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Presale:
Penates Funding N.V./S.A., Compartment Penates-1

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€8 Billion Mortgage-Backed Floating-Rate And €80 Million Subordinated Notes

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This presale report is based on information as of Oct. 22, 2008. The credit rating shown is preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of an initial credit rating that differs from the preliminary credit rating.

Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support (%)¶	Interest	Legal final maturity
A	AAA	7,600	6.0	Three-month EURIBOR plus 100 bps	January 2041
B	NR	160	4.0	Three-month EURIBOR plus 150 bps	January 2041
C	NR	120	2.5	Three-month EURIBOR plus 200 bps	January 2041
D	NR	120	1.0	Three-month EURIBOR plus 250 bps	January 2041
E§	NR	80	0.0	Three-month EURIBOR plus 275 bps	January 2041

*The credit rating on each class of securities is preliminary as of Oct. 22, 2008, and subject to change at any time. An initial credit rating is expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion. Standard & Poor's ratings address payment of timely interest and ultimate principal. ¶Available credit support includes a cash reserve of 1% of the initial note balance (excluding the class E notes). §The class E notes will be issued to fund the cash reserve. NR—Not rated. EURIBOR—European interbank offered rate.

Transaction Participants	
Originator and seller	Dexia Bank Belgium N.V./S.A. (also known as Dexia Bank S.A.)
Arranger	Dexia Bank Belgium N.V./S.A.
Servicer	Dexia Bank Belgium N.V./S.A.
Security agent	Stichting Security Agent Penates
Swap counterparty	Dexia Bank S.A.
Bank account provider	Dexia Bank S.A.

Supporting Ratings

Institution/role	Ratings
Dexia Bank S.A. as bank account provider and swap counterparty	A+/Watch Dev/A-1

Transaction Key Features*	
Expected closing date	Oct. 27, 2008
Collateral	Loans secured by first- and sequentially lower-ranking mortgages (and mandates to create lower-ranking mortgages) on properties in the Kingdom of Belgium
Principal outstanding (€)	8,191,865,011.11
Country of origination	Belgium
Concentration	Flanders (56.6%), Wallonia (29.8%), and Brussels (13.6%)
Property occupancy	Owner-occupied (99.7%) and buy-to-let (0.3%)

Transaction Key Features*(cont.)	
Weighted-average LTV ratio	64.6% (based on mortgage inscription and mandate)
Average loan size balance per borrower (€)	73,200
Loan size range (€)	290 to 999,000
Weighted-average seasoning (months)	48.27
Weighted-average remaining loan life (years)	15.85
Weighted-average mortgage interest rate (%)	4.42
Weighted-average debt-to-income ratio (%)	39.51
Excess spread (%)	0.35
Cash reserve at closing (Mil. €)	80
Redemption profile	Sequential
Liquidity facility size (%)	None
Percentage of jumbo loans (> €200,000)	8.38% of the final pool

*Mortgage pool statistics are as of Sept. 30, 2008. TBD—To be determined.

Transaction Summary

Standard & Poor's Ratings Services has assigned a preliminary credit rating to the mortgage-backed floating-rate notes to be issued by Penates Funding N.V./S.A., Compartment Penates-1.

The collateral comprises loans secured by first- and sequentially lower-ranking mortgages (and mandates to create lower-ranking mortgages) over residential property in Belgium.

The preliminary rating reflects the sound payment structure and cash flow mechanics of the transaction, and a cash flow analysis to verify that the notes will be repaid under stress test scenarios.

Another key consideration in the rating analysis is the strong protection for noteholders that will be provided by a combination of subordination, a reserve fund, and excess spread to cover credit losses and income shortfalls.

Strengths, Concerns, And Mitigating Factors

Strengths

- The issuance proceeds from the class E notes will be used to fully fund the cash reserve at closing.
- The portfolio will not be revolving, so a shift in pool quality due to substitution cannot occur.
- The amortization of the notes will be sequential at all times.

