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Presale:

BNP Paribas Fortis SA/NV (Mortgage Covered Bonds)

This presale report is based on information as of Oct. 7, 2016. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Reference Rating Level	aa-	+	Jurisdiction-Supported Rating Level	aa	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
									AAA/Stable	
Resolution Regime Uplift	+2		Jurisdictional Support Uplift	+2 (up to)		Collateral Support Uplift	+3 (up to)		Rating Constraints	aaa
Systemic Importance	Strong		Jurisdictional Support Assessment	Strong		Overcollateralization Adjustment	-1		Counterparty Risk	aaa
Adjusted Issuer Credit Rating	a		Legal Framework	Very Strong		Liquidity Adjustment	0		Country Risk	aaa
GRE And Sovereign Support	0		Systemic Importance	Strong		Available Credit Enhancement	+4			
Issuer Credit Rating	A		Sovereign Credit Capacity	Very Strong						

Note: The jurisdiction-supported rating level (JRL) is capped by the 'AA' unsolicited long-term sovereign rating on Belgium.

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Major Rating Factors

Strengths

- The cover pool comprises prime Belgian residential loans.
- Available credit enhancement exceeds the credit enhancement required for the current rating level.
- There are two unused notches of uplift for the ratings on the covered bonds from the long-term issuer credit rating (ICR).

Weaknesses

- There is no commitment to maintain the current overcollateralization level beyond the legal requirement.
- Since commingling risk is not mitigated, we incorporate it in our cash flow analysis.

Outlook: Stable

S&P Global Ratings' stable outlook on its preliminary 'AAA' credit ratings on the covered bonds (mortgage pandbrieven) issued by Belgium-based BNP Paribas Fortis SA/NV (BNPP Fortis) reflects our view that adverse developments relating to the issuer, cover pool, or other factors would not automatically lead to a rating action on the covered bonds.

The main reason for this is the two unused notches of uplift for the preliminary ratings, which provide a buffer if we were to lower our long-term issuer credit rating (ICR) on BNPP Fortis (A/Stable/A-1). Such lowering would not automatically affect our ratings on the covered bonds.

Rationale

We have assigned our preliminary 'AAA' ratings to BNPP Fortis' mortgage covered bond program and inaugural issuance of mortgage covered bonds.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

We consider that the provisions in the transaction documents, together with the Belgian legal and regulatory framework, will effectively isolate the cover pool assets for the benefit of the covered bondholders. This asset isolation allows us to assign a higher preliminary rating to the covered bonds than our long-term ICR on the issuer.

BNPP Fortis is based in Belgium, a jurisdiction which applies the EU's Bank Recovery and Resolution Directive (BRRD). In addition, we consider that mortgage covered bonds have a strong systemic importance in Belgium.

These factors increase the likelihood that BNPP Fortis would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) as 'aa-', two notches above the adjusted ICR of 'a' on the issuer.

We also consider the likelihood for the provision of jurisdictional support. Based on a strong jurisdictional support assessment for mortgage programs in Belgium, we assign up to two notches of uplift from the RRL, capped at the level of the Belgian sovereign rating. Therefore, we assess the jurisdiction-supported rating level (JRL) as 'aa'.

Based on our cash flow analysis as of June 30, 2016, the available credit enhancement of 54.2% exceeds both the 7.78% target credit enhancement and the 7.67% required for a 'AAA' rating.

There are no rating constraints to the preliminary 'AAA' ratings relating to legal, administrative, operational, country, or counterparty risks.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

Program Description

BNPP Fortis is the largest bank in Belgium as measured by deposits. It offers a full range of financial services to private and corporate clients, wealthy individuals, companies, public, and financial institutions. French-based BNP Paribas owns 99.93% of BNPP Fortis, which we consider to be a "core" subsidiary. BNPP Fortis' ratings and outlook (A/Stable/A-1) are aligned with those of its parent.

The pool of residential mortgage loans securing the covered bonds was originated by BNP Fortis or its predecessor.

Mortgage pandbrieven are Belgian legislation-enabled covered bonds monitored by an independent trustee, the covered bond monitor. They constitute unsubordinated senior unsecured obligations and rank pari passu among themselves. BNPP Fortis was authorized in February 2016 by the domestic regulator, National Bank of Belgium, to issue covered bonds out of its program.

