Penates Funding N.V./S.A. Compartment Penates-4

New Issue

Inside This Report

Transaction Summary	1
Key Rating Drivers	1
Inside Content	2
Transaction and Legal Structure	3
Asset Analysis	5
Financial Structure and Cash Flow Modelling	9
Counterparty Risk	11
Performance Analytics	14
Appendix A: Transaction Comparison	15
Appendix B: Servicing and Origination	16
Appendix C: Transaction Overview	18

Link to New Issue Appendix

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Capital Structure

Class	Ratings	Outlook	Amount (EURm)	CE (%)	Final Maturity	TT (%)[a]	TTLM[b]
A	AAAsf	Stable	8,077.5	10.25	November 2045	89.75	84.7
B	Asf	Stable	472.5	5.0	November 2045	5.25	5.0
Total			9,000.0				

Closing occurred on 19 December 2011. The transfer of the portfolio to the issuer occurred on 19 December 2011. The ratings assigned above are based on the portfolio information as of 31 October 2011, provided by the originator.
[a] Tranche Thickness (TT) percentage - ratio of class size to collateral balance
[b] Tranche Thickness Loss Multiple – TT% divided by Fitch's base case loss expectation. See also "*Structured Finance Tranche Thickness Metrics*", dated 29 July 2011

Transaction Summary

The transaction is the fourth static securitisation of prime residential loans issued to individual borrowers in Belgium and originated by Dexia Bank Belgium NV-SA (the seller, DBB, 'A'/Stable/'F1'). The ratings address the timely payment of interest and ultimate payment of principal at the legal final maturity of the notes, in accordance with their terms and conditions.

Key Rating Drivers

Securitised Pool: The securitised pool comprises the pool securitised in Penates Funding compartment Penates-3 (the third securitisation of DBB which closed in June 2010) and an additional pool, for a total amount of approximately EUR9,425.3m.

Class B Note Features: Due to the pre-enforcement quarterly interest priority of payments, interest under the class B notes may be deferred. No deferral of interest is expected under base case assumptions. Due to the absence of substitution language in the junior swap agreement and other structural mitigants at the class B level, the class B note's rating is credit-linked to DBB's ratings.

Reserve Fund: The reserve was funded on the closing date and represents 1.30% of the class A to C initial notes' amount and can only be used for liquidity purposes. Upon specific conditions, the reserve fund can amortise down to 0.50% of the initial notes' amount.

Set-Off/Commingling/Liquidity Deposit: If the seller's rating is downgraded below 'A' (or 'A' on Rating Watch Negative (RWN)) or below 'F1', the seller will fund a risk mitigation deposit, sized and available to cover the liquidity risk, commingling risk and set-off risk for the transaction.

Belgian Deposit Guarantee Scheme: Fitch Ratings gives full benefit to the Belgian deposit guarantee mechanism under all rating scenarios, including 'AAAsf'. Fitch may reassess the benefit given to the deposit guarantee scheme following a one-category sovereign downgrade.

Servicing Continuity Risk: DBB is the loan servicer. No back-up servicer has been appointed for the transaction at closing. However, servicing continuity risks are mitigated by the combination of several operational elements, including: arrangements as regards loan data and borrower information transfer; notification events; the reserve fund; and a liquidity/set-off/commingling reserve, adequately sized and available specifically to cover liquidity shortfalls.

Inside Content

Rating Sensitivity[1]

This section provides an insight into the model-implied rating sensitivities that hypothetical changes in defaults and/or recoveries would have on the assets in a stressed environment.

The stressed defaults and/or recoveries are relative to the dynamic weighted-average foreclosure frequency (WAFF) of the mortgage portfolio (17.2% for the 'AAAsf' rating scenario) and the dynamic WA recovery rate (WARR) of the mortgage pool (56.63% for the 'AAAsf' rating scenario). They are assumed to occur immediately. The model-implied rating sensitivities based on such assumptions are only indicative of some of the potential outcomes and do not consider other risk factors to which the transaction is exposed.

Rating Sensitivity to Default Rates

	Class A	Class B
Original rating	AAAsf	Asf
15% increase in the default rate	AA+sf	Asf
30% increase in the default rate	AA+sf	Asf

Source: Fitch

Rating Sensitivity to Recovery Rates

	Class A	Class B
Original rating	AAAsf	Asf
15% decrease in the recovery rate	AAAsf	Asf
30% decrease in the recovery rate	AA+sf	A-sf

Source: Fitch

Rating Sensitivity to Default Rates

	Class A	Class B
Original rating	AAAsf	Asf
15% increase in the default rate, 15% decrease in the recovery rate	AA+sf	A-sf
30% increase in the default rate, 30% decrease in the recovery rate	AA-sf	BBBsf

Source: Fitch

Model, Criteria Application and Data Adequacy

Fitch analysed the probability of default and the expected recovery rate of the transaction's portfolio, according to its criteria reports, *EMEA Residential Mortgage Loss Criteria* and *EMEA Criteria Addendum — Belgium*, published in June 2011 and August 2011, respectively, and available at www.fitchresearch.com.

DBB provided Fitch with a loan-by-loan data template as of 31 October 2011, as well as cumulative default from 1995 to Q2 2011 and cumulative recovery and dynamic arrears data from 2002 to Q2 2011. While the pool-cut data provided was of acceptable quality, Fitch did not receive any debt-to-income ratio (DTI) information for approximately 7.5% of the loans in the portfolio and therefore applied an above standard Belgium market average DTI of 45% to such loans as well as missing information on borrowers' status for 12.4% of the pool.

Furthermore, Fitch reviewed an Agreed Upon Procedures (AUP) report regarding the securitised pool of Penates Funding NV-SA compartment Penates-3[2] as well as data provided by the arranger regarding additional loans to be securitised. An internationally recognised

[1] These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

[2] Penates Funding NV - SA Compartment Penates - 3 is the third securitisation sponsored by DBB. It consists of Belgian prime residential mortgages originated by DBB which are now refinanced via this transaction. The new issue report, *Pentaes Funding NV-SA Compartment Penates - 3*, published in June 2010, is available at www.fitchresearch.com

Key Parties

- **Seller, Originator, Servicer, Interest Rate Swap Provider, Account Bank:** Dexia Bank Belgium NV/SA
- **Issuer:** Penates funding NV-SA, Compartment Penates-4

Related Criteria

EMEA RMBS Master Rating Criteria (August 2011)

EMEA RMBS Cash Flow Analysis Criteria (June 2011)

EMEA Criteria Addendum - Belgium, Mortgage Loss and Cash Flow Assumptions (August 2011)