Concerns and mitigating factors

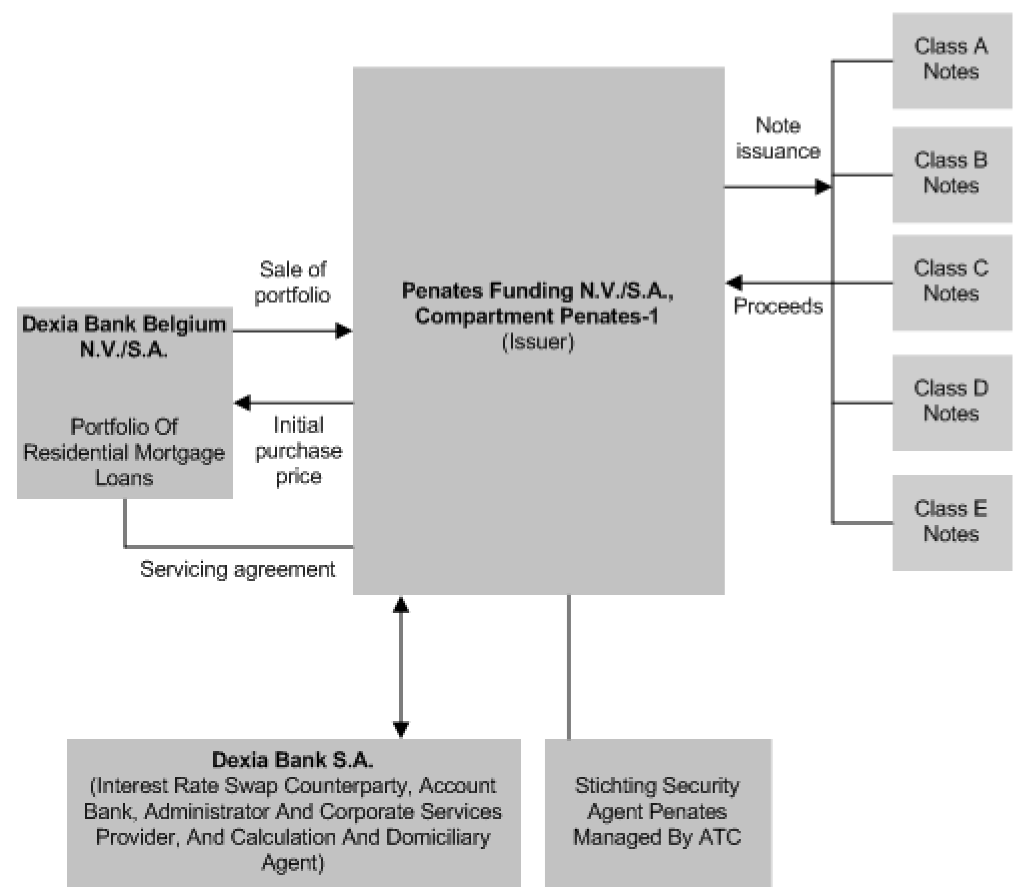
- Each loan in the provisional pool is secured by a mortgage or a combination of a mortgage and an unsecured mortgage mandate. A mortgage mandate operates as an irrevocable power of attorney, enabling the beneficiary of the mortgage mandate to create a mortgage at a later date. These mortgage mandates must be converted into secured mortgages before they can be enforced upon in foreclosure. Mortgage mandates may exhibit a greater loss severity than fully secured mortgages because the borrower may grant a fully secured mortgage to another lender that may rank in priority to the mortgage mandate before its conversion. Additionally, some of the mortgage mandates in the provisional pool may not be convertible into mortgages in the name of the issuer. We have factored into our credit analysis the greater loss severity associated with mortgage mandates by giving no credit to the value of mortgage mandates in the pool.

- The pool contains a number of loans from unemployed, students, or retired borrowers. These types of borrowers are more likely to foreclose. Consequently, the foreclosure frequency for these loans has been increased in the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) credit analysis.
- The reserve fund will amortize once 50% of the principal of the class A notes has been repaid. As mitigating factor, conditions for amortization of the reserve fund include that no amount has been recorded on the principal deficiency ledger (PDL) on that date and that the reserve is at its reserve fund required amount. Moreover, the reserve fund can not amortize below €20 million.
- There will be no liquidity facility. Principal receipts can be used to pay interest on the class A notes and will be repaid later from excess spread.
- If the swap counterparty is downgraded below 'A-2', it is expected that the swap counterparty will find either a guarantor or a replacement within 60 days. Our analysis assumes that a replacement of the ineligible counterparty will occur. However, given the bespoke nature of the swap, it may be more difficult to find a replacement. Therefore, the market should understand and consider the risk of a downgrade of the transaction if a replacement is not found.

