17 Nov 2020 | Affirmation

Fitch Affirms Dexia Credit Local at 'BBB+'; Outlook Stable

Fitch Ratings-Paris-17 November 2020:

Fitch Ratings has affirmed Dexia Credit Local S.A.'s (DCL) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. A full list of rating actions is detailed below.

Fitch has withdrawn DCL's USD15 billion certificate of deposits' short- and long-term programme ratings because DCL is no longer issuing debt under that programme and there is no Fitch-rated debt outstanding under that programme.

Key Rating Drivers

IDRS, SUPPORT RATING, SUPPORT RATING FLOOR AND SENIOR DEBT

DCL's Long-Term IDR continues to reflect Fitch's view of a high probability that additional support would be provided to DCL by Belgium (AA-/Negative) and France (AA/Negative), if required, to complete the orderly wind-down of the company. Both sovereigns are main shareholders of DCL's parent Dexia SA/NV. DCL accounts for almost 100% of Dexia SA/NV's consolidated balance sheet.

The Stable Outlook reflects our view that France's and Belgium's Negative Outlooks do not materially reduce the two countries' ability to support DCL. This is because DCL's Long-Term IDR is mainly driven by the sovereigns' propensity to support.

Our view is based on the ownership of Dexia SA/NV, the sizeable funding guarantees provided to DCL by Belgium, France and Luxembourg (AAA/Stable) of up to EUR85 billion as well as the three countries' ability to provide financial support. DCL currently has about EUR55 billion of guaranteed debt outstanding and we expect utilisation to remain below the EUR85 billion limit.

Fitch continues to factor in state support for DCL despite the implementation of the EU's Bank Recovery and Resolution Directive (BRRD). This reflects our view that the BRRD will not be applied retroactively to DCL, as long as its orderly wind-down progresses consistently with plans agreed with the European Commission. Fitch views the risk of senior creditor bail-in as low for DCL. We expect Belgium and France to act pre-emptively, to the extent possible, to maintain DCL's capitalisation above regulatory minimum requirements.

DCL's deleveraging is progressing well. Its balance sheet was about EUR120 billion at end-June 2020, compared with about EUR360 billion at end-2011, when Dexia SA/NV was placed in orderly wind-down. Since July 2020, Dexia SA/NV is supervised as a "less significant institution" by both the French and Belgian bank regulators, the Autorite de Controle Prudentiel et de Resolution (ACPR) and the Belgian National Bank instead of the ECB. DCL is directly supervised by the ACPR.

DCL's 'F1' Short-Term IDR is the higher of the two possible Short-Term IDRs mapping to a 'BBB+' Long-Term IDR. This is because we view the sovereign propensity to support as more certain in the near term. We also view the risk of the Belgian or French sovereign paying their direct obligations ahead of providing support to DCL as low and have not identified other potential impediments to the prompt flow of funds to DCL.

Fitch does not assign a Viability Rating to DCL because it cannot be meaningfully analysed as a viable entity in its own right. DCL is in orderly wind-down and relies on state guarantees for funding.

STATE-GUARANTEED DEBT

The 'AA-'/'F1+' ratings of DCL's debt guaranteed by Belgium (51.4%), France (45.6%) and Luxembourg (3%) are aligned with Belgium's ratings as it is the lowest-rated guarantor. Each of the three states is severally but not jointly responsible for a share of the overall guarantee and Fitch rates DCL's state-guaranteed debt on a 'first-dollar of loss' basis. The guarantee is unconditional, irrevocable and timely. It covers maturities of up to 10 years and debt issued until end-2021.

In September 2019 the European Commission approved the extension of the state guarantee beyond end-2021 for 10 years. The terms of the guarantee will be substantially the same except for a lower maximum amount of EUR75 billion instead of EUR85 billion, consistent with the decline in DCL's balance sheet. The new guarantee will be extended by Belgium and France under a 53%/47% breakdown and the 5bp guarantee fee will be gradually increased by a conditional deferred fee up to 135bp, which will accrue at a subordinated seniority level. This deferred fee is payable on the group's liquidation and provided that DCL no longer holds a banking licence.