Counterparty Criteria for Structured Finance Transactions (March 2011)

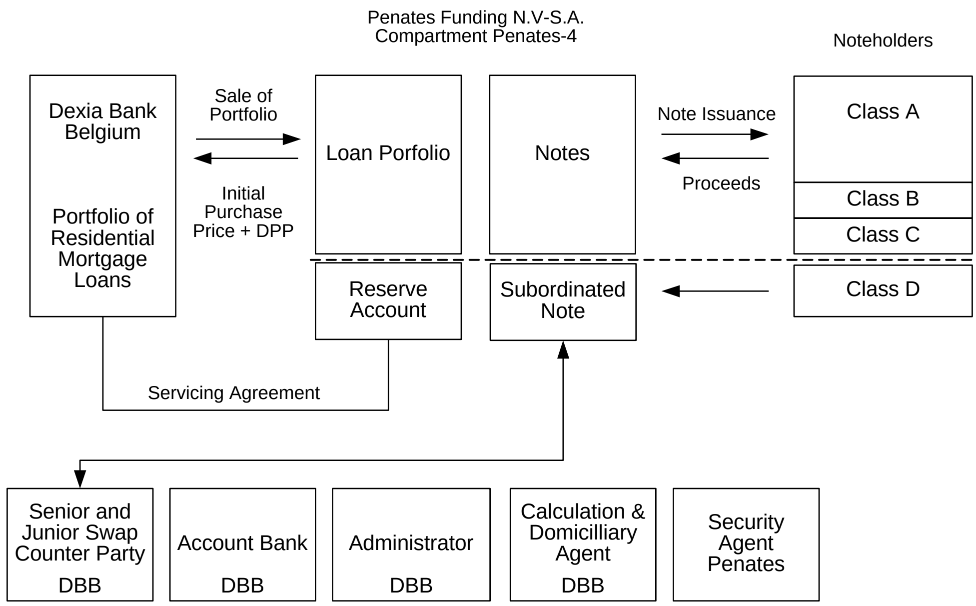
Counterparty Criteria for Structured Finance Transactions - Derivative Addendum (March 2011) accounting firm conducted the report, which included a detailed review of 921 loans from Penates-3 securitised pool and from the additional loan pool sent to Fitch. Fitch believes the sample size and the relevance of the tested fields suggest the originator provided acceptable quality of data, in line with the loan-by-loan data tape sent to Fitch. For more detail regarding Fitch's review of the origination process, please see the *Asset Analysis* section of the report.

To determine the levels of credit enhancement needed to support Fitch's ratings, the agency simulated the transaction's cash flows using its internal cash flow model for RMBS transactions, as well as the most recent cash flow stresses.

Transaction and Legal Structure

Figure 1

Structure Diagram



Source: Transaction document

Legal Framework and True Sale

The issuer was created under the form of an institutional VBS/SIC. More specifically, it is an institutionele vennootschap voor belegging in schuldvorderingen naar Belgisch recht/société d'investissement en créances institutionnelle de droit belge (Belgian institutional company for investment in receivables) subject to the UCITS Act. In accordance with the Mortgage Credit Act, it has been licensed as a mortgage institution by the Financial Services and Markets Authority (FSMA). The notes are issued by the fourth segregated compartment of the issuer.

Mortgage loans were transferred from the seller to the issuer by way of a true sale. No notification to the borrowers is needed to perfect the true sale. However, if certain events occur, the borrowers will be notified of the sale of their mortgage loans and the pledge to the issuer to avoid any set‑off risk, and/or commingling risk or any risk of defences that might be raised by a borrower (see Notification Events below).

Fitch believes that the undertaking of the seller to fund the deposit account — available to cover such set-off, and/or commingling risk, and/or liquidity risk — if its rating is downgraded below 'A'/'F1' rating (or 'A' on RWN) and the mechanisms of notification in place adequately cover this risk.

It is important to note that the notification of the borrowers is needed to ensure that the issuer benefits from a first‑ranking charge over the mortgage receivables. However, the seller has undertaken not to transfer or pledge the same mortgage receivables to another party. Fitch also believes that the notification events in place (pledge notification events and notifications events) make this risk remote enough.

Representations and Warranties

A full list of the representations and warranties contained in the transaction documents is available in the *Appendix* document entitled *Penates Funding NV-SA, Compartment Penates-4 - Representations and Warranties*, dated 19 December 2011 and available at www.fitchratings.com.

Notification Events

Notification events relate, among others, to a breach of the relevant seller/servicer's obligations under the documents or a severe economic deterioration on the part of the seller/servicer. Notification events include:

- a servicer payment default that is not remedied within 15 business days of receiving notice from the issuer or the security agent;
- failure by the seller/servicer in any material respect to fulfil or comply with any of its obligations;
- instances where any representation, warranty or statement made by the seller/servicer proves to have been untrue or incorrect in any material respect;
- any corporate action taken by a seller/servicer, or steps taken against it, for its dissolution, liquidation, legal demerger, emergency regulations or bankruptcy;
- a servicing termination event has occurred; or
- if the seller's Long-Term Rating or Short-Term Rating assigned by Fitch is downgraded below 'BBB-' or 'F3', or if any of such ratings is placed on Rating Watch Negative.

Permitted Variations

Variations on the features of the loans during the life of the transaction are possible as long as the following conditions are all met.

1. No enforcement notice has been given by the security agent at the date of the relevant variation.
2. The variation will not provide for a full or partial release of the mortgage related to the loan as a result of which the current loan to mortgage (CLTM) immediately following such variation will be higher than 100%.
3. The current balance of the loan shall not be reduced otherwise than as a result of an effective payment of principal.
4. In case of a substitution (or release of any) of the mortgaged property(ies) relating to such loan, the current loan-to-current value (CLTCV) will not be higher than the CLTCV immediately preceding such variation (the CLTCV is the ratio between the aggregate of all current loan amounts secured by the same mortgage and which rank pari passu, and the aggregate current value of the mortgaged property(ies) obtained after indexation, based on indexes determined by Stadim, a Belgian Real Estate company specialised in publishing indices for Belgian regions).
5. In case of a loan other than an interest- only mortgage loan, any variation in the amortisation profile of the loan will not cause the loan to be no longer payable by way of monthly instalments or will imply a residual value payment at the final redemption date of such varied loan.
6. Any variation in the amortisation profile of the loan will not cause the repayment of principal to be concentrated around the maturity date of the loan.
7. In case of a maturity extension of the loan, such extension will be in accordance with the terms of loan documents of the relevant loan and the final redemption date of such varied loan would be as a consequence of the variation not being extended beyond the quarterly payment date falling four years prior to the final maturity of the notes.
8. Any variation in the fixed interest rate in respect of the loan will be in accordance with the terms of the standard loan documentation, as amended from time to time, will conform to market practice at the time of such variation and will not cause the fixed interest rate to fall below 2.5% per annum.

