series of covered bonds also pay a fixed interest rate coupon, there no hedging mechanism has been implemented. Furthermore, the cover pool assets and the covered bonds series 1 are denominated in euros. Therefore, there is no currency risk.

**Chart 1**
**La Banque Postale Home Loan SFH Transaction Structure**

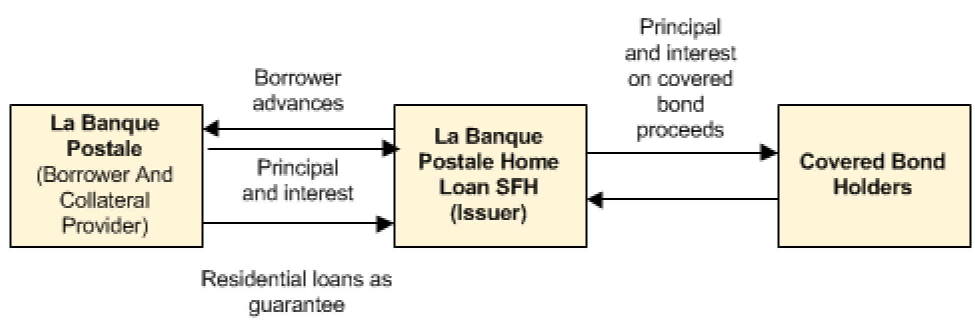





**Table 3**

| Program Participants | |
|---|---|
| Issuer | La Banque Postale |
| Originator and seller | La Banque Postale |
| Servicer | La Banque Postale |
| Interest rate swap provider and covered bond swap provider for various series | None |
| Specific controller | Cailliau Dedouit & Associés |
| Issuer bank account provider | Banque de France |
| Issuer bank account provider | La Banque Postale |

### Overcollateralization

By law, the SFH framework must maintain a nominal overcollateralization ratio of 102% on the adjusted cover pool balance at all times. The contractual commitment is to maintain a nominal overcollateralization ratio of 108.1%, which is a level that is in line with other similar French covered bond issuers.

### Asset coverage test

On any asset coverage test (ACT) date, the calculation agent performs the ACT test to verify that the value of the collateral security asset is at least equal to 102% + 6.1% (or any higher percentage agreed between La Banque Postale Home Loan SFH and La Banque Postale) of the covered bonds.

The value of the collateral security assets is determined in accordance with the provisions of the Regulation n°99-10, dated July 9, 1999 of the Banking and Financial Regulation Committee and is based on the most recent asset report. The value of the collateral is equal to zero if it does not comply with the eligibility criteria under the program documentation. Consequently, loans that are delinquent or in default are not taken into account in the ACT computation.

### Liquidity risk

By law, the SFH framework must maintain 180 days' worth of liquidity at all times. Failure to comply with the liquidity test would lead to a borrower (La Banque Postale) event of default.

Alternatively, the issuer could, as a last-recourse funding option, issue privileged liability for repo purposes, within a limit of 10% of the total volume of outstanding privileged liabilities. These self-retained covered bonds could not be sold and would have to be cancelled if the issuer did not subsequently use them for these purposes.

### Event of default

A borrower (La Banque Postale) event of default would occur if:

- The borrower failed to pay any sum under the credit facility when due;
- The borrower failed to comply with any of its material obligations;
- There were a breach of the ACT or collection loss reserve funding requirement;
- The borrower became insolvent; or
- The borrower failed to comply with the legal liquidity requirements.

If a borrower event of default were to occur, La Banque Postale Home Loan SFH would:

- Cancel the credit facility;
- Declare that all or part of the borrower loans, together with accrued interest are due and payable immediately (including breakage costs ensuring full payment under the covered bonds); and
- Enforce its rights under the collateral security.

Such event would not lead to an acceleration of the covered bonds.

Enforcement of the collateral security would trigger the unconditional transfer of the title of the cover pool to the issuer.

