Dexia Crediop

PRESS RELEASE

DEXIA CREDIOP: the board of directors approves the interim financial report at 30th June 2020.

- **Net interest and other banking income: € -107 million;**
- **Net result: € - 157 million;**
- **Total assets: € 17.9 billion;**
- **Common Equity Tier 1 Capital Ratio: 25.1%;**
- **Total Capital Ratio: 25.8%;**
- **Liquidity Coverage Ratio: 114.6%.**

The Board of Directors of Dexia Crediop, held today, approved the interim financial report at 30th June 2020.

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 Irish subsidiary and of the branches located through the country.

Economic results of Dexia Crediop

The first half of 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 took into account the high uncertainties relating to the intensity and duration of the economic crisis generated by the Covid-19 pandemic.

As at 30th June 2020, net interest and other banking income amounts to € -107 million, down by € -40.0 million compared to € -67 million at 30th June 2019.

In particular, net interest income had a balance of € -7 million (compared to a negative figure of € -11 in the same period of the previous year). The improvement of +4 million is mainly due to a decrease in the cost of long-term funding as a consequence of the amortization of a bond issued at the end of 2018.

Net fee and commission income was negative at € -63 million, compared to € -57 million in the first half of 2019. The negative impact is mainly due to the implementation of new financial guarantees received from the parent company Dexia Crédit Local (DCL) at the end of 2019 in order to reduce credit exposure to certain counterparties, to comply with equity requirements for large exposures and due to the € 350 million increase in credit lines granted by DCL which occurred in March 2020, to ensure the bank's financial requirements were met after the financial market impacts of Covid-19, which led to high volatility in financial benchmarks.

In the first half of 2020 no dividends were received, compared to € 0.2 million in the same period of the previous year.

The net result from trading activities totalled € -25 million compared to € +5 million of the first half of 2019. This item was determined by the following components: (i) € -22 million from valuation of derivatives for negative components of Credit/Debit Value Adjustment (CVA/DVA) for € -5 million, Funding Value Adjustment (FVA) negative for € -17 million, essentially as a consequence of an increase in credit spreads and funding and, on the other hand, a decrease in interest rates during the period; (ii) € -3 million from changes in mark-to-market and netting on derivatives classified in the trading and economic hedge portfolios.

Net hedging gains (losses) were negative at € -2 million, following a negative change in the inefficacy of hedging, mainly due to a decrease in interest rates. During the same period of the previous year, this result was also negative (€ -8 million) due to the widening of the Euribor spread on OIS.

The gains/losses on disposals or repurchases are not significant in the period.

The net negative result of financial assets and liabilities measured at fair value through profit and loss balanced to € -10 million (compared to € +4 million in the first half of 2019). This item includes: (i) positive results of € +1 million for two renegotiations for loans in the category, carried out with accounting derecognition and classification of the resulting exposures in the category of assets at amortised cost and (ii) changes in the fair value of assets classified in this category, negative for € -11 million, linked to changes in market parameters (credit spread and interest rates), especially for the increase of evaluation credit spreads applied.

Net adjustments for impairment were negative at € -38 million for impairments recognised on certain exposures following the lowering of the internal rating for the Republic of Italy and application of new economic scenarios.

The item profit/loss from contractual changes without derecognition is positive at € +3 million, due to results associated with certain renegotiations of loans with local authorities during the period.

Administrative expenses and amortisation, amounting to € 12 million, fell by 28% with respect to the € 16 million seen in the same period of the previous year due to a € 3.7 million decrease in the contribution to the Resolution Funds (€ 2.9 million, compared to € 6.6 million of the previous year). Not taking these expenses into account, the total administrative expenses came to € 9 million, lower than corresponding period of the previous year by around € 1 million (-9%), following the decrease in personnel expenses and other general expenses.

Allocations to provisions for risks and charges amounted to around € 3 million as a consequence of write-downs on guarantees and commitments of around € 2 million and other provisioning of around € 1 million, mainly for legal expenses and derivatives held with public entities.