9. Any variation in respect of a floating-rate loan will not result in a change to the periodicity of the resets of the interest rate applicable to the loan.
10. The borrower will not become an employee of the seller.
11. The variation would not cause the loan to no longer comply with all the eligibility criteria.
12. Such variation shall be considered by the servicer acting as a reasonably prudent mortgage lender (bonus pater familias).

Non-Permitted Variations

If a variation that does not comply with one of the permitted variations is made, it becomes a non-permitted variation, and the seller would have the obligation to repurchase the relevant loan at its outstanding balance plus interest due until the repurchase date.

In its recovery analysis, Fitch has taken the below assumptions to reflect the fact that loan characteristics may change following a permitted variation.

1. For each loan in the portfolio, the current loan amount is equal to the mortgage registration amount.
2. For fixed-rate loans, the interest rate is equal to 2.5%. This change has been considered in Fitch's cash flow analysis. Note that the swap counterparty bears part of the possible reduction in the interest amount received as it pays the interest due on each class of notes net of the PDL relating to the relevant class of notes (see *Interest Rate Hedging* below).
3. All loans have either a maturity of 30 years or a maturity extended until the quarterly payment date falling 4 years prior to the final maturity of the notes (hence changing the amortisation profile of loans with different original maturities).

Repurchase of Mortgage Receivables

Under the mortgage receivables purchase agreement, the seller will be required to repurchase a loan under the following circumstances, among others:

- breach of any of the representations and warranties; or
- amendment of the terms of the mortgage loan resulting in a non-permitted variation.

Legal Opinion

Fitch has reviewed the legal opinions which cover Belgian law and English law to confirm that its assumptions — which are being factored into the credit analysis of the transaction — are supported by the legal opinions.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Asset Analysis

DBB provided Fitch with information on a portfolio containing 153,975 loans, for a total outstanding amount of approximately EUR9.43bn. The securitised portfolio shall be selected among this provisional pool after taking into account, among others, prepayments and defaults between the cut-off date and the closing date.

Figure 2
Key Characteristics of the Portfolio[a]

Outstanding principal balance (EUR)	9,425,259,780
Average borrower balance (EUR)	97,540
Largest loan balance at origination (EUR)	1,400,000
Number of borrowers	96,630

Number of loans	153,975
Weighted average seasoning (months)	43.9
Weighted average remaining term (years)	17.4
Weighted average DTI[b] (%)	43.1
Weighted average original mortgage-to-value (%) (see details on page 7)	78.9
Weighted average mortgage coverage ratio[e] (%)	120.1
Pari passu loans (%)	6.1
Employment type	
Employed (%)	65.7
Borrower profile unknown (%)	12.4
Civil servant (%)	11.2
Self-employed (%)	8.2
Unemployed (%)	1.1
DBB employees	
DBB employees (%)	5.8
Loan amortisation type	
Annuity (%)	95.5
Linear (%)	2.9
Bullet (%)	1.6
Security type	
Mandate only (%)	0.0
Mortgage only (%)	64.9
Mortgage + mandate (%)	35.1
Loan purpose	
Purchase (%)	37.7
Remortgage (%)[f]	15.5
Renovation (%)	9.1
Construction[c] (%)	16.1
Second homes[d] (%)	20.2
Regional concentrations	
Flanders (%)	54.5
Brussels (%)	11.3
Wallonia (%)	34.2

[a] As of 31 October 2011
[b] DTI information was missing for 7.5% of the pool. Assumptions were taken with regards to these loans (see Debt-to-Income section below)
[c] All construction loans have been fully disbursed
[d] Assumed second homes if the loan is secured by more than one property
[e] Mortgage Coverage Ratio = the mortgage inscription, divided by the total loan balance (including pari passu loans)
[f] Remortgage loans: such loans do not correspond to debt-consolidation loans or equity release, but are granted to borrowers who want to benefit from better interest rates or would like to change the amortisation profile of their loan
Source: Fitch/DBB

Lender Adjustment

Fitch's base default probabilities assume that origination, underwriting and servicing practices and procedures are in line with those of a standard traditional Belgian lender with market expertise, financial stability and the relevant management experience.

As part of its analysis, the agency performs an operational review of the originator to assess its origination, underwriting and servicing capabilities. If, as a result of this review, Fitch believes that the origination, underwriting and servicing procedures are below market standards, an adjustment to the base default probabilities of the whole portfolio would be warranted. The relevance of this adjustment is further sized by considering certain elements that cannot be factored into the analysis on a loan-by-loan basis, either because they are not available or because they are only applicable on an aggregate basis.

Fitch considers DBB's origination and servicing procedures to be in line with other Belgium prime lenders and therefore no additional lender adjustment was made.

Original Mortgage-To-Value (OMTV)

Due to the specificities of the Belgian market[3] with regard to the security types (such as all-sum mortgages or mortgage mandates) and the products (such as credit facilities), Fitch will sometimes adjust its original loan-to-value (OLTV) calculations to obtain figures compatible

[3] In Belgium, mortgage registrations are very expensive and borrowers will often only register a mortgage on part of a property and then use a mortgage mandate (in addition to the mortgage) to back their loan. Such securities may also back future loans granted by the lender to the borrower

with its probability of default matrix. Such adjusted OLTV values are referred to as the original mortgage-to-value (OMTV).

It is possible that a borrower may have been granted several loans (due to credit facilities), the purpose of which are not necessarily to purchase a property. Such loans are usually secured by the same security under the so called ”all-sums mortgage”. Moreover, in some cases it could be that the loan that was originally granted to purchase the residential property used as security has already been repaid. In such instance, the traditional OLTV calculation will not reflect a borrower’s willingness to pay on his/her property.

Considering that in most cases, residential loans are fully backed by a security or an additional mechanism (composed of a mortgage and/or a mortgage mandate), the residential loan amount used in Fitch’s analysis can be assumed to be equal to the security registered amount - or in the case of a mandate, the potentially registered amounts - over such residential property.

Fitch therefore approximates the standard OLTV calculation by applying the OMTV calculation, dividing the first available security of a borrower with the value of the property on which such security relies.

The original WA mortgage-to-value of the portfolio is 78.9%.

Current Loan-To-Value (CLTV)

The WA CLTV for the portfolio is 67.3%, calculated by dividing the current balance of the loan and any pari passu consumer loans with the current property value.