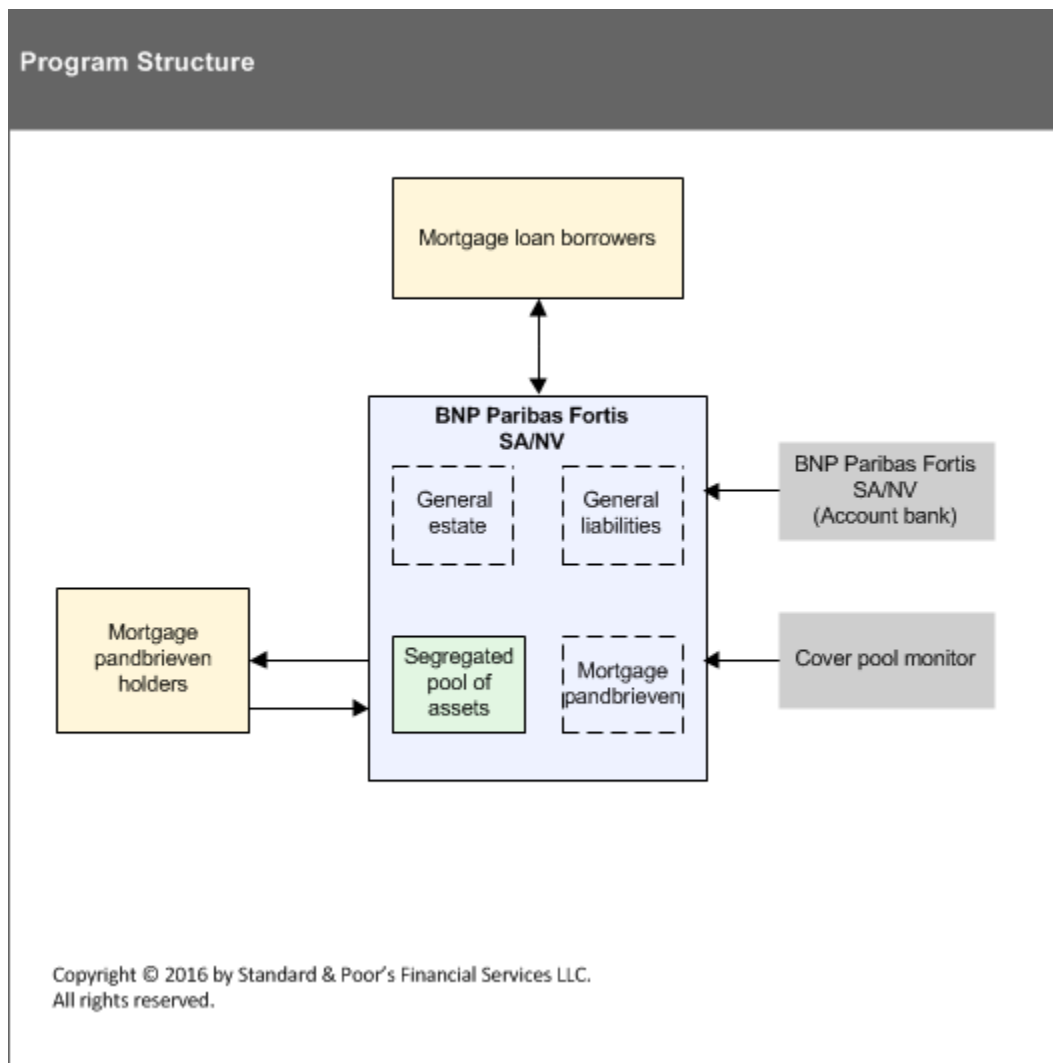


Table 1

Program Overview*

Jurisdiction	Belgium
Year of first issuance	2016
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	0.5
Redemption profile	Soft-bullet
Underlying assets	Residential mortgages
Assigned jurisdictional support uplift (notches)	1
Unused notches for jurisdictional support	1
Target credit enhancement (%)	7.78
Credit enhancement commensurate with rating (%)§	7.67
Available credit enhancement (%)	54.15
Collateral support uplift	3
Unused notch for collateral support	1

Table 1

Program Overview* (cont.)	
Total unused notches	2

*Based on data as of June 30, 2016. §Level of credit enhancement corresponding to 'AAA' credit risk and 75% of refinancing costs.

