S&P Global Ratings

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Dexia Credit Local S.A.

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Dexia Credit Local S.A.

SACP	bb	+	Support	+3	+	Additional Factors	0

Anchor	bbb	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Weak	-2
Funding	Below Average	-1
Liquidity	Moderate	

ALAC Support	0
GRE Support	+3
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB/Stable/A-2

Credit Highlights

Overview	
Key strengths	**Key risks**
State ownership and funding guarantee provided for a sizable amount.	Tail risks resulting from concentration on single names and geographies, like Italy.
Government-related entity with high likelihood of extraordinary government support from Belgium and France.	Wholesale funding structure influenced by capital markets' appetite for government-guaranteed and secured funding.
Loss-making entity in the long run.	High sensitivity of liquidity needs to interest rates due to almost completely swapped balance-sheet.

Our ratings on Dexia Credit Local (DCL) rely on a consolidated analysis of the Dexia group (Dexia). Our analysis also incorporates our view of DCL's core status within Dexia, for which it is the main bank. DCL accounts for 99% of Dexia group's total assets at June 2021.

Dexia has shown proactive management in its wind-down process, with continued reduction of its balance sheet even during the COVID-19 crisis. Dexia has shown significant progress in reducing its balance sheet since it entered in an orderly resolution in 2012. It reduced its balance sheet by 71%--from €413 billion in 2011 to €120 billion in 2019. Despite the difficult market conditions, Dexia reduced it by a further 5% in 2020, reaching total assets of €114 billion at year-end and by 10% in the first half of 2021, resulting from higher interest rates and portfolio reduction, reaching total assets of €103 billion. Over the past four years, total assets fell by €98 billion, mostly resulting from deleveraging actions (€35 billion) and the sale of Dexia Kommunalbank Deutchland GmbH (DKD) (€24 billion), as well as from natural amortization, albeit to a lesser extent.

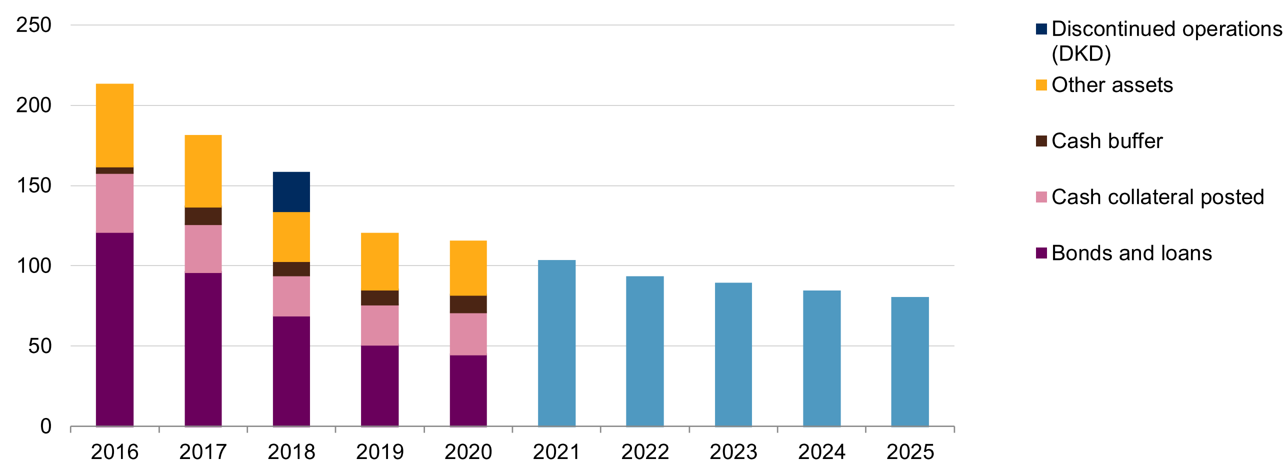
2020 and 2019 were both marked by major steps in its resolution plan, including the sale of DKD and Dexia Israel, the closure of DCL's branches in Madrid and Lisbon, as well as the transformation of its New York branch into a representative office. 2021 has also been characterized by another successful step, with DCL taking over €4.2 billion in assets from its Italian subsidiary Crediop in June 2021, reducing the size of its subsidiary to €11.2 billion and leaving it in better shape with improved capitalization and lower funding needs. We understand that DCL is now exploring further options, to either scale down Crediop's remaining business or sell the entity. At present, we continue to believe that Crediop would receive support from DCL if needed under all foreseeable circumstances. That has been the case up to now, and it remains our base-case scenario. As Crediop's wind-down accelerates, however, and depending on the final route the DCL decides to pursue, the bank's strong ties with its parent may ease somewhat and the parent may not be willing to provide support under all foreseeable circumstances. As such, we have a negative outlook on the rating on Crediop.