Debt instruments issued before end-2021 will remain covered by the current state guarantee.

DERIVATIVE COUNTERPARTY RATING

Fitch has affirmed DCL's 'BBB+(dcr)' Derivative Counterparty Rating (DCR). The DCR is at the same level as DCL's Long-Term IDR as the IDR is based on sovereign support and because derivative counterparties in France have no preferential status over other preferred senior obligations in a resolution.

JUNIOR SUBORDINATED DEBT

DCL's deeply subordinated Tier 1 notes' (FR0010251421) rating of 'C' reflects the continued ban imposed by the European Commission on contractually non-mandatory coupon payment on these notes and the poor recovery prospects. The securities will be subordinated to the deferred additional guarantee fee that will accrue from 2022.

RATING SENSITIVITIES

IDRS, SUPPORT RATING, SUPPORT RATING FLOOR AND SENIOR DEBT

Factors that could, individually or collectively, lead to negative rating action/downgrade:

DCL's ratings are sensitive to a weakening in Belgium's or France's ability or propensity to provide additional support. We would likely downgrade DCL's Long-Term IDR if the two sovereign's ratings are downgraded to the 'A' category. A significant reduction in state ownership or state-guaranteed funding that is not a result of lower funding needs, leading to reduced incentive to provide additional support, would also be rating-negative.

A material deviation from DCL's wind-down plan agreed with the European Commission would lead to a negative rating action. It would likely trigger a fresh state-aid review and heighten the likelihood of the authorities requiring more stringent measures, which could include senior creditors sharing some of the burden. However, this is not Fitch's central scenario.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade would be contingent on the two states demonstrating even greater support, which is unlikely, in our view.

STATE-GUARANTEED DEBT

The 'AA-' long-term rating on DCL's state-guaranteed debt is sensitive to rating action on the lowest-rated guarantor, which is currently Belgium. The 'F1+' short-term rating on DCL's state-guaranteed debt would be downgraded if the Short-Term IDR of any of the three guarantors is downgraded.

DCR

The DCR of DCL is primarily sensitive to changes in its Long-Term IDR.

JUNIOR SUBORDINATED DEBT

Fitch does not expect coupon payment to resume on DCL's deeply subordinated Tier 1 notes and therefore sees no upside for the instrument's rating.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

DCL's ratings are sensitive to rating action on Belgium or France. DCL's sovereign-guaranteed debt is sensitive to rating action on the lowest-rated guarantor, which is currently Belgium.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Dexia Credit Local S.A.; Long Term Issuer Default Rating; Affirmed; BBB+; Rating Outlook Stable
; Short Term Issuer Default Rating; Affirmed; F1
; Support Rating; Affirmed; 2
; Support Rating Floor; Affirmed; BBB+

; Derivative Counterparty Rating; Affirmed; BBB+(dcr)
----guaranteed; Long Term Rating; Affirmed; AA-
----guaranteed; Long Term Rating; Withdrawn; WD
----Senior preferred; Long Term Rating; Affirmed; BBB+
----junior subordinated; Long Term Rating; Affirmed; C
----guaranteed; Short Term Rating; Affirmed; F1+
----guaranteed; Short Term Rating; Withdrawn; WD

Contacts:
Primary Rating Analyst
Francois-Xavier Deucher, CFA
Director
+33 1 44 29 92 72
Fitch Ratings Ireland Limited
60 rue de Monceau
Paris 75008

Secondary Rating Analyst
Julien Grandjean,
Associate Director
+33 1 44 29 91 41

Committee Chairperson
Cristina Torrella Fajas,
Senior Director
+34 93 323 8405

Media Relations: Louisa Williams, London, Tel: +44 20 3530 2452, Email:
louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

Additional Disclosures

[Dodd-Frank Rating Information Disclosure Form]

[Solicitation Status]

[Endorsement Status]

[Endorsement Policy]

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE

Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.