

RatingsDirect®

Research Update:

DEPFA Bank PLC Ratings Affirmed At 'A-/A-2'; Improving Irish Banking Risk Neutral To The Rating; Outlook Stable

Primary Credit Analyst:

Michal Selbka, Frankfurt +49 (0) 69-33999-300; michal.selbka@spglobal.com

Secondary Contact:

Heiko Verhaag, CFA, Frankfurt (49) 69-33-999-215; heiko.verhaag@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

Research Update:

DEPFA Bank PLC Ratings Affirmed At 'A-/A-2'; Improving Irish Banking Risk Neutral To The Rating; Outlook Stable

Overview

- While we see declining industry risks for the Irish banking system, we see no rating implication for DEPFA Bank PLC.
- This reflects our unchanged view that while DEPFA is domiciled in Ireland, its creditworthiness depends principally on the successful wind-down of its balance sheet and the continued support that it receives from its German parent, FMSW.
- We are affirming our 'A-/A-2' ratings on Ireland-based DEPFA Bank PLC and its subsidiary DEPFA ACS Bank DAC.
- The stable outlook reflects our view that DEPFA is likely to make continued good progress in the wind-down, in close cooperation with FMSW.

Rating Action

On Dec. 12, 2017, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on Dublin-based DEPFA Bank PLC and DEPFA ACS Bank DAC. The outlook on both entities is stable.

Rationale

The affirmation follows our recognition of lower banking industry risk in Ireland (see "Various Positive Rating Actions Taken On Irish Banks On Improving Industry Credit Profile," published Dec. 12, 2017, on RatingsDirect).

While DEPFA is domiciled in Ireland, its creditworthiness depends principally on the successful wind-down of its balance sheet and the continued support that it receives from its German parent, FMS Wertmanagement Anstalt des oeffentlichen Rechts (FMSW).

In our view, the Irish banking system is successfully working through its past failings, and its industry risk profile is now less of a negative outlier relative to other eurozone banking systems. Also supporting our updated industry view are the improvements that we have observed in Irish banks' funding profiles, albeit from an extremely weak position at the time of their recapitalization in 2011. We believe that the improving funding profile has recently supported recovery in Irish banks' net interest margins.

DEPFA is subject to Irish banking supervision, but plays no part in the domestic banking system, has no domestic funding reliance, and its credit exposures are weighted toward stronger markets predominantly in Europe. As DEPFA remains domiciled in Ireland, we apply an improved anchor, the starting point of our ratings assessment. However, our view of its stand-alone credit profile (SACP) is unchanged at 'bbb-' because, in relation to the improved anchor, we now view DEPFA's business position as slightly weaker than that of a bank active in a similar banking industry risk environment. This reflects our view that DEPFA's wind-down business model looks more limited and concentrated in comparison with a typical Irish bank that is generating new credit in an improving domestic business environment.

We continue to assess the wind-down process as progressing well. It remains possible that the geographic breakdown of DEPFA's residual portfolio will fluctuate toward low-risk countries in the event of further accelerated wind-down transactions. However, we would raise the ratings only if we anticipated a sustained reduction in the associated risks. Similarly, any further change in our assessment of banking industry risk in Ireland is unlikely to trigger a rating action on DEPFA.

We note recent market speculation that FMSW may reconsider whether to sell DEPFA at some point. Our base case remains that FMSW will see through the wind-down process, supporting DEPFA's continued servicing of its funding obligations.

Outlook

Our stable outlook reflects our view that DEPFA will remain a wind-down unit under FMSW, and that DEPFA (via FMSW) will continue to benefit from the strong commitment of the German government until its wind-down is completed. Notably, we anticipate the risk-adjusted capital ratio remaining comfortably above 15%. However, we note that Germany has no obligation to support DEPFA directly, in contrast to its obligation to support FMSW.

We could raise the ratings in the next 12-24 months if DEPFA's remaining exposures became increasingly weighted toward countries with low economic risk, and if we believed that credit losses and nonperforming loans would remain low. A clearer view on the group's long-term capital policy could indicate that the bank will sustain its ability to absorb significant unexpected losses should they arise. We could also upgrade DEPFA if Germany's already high commitment to the bank via FMSW were to strengthen.

We could downgrade DEPFA if, for example, decisions of its parent FMSW, or any potential sizable losses, caused a sharp and significant fall in the bank's capitalization, or if we saw FMSW becoming less supportive of DEPFA.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A-/Stable/A-2	A-/Stable/A-2
SACP	bbb-	bbb-
Anchor	bbb	bbb-
Business Position	Moderate (-1)	Adequate (0)
Capital and Earnings	Very Strong (+2)	Very Strong (+2)
Risk Position	Weak (-2)	Weak (-2)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	(+3)	(+3)
ALAC Support	(0)	(0)
GRE Support	(+3)	(+3)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Various Positive Rating Actions Taken On Irish Banks On Improving Industry Credit Profile, Dec. 12, 2017
- Banking Industry Country Risk Assessment Update: December 2017, Dec. 7, 2017
- FMS Wertmanagement Anstalt des oeffentlichen Rechts, Oct. 30, 2017
- DEPFA Bank PLC Affirmed At 'A-/A-2' On Continued Wind-Down Progress; Outlook Stable, Oct. 20, 2017
- Banking Industry Country Risk Assessment: Germany, Oct. 11, 2017
- DEPFA Bank PLC, Jan. 27, 2017

Ratings List

Ratings Affirmed

DEPFA Bank PLC	
Depfa ACS Bank DAC	
Counterparty Credit Rating	A-/Stable/A-2
DEPFA Bank PLC	
Senior Unsecured	A-

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.