Table 2

Program Participants			
Role	Name	Rating	Rating dependency
Issuer	BNP Paribas Fortis SA/NV	A	Yes
Arranger	BNP Paribas Fortis SA/NV	A	No
Arranger	BNP Paribas	A	No
Originator	BNP Paribas Fortis SA/NV	A	No
Servicer	BNP Paribas Fortis SA/NV	A	No
Bank account provider	BNP Paribas Fortis SA/NV	A	No

Rating Analysis

Legal and regulatory risks

The regulatory regime governing Belgian covered bonds was adopted by Parliament on Aug. 3, 2012 and was completed by Royal Decrees published on Oct. 11, 2012 and various subsequent regulations. Covered bond issuers are regulated by the National Bank of Belgium (NBB) and programs are subject to the supervision of a cover pool monitor appointed by the issuer and approved by the NBB.

Similar to German Pfandbriefe, covered bonds in Belgium typically remain on the balance sheet of the issuer. Under Belgian legislation, the pandbrievens holders benefit from a ringfenced estate called the special estate. Issuing credit institutions must maintain a "register of cover assets" recording all cover pool assets backing the covered bonds. The special estate comprises those cover pool assets, any collateral posting received from swap counterparties, guarantees or privileges granted in connection with the cover pool assets, and cash held by the issuing bank for the special estate.

The cover pool assets in the special estate are available to meet the obligations under the covered bonds and are excluded from the issuer's bankruptcy estate. If the issuer becomes insolvent, pandbrievens holders have dual recourse to cover pool assets constituting the segregated estate and to the issuer's general estate (in respect of which they are treated as the issuer's unsecured creditors).

Other key features of the Belgian covered bond framework are a minimum overcollateralization level of 5%, the requirement to maintain a level of assets generating sufficient liquidity over a period of six months, and an encumbrance level resulting from the cover pool assets that does not exceed 8% of the bank's assets.

In our view, Belgium's legal framework for covered bonds sufficiently addresses the legal aspects outlined in our covered bonds criteria, enabling us to rate the covered bonds higher than the issuer.

We base our analysis of legal risk on our criteria "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on Sept. 13, 2013, and other criteria articles listed in our covered bonds rating framework.

Resolution regime analysis

The program will have no structural features to fully mitigate asset-liability mismatch. The preliminary ratings on the covered bonds are therefore linked to the issuer's RRL, under our covered bonds criteria.

The BRRD was transposed into Belgian law by a Royal Decree published on March 3, 2015. We assess the systemic importance for mortgage programs in Belgium as strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on July 20, 2016). Under our covered bonds criteria, this means that the RRL can be two notches above the adjusted long-term ICR (which adjusts the ICR by removing the uplift allocated to reflect extraordinary government support to the issuer). This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in in the event of bank resolution. We consider this as an internal form of support, because the bail-in of certain creditors of the issuer does not require direct support from the government.

The long-term ICR of 'A' on BNPP Fortis does not incorporate any notch of uplift for government support. Applying our covered bonds criteria, the adjusted ICR of 'a' is the same as the long-term ICR. The RRL is 'aa-', which reflects the two-notch uplift above the adjusted ICR.

Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.

Our assessment of the expected jurisdictional support for Belgian mortgage programs is strong. Under our covered bonds criteria, this means that the program can receive up to two notches of jurisdictional uplift over the RRL, capped at the rating on the Belgian sovereign (unsolicited, AA/Stable/A-1+). Therefore, the JRL for the program is 'aa'.

Collateral Support Analysis

Key assumptions and results

In assessing the cover pool's credit quality, we have referred to our "Principles Of Credit Ratings," published on Feb. 16, 2011. We have adopted the framework described in the sections titled "Foreclosure Frequency Assumptions" and "Loss Severity Assumptions" in the criteria article "Criteria for Rating French Residential Mortgage-Backed Securities," published on July 16, 2003, and "Update To The Criteria For Rating French Residential Mortgage-Backed Securities," published on Jan. 9, 2009). The rationale is based on the similarities of the Belgian residential mortgage market with its French counterpart, especially on underwriting procedures.

