Dexia Crediop

PRESS RELEASE

DEXIA CREDIOP: Shareholders' Meeting approves the Bank's financial statements for 2020 and appoints the Board of Directors.

- **Net interest and other banking income: € -191.9 million;**
- **Net result: € -241.9 million;**
- **Total assets: € 17.1 billion;**
- **Common Equity Tier 1 Capital Ratio: 26.7%;**
- **Total Capital Ratio: 28.5%;**
- **Liquidity Coverage Ratio: 111.4%;**
- **Appointment of a new Board of Directors for the accounting years 2021-2023;**
- **Confirmed Olivier Paring as Chairman and Jean Le Naour as CEO.**

The Shareholders' Meeting of Dexia Crediop, with the participation of the sole shareholder Dexia Crédit Local ("DCL"), was held today in Rome and by video-conference and approved the Bank's financial statements for 2020.

Moreover, the Board of Directors was appointed for the accounting years 2021-2023. Olivier Paring was confirmed as Chairman. Jean Le Naour, Nicolas Dupont, Christophe Piatte (Dexia Group) and the independent members Tatiana Pécastaing Pierre and Danny Frans were re-appointed as Directors.

The first meeting of the new Board of Directors confirmed Jean Le Naour as Chief Executive Officer and Nicolas Dupont as Deputy Chairman.

Dexia Crediop's situation

Dexia Crediop is a bank in run-off previously active in public sector and infrastructure financing.
In line with the Dexia Group orderly resolution plan, approved by the European Commission in December 2012, the management in run-off without any new commercial production is continuing for the entities within the Dexia Group, including Dexia Crediop, the management in run-off of which was effective from July 15, 2014.

In addition, as part of the aforementioned plan, Dexia Crediop continues to benefit from the financial support from its parent company. During the last few years, the bank has been carrying out a reorganization in line with its new mission, thus pursuing the objectives of simplification, enhancement of synergies, development of resource flexibility, as well as adjustments of the size of its organizational units to the assigned tasks.

Recent evolutions

On September 8, 2020, DCL acquired all the ordinary shares of Dexia Crediop held by the minority shareholders, Banco BPM S.p.A. (equal to 0.29% of the share capital) and BPER Banca S.p.A. (equal to 0.14% of the share capital), becoming the sole shareholder of Dexia Crediop.

On December 4, 2020, the Board of Directors approved the first step of a restructuring plan aimed at strengthening the financial situation of Dexia Crediop, improving its future profitability and ensuring compliance with regulatory requirements on the long term. Several transactions were implemented at the end of 2020 including: a capital increase for € 75 million, the issuance of a subordinated loan from DCL for an amount of € 25 million, the restructuring of the Credit Support Annexes ("CSAs") with DCL and the restructuring of liquidity lines with DCL implemented at the end of 2018.

In addition, the Board of Directors[1] of Dexia Crediop, held on February 17, 2021, resolved to sell to DCL certain assets (loans, bonds and the equity investment in the Istituto per il Credito Sportivo) and derivatives

[1] See the Dexia Crediop press release of February 17, 2021.

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with customers with an aggregate book value at the end of December 2020 of approximately EUR 4.2 billion, as well as the relevant market derivatives ensuring interest rate risk-hedging. The assets to be sold include listed bonds. These transactions are being entered into in the first half of 2021 at book value as of the time of each transaction, hence without any material P&L impact for Dexia Crediop. The residual financial assets due from customers of Dexia Crediop, after the full implementation of the restructuring plan, are potentially eligible for secured financing being repo financing, covered bond and/or securitization.

Economic and financial results of Dexia Crediop

The year 2020 was significantly influenced by the crisis following the Covid-19 pandemic, which caused an unprecedented health and economic shock and led states and central banks to take exceptional measures in order to stop the diffusion of the virus and in support of the economy. The assumptions considered and the assessments made in the drafting of 2020 financial statements took into account the high uncertainties arising from the intensity and duration of the economic crisis generated by the Covid-19 pandemic.

Net interest and other banking income amounts to € -191.9 million, compared to € -89 million in 2019.

In particular, net interest income has a balance of € -15.2 million, compared to € -20.8 million in the previous year.The improvement, equal to € +5.6 million, is mainly due to the decrease in the cost of long-term funding as a result of the amortization of a bond issued at the end of 2018.

No dividends were collected in 2020, compared to € +0.2 million in the previous year.