Considering income tax of zero, the net loss for the first half comes to € 157 million, compared to the loss of € 82 million in the first half of 2019.

Prudential solvency requirements and classification of the Dexia Group among less-significant entities[1]

As of 2020, also following the Supervisory Review and Evaluation Process (SREP) carried out by the ECB, Dexia Crediop must meet, on an individual basis, a TSCR of 11.25%. 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% composed entirely of CET1, the own funds requirement is 13.75% (Overall Capital Requirement, OCR), compared to 13.50% in 2019.

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

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 eligible capital (i.e., Large Exposures limit) as well as the Liquidity Coverage Ratio (LCR) of 100%.

However, as part of the fight against the crisis caused by the Covid-19 epidemic, on March 13, 2020 the ECB announced measures to ease the capital requirements under the SREP. These measures translate into a reduction in the easing of the capital conservation buffer and the additional requirement for own funds (P2G - Pillar 2 guidance).

[1] Regulation EU no. 468/2014 of the European Central Bank of 16 April 2014.

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

On 17 February 2020, the Executive Board of the ECB decided to authorise all the "Regulated Entities" of the Dexia Group (Dexia SA, Dexia Crédit Local 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 through 31 December 2019. This means it will use the "standardised approach" to calculate these requirements, both at the individual level of regulated entities and at the consolidated level for Dexia SA. For Dexia Crediop, this decision had a positive impact, reducing risk-weighted assets (RWA) by approximately € 1 billion.

Additionally, it should be noted that, following the request made by Dexia SA to be authorised as of 31 March 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), the ECB Executive Board decided to grant this authorisation to Dexia Crediop, allowing it to: (i) amend its initial decision as above; (ii) as of the same date, fully apply these transitional provisions.

Moreover, following the revision of the aforementioned article 473-bis, on 18 June 2020 all EU banks were allowed to establish that the increase seen in the stock of impairment between 1 January 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 ("dynamic phase-in" at 100% for years 2020-2021).

The operations carried out with DCL:

- Medium/long term funding plan realised at the end of 2018 (€ 4.1 billion credit line expiring on 31 December 2022; € 1 billion revolving credit line expiring on 31 December 2022, increased by an additional € 350 million in March 2020; bond issue with amortisation, currently at 2 billion, maturing on 31 December 2022);
- € 120 million capital increase carried out at the end of 2019;
- Guarantees on assets at the end of 2019;

have allowed it to comply with all regulatory requirements. In fact, the CET1 ratio is 25.1%, the Liquidity Coverage Ratio is 114.6% and weighted large exposure risk is less than 25% of regulatory capital.

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As of 1 July 2020, ECB decided to classify the Dexia Group among less-significant entities. As of this date, Dexia Crediop is supervised by the Bank of Italy, still inside the Single Supervisory Mechanism.

Taking into account its significance, as of 2014 the Dexia Group had passed under the direct supervision of the European Central Bank under the framework of the Single Supervisory Mechanism. Even if the Dexia Group still meets all the criteria for classification among significant banks (financial institutions with consolidated financial statements exceeding 30 billion), the special specific circumstances of the Dexia Group led the ECB to propose a change in the agreement on the supervision of the Group. In fact, Dexia was the sole entity involved in an orderly resolution under the direct supervision of the ECB. The supervision regime for significant financial institutions, intended for large operating banks, was no longer entirely appropriate for a bank in resolution like Dexia, as it no longer achieved the objectives of proportionality, efficiency and consistency considered.
In concrete terms, at the consolidated level the Dexia Group was placed directly under the joint supervision of the French (Autorité de contrôle prudentiel et de resolution – "ACPR") and Belgian (National Bank of Belgium – "NBB") authorities.
In terms of the individual entities, Dexia Crédit Local is supervised by the ACPR and Dexia Crediop by the Bank of Italy.

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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 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 (so-called smartworwking). 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 half, monitoring of developments in the situation associated with the spread of Covid-19 continued. The activities of the crisis unit, working in cooperation with the Dexia Group, 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 in the accounts.

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Regulated information – Rome, September 2nd, 2020 – 14:30 CET
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