

Belenus Securities PLC

Ffr1,543,834,596 Commercial Mortgage-Backed Floating-Rate Notes

Ratings

Ffr585,700,000 Class A.....	AA
Ffr215,800,000 Class B	A
Ffr154,100,000 Class C.....	BBB
Ffr588,234,596 Subordinated Notes (Classes D-F).....	NR

NR – Not rated.

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Fitch Default Study

Fitch based its analysis on its French commercial mortgage default model, which correlated default probabilities and loss severity for various French real estate loan portfolios. Results, which will be detailed in an upcoming research report, indicated typical defaults of 68% and losses averaging 65% in the recent historical environment that was considered an 'AA' stress.

January 20, 1997

Summary

Belenus Securities PLC's commercial mortgage-backed floating-rate notes are rated as listed at left. Belenus is a securitization of a French franc (Ffr) 1.5 billion portfolio of 427 performing loans generally secured by 406 commercial real estate properties in France.

The ratings reflect the Fitch French default study and the subordination provided to the various classes in the following amounts: 62% to class A; 48% to class B; and 38% to class C. Positive factors affecting the credit enhancement levels include the diversity of property types, the servicer's retention of the first loss piece, and the liquidity provisions. Concerns include the high Fitch loan-to-value ratio (LTV), the loans with balloon risk, and the limitations of the advances facility. The rating levels reflect the integrity of the legal and financial structures. Fitch's ratings do not address the likelihood of receipt of prepayment premiums or default interest.

Office properties constitute 44% (by principal balance) of the pool secured by real estate, retail 25%, hotels 12%, industrial/warehouse 11%, multifamily 7%, and other 1%. The properties are all located in France, with 32% in Paris, 33% in the Paris suburbs, and 35% in the regions.

Key Information

Collateral:	427 fixed- and floating-rate loans generally secured by diverse commercial real estate property types with an unpaid principal balance of Ffr1.5 billion. Fixed-rate loans constitute 71% and floating-rate loans constitute 29% of the portfolio balance.
Originator:	Banque SOFAL
Loan Seller:	Banque SOFAL
Issuer:	Belenus Securities PLC, a public limited company incorporated under the laws of Ireland
Trustee:	ABN AMRO Bank N.V.
Servicer:	Banque SOFAL
Subordinated Loan Provider:	Banque SOFAL
Swap Counterparty:	Banque SOFAL
Swap Advances Provider:	LaSalle National Bank (backed by ABN AMRO)
Interest Rate Cap Provider:	Lehman Brothers Financial Products Inc.
Distributions:	In French francs on the 20th, quarterly, in arrears, to the extent funds are available, commencing February 1997
Rated Final Distribution Date:	November 2014

The loans were originated by Banque SOFAL, and were sold to Belenus, which entered into a trust deed with ABN AMRO Bank N.V., as trustee, to issue notes governed by English law. SOFAL is a subsidiary of Union Industrielle de Credit (UIC), a real estate and banking subsidiary of Groupe Assurances Nationale (GAN), the government-owned insurance and banking conglomerate. The parties to the transaction are listed in the table above.

Strengths

- Diversity of property types.
- Servicer's retention of the first loss piece.
- Liquidity provisions.

Concerns

- High Fitch LTV.
- Loans with balloon risk.
- Limitations of advances facility.

Credit Issues

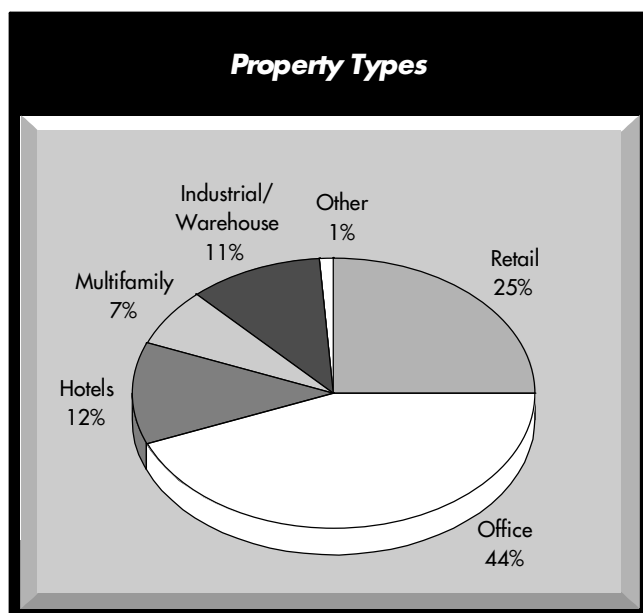
Credit enhancement is provided by the subordination of class B, class C, and the subordinated notes. After reviewing the results of its French commercial mortgage default study, Fitch evaluated the credit enhancement requirements based on loan family LTVs and the related default and loss probabilities. The 330 loan families include families of individual loans secured by one property, one loan secured by several properties, several loans secured by one property, several related loans secured by several related properties, and individual loans that are either unsecured or secured by something other than a mortgage on real estate. The levels were also influenced by the transaction's collateral characteristics and expected financial structure.