Net fee and commission income was € -210.9 million, compared to € -114.2 million in the previous year. The negative impact is mainly due to the restructuring of the liquidity lines with DCL, at the end of 2020, with the consequent early repayment of part of them which resulted in a charge of € -84.4 million.

The net result from trading activities amounted to € +17 million compared to € +26.4 million in 2019. This item was determined by the following components: (i) € +10.3 million related to the valuation of the Credit/Debit Value Adjustment (CVA/DVA) and Funding Value Adjustment (FVA) components on derivatives, essentially as a result of a tightening of credit and funding spreads; (ii) € +8.7 million relating to changes in the mark-to-market of derivatives and assets classified in economic hedge; (iii) € -11.6 million relating to losses from early terminated trading derivatives and early repayment of economic hedge derivatives as a result of renegotiation of the relevant assets; (iv) € +1.1 million due to the result of the valuation and netting on derivatives classified as trading; (v) € +8.3 million relating to amendments to some CSAs with DCL.

The net result of the hedging activity is positive and equal to € +18.8 million following the positive change in the ineffectiveness of the hedges, mainly due to the reduction of the Euribor spread *versus* OIS partially offset by the decrease of interest rates. In the previous year, this result was negative (€ -6.8 million) following a widening of the Euribor *versus* OIS spread.

The item profit/losses from contractual changes without derecognition is positive for € +2.5 million (€ +0.4 million in 2019) as a result of the outcomes relating to some renegotiations of loans with local authorities that took place in the period.

Following the sale of some securities on the market, the gains/losses on disposal or repurchase are negative for € -4.3 million.

The net result of other financial assets and liabilities measured at fair value through profit and loss is equal to € +0.2 million (compared to € +25.8 million in 2019). This item includes: (i) the positive results of € +5.0 million relating to three renegotiations of loans belonging to the category, subject to de-recognition and classification of the resulting exposures in the category of assets at amortised cost and (ii) € -4.8 million changes in fair value of assets classified in this item linked to the evolution of market parameters.

The net adjustment for impairment is negative for € -30.5 million (€ -10.8 million in 2019) in relation to the impairments made on some exposures mainly due to the lowering of the internal rating of the Italian Republic and the application of new economic scenarios.

Administrative expenses and depreciation are equal to € 20.7 million, down by 23% compared to € 26.8 million in the previous year, also as a consequence of a decrease of € 3.7 million in the contribution to the Banking Resolution Funds of € 2.9 million (€ 6.6 million in 2019). Not considering the above charges, the total administrative expenses amounted to € 17.8 million, down by approximately € 2.4 million (-12%) compared to the previous year, following the decrease in personnel expenses and other overheads.

Net provisions for risks and charges amounted to € +0.6 million (€ -2.7 million in 2019) as a result of provisions relating to guarantees and commitments for approximately € -1.7 million and other net positive provisions for approximately € +2.3 million, mainly for the recovery of provisions relating to unpaid netting for € 3.8 million following the signing of an agreement with a customer and provisions for € -1.0 million for legal expenses on litigations.

Other operating expenses/income amount to € +0.6 million (compared to insignificant amounts in the previous year) mainly as a result of reimbursements of legal expenses.

As a result of a zero income tax charge, the net loss in 2020 is therefore equal to € 241.9 million, compared to a loss of € 129.3 million in the previous year.

Dexia Crediop balance sheet, at the end of 2020, amounted to € 17.1 billion, down by € 0.6 billion compared to 2019 (-3%). The decrease is essentially due to the amortization and early redemption of assets carried out over the period, which effect was partially offset by an increase in the guarantee margins relating to the Credit Support Annex contracts.

Regulatory requirements

For 2021, the result of the Supervisory Review and Evaluation Process (SREP) carried out by the ECB in 2020 is confirmed. Dexia Crediop must comply, on an individual basis, with a TSCR set at 11.25%. This level includes a minimum requirement for own funds of 8% (Pillar 1) and an additional requirement for own funds at 3.25% (P2R - Pillar 2 requirement), consisting entirely of CET1. Also considering a capital conservation buffer of 2.5%, the own funds requirement is 13.75% (Overall Capital Requirement - OCR), compared to 13.50% in 2019.

Additionally, the SREP expects that Dexia Crediop complies with a further 1% requirement in the context of the Pillar 2 Capital Guidance, entirely consisting of CET1, to be added to the OCR of 13.75%.