Debt-To-Income Ratio (DTI)

A conservative class 4 assumption (and more precisely, a DTI of 45%) has been assumed in Fitch’s analysis for the 7.5% of missing DTI information. The final WA DTI ratio for the pool is equal to 43.1%, taking this assumption into account. Fitch was provided with DTI calculation details that are in line with the agency’s methodology.

Fixed and Variable Rate Loans

All the loans in the portfolio bear fixed rate interest, or fixed rates with resets (eg after one, three, five or 10 years) and will amortise in monthly instalments except for 1.6% of the pool which are interest only loans. Fitch applied an additional hit of 20% for these bullet loans.

Mortgage Mandates

The originator benefits form a mortgage mandate (at least in part) over 35.1% of the loans in the preliminary portfolio.

Mortgage mandates are a particularity of the Belgian market, driven by the high costs of mortgage registrations. A mandate is not an actual security but rather an agreement between the borrower and a third party, in which the borrower gives the proxy the right to unilaterally create a mortgage for the benefit of the lender over certain property security.

The issuer and the security agent are not the beneficiaries of such mandates and therefore no credit is given to mandates in Fitch’s recovery analysis.

The mortgage mandates are however used to assess the OLTVs in the probability of default analysis (see *Original Loan-to-Value (OLTV)* above).

DBB's Employees

In the current portfolio, 5.8% of borrowers are employees of DBB. Employees' distribution among Dexia Bank Belgium and other entities within Dexia group[4] was not available. To take

[4] See the press release *Fitch Assigns Dexia Bank Belgium a 'bb' Viability Rating; IDR of 'A' Unaffected*, dated 1 December 2011

into account the uncertainty linked to DBB's recent restructuring the foreclosure frequency of these borrowers has been double.

Borrower Profile

It should also be noted that Fitch has not been provided with any information on employment status for 12.4% of the portfolio. The agency made the conservative assumption that those borrowers were unemployed, hence applying an additional hit of 25%. Moreover, 8.2% are self-employed for which Fitch applied an additional hit of 20%.

Credit Facilities

In this transaction, the mortgage receivables constitute term advances under a revolving credit facility (credit facility)[5]. The mortgages securing such mortgage receivables (the "all-sums mortgages") secure all advances made from time-to-time under such credit facility and all other amounts that the borrower owes or in the future may owe to the seller. Upon transfer to the issuer, an advance shall rank in priority to any advances made under the facility after the date of the transfer. However, a transferred advance will have equal ranking with other advances that existed at the time of the transfer and which were secured by the same mortgage

All-Sums Mortgages

In this transaction, the mortgage receivables relate to loans or advances under a credit facility secured by a mortgage used also to secure all other amounts that the borrower owes or in the future may owe to the seller, a so-called "alle sommen hypotheek/hypothèque pour toutes sommes" (all-sums mortgage).

Fitch has been provided with the amount of loans or advances ranking pari passu with the ones being securitised. In its recovery analysis, the agency has taken into account those amounts so that recoveries are shared among all loans or advances ranking pari passu. It is also important to note that new loans granted and secured by an all - sums mortgage are subordinated by law to the loans being securitised.

Second Homes

Fitch has not been provided with information on loans secured by second homes. In its analysis, Fitch identified loans secured by more than one property and assumed that these loans were secured by second homes. Approximately 20.2% of the portfolio was assumed to be secured by second homes.

Construction Loans

Some loans in the provisional portfolio (16.1%) were initially granted as construction loans. All such loans had been fully disbursed prior to their inclusion in the portfolio, meaning that the underlying property being constructed has been completed. However, as under Belgian market practice there is no specific verification of the valuation of a property once the corresponding loan has been fully disbursed. Therefore, on the recovery side, Fitch has applied an additional stress on the MVDs of such properties to reflect the potential over-estimation of such property value

Default Model Output

The following table illustrates the asset analysis results across different rating scenarios. Fitch has used these WAFF and WARR levels when modelling the transaction cash-flows.

Fitch Default Model Output

Rating level (%)	WAFF	WARR	MVD
AAA	17.2	56.6	51.6
AA	13.8	59.5	47.7
A	10.8	62.1	43.9
BBB	7.4	64.5	40.0

[5] A new underwriting process is done for each new drawing

BB	4.0	66.6	36.1
B	3.4	68.5	32.3

Source: Fitch

Financial Structure and Cash Flow Modelling

Credit Enhancement

Subordination

At closing, credit enhancement to the Class A notes was provided by the class B notes (5.25%) and by the class C notes (5.0%).

At closing, credit enhancement to the Class B notes was provided by the class C notes (5.0%).

Reserve Fund

At closing, proceeds from the issuance of the class D notes (not rated) funded the reserve fund, for an amount of 1.30% of the initial amount of the notes (excluding such class D notes).

The reserve account will not build up during the life of the transaction, but may amortise under certain conditions, and to a certain minimum amount corresponding to 0.50% of the initial amount of the notes.

The reserve fund can only be used for liquidity and does not constitute credit enhancement for the notes. It shall be applied to items 1 to 3 of the monthly interest priority of payments detailed below, and to item 1 of the quarterly interest priority of payments. Amortisation of the reserve fund shall only be possible if the following conditions are all met.

1. The outstanding balance of all delinquent loans (as of the end of the quarterly collection period) does not exceed 2.5% of the total outstanding portfolio amount (including, for the avoidance of doubt, all delinquent and defaulted loans).
2. The sum of the outstanding balance of all defaulted loans from the closing date to the end of the quarterly collection period does not exceed 2.0% of the initial portfolio amount.
3. There is no inscription on the debit balance of any of the PDLs.
4. The reserve fund is at its required level.
5. At least 50% of the class A notes have amortised since closing.

Excess Spread

Excess spread is not directly provided by the interest rate counterparty, as it is not received from the payments made by the swap counterparty to the SPV; however, it is retained from the payments to be made by the SPV to the swap counterparty. Such excess spread equals 45bp per annum and is calculated on a notional corresponding to the performing balance of the loans (ie not defaulted and not delinquent loans).

Notes Amortisation

Pre-Enforcement Priority of Payments

The priority of payments is based on a monthly payment of interest and on two quarterly separate waterfalls.

Interest Priority of Payments

Monthly Interest Priority of Payments

On each monthly payment date, the monthly interest available funds comprising interest received on the loans, prepayment penalties, amounts applied from the reserve fund, as the case may be, and deposit amount and all payments from the seller (as in the case of the repurchase of loans), to the extent that such amounts do not relate to principal or recoveries of defaulted loans, will be allocated to the following priority of payments.