Under today's orderly resolution plan, Dexia balance sheet should reach about €80 billion by 2025. We understand that the group's deleveraging will take place mainly through natural amortization of the portfolio, and an asset sale plan focused on asset-value optimization within an annual budget. Dexia could accelerate the plan when market opportunities arise.

While we believe Dexia will remain sensitive to fluctuations in the macroeconomic environment and market parameters (including credit spreads, exchange rates, and interest rates), the French and Belgian governments' commitment to support the orderly wind-down of Dexia compensates the weaknesses and uncertainties inherent to the wind-down.

Chart 1

A Continued Reduction Of Its Balance Sheet From Proactive Management



Source: S&P Global Ratings.

We believe its capitalization will remain adequate despite our expectation of recurring losses. Our view of Dexia's capitalization relies on our projected risk-adjusted capital (RAC) ratio reaching 7%-10% by end-2023. Despite the total loss of €618 million recorded in 2020, of which €475 million was recurring losses, our RAC ratio stood at 11% at year-end 2020, the same as in 2019. This is because Dexia's deleveraging actions have entirely offset the losses from a RAC standpoint. While some of the negative effects observed in 2020 are expected to be temporary, such as swings in hedges inefficiencies, credit spreads, or financing value adjustments, we expect Dexia's recurring profitability to remain structurally negative at -€400 million on average over the next three years. Dexia reported a net loss of €206 million at June 2021, of which €115 million was recurring losses. We don't believe that the loss accumulation will be entirely offset by the balance sheet and operational cost-base reduction in the coming years, and will result in a progressive erosion of its capital base from 11% at end-2020 to [8%-9%] by end-2023.

Its single–name risk concentration remains high and risk profile sensitive to any deterioration of the economic situation. We continue to see its risk position as weak, albeit receding. The bank's complex balance sheet and mostly unsecured exposures with very long maturities are managed prudently, with a view to reducing the complexity of Dexia's business operating model and risk exposures. Still, its balance sheet remains highly sensitive to any deterioration in economic conditions. Our assessment also takes into account significant geographic concentration in weaker economies, such as Italy (22%), and litigation risks, although these are receding. Single–name risk concentration remains relatively high, in light of the bank's loss position and capitalization. Increased risk in any of the countries where Dexia is exposed to concentration risk, and any downgrades or defaults, would have a material adverse impact on the group's cost of credit risk and risk-weighted assets.

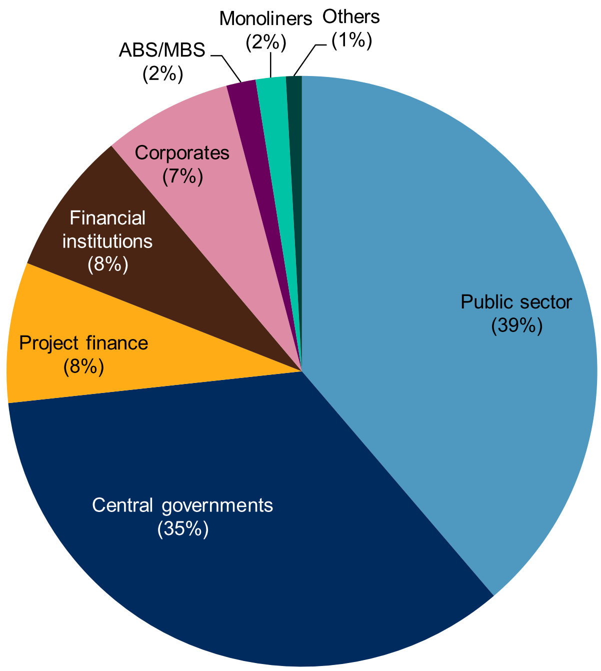
Dexia's risk profile reflects its position as a former leader in public financing and long-term investor in credit-spread securities portfolios. At June 2021, credit risk exposure amounted to €76.8 billion, evenly balanced between loans and bonds. Its exposures are predominantly to the public sector and central governments. According to Dexia's internal system, around 91% of credit risk exposures as of June 2021was investment grade ('AAA', 20%; 'AA', 6%; 'A', 23%; and 'BBB', 43%).