Transaction Structure

At closing, the issuer will buy and accept the assignment of all rights of the seller against certain borrowers in connection with the mortgage pool. At that time, the issuer will issue various classes of notes, the proceeds of which (excluding the class E notes) will be used to buy these rights (see chart 1).

Chart 1
Penates Funding N.V./S.A., Compartment Penates-1 Transaction Structure



At closing, the issuer will use the class E note issuance proceeds to fund the cash reserve initially at €80 million, i.e., 1% of the initial note balance (excluding the class E notes).

The issuer has been established as an institutional VBS/SIC ("vennootschap voor Belegging in Schuldvorderingen"/"Société d'Investissement en Créances") under the Belgian Securitisation Act. The issuer conforms to our special-purpose entity (SPE) criteria.

Main Transaction Parties

Dexia Bank Belgium N.V./S.A. (originator, seller, and loan servicer)

Dexia Bank Belgium N.V./S.A. (Dexia Bank) is part of the Dexia group, along with Dexia Crédit Local and Dexia Banque Internationale à Luxembourg. Dexia Bank ranks among the three largest retail banks in Belgium. Dexia Bank is a credit institution engaged, among other things, in the provision of mortgage loans secured on residential properties and consumer loans within Belgium.

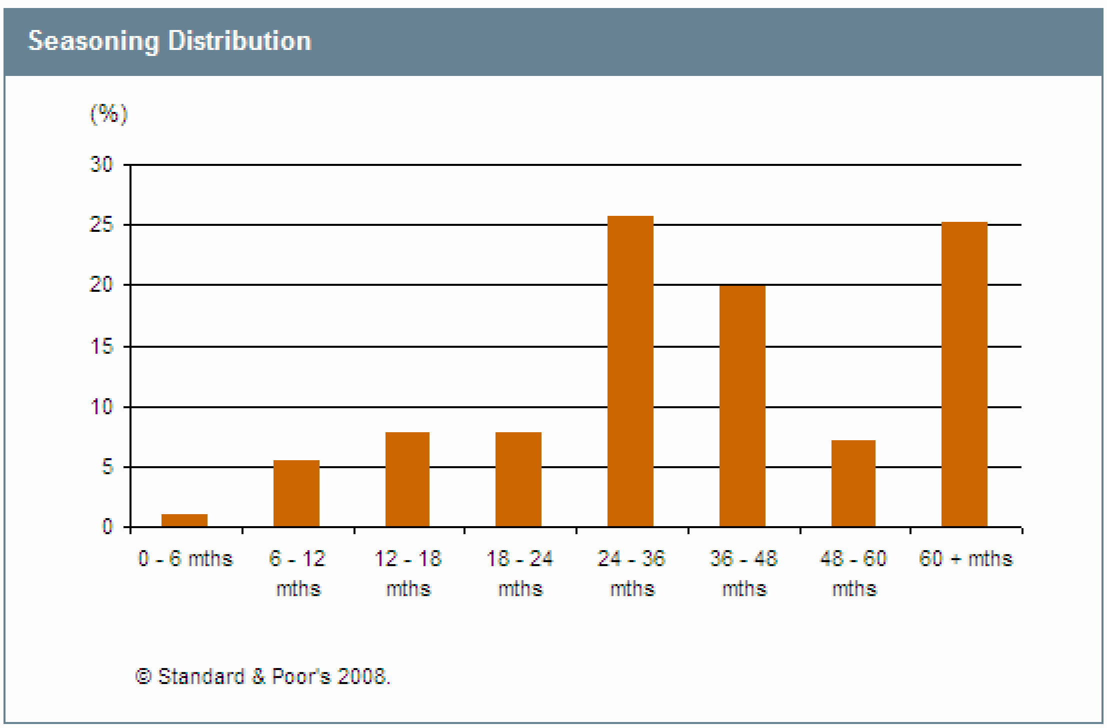
We have reviewed the origination, underwriting, valuation processes, collection and default management procedures that Dexia Bank uses. This review is an integral part of the corporate overview carried out during the rating process of any transaction.

