Dexia Crediop

PRESS RELEASE

DEXIA CREDIOP: The Board of Directors approves the draft company financial statements for 2019 and co-opts three new directors.

- **Net interest and other banking income: € -89 million;**
- **Net result: € -129.3 million;**
- **Total assets: € 17.7 billion;**
- **Common Equity Tier 1 Capital Ratio: 21.6%;**
- **Total Capital Ratio: 22.1%**
- **Co-optation of Tatiana Pecastaing Pierre, independent director, of Laurent Bouscharain, Dexia manager and of Christophe Piatte, Dexia manager.**

Dexia Crediop's Annual General Shareholders' Meeting is scheduled to take place on May 6, 2020, to pass a resolution on the company financial statements for 2019 approved by Dexia Crediop's Board of Directors on March 30, 2020.

In addition, following the resignation, occurred after the share-capital increase in December 2019, of the three directors designated by the minority shareholders (Stefano Braschi, Roberto Ferrari and Giovanni Prati De Pellati), the Board of Directors, on today's meeting, co-opted three new directors: Tatiana Pecastaing Pierre, independent director, Laurent Bouscharain, Dexia manager and Christophe Piatte, Dexia manager.

Dexia Crediop's situation

Dexia Crediop is a bank in run-off previously active in public sector and infrastructure loans.
On the basis of the Dexia Group Orderly Resolution Plan, approved by the European commission in December 2012, the management in run-off without new assets production is continuing for the entities within Dexia Group, including Dexia Crediop, the management in run-off of which was effective from July 15, 2014.

In addition, as an integral part of the aforementioned plan, Dexia Crediop continues to benefit from financial support from its parent company. During the last few years, the bank had carried 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 task and proceeding with the closure of the branches located through the country.

Furthermore, over the last few years the bank has become party to a number of administrative proceedings and legal actions mainly in relation to derivative contracts entered into with local and territorial authorities, some of which are still on-going. The positive outcomes of such proceedings and legal actions obtained until now, significantly reduced the number of existing cases, also prevented new disputes and proved the substantial correctness and transparency always adopted by the Bank in its commercial relationships.

Economic and financial results of Dexia Crediop

Net interest and other banking income amounts to € -89 million, down by € -39.7 million compared to € -49.3 million in 2018.

In particular, net interest income has a balance of € -20.8 million (compared to positive income of € 23.9 million in 2018). The drop with respect to 2018 is mainly due to the increase in the cost of long-term funding, above all following the issue of a € 2.6 billion bond, subscribed at the end of 2018 by the parent company Dexia Crédit Local (DCL) as part of the new unsecured funding plan, carried out to comply with the LCR requirements in effect as of January 1, 2019.

Net fee and commission income was € -114.2 million, compared to € -46.7 million of the previous year. The negative impact is mainly due to the increase in the volume and cost of liquidity lines received from the parent company DCL, which as a whole accounted for € -117.1 million in 2019, compared to € -48.1 million in 2018.

During the period, dividends totalling € 0.2 million were received (compared to € 2.8 million in 2018), mainly due to dividends collected from Istituto per il Credito Sportivo.
The result of contractual changes without derecognition is positive and equal to € 0.4 million, following the renegotiation of a loan granted to a public economic entity.

The net positive result from trading activities is € 26.4 million compared to € 0.2 million of the previous year. This item was determined by the following components: a) € 21.7 million from the valuation of derivatives (mainly for components of Credit/Debit Value Adjustment - CVA/DVA), positive at € 14.6 million, of Funding Value Adjustment (FVA), positive at € 7.4 million, essentially due to a reduction in the valuation spreads during the year); b) amendments made to certain Credit Support Annex contracts which led to revenues of € 7.4 million; c) the net result of valuation and trading of derivatives classified as economic hedges, equal to € -2.2 million in 2019; d) the result of trading and margins on derivative operations, with an impact of € -0.4 million.

The gains/losses on disposals or repurchases are not significant in 2019, compared to € +1.4 million in 2018.

The figure for net hedging activities is € -6.8 million, compared to a net positive result of € 6.3 million in 2018. The decrease of € 13.1 million with respect to 2018 is associated with a change in the ineffectiveness of hedging, above all, due to an increase in the Euribor spread relative to OIS and a decrease in interest rates.

The net positive result on other financial assets and liabilities measured at fair value through profit and loss is € 25.8 million, which essentially included the fair value change of loans classified in this category, for the most part due to a decrease in credit spreads occurred in the second half of 2019. The item also includes profits of € 0.8 million connected to the disposal of share-based securities carried out as part of the closure of a project finance operation.

