

Rating Action: Moody's withdraws IKB's public ratings (Germany)

Global Credit Research - 14 Jul 2011

Frankfurt am Main, July 14, 2011 -- Moody's Investors Service has today affirmed and withdrawn the Ba2/non-prime debt and deposit ratings of IKB Deutsche Industriebank.

RATINGS RATIONALE

Moody's Investors Service has withdrawn the credit rating for its own business reasons. Please refer to Moody's Investors Service's Withdrawal Policy, which can be found on our website, www.moody's.com.

The bank's E bank financial strength rating (BFSR), the Caa2 senior subordinated debt ratings and the Ca/C(hyb) ratings for hybrid capital instruments were also affirmed and withdrawn. Before the rating withdrawal, the outlook was stable on the E BFSR and on the subordinated debt and hybrid ratings and the outlook on the Ba2 long-term debt and deposit ratings was negative.

THE FOLLOWING RATINGS WERE WITHDRAWN AT THE CURRENT RATING LEVEL

BFSR: E, stable

Long-Term Bank Deposits: Ba2, negative

Long-Term Senior Unsecured: Ba2, negative

Short-Term Bank Deposits/ Commercial Paper: non-prime

Senior Subordinated Debt: Caa2 stable

Junior Subordinated Debt, including those issued by ProPart Funding Limited Partnership: C(hyb) stable

Preferred Stock issued by IKB Funding Trust I and II, and by Capital Raising GmbH: Ca(hyb) stable

THE FOLLOWING RATINGS REMAINED UNAFFECTED

Backed long-term senior unsecured debt guaranteed by the German government: Aaa, stable.

WHAT COULD CHANGE THE RATING UP / DOWN

The rating agency notes that there is major (rating) transition risk for bond holders at this point in time, given the bank's fragile risk profile. This risk stems from (i) the bank's dependence on liquidity support; (ii) weak underlying profitability, as IKB continues to post losses (adjusted for valuation gains on its own liabilities); and (iii) the persistent high fragility and volatility in the credit markets.

Against this background, Moody's view on the outlook for IKB is that for the next few quarters, a change in ownership would be the main factor that could trigger a more favourable (rating) assessment. Substantial comfort for investors could be provided (i) if a strategic acquirer were to obtain majority or even full ownership of the bank; and (ii) if the combination of financial strength and the commitment of such a buyer towards IKB offers credit enhancement.

In the absence of such a transaction, the risk for bondholders is likely to rise in the course of 2012 and 2013. Notwithstanding the progress made in restructuring and de-risking the bank, IKB's ability to service its debt obligations could come under increasing pressure from a combination of rising liquidity risks and external factors, in particular the German government's weakening preparedness to support systemically less relevant banks.

REGULATORY DISCLOSURES

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moody's.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moody's.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moody's.com for further information.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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