FITCH AFFIRMS DEXIA CREDIT LOCAL & CIFD AT 'A'

Fitch Ratings-Paris/London-20 February 2015: Fitch Ratings has affirmed Dexia Credit Local's (DCL) and Credit Immobilier de France Developpement's (CIFD) Long-term Issuer Default Ratings (IDRs) and Support Rating Floors (SRFs) at 'A'. The IDRs and SRF of Caisse Centrale du Credit Immobilier de France (3CIF), the group's central financing arm have also been affirmed. The agency has also affirmed Dexia Crediop's Long-term IDR at 'BBB'. The Outlooks on the Long-Term IDRs of CIFD and 3CIF are Stable and the Outlooks on DCL and Dexia Crediop are Negative.

In addition, Fitch has affirmed Dexia's Long-term IDR and SRF at 'A' and subsequently withdrawn its ratings. The agency has also affirmed and withdrawn the ratings of the nine regional entities of the CIFD group as well as Banque Patrimoine et Immobilier. A full list of rating actions is at the end of this rating action commentary.

The rating actions were part of a review of EU wind-down banks. Fitch will issue a peer report shortly.

KEY RATING DRIVERS AND SENSITIVITIES - DEXIA AND DCL (IDRs, SUPPORT RATINGS, SUPPORT RATING FLOORS AND SENIOR DEBT)

Belgium-based Dexia's and France-based DCL's ratings are support-driven and reflect Fitch's opinion that there is an extremely high probability of support from France (AA/Stable) and Belgium (AA/Negative), which own 44% and 50% of Dexia's capital, respectively.

Fitch's assessment of the extremely high likelihood of state support is driven by qualitative factors - primarily the state-ownership and substantial funding guarantees, as well as France's and Belgium's commitment to provide support to the Dexia group, as outlined in their European Commission (EC) state aid agreements. The strength of the support structures in place and France's and Belgium's financial strength are the key rating drivers.

The Dexia group will remain very large for a substantial period of time (e.g., the resolution plan forecasts a remaining balance sheet of EUR140bn even in 2020). France's and Belgium's sizeable investment in Dexia and exposure from guarantees, together with Luxembourg, of up to EUR85bn of its senior debt represent a very strong incentive for the authorities to provide additional support, if required.

Dexia's and DCL's IDRs are primarily sensitive to France and Belgium's ability and propensity to provide support. The Negative Outlooks reflect Fitch's expectation that the implementation of the bank resolution framework in the European Union, including the Single Resolution Mechanism (SRM) in the eurozone, will reduce sovereign support for banks.

Fitch does not expect that the implementation of the Bank Recovery and Resolution Directive (BRRD) will necessitate a change to the existing support structures in place for the Dexia group agreed with the EC, given that it is progressing with wind-down in accordance with plan. However, Fitch believes that the implementation of the BRRD and SRM will increase the likelihood of senior creditors having to participate in any future recapitalisation should the need arise. This is reflected in the Negative Outlooks on the Long-term IDRs, which Fitch is likely to downgrade by end-1H15 along with the Short-term IDRs, Support Ratings, Support Rating Floors and senior debt ratings.

The downgrade of DCL's Long-term IDR is likely to be limited to 'BBB+', reflecting Fitch's expectation that risk of senior creditor bail-in will remain low for entities with a clear, established wind-down plan agreed with the EC and sponsored by sovereigns rated in the 'AAA' and 'AA' categories. This view is also reflected in our expectation that the Support Rating would be downgraded to '2' for both entities.

The ratings are also sensitive to a downgrade of France's sovereign rating by more than one notch.

Fitch has withdrawn the ratings assigned to Dexia as these ratings are no longer considered relevant to the agency's coverage. Dexia is the holding company of the group whose virtually sole asset is DCL (making up more than 99% of consolidated assets) and does not have nor intends to issue senior debt. The only outstanding debt securities are the XS0273230572 hybrid Tier 1 securities (see below).

RATING DRIVERS AND SENSITIVITIES - DEXIA CREDIOP S.p.A. (IDRS AND SUPPORT RATING)

Italy-based Crediop's IDRs and Support Rating reflect potential support from DCL. As long as DCL remains Crediop's majority shareholder, Fitch believes there is a high probability that the group, with support from its owners, would provide support to Crediop, if needed. Fitch's view is that a default of Crediop would result in high reputational risk for the group's wind-down.

Crediop's Long-Term IDR is three notches lower than DCL's, essentially reflecting Fitch's opinion that Crediop is of limited importance to the Dexia group and the French and Belgian states as well as the presence of minority shareholders, controlling 30% of the bank. Crediop was the Dexia group's financing arm for Italian public sector subnationals and related entities. Crediop is in orderly run-off, which means its status is fully aligned with that of DCL.