Loan Diversity: The pool contains 427 loans with a weighted average amount owed of Ffr3.6 million. Principal balances range from Ffr34,000 to Ffr213 million. For the purpose of loan diversity analysis, Fitch analyzed loan families and assumed that the largest three loan families defaulted. The largest loan family represents 17% of the pool. The largest 32 loans constitute 72% of the pool.

Property Type: The pool is fairly diversified by property type. While many French commercial real estate properties include more than one use, the predominant economic uses by pool balance are shown in the chart at the top of page 3. Fitch viewed this property type diversity favorably, and there was no adverse effect on the subordination levels as a result.

Geographic Concentration: Most of the assets are located in Paris and the immediate suburbs. Given that most French portfolios of this size are believed to have a significant concentration in Paris, the subordination levels are not affected.

Loan-to-Value Ratio: Given that the French underwriting process and best available information is reflective of loan-to-value analysis, Fitch chose to evaluate the current French market based on LTV rather than debt service coverage ratio (DSCR). As lenders continue to improve loan files and underwriting procedures, DSCR analysis may prove to be more useful in the future than it is today.



Fitch reviewed the files and analyzed the values of 65% of the pool by principal balance. Fitch derived stressed LTVs for loan families by using a mark-to-market approach to adjust revenue streams and using a Fitch capitalization rate. By analyzing the minimum of rent in place and potential rent provided by both the originator and independent appraiser, Fitch generated a mark-to-market gross revenue stream. The Fitch capitalization rate is intended to reflect the asset's property type, quality, and location in addition to anticipated capitalization rates at the time of refinancing. Capitalization rates used by Fitch are higher than historical French capitalization rates. For instance, Fitch capitalization rates for retail properties range from 9.5%–19.0%, and office capitalization rates range from 9.5%–13.0%.

As a result of the Fitch-stressed LTV analysis, the Fitch weighted average LTV is 142% versus 89% reported by the seller. Fitch default and loss probabilities are based on the Fitch-stressed LTV. Base default probabilities ranged from 25%–100%, and loss severity ranged from 60%–100%. For

Fitch-Stressed Loan-to-Value Ratios

(%)

≤ 50	5.2
51–75	4.2
76–105	13.2
106–150	34.7
> 150	20.3
No Gross Rents Provided	20.5

those loans where no revenue information was provided, Fitch assumed that the corresponding default and loss probability was equivalent to the average of the worst loan families.

Collateral Type: Approximately 81% of loans by principal balance are secured by a mortgage lien on real property. Those loans that are not directly secured by a mortgage lien on commercial real estate include the following: 9.4% secured by a pledge of shares from a commercial real estate company; 4.3% that are unsecured corporate loans; and 4.8% that are secured by a third-party guaranty or pledge of business assets. For those loans that are either unsecured or secured by a pledge of assets, Fitch assumed a 100% default probability and an 86% loss severity.

Delegation of Rents: The original loan documentation with respect to the assignment of rents to the lender is drafted in such a way as to preclude a legal characterization of the assignment. Although the issuer has been granted all rights granted to the originator, it is conceivable that there could be some debate as to the character of that right. Consequently, Fitch viewed such imprecise language negatively and adjusted cash flows accordingly.

Balloon Risk: Approximately 47% of the pool are bullet loans. The remaining amortizing loans include both fixed and increasing repayment installment requirements. Fitch assumed a lower probability of default for those loans that had both constant payment and fully amortizing requirements. No credit was provided for fully amortizing loans with increasing payment requirements because such an increase can actually create additional stresses.