We also apply assumptions specific to the Belgian mortgage market, as follows:

- Additional stress continuing the debt service to income ratio curve applied usually on the French RMBS transactions.
- Geographic concentration adjustment: 1% addition to the adjusted base foreclosure frequency for all loans if the concentration is more than 15% in each province.
- Jumbo loan and jumbo valuation thresholds of €200,000 and €250,000 respectively.

- Mortgage inscription: We cap the original foreclosure value at the mortgage inscription value, using the following formula: the minimum of 1) mortgage inscription and 2) the result of 1 minus the percentage market value decline, multiplied by the property value.

We base our analysis on loan-by-loan data as of June 30, 2016.

The cover pool will comprise loans secured by first-lien mortgages inscriptions over residential properties in Belgium and/or mortgage mandates to create mortgages, as well as a small proportion of Belgian government bonds for liquidity purposes. Approximately 10% of the cover pool is secured by buy-to-let properties. In addition, approximately 1% of loans in the cover pool are to BNPP Fortis' employees. We consider that if the issuer becomes insolvent, these borrowers would offset their mortgage loan against any amounts due to them by their employer and have assumed a full set-off of these loans.

Owing to a relatively low seasoned pool and moderate debt-to-income levels, the weighted-average foreclosure frequency (WAFF) of 22.3% is broadly in line with comparable programs. On the other hand, the weighted-average loss severity (WALS) of 36.0% is higher than the issuer's peers due to more elevated loan-to-mortgage inscription ratios and a larger proportion of jumbo valuations.

Mortgage mandates

In Belgium, when taking out a mortgage, the borrower must pay a registration fee based on a percentage of the mortgage loan. To reduce this fee, and in line with market practice, a lender may grant a mortgage loan partly secured by a mortgage inscription on the property and by a mortgage mandate. The registration fee is only payable on the mortgage inscription because a mandate is not collateral for the loan. A mortgage mandate is solely an irrevocable option given to the lender (or a third-party assignee) to unilaterally create a mortgage. Only when the mortgage mandate has been converted into a mortgage is the portion of the original loan represented by the mortgage mandate supported by a security interest in the relevant property.

There is a risk that another creditor would also benefit from the mortgage mandate over the property. In this instance, the creditor who first registers the mortgage (i.e., convert its mortgage mandate into an inscription) has priority over the security. Consequently, we have factored into our credit analysis the greater loss severity associated with mortgage mandates by excluding the value of mortgage mandates from our recovery analysis. We therefore calculate a loan to mortgage inscription ratio that only reflects the portion of the property value which has been registered as a mortgage inscription. This ratio therefore does not take into account the value of the property on which there is a mortgage mandate.

Tables 3 to 8 summarize the cover pool's composition and key characteristics.

Table 3

Key Credit Metrics As Of June 30, 2016	
Average loan size (€)	95,840
Weighted-average LTM (%)*	175.6
Weighted-average loan seasoning (months)§	17.3
Balance of loans in arrears (%)	0.07
Buy-to-let loans (approx. %)	10

Table 3

Key Credit Metrics As Of June 30, 2016 (cont.)

Credit analysis results

Weighted-average foreclosure frequency (WAFF; %)	22.3
Weighted-average loss severity (WALS; %)	36.0
Asset default risk (%)	7.35

LTM--Loan to mortgage inscription. *In our credit analysis, we cap the recoveries from the property sale at the mortgage inscription value.
§Seasoning refers to the elapsed loan term. LTV--Loan-to- value.

Table 4

Loan Seasoning Distribution As Of June 30, 2016

Seasoning (months)*	--Percentage of portfolio (%)--
Less than 18 months	72.3
18-24	17.4
24-36	4.2
36-48	1.9
48-60	0.4
More than 60	3.8
Weighted-average loan seasoning (months)	17.3

*Seasoning refers to the elapsed loan term.