Figure 3

Pre-Enforcement Monthly Interest Priority of Payments

Order

1	Senior expenses and fees
2	Retained excess margin by the issuer (45bp p.a.)
3	Senior swap payments under the fixed leg
4	Junior swap payments under the fixed leg

Source: Fitch, transaction documents

Quarterly Interest Priority of Payments

On each quarterly payment date, the available interest amounts (see definition below) will be allocated, prior to enforcement, according to the following priority of payments.

Figure 4

Pre-Enforcement Quarterly Interest Priority of Payments

Order	
1	Pari passu and pro rata, class A interest and senior swap termination payment (other than senior subordinated swap amount)
2	Replenishment of deposit amount for amounts used for liquidity
3	Replenishment of reserve fund
4	Class A PDL
5	Class B PDL
6	Pari passu and pro rata, class B interest and overdue interest and junior swap termination payment
7	Reserve fund replenishment (upon class A notes fully repaid)
8	Class C PDL
9	Pari passu and pro rata, class C interest and overdue interest
10	Class D interest, overdue interest and principal
11	Senior subordinated swap payments
12	Junior subordinated swap payments
13	Deferred purchase price payments

Source: Fitch, transaction documents

The available quarterly interest amounts will comprise, among others:

- any interest accrued on sums standing to the credit of the issuer accounts;
- accrued amounts of guaranteed excess margin;
- any recoveries from the defaulted loans;
- any payments from the swap counterparty; and
- amounts from the principal available funds, if the above is not sufficient to pay all interest on the class A notes.

Principal Priority of Payments

On each quarterly payment date, the allocation of principal available funds (comprising principal collections from the underlying loans, including prepayments and amounts credited on the PDLs) will be made on a sequential basis to redeem the principal of the notes and to pay interest on the class A notes, if necessary, under the following priority of payments.

Figure 5

Pre-Enforcement Principal Priority of Payments

Order	
1	Class A interest shortfall
2	Repayment of class A notes until fully redeemed
3	Repayment of class B notes until fully redeemed
4	Repayment of class C notes

Source: Fitch, transaction documents

Post-Enforcement Priority of Payments

Following the issuance of an enforcement notice, when the security agent declares the notes to be due and payable, all available funds (interest and principal receipts) will be allocated sequentially to interest and principal payments due on the class A until redeemed in full and then to the B notes after the payment of senior fees and certain third-party expenses.

Step-Up Margins

The margin on the class A notes will increase from 1.20% to 2.40%, starting November 2015 (step-up date). This has been taken into account in Fitch's cash flow analysis.

Principal Deficiency Ledger (PDL)

The transaction operates PDLs (comprising three sub-ledgers for the class A, the class B and class C notes) to record any principal deficiencies (defaults), plus amounts of principal to be used under the Principal Priority of Payments to cover for interest shortfalls on class A notes.

PDL amounts are first debited to the class C PDL (up to a maximum of the then current principal outstanding amount of the class B notes) and then class C PDL and eventually thereafter, to the class A PDL.

A defaulted loan is a mortgage receivable which is either: (i) in arrears for more than 90 days; or (ii) which has been classified in default by the servicer.

Scenario Testing

Fitch has modelled the pre-enforcement priority of payments. The capital structure has been stressed in Fitch’s rating analysis under certain scenarios, including: high and low constant prepayment rate (CPR) scenarios; increasing interest rate scenarios; and front-loaded and back-loaded default curves.

The stressed scenarios result in no principal losses and the timely payment of interest for the class A notes and Class B notes. Knowing that Class B interests may be deferred, which is not expected to occur under base case scenario.

Counterparty Risk

Seller

DBB (rated ‘A’/Stable/‘F1’) has been separated from the Dexia group since 20 October 2011 when it was acquired by the Belgian state. DBB is the third largest bank in Belgium. It enjoys a 15% market share in retail banking and a very significant position in banking with the local authorities

DBB's long- and short issuer default ratings (IDR), support rating and support rating floor continue to be driven by the extremely high probability that the Belgian state would support the bank if required given DBB is fully state-owned and systemically important in Belgium. On 17 October 2011, The European Commission (EC) temporarily approved state aid received by DBB but a restructuring plan needs to be submitted by Belgium to the EC. However, Fitch does not anticipate a material negative impact on DBB's financial profile arising from a restructuring plan imposed by the EC.

Servicing Continuity

DBB undertakes the servicing of the transaction. While no back-up servicer was appointed at closing, servicing continuity risk is mitigated by several operational features (including the conditions outlined for the appointment of a new servicer and the arrangements put in place to access the underlying borrower data).

Following a termination of the servicing agreement — and as defined in the transaction documents — the servicer will be obliged to deliver to the issuer and the security agent all relevant information and files concerning the underlying mortgage loans, mortgage receivables and any related securities.

If a notification event has taken place, DBB shall: (i) inform the relevant borrowers of the mortgage loans (and any other related party) of the assignment of the mortgage receivable and the related security to the issuer; and (ii) instruct the relevant borrowers and any other relevant parties to pay any amounts due directly into the issuer collection account.

As DBB is undertaking the role of both seller and servicer for the transaction, certain events will constitute both termination and notification events. Additional comfort is therefore obtained with regards to the servicing continuity risk by the provision to the administrator and to a notary, at closing, of a CD Rom containing all underlying borrowers' details. This CD Rom is transferred on the closing date and then annually updated. The same is done for the information on the loans, which are transferred to the issuer and security agent (but without the borrowers' details).

Fitch is comfortable that any servicer termination risk in the transaction is adequately mitigated — in line with its criteria *Counterparty Criteria for Structured Finance Transactions*, dated 14 March 2011 — by the following measures.

- The issuer services agreement: which underlines the servicer's agreement to provide the issuer and the security agent with all relevant information and files concerning the underlying mortgage loans, mortgage receivables and any related securities, following a servicer termination event.
- The security agent (Stichting Security Agent Penates): which will act on behalf of the secured parties to enforce the transaction documents and the security interests of such parties.
- The storage of borrower data: the data pertaining to the borrowers in the underlying pool is written into a CD Rom, held in escrow with a notary and updated, for which the issuer will have access upon the occurrence of a notification event.
- The reserve fund and the risk mitigation deposit: the reserve fund and the deposit (see below) is available to cover against payment interruption risk and liquidity shortfalls.

Commingling, Set-Off and Liquidity Risks

The notification of a borrower of the transfer of his/her loan to the issuer will only occur following a notification event.

If such notification occurs following the insolvency of the seller, then borrowers may continue to make mortgage payments to the insolvent estate of the seller after the time of the seller's insolvency. Any such amounts owed to the issuer and which remain with the insolvent entity will be treated as an unsecured claim against the insolvency estate of the seller.

Under such circumstances, the transaction would be exposed to a certain amount of commingling risk. In addition, the issuer may be liable to certain claims of set-off until borrowers are notified of the transfer of their loan(s) to the issuer.

Risk Mitigation Deposit

In order to cover against the commingling risk, set-off risk and liquidity risk (in addition to the reserve fund for the latter) in the transaction, the seller will in the event that its rating falls below, 'A' (or 'A' on RWN) or below 'F1', constitute a deposit amount equal to the sum of the following two items:

i. an amount corresponding to the next scheduled instalment (interest and principal amounts) under the mortgage loans;
ii. 50% *(1-WAFF under 'A' rating scenario[6])*the sum over all borrowers of minimum of (Current Balance, maximum (0, deposits – amount covered under the deposit guarantee scheme)).

Unguaranteed deposits are the amounts potentially subject to set-off as regards the deposits in excess of the amounts covered by the Belgian deposit guarantee, according to the last reporting (see below for more details on the Belgian deposit guarantee scheme).

Only the first item (i) of the risk mitigation deposit will be available — in the case of a liquidity shortfall — to cover any shortfalls in the senior costs and expense payments, or class A

[6] WAFF under 'Asf' rating scenario is 10.8%

interest payments due under the interest priority of payments, or class A swap payments. If this reserve has been used for liquidity purpose it is replenished as per the quarterly interest priority of payments to its required amount. Hence, it will then be available to cover any loss occurred due to set-off or commingling.

The reserve should be released (up to the loss amount) in the principal waterfall if a commingling or set-off loss occurs and following the release of the reserve for loss, it will not be available for liquidity purpose anymore.

Upon a notification, item (i) of the above deposit amount shall be crystallised, whereas item (ii) shall continue to adjust.

Commingling Risk

Fitch views the above dynamic deposit amount, together with the use of daily sweeps for collections, as being adequate to cover the potential commingling risk in the transaction.

Set-Off Risk/ENAC Defence

Under Belgium law, set-off is allowed between amounts owed by a borrower to the seller and vice versa. However, in order for set-off to take place, the conditions for set-off need to be met; this means that both debts should be due and payable between the same parties and only such “due and payable” amounts may be liable for set-off.

The seller has committed to compensate the issuer for any amounts set-off by the borrower under a securitised loan.

If the seller defaults or is insolvent and can no longer be relied upon to compensate the issuer as mentioned above, set-off risk is mitigated by notification.

Fitch understands from legal opinions that notification to the borrower is sufficient to invalidate set-off for amounts due after notification. Notification implies informing each borrower that the relevant loan has been transferred to the issuer and that payments should be made directly to the issuer’s account.

Amounts due prior to notification can still be set-off. Fitch is comfortable with this risk, based on the aforementioned notification events (see *Notification Events* section). Furthermore, Fitch views the above dynamic deposit amount as being adequately sized to cover the potential set-off risk in the transaction.

In certain circumstances a borrower may be entitled to claim other legal defences (such as ENAC Defence) against the issuer post-notification. The (legal and factual) availability and the extent thereof must however be considered on a transaction-by-transaction basis.

Furthermore, Fitch analysed the risk of borrowers using the ENAC Defence to set-off their deposit/savings at DBB. Belgium has a deposit guarantee scheme that covers deposits up to EUR100,000 per depositor and per bank. This deposit guarantee is available to all private individuals, associations, non-profit associations and SMEs, irrespective of their nationality or place of residence.

This guarantee covers, in particular, all amounts owed by the insolvent bank in respect of a deposit of funds (eg in current accounts, saving accounts, time-deposit accounts) denominated in euros or in the currency of a European Economic Area country. Deposits of funds denominated in the currency of another country will only qualify for protection under the deposit guarantee scheme if they have a direct link with the purchase or repayment of financial instruments (eg shares, units, bonds, etc).

Fitch gives full benefit to the Belgian deposit guarantee mechanism under all rating scenarios, including ‘AAAsf’. Fitch may reassess the benefit given to the deposit guarantee scheme in case of a sovereign downgrade by one category.

Nevertheless, despite a strong legal framework in Belgium, Fitch considers that part of the set-off exposure for amounts above the Belgian deposit guarantee scheme might be liable for set-off and therefore treated as a loss. Fitch views the above dynamic deposit amount as being adequately sized to cover this loss in the transaction.

Payment Interruption/Liquidity Risk

Fitch views any liquidity shortfall in the transaction — for the payment of any amounts due to the senior costs and expenses, or the class A interest payments, or class A issuer swap payments — as being adequately covered by the daily sweeps of collections, the reserve fund, the CD Rom with borrowers details updated each year (facilitating a servicer replacement, if needed) and the implementation of the deposit amount following the aforementioned rating event on the seller's rating.

Hedge Provider

At closing, the issuer entered into two interest swap ISDA agreements with DBB, one for class A notes (senior swap) and one for class B and C notes (junior swap). The swap agreement relating to the class A notes complies with Fitch's counterparty risk criteria, whereas the junior swap agreement is not compliant with Fitch's counterparty risk criteria.

Under the swap agreements, the issuer has to pay to the swap counterparty — on a monthly basis and split pro-rata between the class A and together class B and C swap agreements — the actual interest income on the mortgage loans, plus prepayment penalties and defaulted interest recovered, less a margin of 45bp per annum on the principal outstanding of the performing loans, and less the senior costs due on that monthly payment date. The relevant swap counterparty will pay on a quarterly basis the interest due under each class of notes applied to the notional of each class of notes (being reduced for any corresponding PDL balances).

Account Bank

DBB is the account bank for Penates-4 at close of the transaction and will operate and maintain the issuer accounts (transaction account and the reserve account). As per Fitch's criteria on counterparty risk, DBB will be replaced, within 30 calendar days, should its rating fall below 'A' (or 'A' on RWN) or below 'F1'.

Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www.fitchratings.com.

Please contact the Fitch analysts listed on the front page of this report with any queries regarding the initial analysis or the ongoing performance of the transaction.