Maturity Dates: The maturity dates of the loans are diverse, ranging from two months to 191 months. The risk of refinancing for these loans is partially mitigated by the servicer's ability to have full flexibility in negotiating the workout and extensions of the loans, subject to advice from the operating advisor (see *Servicing*, page 7).

Prior Liens: Fitch analyzed prior liens by loan family. Approximately 5.8% of loans by principal balance are subject to liens prior to the Belenus collateral security. Fitch assumed that 100% of the prior liens for a particular asset would be repaid in full and then calculated LTV based on the remaining value, if any. Thus, default probability and loss severity were based solely on the net value available to the trust.

Loans in Arrears: As of closing, 4.35% of the portfolio was in arrears. Fitch required that SOFAL repurchase these loans in the event they are not brought current by the borrowers within 60 days of closing.

Floating-Rate Loans: Loans that have a floating interest rate may be subject to higher stresses than fixed-rate loans

in a rising interest rate environment. As a result, Fitch assumed a higher probability of default for those loans with a floating interest rate.

Site Inspections

Fitch inspected 28 of the properties in the pool, representing 46% of the aggregate principal balance. Fitch visited assets in Paris, Cannes, Toulouse, Nice, and the Paris suburbs. A cross-section of property types was incorporated in the inspections, including retail, office, hotel, and multifamily. Real estate quality ranged from "A" (excellent) through "C" (average) to "E" (poor).

Fitch evaluated the assets according to their property type, quality, and location. Features such as functional obsolescence, elevators, parking, and common amenities, among others, were included in the analysis. Overall, the assets were found to be of average quality. Although some assets were in very good locations, often these were older buildings that were in need of some renovations.



By principal balance, office properties represent 44% of the pool, of which 70% were visited. Overall, the office portfolio is of "C" quality, with a few better exceptions. The largest office loans that were the subject of site visits are single-tenant buildings with credit tenants, usually well located for their purpose, well maintained, and rented at above-market rents. The multitenanted buildings are typically mixed use (including professional leases, apartments, and retail uses), with average location, layout, flexibility, and market appeal. Some of those buildings have been recently renovated. One building visited was in a difficult suburban market southwest of Paris and was vacant.

Retail space, constituting 25% of the pool, is concentrated in a few centers. Overall, it is of good quality,

consistently ranging from "B" to "B+" in terms of age, appearance, location, and rental level. Fitch visited 61% of the retail properties by principal balance. As typical in France, the centers, which are of community to regional size, are anchored by supermarkets like Carrefour or Leclerc. For instance, the largest portfolio and retail loan is a regional center outside Toulouse. Its location, in a provincial metropolis with employment growth, offers good diversification from Paris market dynamics. Leclerc, the anchor, has recently expanded and rebuilt the premises; the center also benefits from a populous trade area and a powerful tenant mix. Another center, in an inner eastern suburb of Paris, has significant drawing power and a good image. Fitch also visited numerous examples of ground floor stores in mixed-use buildings, which, in general, were well located and had leases under current market rents.