While we still see some risks areas, mainly Spanish and U.S. local authorities, corporate finance, and utilities exposures--notably in the U.K.--we view positively the bank's substantial effort over the years to reduce the complexity of its balance sheet and its disposals of risky assets such as those granted to Puerto Rico or the Chicago Board of Education.

The new loan loss provisions in 2020 were close to €0.17 billion and we believe they would remain close to that level on average in the next three years. We note that the more favorable economic conditions, combined with the natural evolution of the portfolio, resulted in a positive cost of risk for the first half of 2021, at +€47 million. As of June 2021, we estimate Dexia's nonperforming loans at about 1.7% of total gross loans and were adequately reserved for. We don't expect a material shift in this ratio over our rating horizon.

Chart 2

Breakdown Of Credit Risk Exposures
As of June 2021



Source: S&P Global Ratings.

Dexia's funding and liquidity profile remains a weakness, in our view, and relies on government-guaranteed funding. We continue to consider Dexia's funding as below average, and its liquidity moderate. This is because the bank has no deposit base and lost access to the wholesale-nonguaranteed and unsecured funding markets which it previously relied on. Dexia also remains vulnerable to confidence-sensitive market funding and dependent on investors' appetite for government-guaranteed debt, which is its primary funding source. The amount outstanding on secured market funding was €12.2 billion, and €50 billion for guaranteed funding in June 2021.

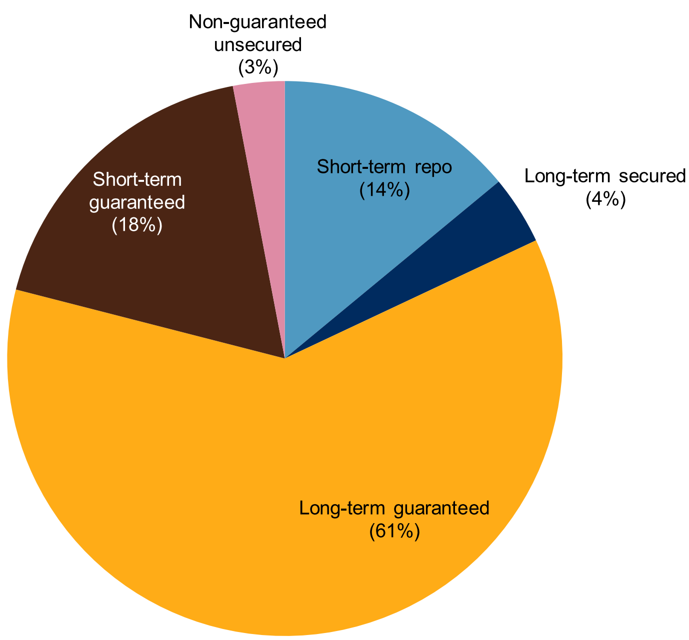
Over the past few years, Dexia's funding plans have focused on further reducing its dependence on the European Central Bank (ECB) via short- and medium-term government-guaranteed market issuances and market repo funding. As of June 2021, state-guaranteed funding represented 78% of Dexia group's total funding, with the balance primarily comprising nonguaranteed secured market funding. We expect the state-guaranteed funding to progressively increase up to 85% of the funding mix within our rating horizon. In 2019, the European Commission approved the extension of the state funding guarantee for a period of 10 years as of January 2022. As a wind-down entity, we note that Dexia will no longer be eligible for ECB funding from Jan. 1, 2022. However, like any bank, Dexia remains eligible to use the ECB's Eligible Liquidity Assistance in case of temporary liquidity issues.

Dexia's funding remains concentrated on short-term funding, via various guaranteed programs in euros and in U.S. dollars. This translates to a low S&P Global Ratings stable funding ratio of 64% and broad liquid asset to short-term wholesale funding of 0.90x when compared with commercial banks at year-end 2020. We estimate these ratios being broadly stable at year-end 2021.

As a result of an almost completely swapped balance sheet, Dexia's liquidity needs vary depending on interest rates. Their level determines the bank's cash collateral requirements on derivatives, which are revised upward in case of a decline in interest rates. As of June 2021, these requirements represented €19.5 billion (net). Dexia's liquidity reserve was €16.6 billion, of which €10.7 billion is in cash, for the same period.

