



Tagging Info

Fitch Affirms Sub Debt/ Hybrid Ratings of 5 Banks in Wind Down Ratings

Endorsement Policy

22 Jul 2014 12:35 PM (EDT)

Fitch Ratings-Paris/Frankfurt-22 July 2014: Fitch Ratings has affirmed the ratings of subordinated debt and hybrid debt securities issued by KA Finanz AG (KF), Portigon AG, Depfa Bank plc (Depfa, and its three tier 1 issuing vehicles), Dexia and Dexia Credit Local (DCL). All five banks are in wind down. Their support-driven ratings are unaffected by this rating action. A full list of rating actions is available at the end of this rating action commentary.

KEY RATING DRIVERS - PERFORMING SUBORDINATED DEBT ISSUE BY KF, DEPFA AND DCL

For performing subordinated debt Fitch typically notches subordinated and hybrid securities down from an anchor rating, usually an issuer's VR (see Fitch's criteria, 'Assessing and Rating Bank Subordinated and Hybrid Securities Criteria'). The number of notches reflects an assessment of both the relative loss severity and the incremental non-performance risk, relative to that captured by the anchor rating.

However, Fitch does not assign VRs to banks in orderly wind down, such as these, because in our view they have no viable standalone business model, and could not operate without receiving or being expected to receive external support. In the absence of a VR or alternative rating that could act as an anchor, we have adopted a more bespoke analysis of the risks of the non-performance and loss severity risks for these securities.

The ratings of still performing subordinated debt securities issued by KF, Depfa and DCL reflect the banks' still material credit risk, lack of financial flexibility for subordinated instruments and limited margin of safety which, in our view, is situated in the 'B' category on Fitch's rating scale. The material credit risk is driven by potential 'burden sharing' on the banks' respective subordinated debt holders triggered by additional state support to accompany the orderly wind down of these banks.

Fitch differentiates the wind-down banks' subordinated debt securities within the 'B' category by comparing these banks' respective operating income forecasts, credit exposures and related potential losses and available capital buffers to determine the potential need for further extraordinary state support. The notching differences reflect Fitch's view of the somewhat different probability of further state support for each bank.

DCL's subordinated debt instruments XS0307581883 and XS0284386306 are dated bonds (maturing in 2017 and 2019 respectively) with contractually mandatory coupon payment. Fitch rates these securities 'B-' to reflect the risk that losses would be imposed on these securities, if further state support would, at some point, be provided to Dexia. DCL's subordinated debt securities are rated lower than KF's and Depfa's, as Fitch believes the risk of potential loss for DCL's bondholders is the highest among the three banks.

In turn, the agency estimates the risk of potential loss for KF's subordinated bondholders (rated B) is somewhat higher than for investors in Depfa's subordinated debt security, which are rated the highest at 'B+'. The one-notch difference between Depfa's and KF's subordinated ratings reflects Fitch's view of the relative non-performance risk for KF compared with Depfa, driven by our view on the sensitivity of each entity to operating losses. Furthermore, the only dated subordinated debt instrument issued by Depfa that is rated by Fitch will mature in December 2015. The five rated subordinated debt instruments issued by KF have longer-

term maturity dates, ranging from 2021 to 2031.

We have removed the Rating Watch Evolving from Depfa's subordinated debt rating because Fitch now expects that the securities will run off in the normal course of the bank's wind-down, including after the planned transfer of Depfa's ownership from Hypo Real Estate Holding AG (A-/Negative) to FMS Wertmanagement (AAA/Stable). The rating is sensitive to deviation from this base case, however.

KEY RATING SENSITIVITIES - PERFORMING SUBORDINATED DEBT ISSUE BY KF, DEPFA AND DCL

For the 'B' range subordinated debt instruments, there is upside potential to the ratings should the banks' wind-down progress significantly with capital being retained at the same time. Downside pressure arises from the risk of the instruments being bailed in. Given the high degree of concentration risk in these banks' asset portfolios, this scenario could be driven by large single credit losses that would mean the banks requiring further state support. Should these instruments be bailed in then loss severity would likely be high, which could result in a downgrade to 'CC' or 'C'.

KEY RATING DRIVERS AND SENSITIVITIES - JUNIOR SUBORDINATED DEBT ISSUED BY KF AND HYBRID SECURITIES ISSUED BY DEPFA, DEXIA AND DCL

The 'C' ratings of the junior subordinated and hybrid securities issued by these banks reflect ceased coupon payments and poor recovery prospects.

KF's junior subordinated debt rating of 'C' reflects the deferral of coupon payments and Fitch's view that payments are unlikely to be resumed given that KF is in wind-down.

