Dexia Crediop

PRESS RELEASE

DEXIA CREDIOP: the Board of Directors approves the draft company financial statements for 2021.

- **Total assets: € 10.2 billion;**
- **Common Equity Tier 1 Capital Ratio: 46.3%;**
- **Total Capital Ratio: 48.9%;**
- **Liquidity Coverage Ratio: 109.5%;**
- **Net Stable Funding Ratio 114.8%;**
- **Net result: € -41.7 million.**

Dexia Crediop's Annual General Shareholders' Meeting is scheduled to take place on April 29, 2022, to pass a resolution on the company financial statements for 2021 approved by Dexia Crediop's Board of Directors on March 23, 2022.

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 2021, in line with the press releases of 17th February 2021 and 24th March 2021, Dexia Crediop carried out a restructuring plan that makes Dexia Crediop *post* transformation a more strongly capitalized bank (Total Capital Ratio of 48.9% vs 28.5% as at 31st December 2020).

Recent evolutions

As aforementioned, during 2021[1], Dexia Crediop implemented a plan to dispose of certain assets and derivatives with customers with the objective to:

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

That plan entailed:

- 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;
- the transfer to DCL of certain derivatives with customers for a total of € 0.3 billion;
- the cancellation of guarantees issued by DCL to ensure 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 termination of two credit lines with DCL 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 as well as following the natural reduction of assets, the total balance sheet of Crediop shrunk to € 10.2 billion (-40% as compared to December 2020). The overall solvency and capital position has improved to 48.9% *post* this transformation. As a reminder, this is 34 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.

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)

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Economic and financial results of Dexia Crediop

The restructuring plan was substantially implemented during the first half of 2021, therefore the balance sheet at the end of the year fully reflects the operations carried out over the period, while the impact on the income statement was only partially reflected in 2021.

Net interest income amounts to € -25.6 million (compared to a negative figure of € -15.2 the previous year). The decrease of € -10.4 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 and the increase of the short term funding costs. The reduction in the margin was contained by the write-off of payables relating to loans to customers disbursed in the past whose funds have not been fully used, for an amount of € 5.1 million, on which the legal terms for the prescription have been applied.

Net fee and commissions income is negative and amounted to € -26.9 million compared to € -210.9 million in the previous year. The positive evolution (€ +184 million) is mainly due to the restructuring and gradual extinction, connected to the sale of assets, of the liquidity lines with DCL and of the financial guarantees received by the latter, in order to reduce credit exposures on some counterparties, to comply with the capital requirements on large risks.

Net result from trading activities amounts to € +17.2 million (€ +0.2 million compared to 2020). This item is made up of the following components: (i) € +32.7 million relating to the positive Credit/Debit Value Adjustment (CVA / DVA) components for € +20.1 million, of which € +16.1 million relating to the sale of derivatives with customers to DCL and € +3.9 million as a result of a reduction in credit spreads and the increase in interest rates, and of the Funding Value Adjustment (FVA) positive for € +12.6 million, of which € +6.8 million relating to the sale of derivatives with customers to DCL and € +5.8 million as a result of the decline in funding spreads and the evolution of interest rates; (ii) € + € 7.5 million essentially relating to changes in the mark-to-market of derivatives in economic hedges (€ +6.9 million) and assets classified in the category, fully repaid at the end of the year (€ +0.6 million); (iii) € -13.9 million due to losses from trading in trading derivatives transferred to DCL (€ -14.3 million) and netting (€ +0.4 million); (iv) € -9.1 million due to the overall mark-to-market loss, also as a result of the transfer of some derivatives to DCL (€ -8.6 million).

Net result of hedging activities is positive and equal to € +4.8 million as a result of (i) the effect on the income statement of the change in the Cash flow reserve due to the sale of the underlying asset as part of the plan for the sale of assets and the renegotiation of a loan for € +5.9 million, (ii) a negative change in the ineffectiveness of the hedge in the period for a total of € -0.8 million, mainly in relation to the widening of Euribor/OIS spread and a renegotiation transaction, partially offset by the increase in interest rates and the effect of the sales to DCL (iii) to the change in the Credit/Debit Value Adjustment (€ -0.3 million in total) of fair value hedging derivatives. In the same period of the previous year, this result was positive for € 18.8 million mainly as a result of a positive change in the ineffectiveness of the hedges.