## Issuer-Specific Factors

### Legal and regulatory risks

Under a SFH program, the issuer, a special-purpose entity licensed as a credit institution, issues OHs, which constitute unsubordinated senior secured obligations and rank pari passu among themselves.

Under the SFH law, the OH holders benefit from the privilege granted to these bonds over the SFH's eligible assets. If the issuer were to become insolvent, OHs and other privileged debts would pay interest and principal in accordance with their payment schedule and would have priority over any of the SFH's other debts or non-privileged creditors relating to the SFH's assets.

The SFH legal framework requires a minimum overcollateralization ratio of 102% on the adjusted cover pool balance and a minimum of 180 days of liquidity at all times. The framework also provides further liquidity by allowing, as a last-recourse funding option, the SFH to subscribe to its own privileged covered bonds—up to 10% of total privileged liabilities—provided that the SFH uses the OH as collateral with the central bank (Banque de France) or subsequently cancels if not used.

A specific controller—an independent third party not affiliated to the issuer's group appointed with the regulator's consent—monitors the SFH's legal asset and liability requirements, similar to a SCF framework.

### Counterparty risk – issuer account bank

La Banque Postale Home Loan SFH has a bank account with the European Central Bank through the French Central Bank. Under the program documentation, there is no replacement framework. Consequently, our ratings and outlook on the ratings on the covered bonds are linked to those on the European Central Bank. During the first months of the program, La Banque Postale acts as an issuer bank account provider with applicable replacement language that is in line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

### Counterparty risk - commingling risk

Collections on the mortgage loans are made to La Banque Postale until the collateral security is transferred to the issuer. All payments under the mortgage loans would be commingled with La Banque Postale's account following a transfer of the cover pool and until the borrowers are notified and change their payment instructions to La Banque Postale Home Loan SFH.

To mitigate this commingling risk, a collection loss reserve account would be funded if La Banque Postale were to lose a 'A' or 'A-1' rating, sized as 2.5 calendar months' worth of collections under the mortgage loans. This collection loss reserve account forms part of the collateral security, enforceable upon a group event of default.

Our view is that commingling exposure could represent up to 2.75 calendar months and consequently, we stressed a residual commingling exposure of 10 days in our cash flow analysis. A breach of the collection loss reserve funding requirement would lead to a borrower (La Banque Postale) event of default.

### Counterparty risk - hedging risk

The cover pool and the covered bond issuance both pay a fixed interest rate and are denominated in euros. Consequently, no hedging strategy is defined in the program documentation. However, the program documentation contemplates the case where a covered bond series would be issued using a floating interest rate or in a different currency, which would introduce a hedging risk.

Should any mismatch between these assets and liabilities be hedged using hedging documentation that is in line with our current counterparty criteria, we would not model interest rate or currency risk. Otherwise, the target credit enhancement will likely be affected by the modeling of interest rate or currency risk in our cash flow analysis. Each new series issued under the program is subject to rating agency confirmation. If termination costs under any hedging agreement are not subordinated, then we would follow paragraph 36 of our covered bonds counterparty criteria (see "Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions," published on May 31, 2012).

### Operational and administrative risks

As part of our analysis, we conducted a review of La Banque Postale's mortgage operations. We believe satisfactory procedures are in place to support our preliminary ratings on the covered bonds. Specifically, we believe the bank applies sufficiently prudent underwriting practices, and that procedures are in place to effectively service the portfolio. We also considered the risk of the servicer's replacement through our credit analysis and stressed servicing fees.

## Cover Pool Specific Factors

La Banque Postale originated the home mortgages securing the facility advances. The portfolio that we analyzed had the characteristics shown in the "Key Features Of The Cover Pool As Of July 31, 2013" table below.