The guarantee extended to Dexia by France, Belgium and Luxembourg supports funding for all group assets, including Crediop's. However, Crediop's debt is not directly guaranteed by the French, Belgian and Luxembourg states.

The Negative Outlook on Crediop's Long-Term IDR is in line with DCL's. Crediop's IDRs and Support Rating are sensitive to a change in DCL's ability (as measured by its ratings) or propensity to support Crediop. Fitch's expected downgrade of DCL's Long-term IDR to 'BBB+' by mid-2015 will likely result in a downgrade of Crediop's Long-term IDR by up to two notches, potentially to 'BB+', subject to a review of the Belgian and French state's commitment to the orderly wind-down of Italian subsidiary.

Crediop's IDRs and Support Rating are also potentially sensitive to a downgrade of Italy's sovereign rating by more than two notches.

KEY RATING DRIVERS AND SENSITIVITIES - CIFD (IDRs, SUPPORT RATINGS, SUPPORT RATING FLOORS AND SENIOR DEBT)

CIFD's ratings are also support-driven and reflect Fitch's opinion that there is an extremely high probability of support from France during the bank's orderly resolution. The ratings of 3CIF, CIFD's central financing arm, reflect its integral role within the CIFD group and Fitch's opinion that potential state support to the group would flow through 3CIF.

The strength of the support structure in place and France's financial strength are the key rating drivers. Fitch's assessment of the extremely high likelihood of state support is driven primarily by France's substantial funding guarantees and commitments to the orderly wind-down outlined in the EC state aid agreement. The French state has granted CIFD a global EUR28bn funding guarantee (of which EUR16bn is for new external issuance).

The flexibility of CIFD's orderly resolution plan and the fact that its resolution has not required a capital injection are positive rating drivers, reflected in the Stable Outlook on CIFD's and 3CIF's Long-Term IDRs. Fitch's expects the plan to ensure that CIFD will maintain sound capital ratios until its wind-down is complete, therefore limiting the potential need for any state capital injection.

This expectation is based on the predictability of the cash flows arising from its assets, essentially in the form of sound housing loans in run-off, and cost-effective interest expenses under the state-guaranteed debt programmes. In addition, CIFD benefits from specific protection in its orderly resolution process relating to the additional fee it has to pay to the state for the funding guarantee, which it will not pay if its Tier 1 capital ratio falls below 12% after such payment.

In Fitch's view, the extensive flexibility in CIFD's approved state aid plan will not be affected by the implementation of the BRRD. However, the ratings are sensitive to any concerns arising around the bank's orderly wind-down deviating materially from plan. The ratings are also sensitive to a downgrade of France's rating.

CIFD's Long- and Short-term IDRs apply to the following entities that are part of the group, because of the cross-support mechanism in place between all group entities: nine regional financial subsidiaries (societes financieres regionales), 3CIF and Banque Patrimoine et Immobilier. Fitch has affirmed and withdrawn the ratings assigned to the nine regional entities and Banque Patrimoine et Immobilier, as the ratings are no longer deemed relevant to the agency's coverage given that these entities do not have nor intend to issue debt in the future.

RATING DRIVERS AND SENSITIVITIES - GUARANTEED DEBT (DCL and CIFD)
The ratings on DCL's securities issued under the states' guarantee are aligned with the ratings of Belgium and France given they are the lowest-rated guarantee providers. The guarantee is several but not joint, with each state responsible for a share of the overall guarantee.

The 'AA' long-term ratings of the securities issued under the guarantees are sensitive to any rating action on the lowest rated guarantors (currently 'AA' rated Belgium and France). The 'F1+' rating on the short-term securities issued under the guarantee would be downgraded to 'F1' if the Short-Term IDR of any guarantor was downgraded to 'F1'.

The ratings assigned to the securities issued under the state-guaranteed programmes of 3CIF are aligned with France's IDRs. The Long- and Short-term guaranteed debt ratings are both sensitive to any rating action on the French sovereign.

RATING DRIVERS AND SENSITIVITIES - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES (DEXIA AND DCL)
In line with its "Assessing and Rating Bank Subordinated and Hybrid Securities Criteria", in the absence of a VR or alternative rating that could act as an anchor, Fitch has adopted a bespoke analysis of the risks of non-performance and loss severity risks of DCL's subordinated debt instruments XS0307581883 and XS0284386306 (maturing in 2017 and 2019, respectively). Payment of the coupon on these instruments is contractually mandatory. Their 'B-' ratings reflect DCL's still material credit risk if state support is excluded and its lack of financial flexibility for subordinated instruments. The limited margin of safety for full performance of the debt is situated in the 'B' category on Fitch's rating scale. The material credit risk is driven by potential burden-sharing of subordinated debt holders that would be triggered by any additional state support to accompany the orderly wind down of these banks and facilitated by the BRRD legislation.