Appendix A: Transaction Comparison

Figure 6
Comparison Table

	Penates Funding NV-SA, Compartment Penates-4	Penates Funding NV-SA,Compartment Penates - 3 [b]	Penates Funding NV-SA,Compartment Penates – 2[a]	Penates Funding NV-SA,Compartment Penates – 1
Closing date	**19 December 2011**	**28 Jun 2010**	**16 Dec 2008**	**04 Nov 2008**
Total issuance (EUR)	**9,000,000,000**	**6,000,000,000**	**3,600,000,000**	**8,000,000,000**
Final ratings (%)				
AAAsf	89.75	90.75	94	95
AAsf	n.a.	n.a.	2	2
Asf	5.25	n.a.	2	1.5
BBBsf	n.a.	n.a.	2	1.5
Not Rated	5.00	9.25	n.a.	n.a.
Initial reserve (% of initial balance)	n.a.	1.00	1.00	1.00
Target reserve (% of current balance)	n.a.	0.25	0.25	0.25
Liquidity	1.30 [c]	n.a.	n.a.	n.a.
WAFF (%)				
AAAsf	17.2	24.5	21.95	19.06
AAsf	13.8	17.5	17.6	15.15
Asf	10.8	13.4	13.2	11.44
BBBsf	7.4	9.4	8.8	7.62
BBsf	4.0	5.3	4.4	3.81
WARR (%)				
AAAsf	56.6	67.4	69.2	73.28
AAsf	59.5	71.6	73.8	77.60
Asf	62.1	75.6	77.7	81.30
BBBsf	64.5	79.2	81.1	84.27
BBsf	66.6	82.7	84.4	87.22
Portfolio				
Collateral balance (EUR)	9,425,259,780	6,000,000,000	3,500,000,000	8,000,000,000
Number of borrowers	96,630	65,101	36,677	109,943
Average current balance per borrower (EUR)	97,540	99,048	100,454	79,765
WA seasoning (years)	3.7	3.4	3.0	3.9
WA remaining term to maturity (years)	17.4	17.1	17.1	15.6
(%)				
WA interest margin	4.0	4.24	4.51	4.42
WA OLTV	78.9	83.33	85.61	82.88
WA DTI	43.1	54.93	49.02	
Self-employed	8.2	7.41	9.18	34.28
Unemployed	1.1	0.92	0.64	0.85
Interest only loans	1.6	1.39	1.43	0.68
Mortgage only	64.9	68.77	71.32	84.18
Mortgage + mandate	35.1	31.23	28.68	15.82
Flanders region	54.5	57.17	54.83	56.62
Brussels region	11.0	12.51	14.01	9.69
Walloon region	34.2	30.32	30.86	29.80
Unknown region	0.2	0.00	0.30	3.89

[a] Please note that Compartment Penates-2 has been redeemed in full and some of its collateral has been used as collateral in Compartment Penates-3
[b] Please note that Compartment Penates-3 has been redeemed in full and its eligible collateral is used as collateral in Compartment Penates-4
[c] Liquidity in the form of a reserve fund
Source: Transaction documents and Fitch

Appendix B: Servicing and Origination

Origination Process

All loans are granted through a DBB local branch (and not through brokers). A large amount of information is asked from the client and is entered into KROK (internal IT software), which will provide one of the following feedbacks.

Positive: The loan can be granted through a DBB local branch without any validation by the origination desk. This is a “decentralised” decision. It should be noted that, in case of a decentralised-granted loan, control of the encoded data by the local branches is performed by the loan secretary at the front-office level.

Analysis CREFIUS: Further analysis and decision required by an analyst and/or credit committee at CREFIUS (there are approximately 72 FTE staff in the Roeselare and Wepion front offices, in charge of loan origination). This is a “centralised” decision.

Negative: The loan is refused at the decentralised level and cannot be accepted, even by the origination desk.

No advice possible: When data are not entered correctly or when there has been a breach of the underwriting criteria.

The feedback given by the system is based on the following key parameters: level of LTV; level of debt-to-income (DTI); repayment capacity of the borrower; and the internal risk indicator/traditional credit scoring of the client. To determine these parameters, a detailed set of information is required concerning the identity of the borrower (age, nationality, etc), his/her existing debts (there is also an automatic check made by KROK on the positive register of the National Bank of Belgium (NBB), which records all existing debts of a borrower), his/her current income, valuation of the property, type of guarantee, information on credit history (there is also another automatic mandatory check of the negative register of the NBB, which records all missed payments of a borrower. The KROK system always rejects borrowers who have a file in such register).

Required Information and Documents

The borrower must provide information on their identity (identity card), on their income (salary slips, rental income, subsidies, etc), on their guarantee (if any), on the property they wish to purchase (location, valuation, etc) as well as on their existing loan amounts.

Note that properties are usually valued at their purchase price; however, in some cases, the valuation can be performed by an external valuer (ie sworn appraiser). External valuations represent around 10% of all loan applications.

Servicing

Monitoring and servicing takes place the moment a loan becomes delinquent. The first step consists of contacting the borrower to normalise the situation as soon as possible (through the local branches). If this procedure does not lead to a regularisation of the borrower, the steps detailed below will be followed.

- First reminder letter: automatically sent as of the 15th day of the month to borrowers (and guarantors).
- Second reminder letter: automatically sent as of the 45th day, but before sending this letter a check will be performed to avoid sending letters to borrowers with whom CREFIUS has made an arrangement. The letters are sent to the borrowers, the guarantors, the branch, and the desk in charge of arrears management (the latter is also archived electronically).
- Between the second and third reminder letter: contact with the client, aimed at determining the cause of the arrears and trying to bring back to resolution. CREFIUS will determine an appropriate action scheme by scheduling a face-to-face meeting with the client for a regularisation, or to pay debt on the basis of new payment plans. Also, a further analysis of

the borrower will be performed (for example on their current financial situation, details of the current employer, check of the addresses of the borrowers and guarantors, and so on). The ultimate goal is to bring the loan current over a reasonable timeframe.

- If this meeting — scheduled some days before the third reminder letter, sent by registered mail — does not take place, the letter will be sent as of the 75th day to: borrowers (one via normal post, one via registered post); guarantors (one via normal post, one via registered post); the branch, and the servicing desk in charge of arrears management (the latter is also archived electronically).
- In the third letter — the pre-cancellation letter — the borrower is informed of:
  - the total amount due, including late payment penalties;
  - the fact that the bank has the right to take all necessary steps to foreclose, as of 90 days' delinquency; and
  - whenever CREFIUS deems it necessary, at any moment in time, it will take all necessary action for:
    - assignment of salary (not available at the issuer level);
    - conversion of a mandate into a mortgage (it should be noted that in the securitisation transaction, such conversion will not benefit the issuer).
- As of 90 days' delinquent, the Credit Risk Register will be notified unless:
  - the borrower has agreed to a new amortisation scheme; or
  - CREFIUS has received a sale/purchase deed stating a sufficiently high property price.