**Table 4**

| Key Features Of The Cover Pool As Of July 31, 2013 | |
|---|---|
| Collateral description | A pool of prime French residential mortgages |
| Country of origin | France (100%) |
| Current balance of residential mortgage loans in the cover pool (bil. €) | 2.032 |
| Number of loans | 32,559 |
| Average loan size (€) | 62,419 |
| WA original LTV (%) | 66.12 |
| WA debt to income (%) | 27.53 |
| WA seasoning of mortgage loans (months) | 39.06 |
| WA term to maturity of residential mortgages (years) | 15.6 |
| Current arrears (%) | 0.00% |
| Interest rate type | Fixed (100%) |
| Owner-occupied loans (%) | 87.14 |

WA--Weighted-average. LTV--Loan-to-value.

### Analysis of French guarantees

In France, a guarantee ("caution") secures about 50% of existing loans and about two-thirds of newly originated loans, as opposed to standard mortgage loans. The use of these guarantees has become increasingly popular, partly because it saves the cost of registering a mortgage.

The guarantors extending these guarantees are specialized financial institutions. The main guarantors are Crédit Logement (owned by several large French banks), CEGC (ex- SACCEF, part of the Groupe BPCE), Cautionnement Mutuel de l'Habitat (Crédit Mutuel Group), Sociétés de Cautions Mutuelles Immobilières (Groupe BPCE), CASDEN (Groupe BPCE), and Caisses d'Assurance Mutuelle du Crédit Agricole (Crédit Agricole Group).

If the loan receivables are transferred to the issuer, the guarantee would also be transferred. In our analysis, we focused on the servicer's ability to recover from a defaulting borrower if the guarantor did not perform its obligations. In this case, since the lender did not take a contractual mortgage when the servicer originated the loans, the servicer would have to try to register a judicial mortgage when the borrower defaults. To build an assumption about the loss severity incurred by these guaranteed loans in the 'AAA' rating scenario, we applied a stress to the loss severity assumed for loans secured by a first-ranking mortgage.

In our loss severity stress, we distinguish between independently rated guarantors, such as Crédit Logement, and other guarantors linked to a specific bank. We apply a lower penalty to independently rated guarantors since we give credit to the guarantee itself. In this program, more than 90% of the pool is backed by a guarantee from Crédit Logement and we assumed a stressed loan severity by using the first-ranking mortgage loan loss severity stressed by a factor of 1.4.

## Credit Analysis

For Standard & Poor's to be able to assign ratings to the covered bonds above our long-term ICR on the sponsor bank, the covered bond program must be strong enough to withstand 'AAA' credit losses in the cover pool.

Our credit analysis of the residential mortgage loans involves assessing the individual credit quality of the cover pool by estimating the credit risk associated with each mortgage loan. We then calculate the aggregated risk to assess the overall credit quality of the cover pool. We quantify the credit risk associated with each mortgage loan in the pool by estimating each loan's probability of default leading to a portfolio-wide weighted-average foreclosure frequency (WAFF) and its corresponding weighted-average loss severity (WALS), which is expected to be realized if foreclosure occurs.

The potential loss associated with a loan can be calculated by multiplying the WAFF with the WALS. To quantify the potential losses associated with the entire cover pool, each mortgage loan's foreclosure frequency and loss severity is weighted by its percentage of the total cover pool. We base this loan-level analysis on our French residential mortgage-backed securities methodology and assumptions (see "Related Criteria And Research").

**Table 5**

La Banque Postale Home Loan SFH--Current Loan-To-Original Value Ratios

| (%) | As of July 31, 2013 (%) |
|---|---|
| 0-60 | 36.25 |

**Table 5**

| La Banque Postale Home Loan SFH--Current Loan-To-Original Value Ratios (cont.) | |
|---|---|
| 60-70 | 15.16 |
| 70-80 | 17.49 |
| 80-90 | 17.57 |
| 90-100 | 13.53 |
| Above 100 | 0.00 |
| Weighted-average LTV | 66.12 |

LTV--Loan to value.