On May 28, 2020, the European Central Bank notified its decision to classify Dexia Crediop as a Less Significant Institution. As a result, starting from July 1, 2020, Dexia Crediop is being supervised by the Bank of Italy.

Dexia Crediop shall also comply with the CRD V and BRRD 2 directives and CRR2 regulation, which are gradually coming into force.

Furthermore, the overall structure of general supervisory rules includes both the requirement to limit credit exposures relative to individual clients or groups of connected clients to 25% of the regulatory capital (*i.e.*, Large Exposures limit) and the Liquidity Coverage Ratio (LCR) of 100%.

Nonetheless, it should be remembered that the ECB announced measures to temporarily reduce capital requirements under the SREP. These measures allow Dexia Crediop to temporarily operate below the capital conservation buffer and the Pillar 2 Capital Guidance additional capital requirements.

These temporary measures brought Dexia Crediop's total capital requirement to 11.25%.

Dexia Crediop benefited from certain changes that occurred in 2020, in particular:

- On February 17, 2020, the Executive Board of the ECB decided to authorise all the “Regulated Entities” of Dexia Group (Dexia SA, DCL and Dexia Crediop) to make use of a less sophisticated approach when calculating own fund requirements for credit risk with respect to the IRBA Advanced approach, used until December 31, 2019. The “standardised approach” will be used to calculate these requirements, both at the individual level of regulated entities and at the consolidated level for Dexia SA;
- Additionally, it should be noted that, following the request made by Dexia SA to be authorised as from March 31, 2020 to cancel its initial decision to not apply the transitional provisions of IFRS 9 to Dexia Crediop, pursuant to article 473-*bis* of Regulation EU 575/2013, intended to mitigate impacts on own funds of credit institutions resulting from the adoption of IFRS 9 (impact of IFRS 9 impairment on CET1), ECB’s Executive Board allowed Dexia Crediop to: (i) amend its initial decision; (ii) as of the same date, fully apply said transitional provisions.

  Furthermore, following the revision of the aforementioned article 473-*bis*, on June 18, 2020, all EU banks were allowed to establish that the increase seen in the stock of impairment between January 1, 2020 and the reporting date for Buckets 1 and 2 would be effective only at the accounting level, but not regulatory, for both the year in course and the next one (“dynamic phase-in” at 100% for years 2020-2021).

- The Delegated Regulation (EU) 2020/2176, with a view to supporting the investments of banks towards digitalization, modified the rules for deducting assets in the form of software from the elements of Common Equity Tier 1 starting from December 31, 2020. Before that date, these fixed assets were fully deducted from CET1. For Dexia Crediop, investments in software amounted to € 1.8 million at December 31, 2020, which, thanks to the aforementioned legislation, were deducted for € 0.6 million from CET1 and for the residual amount of € 1.2 million included in the weighted assets.

At the end of 2020:

- the CET 1 capital ratio and the total capital ratio amount to 26.7% and 28.5% respectively;
- the Liquidity Coverage Ratio is equal to 111.4%;
- the weighted exposures for large exposures are all less than 25% of the regulatory capital.

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The sale of certain assets and derivatives with customers to DCL, planned in 2021 in order to reinforce Dexia Crediop’s ability to comply with all regulatory requirements on the long run (see the press release of the Bank dated February 17, 2021) is underway at the date of this press release. Following these transactions, it is expected that by year end 2021, the total assets would be c. EUR 10 billion with a capital ratio bearing any unforeseen events of over 50%.

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In liaison with Dexia Group, Dexia Crediop is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus. The Bank rapidly activated the crisis unit and implemented all the necessary measures to protect its teams enabling them to work remotely (so-called smartworking). The crisis unit manages the impacts resulting from the situation in order to ensure the business continuity of the company. Even after the end of the financial year, monitoring of developments in the situation associated with the spread of Covid-19 continued. The activities of the crisis unit are aimed at updating measures needed to protect employees and business continuity.

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At the date of drawing up the financial statements, Dexia Crediop has taken these different elements into account and concluded that they do not call into question the assessment of the going concern.

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***Dexia Crediop** is a bank in run-off previously specialized in public sector and infrastructure loans.*

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Emmanuel Campana, as Financial Reporting Manager responsible for drafting accounting documents at Dexia Crediop, hereby declares, in accordance with article 154-bis, para. 2, of the Consolidated Finance Act, that the accounting information contained in this press release corresponds to the results set down in documents, ledgers and the accounts.

Financial Reporting Manager
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