After sending the third letter and before cancellation of the loan, the desk "contentieux" will retry to settle the borrower's arrears and to normalise the borrower's status. However, if after 15 days following the third letter, the borrower does not act upon any of the letters, telephone calls, or any other means of contact, the loan will be cancelled.

As soon as the desk "contentieux" takes the decision to cancel a loan, this decision must be approved by the manager of the desk. The day after approval, a cancellation letter is printed and signed by the manager or the administrator in charge. It will be sent via registered mail to each borrower and guarantor. A copy is sent to the branch and another is stored at the desk.

The next step consists of the reconciliation procedure (legal reconciliation).

- The borrower is required to appear before the competent court:
  - possible outcome 1 — a conciliation is found and accepted by all parties. In that case, the borrower has a certain time to clear its arrears; and
  - possible outcome 2 — a conciliation is not possible and the bank can proceed with enforcement (the loan is due and payable).
- If no conciliation is made, or if the borrower fails to comply with the payment arrangements made, a payment command is sent; if the borrower still does not clear all of its arrears after 15 days, the loan becomes immediately due and payable, and the repossession procedure begins.

Appendix C: Transaction Overview

Penates Funding NV-SA, Compartment Penates-4 Belgium/RMBS

Figure 7

Capital Structure

Class	Rating	Size (%)	Size (EURm)	CE (%)	Interest rate	PMT freq.	Maturity	Margin (%)	ISIN
A	AAAsf	89.75	8,077.5	10.25	Euribor 3M	Quarterly	November 2045	1.20	BE0002408806
B	Asf	5.25	472.5	5.00	Euribor 3M	Quarterly	November 2045	1.85	BE6228345722
Cash reserve		1.30	117.0						
First interest payment date		May 12							
Step up date		Nov 15							

Source: Fitch

Key Information

Closing date	19 December 2011	**Parties**	
Country of assets	Belgium	Seller/originator	Dexia Bank Belgium NV-SA
Country of SPV	Belgium	Servicer	Dexia Bank Belgium NV-SA
Structure	Pass-through, sequential	Arranger	Dexia Bank Belgium NV-SA
Listing	Euronext Brussels	Account Bank	Dexia Bank Belgium NV-SA
Analysts	Helene Weintraub-Spira	Administrator	Dexia Bank Belgium NV-SA
	William Rossiter	Security Agent	Stichting Security Agent Penates
		Swap counterparty	Dexia Bank Belgium NV-SA

Source: Fitch

Summary

Rating drivers

Securitised Pool: The securitised pool comprises the pool securitised in Penates Funding compartment Penates-3 (the third securitisation of DBB which closed in June 2010) and an additional pool, for a total amount of approximately EUR9,425.3m.

Class B Note Features: Due to the pre-enforcement quarterly interest priority of payments, interests under the class B notes may be deferred. No deferral of interests is expected under base case assumptions. In the absence of substitution language in the junior swap agreement and other structural mitigants at the class B level, its rating is credit linked to DBB's ratings.

Reserve Fund: The reserve was funded on the closing date and represents 1.30% of the class A to C initial notes' amount and can only be used for liquidity purposes. Upon specific conditions, the reserve fund can amortise down to 0.50% of the initial notes' amount.

Set-off/Commingling/Liquidity Deposit: If the seller's rating is downgraded below 'A' (or 'A'/RWN) or below 'F1', the seller will fund a risk mitigation deposit, sized and available to cover the liquidity risk, commingling risk and set-off risk for the transaction.

Belgian Deposit Guarantee Scheme: Fitch Ratings gives full benefit to the Belgian deposit guarantee mechanism under all rating scenarios, including 'AAAsf'. Fitch may reassess the benefit given to the deposit guarantee scheme following a one-category sovereign downgrade

Servicing Continuity Risk: DBB is the loan servicer. No back-up servicer has been appointed for the transaction at closing. However, servicing continuity risks are mitigated by the combination of several operational elements, including: arrangements as regards loan data and borrower information transfer; notification events; the reserve fund; and a liquidity/set-off/commingling reserve, adequately sized and available specifically to cover liquidity shortfalls.

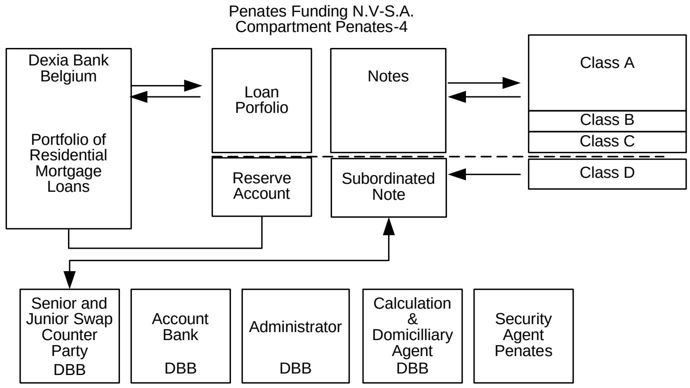
Source: Fitch

Fitch Default Model Output

Rating level	AAA	AA	A	BBB
WAFF (%)	17.2	13.8	10.8	7.4
WARR (%)	56.6	59.5	62.1	64.5
Loss severity (%)	7.5	5.6	4.1	2.6
MVD	51.6	47.7	43.9	40.0

Source: Fitch

Simplified Structure Diagram



Source: Transaction document

Collateral Summary

Provisional pool characteristics (as of 31 October 2011)

Outstanding principal balance (EUR)	9,425,259,780	**Regional concentration (%)**	
Average current loan per borrower (EUR)	97,540	Flanders (%)	54.5
Number of borrowers	96,630	Brussels (%)	11.3
Number of loans	153,975	Wallonia (%)	34.2
Seasoning (months)	43.9	**Employment type**	
Weighted average remaining term (years)	17.4	Employed (%)	65.7
Weighted average mortgage coverage ratio (%)	120.1	Self-employed (%)	8.2
WA OLTV	78.9	Unemployed (%)	1.1
WA CLTV	67.3	**Loan amortisation type**	
Performing loans (%)	100.0	Annuity (%)	95.5
WA DTI (%)	43.1	Linear (%)	2.9
Loan purpose		Bullet (%)	1.6
Purchase (%)	37.7		
Remortgage (%)	15.5		
Renovation (%)	9.1		
Construction (%)	16.1		
Second homes (%)	20.2		

Source: Fitch/Transaction documents

The ratings above were solicited by, or on behalf of, the issuer, and therefore,
Fitch has been compensated for the provision of the ratings.