Fitch differentiates between DCL's subordinated lower Tier 2 debt ratings and those of its wind-down bank peers 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. Dexia's failure in the European Banking Authority's 2014 adverse stress scenario illustrates Dexia's sensitivities to an adverse economic environment.

There is upside potential to the ratings of DCL's subordinated debt instruments should Dexia's wind-down progress significantly with capital being maintained at solid levels at the same time. Downside pressure arises from any perceived or materialised risk of further state support being needed. Should these instruments be bailed in then loss severity would likely be high, which could result in a downgrade to 'CC' or 'C'.

Fitch has affirmed the 'C' ratings of DCL's (FR0010251421) and Dexia's (XS0273230572) hybrid Tier 1 securities. The ratings reflect missed (discretionary) coupons 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 EC since 2010 and the first restructuring plan. Fitch has also withdrawn the rating assigned to the XS0273230572 hybrid Tier 1 securities as it no longer considers it meaningful for the agency's coverage. Fitch does not expect that DCL's hybrid securities will become performing and therefore sees no upside for the instruments' ratings.

The rating actions are as follows:

Dexia
Long-term IDR: affirmed at 'A'; Negative Outlook; rating withdrawn
Short-term IDR: affirmed at 'F1'; rating withdrawn
Support Rating: affirmed at '1'; rating withdrawn
Support Rating Floor: affirmed at 'A'; rating withdrawn
XS0273230572 Tier 1 hybrid securities: affirmed at 'C'; rating withdrawn

Dexia Credit Local (DCL):
Long-term IDR: affirmed at 'A'; Negative Outlook
Short-term IDR: affirmed at 'F1'
Senior debt: affirmed at 'A'
Market linked notes: affirmed at 'Aemr'
Commercial paper: affirmed at 'F1'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'
State guaranteed debt: affirmed at 'AA/F1+'
Tier 1 hybrid securities FR0010251421: affirmed at 'C'
Subordinated debt securities XS0307581883 and XS0284386306: affirmed at 'B-'

Dexia Crediop
Long-term IDR: affirmed at 'BBB'; Negative Outlook
Short-term IDR: affirmed at 'F3';
Support Rating: affirmed at '2';

Credit Immobilier de France Developpement (CIFD)
Long-term IDR: affirmed at 'A'; Stable Outlook
Short-term IDR: affirmed at 'F1';
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'

Caisse Centrale du Credit Immobilier de France (3CIF)
Long-term IDR: affirmed at 'A'; Stable Outlook
Short-term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'
Senior unsecured debt: affirmed at 'A'
BMTN Programme: affirmed at 'A'
EMTN Programme: affirmed at Long-term at 'A' and Short-term 'F1'

Commercial paper programme: affirmed at 'F1'
Certificate of deposit programme: affirmed at 'F1'
Guaranteed BMTN programme: affirmed at 'AA'
Guaranteed EMTN programme: Long-term affirmed at 'AA', Short-term affirmed at 'F1+'
Guaranteed certificate of deposits programme: affirmed at 'F1+'
Guaranteed notes: affirmed at 'AA'

Credit Immobilier de France Bretagne (CIFD group)
Credit Immobilier de France Centre-Ouest (CIFD group)
Credit Immobilier de France Ile-de-France (CIFD group)
Credit Immobilier de France Mediterranee (CIFD group)
Credit Immobilier de France Nord (Group CIFD)
Credit Immobilier de France Ouest (CIFD group)
Credit Immobilier de France Sud-Ouest (CIFD group)
Credit Immobilier de France R.A.A. (CIFD group)
Credit Immobilier de France Centre Est (CIFD group)
Banque Patrimoine et Immobilier (BPI) (CIFD group)
Long-term IDR: affirmed at 'A'; Stable Outlook, rating withdrawn
Short-term IDR: affirmed at 'F1', rating withdrawn

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Applicable criteria, 'Global Financial Institutions Rating Criteria', 'Assessing and Rating Bank Subordinated and Hybrid Securities Criteria' both dated 31 January 2014 and 'Rating FI Subsidiaries and Holding Companies' dated 10 August 2012, is available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397
Assessing and Rating Bank Subordinated and Hybrid Securities Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732137
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