**Table 6**

La Banque Postale Home Loan SFH--Loan Seasoning Distribution

| Loan seasoning (months) | As of July 31, 2013 (%) |
|---|---|
| Less than 18 | 11.45 |
| 18-24 | 15.48 |
| 24-36 | 24.59 |
| 36-48 | 15.15 |
| 48-60 | 13.63 |
| Above 60 | 19.71 |
| Weighted-average seasoning* | 39.06 |

*Seasoning refers to the elapsed loan term.

**Table 7**

La Banque Postale Home Loan SFH--Debt To Income Distribution

| DTI range (%) | As of July 31, 2013 (%) |
|---|---|
| 0-10 | 1.17 |
| 10-20 | 6.87 |
| 20-30 | 53.54 |
| 30-35 | 38.42 |

DTI--Debt to income.

Our WAFF and WALS assumptions as of Sept. 11, 2013 were:

- WAFF: 12.1%;
- WALS: 31.3%; and
- Assumed net credit loss (WAFF x WALS): 3.8%.

These metrics are commensurate with 'AAA' ratings.

## Cash Flow Analysis

We evaluate a pool of covered bonds on a cash flow basis to determine whether, under conditions of severe economic stress, the cash flow generated by the assets would be sufficient to meet the debt service payments due on the liabilities in a timely manner. The aim of the cash flow analysis is to assess the cover pools for:

- Credit risk as described above;
- Market risk in the form of interest rate and currency risk;
- Asset-liability mismatch as a result of cash flow mismatches between assets and liabilities in terms of ALMM risk, and market value risk in case the program has to liquidate assets;
- Prepayment risks and servicing costs; and
- An appropriate stress-testing of these risks using our Covered Bond Monitor (CBM).

We base our cash flow analysis on the assumption of a static pool (assuming no active pool management or new issues other than servicing the liabilities as they come due). This assumption stems in turn, from our central rating assumption, where the issuer is insolvent and the pool is managed until it has fully amortized.

Table 8 - Main Cash Flow Inputs (%)

## Standard & Poor's Five-Step Covered Bond Rating Process

**Table 9**

| Standard & Poor's Five-Step Covered Bond Rating Process | |
|---|---|
| **Step 1: Calculation and classification of the asset-liability mismatch (ALMM)** | 0% = Low |
| **Step 2: Program categorization** | Category 1 |
| **Step 3: The maximum potential covered bond rating** | |
| Maximum potential rating uplift (based on ALMM criteria) | 7 notches |
| Deduction of notches for counterparty risk | None |
| Maximum potential rating uplift (including counterparty risk) | 7 notches |
| Distance between ICR and maximum potential rating | 4 notches |
| **Step 4: Cash flow And market value analysis** | |
| Target credit enhancement (%) | 15.82 (based on a seven-year maturity issuance) |
| Available credit enhancement (%) | 102.17 |
| **Step 5: The covered bond rating** | |
| Rating | AAA |
| Outlook | Stable |

ICR--Issuer credit rating.

### Step 1: Calculation and classification of the asset-liability maturity mismatch

To determine the maximum potential rating uplift for a covered bond program above the issuing bank's ICR, we first need to calculate the ALMM. We assumed a seven-year maturity for the series 1 covered bonds.

Here, we consider mismatches in the timing of the asset and liability cash flows, where mismatches that occur far in the future are multiplied by a scaling factor that decreases over time. In our opinion, programs that are exposed to large funding needs within the next 12 months are typically riskier than those with mismatches throughout the tenor of the covered bonds. We apply our standard interest rate and default stresses and we assume a constant prepayment rate of 5% on the mortgage assets when calculating the ALMM in line with prepayments observed by the issuer in 2013.

Following this calculation, we categorize ALMM risk according to table 10.

**Table 10**

**ALMM Classifications And Maximum Potential Uplift Ranges**

| ALMM risk | ALMM percentage (%) | Maximum potential number of notches uplift |
|---|---|---|
| Zero | N/A | Unrestricted |
| Low | 0–15 | 5–7 |
| Moderate | 15–30 | 4–6 |
| High | >30 | 3–5 |

N/A--Not applicable.

La Banque Postale SFH has an ALMM percentage of 0%, which translates into a "low" ALMM classification. Based on the cover pool and liability profile, we expect the ALMM to remain in the "low" classification over the next 12 months.

### Step 2: Program categorization

In this step, we categorize programs based on their ability to obtain third-party liquidity or to sell assets to fund any mismatch if the issuing bank fails.

We categorize La Banque Postale Home Loan SFH in category '1'. The categorization follows a review of the French SFH legal framework as well as a review of the range and strength of funding options in France. We believe that the legislation, coupled with our view of the appraised systemic importance of covered bonds in France, and the availability and strength of the refinance funding sources (both borrowing or asset sales),is commensurate with a category '1' program categorization.

### Step 3: The maximum potential covered bond rating

We assess the maximum potential covered bond rating by combining the ALMM risk classification and the program categorization (see table 11).

**Table 11**

**Maximum Potential Ratings Uplift From The Issuer's ICR**

| ALMM risk by number of notches | --Category-- | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| Zero | Unrestricted | Unrestricted | Unrestricted |
| Low | 7 | 6 | 5 |
| Moderate | 6 | 5 | 4 |
| High | 5 | 4 | 3 |

ICR--Issuer credit rating.

Combining the ALMM classification of "low" and the program category of '1', the maximum ratings uplift that we can assign to the covered bonds is seven notches above our long-term ICR on La Banque Postale. The maximum achievable rating is dependent on the program having sufficient collateral to address all risks, including our assessment of the market value risk (see step 4).

### Step 4: Cash flow and market value analysis

In step 4, we calculate the target credit enhancement by analyzing the cash flows, taking into account credit risks, ALMM risk, and structural risks specific to the program (see "Program Description").

We apply these stresses to La Banque Postale Home Loan SFH using our CBM. We model the market value risk in terms of a "spread shock." We calculate the net present value of the projected cash flows of the assets needing to be monetized using a discount rate, which we base on the pool-specific asset spreads over the relevant funding rates. In our analysis, the spread shock we used when discounting La Banque Postale Home Loan SFH's cover pool was 425 basis points, as published in our revised methodology and assumptions for target asset spreads, and which reflects our view of the market value risk on exposures to French residential mortgage loans in the cover pool.

Based on these assumptions, we believe that the target credit enhancement level sufficient to achieve the highest potential uplift is 15.82%.

### Step 5: The covered bond program rating

By applying these stresses to La Banque Postale Home Loan SFH's cover pool through our cash flow analysis, we believe that a target credit enhancement of 16.59% is sufficient to achieve the highest potential ratings uplift above our long-term ICR on the issuer. The available credit enhancement of 100.5% exceeds the target credit enhancement. Since there are no sovereign or counterparty risk constraints, we have therefore assigned our maximum ratings of 'AAA' to the covered bonds.

## Scenario Analysis

Various factors could trigger downgrades of covered bond transactions, such as a movement in ALMM classification, as well as a lowering of our long-term ICR on the issuer.

### Sensitivity to issuer rating and ALMM

As part of our sensitivity analysis, we projected the ALMM risk for the next six to 12 months, considering the asset and liability profile of the covered bonds.

Given a seven-year maturity issuance, we currently classify the covered bond program's ALMM risk as "low." If there are no changes to the assets and liabilities, we anticipate that the ALMM risk classification would remain "low" for 12 months. If the ALMM classification were to increase to "high", without further enhancement from the issuer, we would still be able to rate the program at 'AAA'.

Our rating on the program currently benefits from three unused notches of uplift above our long-term ICR on La Banque Postale. Therefore, all else being equal, we would have to lower our rating by four notches before we would lower our 'AAA' ratings on the covered bonds.

### Sensitivity to sovereign rating

Under our nonsovereign ratings criteria, this French covered bond program has low country assessment risk (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011). The maximum amount of uplift from the sovereign rating is six notches for an investment-grade rated sovereign. Consequently, the country risk would only constrain the ratings on the covered bonds if the long-term rating on France were below 'A-'.

### Sensitivity to factors that affect our target credit enhancement figures

We expect the ALMM risk to remain "low" for the next six to 12 months. Additionally, we have conducted our cash flow analysis projecting the cash flows six months forward. All else being equal, based on the current asset and liability profile of this program, we expect the target credit enhancement commensurate with the current ratings on the covered bonds to remain stable. Material changes in the asset or liability profile of the program may affect the target credit enhancement that we view to be commensurate with the current ratings on the covered bonds.

## Ongoing Surveillance

We will maintain regular surveillance on La Banque Postale Home Loan SFH's issuances of covered bonds until the bonds mature or are otherwise retired. Within our surveillance analysis, we assess the following:

- The cover pool's composition, which may change as a result of asset substitutions;
- Overcollateralization levels; and
- Supporting ratings on the transaction parties.

## Appendix

### Asset-liability mismatch (ALMM)

The asset-liability mismatch, as described in paragraphs 23–32 of "Revised Methodology and Assumptions for Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009.

### Standard & Poor's Covered Bond Monitor (CBM)

CBM is a Monte Carlo model, which simulates approximately 100,000 different economic scenarios, or more if required, to establish an accurate default distribution. Each scenario produces a different path for interest rates and exchange rates for each currency included in the issuer's cover pool. Using these input parameters, we compute a corresponding set of cash flows to determine whether, under these stressed assumptions, the pool exhibits sufficient strength to pass the target rating eligibility test. The average maturity of outstanding covered bonds defines the target rating default probability against which the cash flows are benchmarked. If the respective cover pool cash flows exhibit fewer defaults than accepted under the threshold, the cover pool passes the rating eligibility test from a quantitative point of view.

### Target asset spread

The methodologies and assumptions we use to calculate the target asset spread is described in "Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads," published on April 24, 2012.

### Target credit enhancement and actual credit enhancement

The methodologies and assumptions we use to calculate the target credit enhancement and actual credit enhancement are described in paragraphs 69–72 of our "Revised Methodology And Assumptions for Assessing Asset-Liability

Mismatch Risk In Covered Bonds," published on Dec. 16, 2009.

### Weighted-average foreclosure frequency (WAFF)

Weighted-average foreclosure frequency (WAFF) is the measure of a loan's probability of default leading to foreclosure. The estimated foreclosure frequency is a function of borrower and loan characteristics, as well as the economic stress scenario commensurate with a certain rating level.

### Weighted-average loss severity (WALS)

Weighted-average loss severity (WALS) quantifies the loss realized as a result of foreclosure. The expected loss is predicated on assumptions about the potential decline in the market value of collateral that secure the asset, as well as expenses incurred in foreclosing on and reselling of the property, considering an economic stress scenario commensurate typically with a certain rating level.

### WAFF x WALS

The potential loss associated with an entire pool can be calculated by multiplying the WAFF with the WALS at the 'AAA' rating level (see paragraph 70 of "Revised Methodology And Assumptions for Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009). Note that the product of WAFF and WALS does not equal the asset default risk referred to in paragraph 73 of our ALMM criteria.

### Weighted-average maturity (WAM)

The weighted-average maturity (WAM) of the assets/liabilities takes into account the weighted-average of final maturities.

## Related Criteria And Research

### Related criteria

- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Principles Of Credit Ratings, Feb. 16, 2011
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
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- European Legal Criteria for Structured Finance Transactions, Aug 28, 2008
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- Global Covered Bond Characteristics And Rating Summary Q2 2013, July 17, 2013
- Methodology And Assumptions: Advance Notice Of Proposed Criteria Change: Ratings Above The Sovereign--Structured Finance, April 12, 2013

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