Chart 3

Funding Profile Skewed Towards Stated Guaranteed Funding
As of April 2021



Source: S&P Global Ratings.

We continue to incorporate extraordinary government support from its shareholders in the event of stress. Our 'BBB' rating is three notches higher than its stand-alone credit profile (SACP), reflecting our view that the bank would be highly likely to receive extraordinary support from the French and Belgian governments in the event of stress.

ESG factors have a neutral impact on our assessment of DCL's creditworthiness. Social and environmental credit factors are in line with those of peers in the banking industry, while the bank's governance standards are comparable with the practice in its home country.

Outlook: Stable

The stable outlook reflects our expectation that the bank will implement an orderly wind-down of its operations and continue to benefit from the strong commitment of the Belgian and French governments in this process over the next two years. The ratings already factor in our expectation that, although DCL will be loss-making for several years, its capitalization will adequately cover risks, as deleveraging continues. A downgrade of Belgium or France would not in itself prompt us to lower the issuer credit ratings on DCL. However, it would affect the issue ratings assigned to DCL's debt that is guaranteed by these states.

Downside scenario

We might lower the ratings on DCL if, contrary to our expectations, the bank is unable to maintain sufficient access to market funding to implement its wind-down plan. We could also lower the ratings if the likelihood of government support diminishes, or if the pandemic induces material delays in the bank's deleveraging plan or affects its results and solvency beyond our expectations.

Upside scenario

Ratings upside is remote, given the level of ongoing and extraordinary government support we factor into the ratings.

Key Metrics

Dexia Credit Local--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in customer loans	(9.7)	(13.3)	(8.1)-(9.9)	(8.1)-(9.9)	(2.7)-(3.3)
Growth in total assets	(24.2)	(4.9)	(8.8)-(10.8)	(8.9)-(10.9)	(3.8)-(4.7)
Return on average common equity	(12.1)	(8.9)	(7.2)-(8.0)	(11.6)-(12.8)	(7.7)-(8.6)
Return on assets	(0.7)	(0.5)	(0.4)-(0.5)	(0.6)-(0.8)	(0.4)-(0.5)
New loan loss provisions/average customer loans	(0.8)	0.5	0.5-0.6	1.0-1.1	0.5-0.6
Gross nonperforming assets/customer loans	1.7	1.7	2.1-2.3	2.5-2.7	2.3-2.6
Risk-adjusted capital ratio	11.0	11.0	9.1-9.6	8.5-8.9	8.1-8.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast.

Key Statistics

Table 1

Dexia Credit Local--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	114,406	120,297	158,767	180,903	212,739
Customer loans (gross)	27,763	32,005	35,444	99,833	119,906
Adjusted common equity	3,812	4,477	4,946	5,114	4,221

Table 1

Dexia Credit Local--Key Figures (cont.)

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Operating revenues	(108)	(413)	(226)	(72)	651
Noninterest expenses	334	379	365	421	407
Core earnings	(612)	(494)	(503)	(473)	426

Source: Dexia's consolidated accounts.

Table 2

Dexia Credit Local--Business Position

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Return on average common equity	(8.9)	(12.1)	(7.6)	(10.1)	8.5

Source: Dexia's consolidated accounts.

Table 3

Dexia Credit Local--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	28.2	26.9	26.7	19.5	16.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	(11.1)	2.9	(21.7)	(236.1)	30.4
Fee income/operating revenues	10.2	1.7	1.8	4.2	0.0
Market-sensitive income/operating revenues	91.7	98.5	110.6	352.8	76.2
Cost to income ratio	(309.3)	(91.8)	(161.5)	(584.7)	62.5
Preprovision operating income/average assets	(0.4)	(0.6)	(0.3)	(0.3)	0.1
Core earnings/average managed assets	(0.5)	(0.4)	(0.3)	(0.2)	0.2

Source: Dexia's consolidated accounts.

