MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Dexia Credit Local's Baa3 senior unsecured rating with a stable outlook

30 Jun 2022

Dexia Crediop's senior unsecured debt rating affirmed at Baa3

Paris, June 30, 2022 -- Moody's Investors Service ("Moody's") today affirmed the Baa3 long-term senior unsecured debt and deposit ratings of Dexia Credit Local (DCL) at Baa3. The outlooks remain stable. This action follows the affirmation of DCL's Baseline Credit Assessment (BCA) and Adjusted BCA of b2.

Moody's also affirmed DCL's short-term deposit and short-term deposit note/CD program ratings of Prime-3, its long-term and short-term Counterparty Risk Ratings (CRRs) of Baa3 and Prime-3 respectively, its long-term and short-term counterparty risk assessments (CR Assessments) of Baa3(cr) and Prime-3(cr) respectively, and its non-cumulative preferred stock rating of C(hyb). The Aa3 backed long-term senior unsecured debt and Prime-1 backed commercial paper ratings of DCL, guaranteed by the governments of Belgium (Aa3 stable) and France (Aa2 stable) were unaffected by this rating action.

At the same time, Moody's affirmed Dexia Crediop S.p.A.'s (Dexia Crediop) BCA and Adjusted BCA of b2, its long-term deposit and senior unsecured debt ratings of Baa3 with a stable outlook, its short-term deposit ratings of Prime-3, its long-term and short-term CRRs of Baa3 and Prime-3 respectively, and its long-term and short-term CR assessments of Baa3(cr) and Prime-3(cr) respectively.

A list of all affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

DEXIA CREDIT LOCAL

The b2 BCA reflects Moody's view that the orderly resolution of DCL has so far been unfolding smoothly, in particular because of the large support provided by the governments of Belgium and France through the government-guaranteed debt scheme. Nevertheless, the BCA also reflects the fact that DCL might need additional capital injection from the governments to comply with prudential regulations during its prolonged run-off period.

DCL's structure has been further simplified over the past few years with the disposals of several operating entities and closure of branches abroad. DCL also pursued the reduction of its commercial asset portfolio through disposals, which combined with loan amortization and early repayments drove Dexia group's total assets down to €99 billion at year-end 2021 from €159 billion at year-end 2018 and €247 billion at year-end 2014. The pace of reduction of the portfolio will likely decelerate over the coming years as further asset disposals will be constrained by IFRS accounting rules that forbid the sale of assets originally booked in the held to collect category.

The government-guaranteed debt scheme was prolongated with a ceiling of €75 billion for a period of ten years from 1 January 2022 onwards, which will largely cover the bank's funding needs during the run-off period.

The group's multi-year wind-down process however still involves significant challenges. Although average asset quality is good, concentration risk remains high and tend to increase as the overall asset base and capital diminish.

Despite DCL's high level of capitalization with a reported consolidated group common equity Tier 1 ratio of 27.3% at year-end 2021, its capital position keeps on being eroded because the bank's income does not cover its operating costs. Revenues have dropped as a result of asset shrinkage while operating expenses have decreased at a slower pace.

Rising interest rates have a positive impact on DCL's results as the amount of cash collateral to be posted on derivatives, and hence the cost of funding it is being reduced. On the other hand, the new fee system under the prolonged guaranteed-debt scheme, which will gradually increase from 5 basis points to 135 basis points in

2027, will have a negative impact on DCL's income statement.

Overall even in the absence of significant loan losses, the group will remain structurally loss-making over the coming years. DCL's ability to continue to meet its solvency requirements will depend on the magnitude of future losses, and on whether its risk-weighted assets would decrease sufficiently quickly to offset the effect of capital depletion.

In case DCL were to need further external support, Moody's believes that the probability of additional support from the governments of Belgium and France remains very high. Indeed, the current exposures of these governments to DCL via their equity investments in Dexia and guarantees on DCL's funding are such that both have a strong interest in preventing the bank's default, both from (1) a liquidity perspective, as a default would render the states directly liable for maturing debts under the terms of their guarantee; and (2) a loss perspective, as losses would likely be greater in a liquidation scenario.

Moody's also considers that any additional support needed from public authorities would not result in a resolution under the EU Bank Recovery and Resolution Directive (BRRD) given DCL's current run-off. Therefore, Moody's assumes that, in practice, DCL is out of the scope of the EU's BRRD and, hence, the agency does not apply its Advanced Loss Given Failure (LGF) approach as used for banks subject to operational resolution regimes. Instead, Moody's applies its Basic LGF approach, which provides no uplift from the adjusted BCA for senior debt and deposits, and one notch of rating uplift for the CRR and CR Assessment.