Table 5

DTI Distribution As Of June 30, 2016

(%)	--Percentage of cover pool (%)--
0-30	25.8
30-40	35.3
40-50	20.9
50-60	8.9
60-70	4.2
70-80	2.5
>80	2.4

DTI--Debt service to income.

Table 6

Collateral Uplift Metrics As Of June 30, 2016

Asset WAM (years)	10.0
Liability WAM (years)	11.0
Available credit enhancement (%)	54.15
Required credit enhancement for coverage of 'AAA' credit risk (%)	7.35
Required credit enhancement for first notch of collateral uplift (%)	7.35
Required credit enhancement for second notch of collateral uplift (%)	7.57
Required credit enhancement for third notch of collateral uplift (%)	7.67
Target credit enhancement (%)	7.78
Potential collateral-based uplift (notches)	4
Adjustment for liquidity (Y/N)	N

Table 6

Collateral Uplift Metrics As Of June 30, 2016 (cont.)	
Adjustment for committed overcollateralization (Y/N)	Y
Collateral support uplift (notches)	3

N/A--Not applicable.

Table 7

Geographical Distribution by Province As Of June 30, 2016	
Antwerp	18.4%
East Flanders	14.4%
Flemish Brabant	14.3%
Brussels	12.2%
West Flanders	10.0%
Liège	6.9%
Limburg	6.7%
Hainaut	6.3%
Walloon Brabant	5.0%
Namur	3.6%
Luxembourg	2.2%

Table 8

Loan Size Distribution As Of June 30, 2016	
Euros	
0-100000	21.3%
100000 - 200000	43.3%
200000 - 300000	22.1%
300000 - 400000	5.1%
400000 - 500000	2.8%
500000 - 600000	0.7%
Above 600000	4.7%

We analyze cash-flow risk according to our criteria "Cash Flow Criteria For European RMBS Transactions," published on Nov. 20, 2003 and "Update To The Cash Flow Criteria For European RMBS Transactions," published on Jan. 6, 2009.

Our analysis of the pandbrievens's payment structure shows that cash flows from the cover pool assets would be sufficient, at the current rating level, to make timely payment of interest and principal to the covered bondholders. The program will be exposed to refinancing risk because the mismatches in its asset-liability profile are not addressed by structural features.

Under our cash flow criteria, we model a program's cash flows under rising, falling, and stable interest rates, with both high and low prepayment rates, to determine likely outcomes under different stress scenarios. We analyze the program's cash flows under 'AAA' credit stresses, as well as liquidity and interest rate stresses; we also run different default timing and prepayment patterns. To assess market-value risk we apply a target asset spread of 425 basis points in our cash flow analysis, as outlined in "Assessments For Target Asset Spreads According To Our Covered Bonds

Criteria," published on Aug. 15, 2016.

Because there is an active secondary market for Belgian mortgages such as the ones in the cover pool, the program can potentially benefit from up to four notches of collateral-based uplift, according to our covered bonds criteria.

Under these criteria, we decrease the collateral-based uplift by one notch as the issuer did not make any commitment to maintain the level of overcollateralization that is commensurate with the current preliminary ratings.

There is no notch of adjustment for liquidity risk as we consider this risk to be covered through the legal requirement to maintain 180 days of liquidity and because the preliminary ratings that we have assigned are higher than the long-term foreign currency rating on the Belgian sovereign, which is a eurozone member state.

Based on information as of June 30, 2016, our analysis shows that the available credit enhancement of 54.2% exceeds the credit enhancement of 7.67% required for the covered bonds to achieve a preliminary 'AAA' rating, as well as the target credit enhancement of 7.78%. These cash flow results reflect the low asset and liability mismatch in the program, where the weighted average maturity (WAM) on the assets and on the liabilities is close (see table 6). As they are based on only one series being issued for the time being, the results are sensitive, in particular to the WAM of the liabilities we model and could significantly vary in future depending on the maturity of any new issuances.

With a JRL of 'aa' and a one-notch downward adjustment for uncommitted overcollateralization, the program needs to mitigate credit risk at the 'AAA' level and 75% refinancing risk in order to achieve a preliminary 'AAA' rating, equivalent to three notches of collateral-based uplift.