Table 4

Dexia Credit Local--Risk-Adjusted Capital Framework Data

	Exposure*	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	59,302,861,058.0	7,218,092,919.0	12.0	10,497,747,219.0	18.0
Of which regional governments and local authorities	30,929,089,813.0	7,036,245,339.0	23.0	4,748,426,796.0	15.0
Institutions and CCPs	14,390,481,424.0	1,434,634,107.0	10.0	1,250,793,105.0	9.0
Corporate	16,153,145,537.0	10,907,701,089.0	68.0	13,276,207,142.0	82.0
Retail	3,293.0	2,470.0	75.0	2,470.0	75.0
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	1,311,174,570.0	800,570,794.0	61.0	628,010,367.0	48.0

Table 4

Dexia Credit Local--Risk-Adjusted Capital Framework Data (cont.)					
Other assets†	1,072,603,386.0	823,935,375.0	77.0	1,565,041,827.0	146.0
Total credit risk	92,230,269,267.0	21,184,936,754.0	23.0	27,217,802,130.0	30.0
Credit valuation adjustment					
Total credit valuation adjustment	--	918,099,218.0	--	5,026,746,233.0	--
Market Risk					
Equity in the banking book	42,908,578.0	62,573,042.0	146.0	356,026,517.0	830.0
Trading book market risk	--	1,030,847,604.0	--	1,731,476,511.0	--
Total market risk	--	1,093,420,646.0	--	2,087,503,027.0	--
Operational risk					
Total operational risk	--	50,556,220.0	--	210,440,750.0	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	24,196,456,617.0	--	34,542,492,141.0	100.0
Total diversification/ Concentration adjustments	--	--	--	11,643,334,218.0	34.0
RWA after diversification	--	24,196,456,617.0	--	46,185,826,359.0	134.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,813,722,183.0	28.2	3,812,000,000.0	11.0
Capital ratio after adjustments‡		6,813,722,183.0	28.2	3,812,000,000.0	8.3

Source: Dexia's consolidated accounts. *Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

Dexia Credit Local--Risk Position					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	(13.3)	(9.7)	(64.5)	(16.7)	(6.9)
Total managed assets/adjusted common equity (x)	30.0	26.9	32.1	35.4	50.4
New loan loss provisions/average customer loans	0.5	(0.8)	(0.2)	(0.0)	(0.1)
Net charge-offs/average customer loans	(0.3)	(0.4)	(0.1)	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.7	1.7	2.3	0.9	0.9
Loan loss reserves/gross nonperforming assets	48.0	39.4	35.2	64.9	65.8

Source: Dexia's consolidated accounts.

Table 6

Dexia Credit Local--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	0.7	0.8	0.6	2.0	5.3
Customer loans (net)/customer deposits	5,315.3	5,219.2	6,392.4	3,784.4	1,460.1
Long-term funding ratio	58.2	61.1	57.3	60.2	56.7
Stable funding ratio	64.0	68.1	51.9	56.8	52.3
Short-term wholesale funding/funding base	45.4	42.5	46.1	41.4	44.5
Broad liquid assets/short-term wholesale funding (x)	0.9	0.9	0.8	0.4	0.3
Net broad liquid assets/short-term customer deposits	(51.4)	(78.2)	(150.8)	(526.0)	(520.7)
Short-term wholesale funding/total wholesale funding	45.7	42.8	46.4	42.3	47.0
Narrow liquid assets/3-month wholesale funding (x)	1.9	2.1	1.9	0.9	0.6

Source: Dexia's consolidated accounts.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10, 2021.
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019.
- General Criteria: Group Rating Methodology, July 1, 2019.
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017.
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017.
- General Criteria: Guarantee Criteria, Oct. 21, 2016.
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015.
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015.
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014.
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013.
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013.
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011.
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011.
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011.
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004.

Related Research

- Global Credit Outlook 2022 Aftershocks, Future Shocks, And Transitions, Dec. 1, 2021
- Eurozone Economic Outlook 2022: A Look Inside The Recovery, Nov. 30, 2021

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	**bbb**	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 1, 2021)*		
Dexia Credit Local		
Issuer Credit Rating		BBB/Stable/A-2
Commercial Paper		
Local Currency		A-2
Junior Subordinated		D
Senior Unsecured		BBB
Issuer Credit Ratings History		
25-Jan-2013	*Foreign Currency*	BBB/Stable/A-2
28-Mar-2012		BBB/Watch Neg/A-2
29-Nov-2011		BBB+/Watch Neg/A-2
25-Jan-2013	*Local Currency*	BBB/Stable/A-2
28-Mar-2012		BBB/Watch Neg/A-2
29-Nov-2011		BBB+/Watch Neg/A-2
Sovereign Rating		
France		AA/Stable/A-1+
Related Entities		
Dexia Crediop SpA		
Issuer Credit Rating		BBB/Negative/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.