Collateral Description

The provisional collateral pool comprises loans secured by first-ranking (or first- and sequentially lower-ranking) mortgages over residential properties in Belgium, and mandates to create mortgages.

The €8.2 billion provisional pool comprises 140,614 loans. The loans in the pool were originated after Jan. 1, 1995. The maximum original maturity of the loans cannot exceed 30 years. There are 0.3% of buy-to-let loans in the pool. Chart 2 shows the seasoning distribution of the mortgage pool.

Chart 2



Mortgage mandates

In Belgium, if a borrower takes out a mortgage, he must pay a registration fee based on a percentage of the mortgage loan. To reduce this fee, it is market practice for a lender to 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 loan granted by the lender. A mandate is not a security for the loan. A mortgage mandate is solely the irrevocable option of the lender (or a third-party assignee) to unilaterally create a mortgage. Only when the mortgage mandate has been converted into a mortgage will the portion of the original loan represented by the mortgage mandate be supported by a security interest on the relevant property.

Dexia Bank's existing mortgage mandate documentation does not allow a mandate to be converted into a mortgage in the issuer's name. Consequently, we have factored into our credit analysis the greater loss severity associated with mortgage mandates by giving no credit to the value of mortgage mandates in the pool.

Credit Structure

Flow of funds

Borrowers' payments of interest and scheduled principal (other than for interest-only loans) under the mortgage receivables will be due monthly, with the interest payable in arrears. Until the assignment of the mortgage receivables has been notified to the borrowers, all payments they make will be paid into the seller collection accounts.

There will be a daily sweep of all principal payments, interest payments, prepayment penalties, and interest penalties received by the seller to the issuer transaction account. If there is a notification event, the borrowers will be notified of the assignment of the mortgage receivables to the issuer and will have to make all payments directly to the issuer transaction account.

If the short-term rating on the bank account provider is lowered below 'A-1', the relevant bank accounts will be moved to a suitably rated entity.

Mortgage loan interest rates

Each of the mortgage loans has either a floating or fixed rate of interest. The weighted-average interest rate on the provisional pool is 4.42%. Interest rates vary between individual mortgage loans.

Interest rate swap agreement

On the closing date, the issuer will enter into a swap with Dexia Bank to hedge the basis risk between the rate of interest received by the issuer on the mortgage loans and the rate of interest paid by the issuer on the notes.

Under the swap, the issuer will pay to the swap counterparty the interest received on the mortgages, minus senior fees and expenses payable by the issuer, minus 35 bps on the principal amount of the performing mortgage loans outstanding.

In turn, the swap counterparty will pay to the issuer three-month EURIBOR plus the margin on the balance of the outstanding notes (excluding the class E notes), minus the balance on any respective PDL. Consequently, the swap will provide excess spread of 35 bps for the life of the transaction, which will be available to cover credit losses.

Reserve fund

The initial reserve will be fully funded to €80 million (1.0% of the initial note balance (excluding the class E notes)) at closing using the proceeds from issuing the class E notes.

The reserve fund will not start amortizing until 50% of the class A notes have been repaid. It will only amortize if there are no balances on any PDL and if the reserve is at its reserve fund required amount.

Terms And Conditions Of The Notes

Payments of interest will be made quarterly in arrears on the payment dates falling in January, April, July, and October of each year, with the first payment date in January 2009. The notes will pay interest at three-month EURIBOR plus a class-specific margin and will have a final maturity date of January 2041.

Principal will be used to redeem the notes sequentially with no pro rata redemption feature.

The notes of each class will rank pari passu and pro rata without preference or priority amongst themselves. Payments of principal and interest on the class B, C, and D notes will be subordinated to principal and interest payments made on any other outstanding class of notes ranking higher than the respective class of notes, in inverse order of seniority.