Depfa's non-performing hybrid Tier 1 securities (Depfa Funding II, III and IV LP) are rated 'C' to reflect the uncertain timing of these issues being serviced again. The European Commission's state-aid agreement does not permit distribution on Depfa's profit-related capital instruments - unless they are issued by SoFFin, the German financial market stabilisation agency, or payment is mandatory for legal reasons - prior to 31 December 2015.

The 'C' ratings of DCL's (FR0010251421) and Dexia's (XS0273230572) hybrid Tier 1 securities reflect the coupons missed as part of successive restructuring and orderly resolution plans, and a continued ban on coupon payment of subordinated debt and hybrid securities (unless contractually mandatory) imposed by the European Commission since 2010 and the first restructuring plan.

Fitch does not expect that any of these instruments will become performing and therefore sees no upside for the instruments' ratings.

KEY RATING DRIVERS AND SENSITIVITIES - PORTIGON'S GUARANTEED SUBORDINATED DEBT

Portigon's (A+/Stable) grandfathered subordinated debt is rated 'AAA', reflecting the grandfathered guarantee (Gewaehrtraegerhaftung) from the former WestLB's owners, especially the State of North Rhine Westphalia (NRW; AAA/Stable). The ratings are sensitive to Fitch's view of the ability or propensity of the guarantor to provide support. A diminished ability to support would likely be implied by a downgrade of the 'AAA' rating of NRW, while a weakened support propensity under the guarantee could be signalled in the highly unlikely event that grandfathered state guarantees of any German Landesbank's debt is called into question for any reason.

Fitch's view is also underpinned by the stability of the German solidarity system linking NRW's creditworthiness to that of the Federal Republic of Germany (AAA/Stable). Fitch does not believe that the German government would override the state guarantees for German banks despite recent attempts by the Austrian federal government to impose losses on subordinated debt guaranteed by the Austrian province of Carinthia, in the case of Hypo Alpe-Adria-Bank International AG (see also "Fitch: Hypo Alpe Losses Are Another Sign of Waning State Support", 13 June 2014).

The rating actions are as follows:

Depfa Bank plc
Subordinated debt (ISIN XS0229524128): affirmed at 'B+', RWE removed

Depfa Funding II LP: hybrid capital instruments (ISIN XS0178243332) affirmed at 'C'
Depfa Funding III LP: hybrid capital instruments (ISIN DE000A0E5U85) affirmed at 'C'
Depfa Funding IV LP: hybrid capital instruments (ISIN XS0291655727) affirmed at 'C'

KA Finanz AG

Subordinated debt (ISINs XS0257275098, AT0000441209, XS0185015541, XS0144772927 and XS0255270380) affirmed at 'B'

Junior subordinated debt (ISINs XS0284217709 and XS0270579856) affirmed at 'C'

Dexia

XS0273230572 Tier 1 hybrid securities: affirmed at 'C'

Dexia Credit Local:

Tier 1 hybrid securities FR0010251421: affirmed at 'C'

Subordinated debt securities XS0307581883 and XS0284386306: affirmed at 'B-'

Portigon AG

State-guaranteed/grandfathered subordinated debt: affirmed at 'AAA'

Contact:

Primary Analysts

Patrick Rioual (KA Finanz AG/ Depfa Bank plc)

Director

+49 69 768 076 123

Fitch Deutschland GmbH

Taunusanlage 17

D-60325 Frankfurt am Main

Michael Dawson-Kropf (Portigon AG)

Senior Director

+49 69 768 076 113

Fitch Deutschland GmbH

Taunusanlage 17

D-60325 Frankfurt am Main

Olivia Perney-Guillot (Dexia/DCL)

Senior Director

+33 1 4429 91 74

Fitch France S.A.S.

60, rue de Monceau

75008 Paris

Secondary Analysts

Krista Davies (KA Finanz AG/ Depfa Bank plc)

Associate Director

+44 203 530 1579

Roger Schneider (Portigon AG)

Director

+49 69 768 076 242

Philippe Lamaud (Dexia/DCL)

Director

+33 1 4429 91 26

Committee Chairperson

Alain Brancheu

Senior Director
+33 1 44 29 91 41

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable criteria, Global Financial Institutions Rating Criteria (31 January 2014), and Assessing and Rating Bank Subordinated and Hybrid Securities Criteria (31 January 2014), are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria
Assessing and Rating Bank Subordinated and Hybrid Securities Criteria
Rating Paths for EU State-Sponsored Banks
Various Support Rating Paths for German Banks

Additional Disclosure

Solicitation Status

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2014 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries.