Dexia Crediop

PRESS RELEASE

DEXIA CREDIOP: the Board of Directors approves the interim financial report at 30th June 2021.

- **Total assets: € 11.1 billion;**
- **Common Equity Tier 1 Capital Ratio: 47.1%;**
- **Total Capital Ratio: 49.9%;**
- **Liquidity Coverage Ratio: 113.4%;**
- **Net Stable Funding Ratio 136.7%;**
- **Net result: € -21.9 million.**

The Board of Directors of Dexia Crediop, held today, approved the interim financial report at 30th June 2021.

Dexia Crediop's situation

Dexia Crediop is a bank in orderly resolution 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 15th July 2014. During the first semester of 2021, in line with the press releases of 17th February 2021 and 24th March 2021[1], Dexia Crediop carried out a restructuring plan that makes Dexia Crediop *post* transformation a strongly capitalized bank (Total Capital Ratio of 49.9% vs 28.5% as at 31st December 2020).

Recent evolutions

As aforementioned, during the first half of 2021, Dexia Crediop implemented a plan to dispose of assets and derivatives with customers with the objective to:

- reduce liquidity needs;
- improve its financial situation and
- ensure compliance with regulatory requirements over the medium/long-term.

At 30th June 2021, most of the plan had been implemented. Specifically:

- the sale to the parent company Dexia Crédit Local ("DCL") of securities, loans, a participation investment and associated hedging derivatives, for a total of € 3.8 billion (of which € 0.5 billion in loans and € 3.2 billion in securities at book value);
- the transfer to DCL of certain derivatives with customers for a total of € 0.2 billion. Other additional transfers are planned for the second half of 2021;
- the cancellation of guarantees issued by DCL to guarantee compliance with large exposures regulations.

The transfer plan also entailed a reduction in the net stock of Cash Collateral for approximately one billion euros.

These transactions were carried out at book value without any overall effect on the income statement and had positive impacts on liquidity requirements, allowing the cancellation of two credit lines in the amount of € 3.3 billion.

Overall, as a result of the sale to the parent company and the consequent reduction in funding requirements, the total balance sheet of Crediop shrunk to EUR 11.1 billion (- 35% as compared to December 2020). The overall solvency and capital position has improved to 49.9% *post* this transformation. As a reminder, this is 35 pp higher than the regulatory requirement of 14,75% (for further details refer to the section on Regulatory requirements below).

[1] See the Dexia Crediop press releases of February 17th, 2021 and March 24th, 2021 for further details on the restructuring plan.

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Economic and financial results of Dexia Crediop

The first semester 2021 was the period of implementation of the restructuring plan, hence the balance sheet as of June 2021 reflects the full impact of the transactions carried out over the period, while full impact on the Profit and Loss will only be evident in the year to come.

Net interest income amounts to € -10.5 million (compared to a negative figure of € -7.1 the previous year). The decrease of € -3.4 million is mainly due to the decline of the asset revenues, in relation to the stock reduction, not offset by a similar drop in the cost of funding, in relation to the replacement of credit lines at the end of 2020 which involves lower commission expenses but which are more costly in terms of interest margins.

Net fee and commission income is negative at € -20.5 million, compared to € -62.7 million the previous year. The positive impact is mainly due to the restructuring of liquidity lines, the repayment of credit lines and the extension of guarantees following transfer of assets

Net result from trading activities amounts to € +69.4 million. This item consists of the following components: (i) € +31.5 million in relation to positive Credit/Debit Value Adjustment (CVA/DVA) and Funding Value Adjustment (FVA), (ii) € +60.6 million, substantially due to changes in the mark-to-market of economic hedge derivatives (of which € +54.8 million relative to derivatives formerly covering assets classified at amortised cost, transferred to the parent company DCL during the period); (iii) € -13.7 million, essentially due to losses on trading derivatives transferred to DCL and to netting; (iv) € -9.0 million due to the overall mark-to-market loss, also as a consequence of the transfer to DCL of certain derivatives.

Net result of hedging is negative at € -50.5 million, mainly following the reclassification of derivatives formerly hedging assets transferred to the parent company DCL during the period, which had a positive fair value, for € -54.8 million, and for the remaining part a positive change in the inefficiency of hedging during the period, mainly in relation to an increase in long-term rates partially offset by the widening of Euribor/OIS spreads.