Optional redemption

The notes may be subject to optional redemption if a tax event, a change in law, or a regulatory call affects the notes or the mortgage cash flows, or when the principal outstanding of the notes has fallen below 10% of the initial note balance. Moreover, the issuer has a right to call the notes on every quarterly note payment date starting in July 2009 (assuming the issuer has sufficient funds).

Security for the notes

The assets pledged under the pledge agreement will serve as security for payments to the noteholders and also provide security for other amounts payable by the issuer. Under the pledge agreement, the issuer will grant a pledge in favor of the security agent on behalf of the noteholders and the other secured parties over:

- The mortgage receivables and their related security;
- The issuer's rights under the transaction documents;
- All rights, title, interest etc. of the issuer for the issuer accounts and any amounts in these accounts; and
- Any other assets of the issuer.

Parallel debt agreement

Under Belgian law, security cannot be granted in favor of the security agent because it is not a creditor for the pledged assets. To circumvent this restriction, the issuer and the security agent will enter into a parallel debt agreement under which the issuer will undertake to pay to the security agent the amounts due by it to the secured parties.

Credit Analysis

We stressed the transaction cash flows to test the credit and liquidity support provided by the assets, subordinated tranches, cash reserve, and any external sources (such as a liquidity facility). We implemented these stresses to the cash flows at all relevant rating levels.

For example, we subject a transaction that incorporates 'AAA', 'A', and 'BBB' rated tranches of notes to three separate sets of cash flow stresses. In the 'AAA' stresses, all 'AAA' rated notes must pay full and timely principal and interest, but this is not necessarily the case for the 'A' or 'BBB' rated tranches, as they are subordinated in the priority of payments. In the 'A' case, all 'AAA' and 'A' rated notes must receive full and timely principal and interest, but not necessarily so for the 'BBB' rated tranche, as it is subordinated to both 'AAA' and 'A'.

Amount of defaults and recoveries

For each loan in the pool, we estimated the likelihood that the borrower will default on its mortgage payments (the foreclosure frequency), and the amount of loss on the subsequent sale of the property (the loss severity, expressed as a percentage of the outstanding loan). We assume the total mortgage balance to default. We determine the total amount of this defaulted balance that is not recovered for the entire pool by calculating the WAFF and the WALS.

The WAFF and WALS estimates increase as the required rating level increases, because the higher the rating required on the notes, the higher the level of mortgage default and loss severity they should be capable of withstanding. This credit analysis is based on the characteristics of the loans and the associated borrowers. We have applied market-specific criteria in our assessment of the WAFF and the WALS for this portfolio, which are shown in table 1.

Table 1

Portfolio WAFF And WALS

Rating level	WAFF (%)	WALS (%)
AAA	21.7	26.6

Timing of defaults

The WAFF at each rating level specifies the total balance of the mortgage loans assumed to default over the life of the transaction. We assume that these defaults occur over a three-year recession. Further, we assess the effect of the timing of this recession on the ability to repay the liabilities, and we choose the recession start period based on this assessment.

The 'AAA' recession is delayed by 12 months and so starts in month 13. We apply the WAFF to the principal balance outstanding at the start of the recession (e.g., in a 'AAA' scenario, at the beginning of month 13). We assume defaults occur periodically in amounts calculated as a percentage of the WAFF. The timing of defaults generally follows two paths, referred to here as "fast" and "slow" defaults. These timings are shown in table 2.

Table 2

Default Timings For Fast And Slow Default Curves

Recession month	Fast default (percentage of WAFF)	Slow default (percentage of WAFF)
1	30	0
6	30	5
12	20	5
18	10	10
24	5	20
30	5	30
36	0	30

Timing of recoveries

We assumed that the issuer would regain any recoveries 18 months after a payment default in Belgian transactions. The value of recoveries at the 'AAA' rating level is 100% minus the WALS given above.