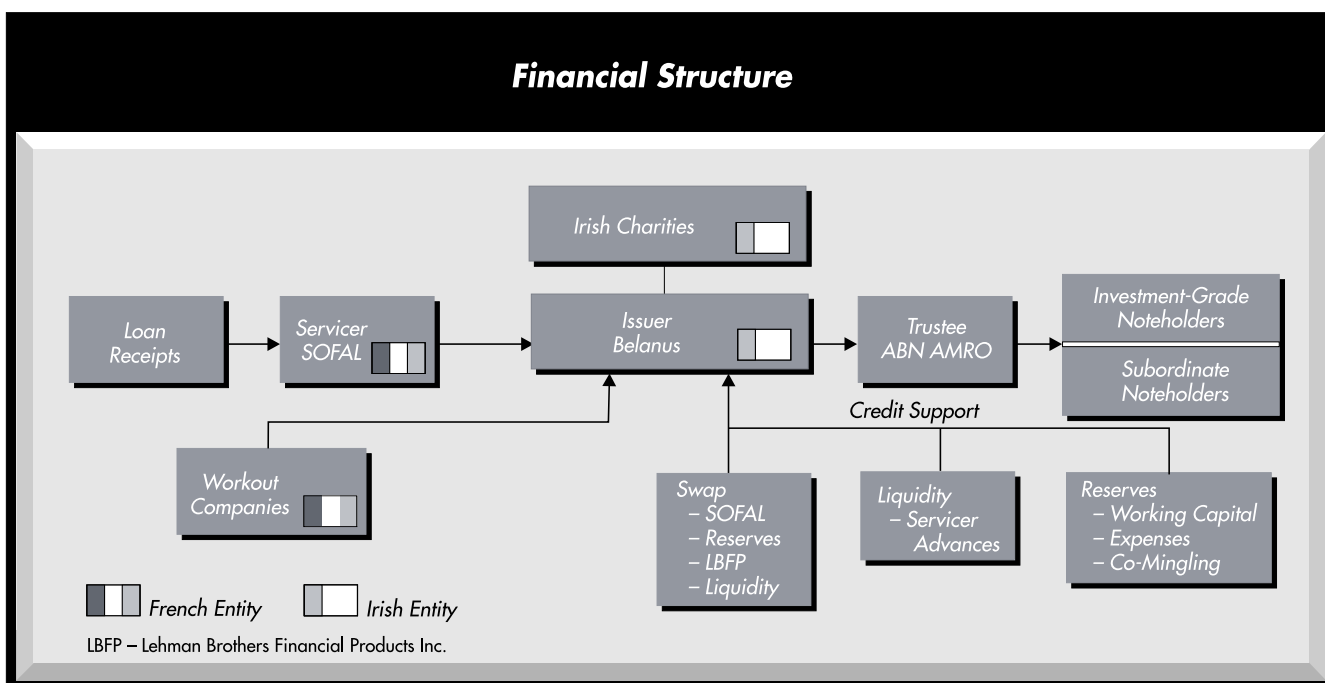
Hotels constitute 12% of the pool. Fitch inspected 35% of the hotels by principal balance, both in Cannes and Paris, the preponderant portion of which is located in Paris. Facilities are affiliated with small and medium-sized chains in the two- and three-star categories and offer limited service and amenities. They are of average size in either new or renovated buildings, and in average locations, appropriate for their status. All properties visited appear well maintained and effectively managed. They maintain higher occupancy rates than their submarket and seem to resist downward pressures on rates fairly well for the low-to mid-range categories.

Multifamily properties make up 7% of the pool by principal balance. The sample visited, 3% of principal balance, is overall of average quality but ranges from fair to superior. The assets are typically downtown buildings with some professional leases and, in many cases, ground floor retail. Within Paris and the suburbs, the mix of eastern and western locations offers some diversification. Buildings are generally near full occupancy. There are a few rent controlled apartments. While the suburban buildings are in overall good condition, the level of maintenance for the older Paris buildings varies; some are renovated, while others exhibit signs of deferred maintenance on the facades or in the common areas.

Financial Structure

Payment of interest and repayment of principal is standard sequential pay, with classes A through C receiving interest and principal prior to the subordinated notes. The subordinated notes are to be subordinate to the rated notes in all respects and will have no rights of acceleration while classes A, B, and C are outstanding. The chart on page 5 provides an overview of the financial structure.

Interest Advancing: SOFAL, as servicer, will provide interest advances in the event a borrower fails to remit interest



payments or the asset is converted to its collateral security. All advances are subject to a recoverability test, and the servicer will not provide advances for scheduled principal payments. Advances will not be allocated to pay interest to the first loss piece (class F) or that portion of any note with an allocated realized loss or appraisal reduction (see page 6). LaSalle, backed by ABN AMRO (counterparty risk rated 'AA+' by Fitch), will provide interest advances in the event the servicer fails to pay required advances and will undertake to provide a replacement servicer or servicers if SOFAL becomes unable to act as servicer.

Advances Facility: LaSalle will provide an advances facility that Belenus may draw upon for the purpose of acquiring assets at foreclosure auction and providing working capital for the real estate owned. In France, a creditor must pay for an asset at foreclosure to obtain title to the property in the event a third-party purchaser does not bid a sufficient price at the auction. Funds will then be used to pay creditors in order of priority. The advances facility is subject to: i) an outstanding balance equal to the lesser of Ffr200 million or 20% of the scheduled principal balance of the loans; and ii) recoverability from projected principal receipts. Therefore, it is not as strong as a facility with no limitations.