The balance of the net adjustments for impairment is € -10.8 million (compared to € 6 million in 2018), mainly due to the application of the methodology recommended by the EBA (European Banking Authority) to identify a SICR (Significant Increase in Credit Risk), following the recommendations issued by the European Central Bank (ECB) as part of an On Site credit risk Inspection at Dexia Group level. This led to the reclassification of an exposure from stage 1 to stage 2, with an impact of € -12.7 million. In addition, the decrease in exposures and an improvement in the credit quality of certain counterparts led to a € 1.9 million reduction in net impairment.

Administrative expenses total € 25.2 million, compared to € 28.4 million in 2018 (-11%). Net of contributions to the Single Resolution Fund and the National Resolution Fund (€ 6.6 million in 2019, compared to € 8.3 million in 2018), administrative expenses amounted to € 18.6 million, a 7% decrease with respect to the previous year (€ 20 million in 2018).

Following net provisions for risks and charges for € -2.7 million, amortization and depreciation at € -1.6 million and other non-significant operating expense and income in 2019, the result from continuing operations amounts to € -129.3 million, compared to € -78 million in 2018.

The net result for the period, after taxes equal to zero, is therefore € -129.3 million, compared to € -77.8 million of the previous year.

Dexia Crediop balance sheet total is € 17.7 billion, down by € 0.6 billion compared to the end of 2018 (-3%). The decrease is mainly due to the amortization and early redemptions of assets carried out over the period, which effect was partly offset by an increase, related to the long-term interest rates, of the guarantee margins related to Credit Support Annex contracts.

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End of the specific approach and new medium and long-term funding plan

At the end of 2015, the ECB adopted a tailored approach to supervision applied to Dexia Group ("specific approach") on a temporary basis. On July 16, 2018, the ECB informed Dexia Group that the specific approach would not be renewed for 2019. Dexia Crediop must consequently comply with all prudential requirements applicable to credit institutions supervised by the ECB. This led to an overall restructuring of Dexia Crediop's funding in order to specifically comply with the ratios applicable to liquidity, in particular the Liquidity Coverage Ratio (LCR). In December 2018 a medium and long-term funding plan has been established by the parent company, DCL. The plan will allow, in the absence of severe market perturbations, to meet the liquidity needs of Dexia Crediop until 2022 and the minimum requirements related to the LCR, the latter equal to 112% at the end of 2019, above the required limit of 100%.

Moreover, regarding solvency, following the Supervisory Review and Evaluation Process (SREP) carried out by the ECB, from 2020 Dexia Crediop must comply with the following capital ratios on an individual basis:

- Total SREP Capital Requirement (TSCR) of 11.25% (compared to 11% in 2019) consisting of 8%CET1 plus an additional requirement of 3.25% as additional Pillar 2 requirement;
- Overall Capital Requirement (OCR) of 13.75% (compared to 13.5% in 2019) consisting of the TSCR plus an additional requirement of 2.5% as a combined buffer requirement.

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

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In order to guarantee compliance with solvency requirements given the projected capital consumption and limits on large exposures, in September 2019 Dexia Crediop prepared an action plan, communicated to the ECB, which has been implemented by the end of 2019 and included the following:

- € 120 million share capital increase, entirely subscribed and paid-in in cash by the majority shareholder DCL on December 12, 2019;
- the granting to the Board of Directors by the Extraordinary Shareholders' Meeting of November 22, 2019 of the right to increase the share-capital, in one or more steps, for a total amount of up to € 220 million, within a 5-year from the date of the resolution;
- the implementation of financial guarantees from DCL aimed at reducing the credit exposures vis-à-vis three counterparties being in the amount of € 470 million.

These measures, which are constantly monitored by the company, are intended to ensure compliance with the solvency requirements given the projected capital consumption of Dexia Crediop and limits on large exposures up to the end of 2020.

As a consequence, at the end of 2019:

- the CET 1 ratio and total capital ratio amounted to 21.57% and 22.08%, respectively;
- weighted exposures for all counterparties are less than 25% of the regulatory capital.

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COVID-19 Crisis

In liaison with Dexia Group, Dexia Crediop is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe and in Italy. The Bank rapidly activated the crisis unit and implemented all the necessary measures to protect its teams enabling them to work remotely. The crisis unit ensures the operational continuity of the company and manages all impacts related to this situation. The severity of the pandemic has had a major impact on the financial markets, resulting in a very high volatility of all financial indices and interest rate curves. In order to secure financing needs, on March 12, 2020, the Bank implemented a new liquidity line with Dexia Crédit Local for an amount of € 350 million.

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.*
99.57% controlled by Dexia Crédit Local, which is part of the Dexia Group, and held by Banco BPM S.p.A., with a 0.29% stock-holding, and by BPER Banca S.p.A., with a 0.14% stock-holding.

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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 in the accounts.

Financial Reporting Manager
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