The WALS used in a cash flow model is always based on principal loss, including costs. We assumed no recovery of any interest accrued on the mortgage loans during the foreclosure period. After the WAFF is applied to the balance of the mortgages, the asset balance is likely to be lower than that on the liabilities (a notable exception is when a transaction relies on overcollateralization). The interest reduction created by the defaulted mortgages during the foreclosure period must be covered by other structural mechanisms in the transaction (e.g., the reserve fund and the excess spread).

Delinquencies

We model the liquidity stress that results from short-term delinquencies, i.e., those mortgages that cease to pay for a period of time but then recover and become current for both interest and principal. To simulate the effect of delinquencies, we assume a proportion of interest receipts equal to one-third of the WAFF to be delayed. We apply this in each month of the recession and assume that full recovery of delinquent interest occurs 18 months after it is removed from the transaction. Thus, if in month five of the recession the total collateral interest expected to be received is €1 million and the WAFF is 30%, €100,000 of interest (one-third of the WAFF) will be delayed until month 23.

Interest and prepayment rates

We modeled three different interest rate scenarios—rising, falling, and stable—using both high and low prepayment assumptions. Interest rates were modeled to rise or fall by 2% a month to a high of 12% or a low of 2%. For stable interest rates, the interest rate was held at the current rate throughout the life of the transaction. In the 'AAA' scenario, the interest rate was not modeled to change until month 13. Also note that we will revise interest rate scenarios if there is sufficient evidence to warrant it.

Transactions are stressed according to two prepayment assumptions, high (24.0%) and low (0.5%). In a 'AAA' scenario, we model a prepayment rate of 12% before the recession for the first year of the transaction for both the high and low prepayment scenarios to ensure that the WAFF is applied to a consistent asset balance in month 13, when the recession is assumed to start in the 'AAA' scenario.

We assume prepayment rates to be static throughout the life of the transaction and apply them monthly to the decreasing mortgage balance. We reserve the right to increase the high prepayment assumption if historical prepayment rates are at high levels, or the transaction is particularly sensitive to high prepayments.

In combination, the default timings, interest rates, and prepayment rates described above give rise to 12 different scenarios (see table 3). The ratings we have assigned mean that the notes have all paid timely interest and ultimate principal under each of the 12 scenarios at the proposed rating level.

Table 3

RMBS Stress Scenarios

Scenario	Prepayment rate	Interest rate	Default timing
1	Low	Flat	Fast
2	Low	Up	Fast
3	Low	Down	Fast
4	Low	Flat	Slow
5	Low	Up	Slow
6	Low	Down	Slow
7	High	Flat	Fast
8	High	Up	Fast
9	High	Down	Fast
10	High	Flat	Slow
11	High	Up	Slow
12	High	Down	Slow

Surveillance

We will maintain ongoing surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular reports provided by the sellers detailing the performance of the underlying collateral. We will closely monitor the supporting ratings to the transaction and make regular contact with the sellers to ensure that the bank's minimum standards are being maintained, and that any material changes in the sellers' operations are assessed.

The key performance indicators in the surveillance of this transaction will be:

- Total and 90-day delinquencies;
- Cumulative realized losses;
- LTV ratios;
- Constant prepayment rates; and
- Increases in credit enhancement for the notes.

Criteria Referenced

- "Revised Framework For Applying Counterparty And Supporting Party Criteria" (published on May 8, 2007).
- "Cash Flow Criteria for European RMBS Transactions" (published on Nov. 20, 2003).
- "European Legal Criteria for Structured Finance Transactions" (published on March 23, 2005).

Related Articles

- "European RMBS Outlook 2008—Market Disruptions May Overshadow Collateral Performance" (published on Jan. 31, 2008).
- "Transition Study: European Structured Finance Ratings Stable In 2007, But Pockets Of Weakness Emerged" (published on Jan. 25, 2008).
- "European Structured Finance Performance Outlook 2008—Economic Weakening And Credit Squeeze Could Hurt Asset Performance" (published on Jan. 25, 2008).
- "The Fundamentals Of Structured Finance Ratings" (published on Aug. 23, 2007).
- "Structured Finance Glossary Of Securitization Terms 2007" (published on June 11, 2007).
- "Assessment Of The Basel II Framework: Residential Mortgages"(published on Sept. 28, 2006).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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