Basis Risk: The basis risk inherent in a transaction where fixed-rate loans support floating-rate certificates is addressed by several aspects of the structure. Although interest payable is contractually limited by the available funds amount, considerable structural efforts have been made to eliminate its potential effect on investors' yield by providing an interest rate swap with SOFAL that will pay the Paris

Interbank Offered Rate (PIBOR) plus the margin, no matter how high PIBOR reaches. In the event SOFAL can no longer make the PIBOR payments, the issuer can use interest that would have been payable on the subordinate classes D and E to increase available funds for classes A, B, and C interest. Shortfalls can be funded from draws on the Ffr70 million swap liquidity reserve account that will be funded during the first 18 months of the transaction from interest otherwise payable on the subordinate classes. In addition, an interest rate cap from Lehman Brothers Financial Products Inc. (counterparty risk rated 'AAA' by Fitch) will contribute to available funds if PIBOR is 15% or greater. Finally, a swap liquidity facility is provided by LaSalle/ABN AMRO that can be drawn on to increase available funds if the draw is determined to be repayable within two years from collateral collections. Therefore, while the available funds amount limitation eliminates basis risk as a rating consideration, structural features combine to largely eliminate the likelihood of investors receiving less than the PIBOR-based payment.

Reserve Accounts: The reserve accounts will be funded at closing by a subordinated loan made by SOFAL to Belenus. The Ffr10 million working capital reserve account will be replenished on the succeeding payment dates as funds are available, after payment of interest on classes A, B, and C to maintain a minimum balance of Ffr10 million. The working capital reserve account is available to pay capital expenses related to real estate owned and may be used to pay interest to the notes in the event there are insufficient funds. The Ffr1.5 million expenses reserve fund will be available, as necessary, to fund transaction oper-

ating expenses. In the event SOFAL, as servicer, becomes subject to bankruptcy proceedings, the Ffr15 million comingling account will be available to cover any risk of loss of payments from borrowers due to any notification delays.

Appraisal Reductions and Realized Losses: In the event of a specified trigger that is an indicator of an anticipated loss (such as an uncured delinquent loan or insolvent borrower), an appraisal reduction will be calculated based on the value of the underlying collateral and allocated to that portion of the most junior notes not yet allocated a loss or appraisal reduction. Interest will not be paid currently to that portion of the notes assigned such an appraisal reduction. Realized losses for a particular asset will be calculated once the asset has been liquidated and allocated to the most junior notes not yet assigned realized losses. For purposes of determining interest payments and the operating advisor, the notional principal balance of a note will be net of any realized loss and appraisal reduction.

Legal Structure

The loans were originated by SOFAL, a French banking institution, and sold to Belenus, an Irish special-purpose vehicle that is the issuer of the notes and the subordinated notes. Belenus granted a first charge over the proceeds of the loans and related assets to ABN AMRO, as trustee, under the note indenture. SOFAL received the subordinated notes in exchange for a subordinated loan it provided to Belenus and will service the loans for Belenus pursuant to a servicing agreement. Any real estate owned acquired on behalf of Belenus as a result of default and foreclosure will be held by Belenussimo, an indirect French subsidiary of Belenus, and will be managed by a licensed French real estate management company, which is an affiliate of SOFAL.

In this as in all securitizations, the primary legal goal is separation of the assets from the seller, SOFAL, in the event of SOFAL's bankruptcy. This is normally achieved through structures that enable true sale and nonconsolidation opinions to be given under applicable law. Such opinions could not be given in their customary form for this transaction and were somewhat less strong than would typically be expected. The strength of SOFAL as a French bank indirectly controlled by the French government counterbalanced this, however, since payments on the notes would not be affected unless and until SOFAL became bankrupt.

Three significant legal questions would arise if SOFAL were to become bankrupt: whether there had been a "true sale" of the mortgages themselves to Belenus; whether Belenus could be consolidated with SOFAL; and whether Belenus could enforce SOFAL's rights under assignments of rents securing the mortgages.