Additional Factors

Counterparty risk

We analyze counterparty risk using our criteria "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013, and "Counterparty Risk Analysis In Covered Bonds," published on Dec. 21, 2015.

Liquidity risk

At closing, the cover pool will include a small proportion (approximately €30 million) of Belgian government bonds to ensure liquidity for the payment of interest due on the covered bonds over the next six months.

The bonds are eligible for refinancing with the European Central Bank (ECB).

Commingling risk

In the program documentation, there will be no clause relating to the downgrade of a bank where some of the assets in the segregated estate are deposited. However, the covered bond legislation contains provisions that aim to limit commingling risk between the issuer's two separate estates.

The revindication mechanism ensures that, if the issuer becomes insolvent, if any cash that belongs to the segregated estate cannot be identified in the general estate, then the special estate will have a priority claim on unencumbered assets in the general estate. Under a provision defined in the prospectus, the special estate will receive the best available assets, ranging from ECB-eligible credit quality step 1 bonds to any assets selected by the cover pool

administrator. There is therefore no certainty as to the quality of assets that would be transferred to the special estate to address commingling risk. Accordingly, we have not given credit to this mechanism in our analysis.

Based on borrowers' monthly payments, we have assumed two months of commingling risk: one month during which the issuer could be accumulating cash, and another month representing the notification period after insolvency. Commingling risk is reflected in our target credit enhancement measure.

Country risk

We base our analysis of country risk on "Ratings Above The Sovereign--Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016. Under these criteria, we classify the sensitivity of assets to country risk as moderate. Combined with Belgium's unsolicited long-term 'AA' rating and the lack of 12-month liquidity coverage, this allows the covered bonds to be rated three notches above the sovereign. Therefore, our preliminary ratings on the covered bonds are not constrained by country risk.

Potential Effects Of Proposed Criteria Changes

Our ratings are based on our applicable criteria, including those set out in the criteria articles "Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions," "Methodology And Assumptions: Update To The Criteria For Rating French Residential Mortgage-Backed Securities," both published on Jan. 6, 2009, "Cash Flow Criteria for European RMBS Transactions," published on Nov. 20, 2003, and "Criteria for Rating French Residential Mortgage-Backed Securities," published on July 16, 2003.

However, these criteria are under review (see "Request For Comment: RMBS Methodology And Assumptions For France, Belgium, And Germany," published on March 21, 2016).

As a result of this review, our future criteria applicable to rating covered bonds may differ from our current criteria. These criteria changes may affect the ratings on the outstanding covered bonds issued by BNPP Fortis. Until such time that we adopt new criteria, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria").

Related Criteria And Research

Related Criteria

- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts - May 31, 2012
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions - August 08, 2016
- Criteria - Structured Finance - Covered Bonds: Counterparty Risk Analysis In Covered Bonds - December 21, 2015
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions - June 25, 2013
- Legal Criteria: Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance - September 13, 2013
- General Criteria: Methodology: Credit Stability Criteria - May 03, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

- Criteria - Structured Finance - RMBS: Cash Flow Criteria for European RMBS Transactions - November 20, 2003
- Criteria - Structured Finance - RMBS: Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions - January 06, 2009
- Criteria - Structured Finance - RMBS: Criteria for Rating French Residential Mortgage-Backed Securities - July 16, 2003
- Criteria - Structured Finance - RMBS: Methodology And Assumptions: Update To The Criteria For Rating French Residential Mortgage-Backed Securities - January 06, 2009
- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions - June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria - December 09, 2014

Related Research

- Preliminary Ratings Assigned To BNP Paribas Fortis' Inaugural Belgian Mortgage Covered Bonds Issuance; Outlook Stable, Oct. 7, 2016
- Low Lending Rates Keep Europe's Housing Markets' Recovery On Track, Aug. 4, 2016
- BNP Paribas, July 30, 2016
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Aug. 15, 2016
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, July 20, 2016
- Global Covered Bond Characteristics And Rating Summary Q2 2016, July 7, 2016
- Request For Comment: RMBS Methodology And Assumptions For France, Belgium, And Germany, March 21, 2016
- Belgium's Covered Bond Framework Allows Rating Above The Issuer, May 22, 2013

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