Gains (losses) on disposal or repurchase are negative for € -31.5 million. These are related to disposal losses substantially achieved following the transfer of the assets to DCL, fully offset by the reversal of the impairment for the credit risk relating to these active.

Net result of other financial assets and liabilities measured at fair value through profit and loss is equal to € +1.0 million (compared to € +0.2 million in 2020) following the decrease in the credit spreads applied and the passage of time.

The item Profit/losses from contractual changes without derecognition is positive for € 5.9 million in accordance with the results relating to the renegotiation of loans with two Local Authorities, compared to € 2.5 million in the previous year.

Net adjustment for credit risk is positive for € 32.6 million in the year mainly in relation to the reversal of the impairment relating to the assets transferred to DCL.

Administrative expenses and amortization, amounting to € 20.5 million, are slightly down (-1%), as a whole, compared to the previous year. Net provisions for risks and charges amounted to € -4.0 million (€ +0.6 million in 2020).

Other operating expenses/income amount to € +5.3 million (compared to € 0.6 million in 2020) mainly following the write-off 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 year is therefore equal to € -41.7 million, compared to the loss of € -241.9 million in 2020.

Total balance sheet assets amounted to € 10.2 billion at the end of 2021, down by € 6.9 billion compared to the end of the previous year (-40%) mainly due to the implementation of the restructuring plan with DCL, the natural amortization of assets and, to a lesser extent, an increase in the interest rate curve.

Regulatory requirements

For the year 2022, at the conclusion of the periodic Supervisory Review process (SREP), Dexia Crediop is required to comply on an individual basis:

- CET 1 ratio of 8.82%, consisting of a minimum requirement of 6.32% (of which 4.5% in view of the minimum regulatory requirements and 1.82% in view of additional requirements determined on the basis of the results of the SREP) and, for the remainder, by the capital conservation buffer (2.5%);
- Tier 1 ratio of 10.94% consisting of a minimum requirement of 8.44% (of which 6% in view of the minimum regulatory requirements and 2.44% in view of the additional requirements determined based on the results of the SREP) and, for the remainder, from the capital conservation buffer (2.5%);
- Total Capital ratio of 13.75% consisting of a minimum requirement of 11.25% (of which 8% in view of the minimum regulatory requirements and 3.25% in view of the additional requirements determined based on the results of the SREP) and, for the remainder, from the capital conservation buffer (2.5%).

In addition, the SREP provides that Dexia Crediop satisfies, as part of the Pillar 2 Capital Guidance, an additional requirement of 1%, in view of a greater exposure to risk under stress conditions, consisting entirely of primary capital (CET1), which it is added to the OCR of 13.75%.

Dexia Crediop must also comply with the CRD V and CRR2 (Minimum Requirement for own fund and Eligible Liabilities - MREL) regulations.

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 31th December 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 (P2G) additional capital. These temporary measures, which will end in 2022, brought Dexia Crediop's SREP capital requirement to 11.25% during the 2021.

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In conclusion, the sales of assets and derivatives made in 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 net income;
- improving compliance with regulatory requirement over the long-term,

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

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Additionally, these operations improved regulatory requirements. In fact at the end of 2021 the CET 1 ratio was 46.3% (compared to 26.7% at the end of 2020) and the Total Capital Ratio was 48.9% (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 109.5% (111.4% at the end of 2020), while the Net Stable Funding ratio amounted to 114.8% (compared to 136.7% as at 30 June 2021, the date of the first report relating to this index).

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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 during the first months of 2022, 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, March 24, 2022 – 08:00 a.m. CET
Contacts: Company Secretariat
ph.: +39 0647714310 / +39 335283255