Losses on disposals or repurchases are negative for € -31.5 million. These are related to disposal losses following the transfer of assets but are entirely offset by the net adjustments for credit risk which were positive at € +30.2 during the period, thanks to the recovery of impairment associated with assets transferred (€ +31.5 million) and € -1.4 million, substantially linked to an exposure with a local entity.

Net result of other financial assets and liabilities designated at fair value through profit and loss is equal to € 2.4 million due to changes in market parameters (credit spreads and interest rates), in particular the decrease in the credit spreads applied and the passage of time.

Administrative expenses and amortization are equal to € 12.0 million and net provisions for risks and charges to € -4.2 million (€ -3.2 million in the first half of 2020).

The item Other operating income and expenses amounts to € +5.4 million (compared to a negligible amount the previous year), mainly due to the cancellation of asset and liability items which matured relative to previous years, regarding relationships with professionals and consultants, fiscal items and amounts associated with personnel.

Considering income tax of zero, the net loss for the first half of 2021 comes to € -21.9 million, compared to the loss of € -156.9 million in the same period of 2020.

As explained above, Dexia Crediop balance sheet, at the end of the first half of 2021, amounts to € 11.1 billion, down by € 6 billion compared to 2020 (-35%) mainly following the implementation of the transfer plan of assets to DCL during the half year.

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Regulatory requirements

The result of the Supervisory Review and Evaluation Process (SREP) done by the ECB in 2020 was confirmed for 2021. In fact, Dexia Crediop had to meet a TSCR of 11.25% on an individual basis. This level includes a minimum requirement of 8% for own funds (Pillar 1) and an additional 3.25% requirement for own funds (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), stable compared to 2020. Additionally, the SREP requires Dexia Crediop to comply with a further 1% requirement in the context of Pillar 2 Capital Guidance, entirely consisting of CET1, added to the OCR of 13.75%.

Dexia Crediop will also comply with CRD V and CRR 2 regulations (Minimum Requirement for Own Funds and Eligible Liabilities - MREL).

Recall that 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 regulatory capital (e.g. Large Exposures ratio) as well as the Liquidity Coverage Ratio (LCR) of 100%. As at 30th June 2021, Dexia Crediop is fully complaint with these requirements with sufficient headroom in all regulatory requirements.

It should also be remembered that the COVID specific measures to temporarily reduce capital requirements as part of the SREP announced by the ECB are reflected in Dexia Crediop's ability to temporarily operate below the relative capital conservation buffer requirement and that of Pillar 2 Capital Guidance additional capital. These temporary measures brought Dexia Crediop's SREP capital requirement to 11.25%.

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In conclusion, the sales of assets and derivatives in the first half of 2021, transferred at book value, generated a positive impact on the financial situation:

- reducing liquidity needs, which are currently supported by the parent company Dexia Crédit Local;
- improving future comprehensive income;
- guaranteeing compliance with regulatory requirement over the long-term,

strengthening the IFRS business model, which is still substantially "Held to Collect".

Additionally, these operations improved regulatory requirements in the first half of 2021. In fact at the end of the first half of 2021 the CET 1 ratio was 47.1% (compared to 26.7% at the end of 2020) and the Total Capital Ratio was 49.9% (28.5% at the end of 2020).

Similarly, the liquidity ratios were also higher than the required minimum (100%). Specifically, the Liquidity Coverage Ratio (LCR) amounted to 113.4% (111.4% at the end of 2020), while the first official report for the Net Stable Funding Ratio was 136.7%.

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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 has already activated the crisis unit since the last year and implemented all the necessary measures to protect its teams enabling them to work remotely (so-called smart working). 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 semester, monitoring of developments in the situation associated with the spread of Covid-19 and the activities of the crisis unit, in liaison with Dexia Group, carried on, 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
Emmanuel Campana

Regulated information – Rome, September 2, 2021 – 04:00 p.m. CET
Contacts: Company Secretariat
ph. : +39 0647714310 / +39 335283255

Dexia Crediop S.p.A.
Via Antonio Salandra, 18
00187 Roma
(Italia)

Tel. +39 06 47711
Fax +39 06 4771 5952
www.dexia-crediop.it
www.dexia.com

Capitale Sociale € 645.210.000 i.v. – Registro Imprese Roma / C.F. / P.IVA: 04945821009
Albo Banche n. 5288 – Aderente al Fondo Interbancario di Tutela dei Depositi e al Fondo Nazionale di Garanzia
Società per azioni con socio unico Dexia Crédit Local S.A. – Paris La Défense Cedex (Francia)