Moody's retains a very high probability of government support for the senior unsecured creditors, junior depositors, CRR liabilities and operational liabilities. This results in a five-notch uplift for the senior unsecured debt rating and deposit rating to Baa3. The Baa3 CRR and Baa3(cr) CR Assessment incorporate four notches of government support uplift. Moody's considers that the CRR and operational liabilities of an entity already in resolution are unlikely to benefit from any additional protection compared with depositors and senior creditors.

The C(hyb) rating on preferred stocks is six notches below the Adjusted BCA, including one-notch negative adjustment resulting from the Basic LGF approach and five other negative notching reflecting the fact that coupon payments and early redemption have been suspended on these securities, in accordance with the EC's decision of 2012. Government support assumption is low for junior debts, resulting in no rating uplift.

The outlook on DCL's long-term deposit and senior unsecured debt ratings is stable, reflecting Moody's view that in the absence of any major exogenous shock affecting the bank's solvency or funding capacity, its wind-down will likely unfold according to the run-off plan.

DEXIA CREDIOP

Dexia Crediop, the Italian subsidiary of DCL, was placed in run-off in July 2014. Its run-off is intrinsically linked to the orderly resolution plan of its parent DCL. The bulk of the bank's funding is provided by DCL and its risk and capital management is closely linked to that of its parent. The affirmation of Dexia Crediop's BCA of b2 is based upon Moody's assessment of the bank as a Highly Integrated Entity (HIE) within DCL, which better reflects its status and creditworthiness than an analysis of its standalone financials. Moody's therefore aligns Dexia Crediop's BCA, ratings and assessments with those of DCL.

Moody's also assumes a very high government support assumption for Dexia Crediop's depositors, senior creditors, CRR and operational liabilities from the governments of France and Belgium. This assumption is based on Moody's view that the very high support for DCL from these two governments would very likely extend to Dexia Crediop since DCL provides a substantial proportion of its subsidiary's funding.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

DCL's BCA could be upgraded as a result of the bank's better-than-expected performance in the implementation of the orderly run off plan. An upgrade of the bank's long-term ratings is unlikely, even if its BCA were to be upgraded.

Significant deviations from the trend set out in the run off plan would trigger a downgrade of DCL's BCA, which, in turn, could lead to a downgrade of the bank's long-term deposit and senior unsecured ratings.

Any evidence from the guarantor States, or from the national or European resolution authorities that additional government support would not be provided or would be provided under conditions detrimental to unsecured investors could also likely result in a downgrade of the bank's long-term deposit and senior unsecured ratings.

Any change in DCL's BCA or ratings will likely result in a change in Dexia Crediop's BCA and ratings.

LIST OF AFFECTED RATINGS

Issuer: Dexia Credit Local

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Baa3

....Short-term Counterparty Risk Ratings, affirmed P-3

....Long-term Bank Deposits, affirmed Baa3, outlook remains Stable

....Short-term Bank Deposits, affirmed P-3

....Short-term Deposit Note/CD Program, affirmed P-3

....Long-term Counterparty Risk Assessment, affirmed Baa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-3(cr)

....Long-term Issuer Rating, affirmed Baa3, outlook remains Stable

....Baseline Credit Assessment, affirmed b2

....Adjusted Baseline Credit Assessment, affirmed b2

....Senior Unsecured Regular Bond/Debenture, affirmed Baa3, outlook remains Stable

....Preferred Stock Non-cumulative, affirmed C(hyb)

..Outlook Action:

....Outlook remains Stable

Issuer: Dexia Crediop S.p.A.

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Baa3

....Short-term Counterparty Risk Ratings, affirmed P-3

....Long-term Bank Deposits, affirmed Baa3, outlook remains Stable

....Short-term Bank Deposits, affirmed P-3

....Long-term Counterparty Risk Assessment, affirmed Baa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-3(cr)

....Baseline Credit Assessment, affirmed b2

....Adjusted Baseline Credit Assessment, affirmed b2

....Senior Unsecured Regular Bond/Debenture, affirmed Baa3, outlook remains Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)Baa3

..Outlook Action:

....Outlook remains Stable

Issuer: Dexia Credit Local, New York Branch

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Baa3

....Short-term Counterparty Risk Ratings, affirmed P-3

....Long-term Bank Deposits, affirmed Baa3, outlook remains Stable

....Short-term Bank Deposits, affirmed P-3

....Long-term Counterparty Risk Assessment, affirmed Baa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-3(cr)

..Outlook Action:

....Outlook remains Stable

Issuer: Dexia Funding Luxembourg S.A.

..Affirmation:

....Backed Preferred Stock Non-cumulative, affirmed C(hyb)

..No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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