True Sale: The transfer of the loans and related mortgages to Belenus was duly recorded pursuant to French

law, so that neither the creditors nor a liquidator of SOFAL will have any claim to them under normal commercial law. The further possibility exists, though, that the transfer would be considered a banking transaction under French law, which, if carried out on a regular basis, would require Belenus to be a licensed credit institution in France. Belenus is not so licensed, and there is no official decision, regulation, or reported court decision with respect to this question. However, Fitch has received an opinion from both issuer's and underwriter's counsel that they believe the appropriate view for a French court to adopt would be that the transfer would not require such licensing, since it is not engaging in such transactions "on a regular basis," only a single transfer has occurred, and no further transfers will occur.

Consolidation: Even though the assets were effectively transferred to Belenus, if Belenus were to be consolidated with SOFAL in a bankruptcy proceeding, the assets would be treated as SOFAL's. French law permits such consolidation but has few articulated principles as to when consolidation will be ordered; rather, each case is decided on its particular facts and circumstances. It is nevertheless possible to draw some general guidelines from the previous cases, and these guidelines will be followed in the relations between SOFAL and Belenus. Fitch has received advice from issuer's counsel that they consider that, in the event of SOFAL's bankruptcy, the risk of consolidation is remote. Furthermore, Belenus is owned by persons independent of SOFAL and is not a French corporation subject to the jurisdiction of the laws and courts of France.

Assignment of Rents: The loans are secured by assignments of rents due to the borrowers, which would allow SOFAL to notify tenants to pay it directly if a borrower defaulted on a loan. Although it was not possible to legally characterize the particular assignments of rents involved in this transaction, Fitch has received an opinion from issuer's counsel to the effect that SOFAL has transferred to Belenus whatever rights it may have to the assignments. Moreover, to minimize any possible delay in enforcing the assignments, in the event of a borrower default, SOFAL, as servicer, will notify the affected tenants to pay Belenus directly and will conduct all proceedings in its name as well as Belenus'.

Finally, the legislation under which Belenus is exempt from Irish tax will expire in 2005. However, Fitch has been assured by issuer's Irish counsel that its interest and other expenses would continue to be deductible under other provisions of Irish law.

Representations and Warranties

Representations and warranties will be provided by SOFAL as seller in the sale agreement. The seller will represent that all the loans are: performing; governed and originated in

accordance with French law; free of any dispute, settlement, or waiver; and legal, valid, and binding obligations secured by first-lien mortgages on commercial real estate, except as otherwise disclosed.

In the event a breach of any representation or warranty remains uncured for 30 days, SOFAL will be required to repurchase the asset for the unpaid principal balance, plus accrued interest and expenses.

Servicing

Loan servicing will be provided by SOFAL, a French banking institution. The servicer will administer the loans and the related collateral, including monitoring payments from borrowers. Once a loan defaults, the servicer will advance interest only for such loan through liquidation, subject to its determination of recoverability. The servicer will also recommend recovery plans to the operating advisor (generally elected by the most junior noteholders, i.e. initially SOFAL) for its comments and to the issuer for its approval or rejection within eight days.

In the event the servicer finds that it is in the best interests of the noteholders to foreclose on a particular asset, Belenus-simmo (an indirect subsidiary of the issuer) will have the option to acquire the asset at auction. Belenus-

simmo will hire Foncière des Champs-Élysées Gestion (an affiliate of SOFAL), a licensed real estate management company, to act as the property manager for such asset and forward collections to Belenus.

SOFAL entered into construction finance in 1986 and saw a step up in its doubtful loans commencing in 1992. As doubtful loans continued to accumulate, SOFAL created the Difficult Accounts Department and began developing an expertise in workouts of French commercial mortgage-backed loans. Fitch met with SOFAL's key management in Paris and reviewed its underwriting procedures, loan data records, reporting capabilities, negotiating procedures, approval process, legal analysis, and general asset management. Strengths include its knowledge of the legal procedures for nonperforming loans and previous residential securitization experience. Weaknesses include property management and a lack of emphasis on property-level analysis.

Fitch's overall analysis of SOFAL, as servicer, resulted in neither a credit nor an addition to required credit enhancement. Nevertheless, Fitch recognizes the benefit of having the servicer retain the first loss piece as an incentive for the fullest recovery.

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