FitchRatings

Banks
Other Banks
France

Dexia Credit Local S.A.

Key Rating Drivers

Support-Driven Ratings: Dexia Credit Local S.A.'s (DCL) ratings reflect Fitch Ratings' view of a high probability that additional support would be provided to DCL by Belgium (AA-/Stable) and France (AA/Negative), if required, to complete the orderly wind-down of the bank. DCL is the main operating entity of Dexia SA/NV, which is around 53% owned by Belgium and 47% by France.

Strong Evidence of Support: Our view is based on Dexia's ownership, the sizeable funding guarantees provided to DCL by Belgium and France, and both sovereigns' ability to provide financial support. DCL had about EUR40 billion of guaranteed debt outstanding at the end of October 2022 and we expect utilisation to remain below the EUR75 billion limit applicable since January 2022.

Stable Outlook: The Outlook is Stable despite the Negative Outlook on France's rating and this reflects our view that a one-notch downgrade of France's rating would not result in a downgrade of DCL's rating. This is because DCL's Long-Term Issuer Default Rating (IDR) is mainly driven by the sovereigns' propensity to support.

No Retroactive Application of BRRD: Fitch continues to factor in state support for DCL despite the implementation of the EU's Bank Recovery and Resolution Directive (BRRD). This reflects our view that the BRRD will not be applied retroactively to DCL, as long as its orderly wind-down progresses consistently with plans agreed with the European Commission.

Low Risk of Senior Bail-In: Fitch views the risk of senior creditor bail-in as low for DCL. We expect Belgium and France to act pre-emptively, to the extent possible, to maintain DCL's capitalisation above regulatory requirements.

Deleveraging Progressing Well: DCL's balance sheet was about EUR77 billion at end-June 2022, compared with about EUR360 billion at end-2011, when Dexia was placed in orderly wind-down. Since then, DCL has significantly simplified its legal structure.

Extension of State-Guaranteed Debt: The European Commission approved the extension of the state guarantee beyond end-2021 for 10 years. The extended guarantee is granted by Belgium and France under a 53%/47% split and the terms are substantially the same except for a lower maximum amount. This does not change our view on support.

No Viability Rating Assigned: Fitch does not assign a Viability Rating to DCL because it cannot be meaningfully analysed as a viable entity in its own right. DCL is in orderly wind-down and relies on state guarantees for funding.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F1
Derivative Counterparty Rating	BBB+(dcr)
Government Support Rating	bbb+
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDRs	AA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms France at 'AA'; Outlook Negative (November 2022)

Fitch Affirms Dexia Credit Local at 'BBB+'; Outlook Stable (October 2022)

Global Economic Outlook (September 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

DCL's ratings are sensitive to a weakening in Belgium or France's ability or propensity to provide additional support. We would likely downgrade DCL's Long-Term IDR if the two sovereigns' ratings were both downgraded to the 'A' category. A significant reduction in state ownership or state-guaranteed funding that was not a result of lower funding needs, leading to reduced incentive to provide additional support, would also be rating negative.

A material deviation from DCL's wind-down plan agreed with the European Commission would lead to negative rating action. It would likely trigger a fresh state aid review and heighten the likelihood of the authorities requiring more stringent measures, which could include senior creditors sharing some of the burden. However, this is not Fitch's central scenario.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would be contingent on the two states demonstrating even greater support, which we view as unlikely. We could upgrade DCL's Long-Term IDR if France's sovereign's rating was upgraded, while Belgium remained in the 'AA' category. However, this is unlikely given the Negative Outlook on France's Long-Term IDR. We could also upgrade DCL's Long-Term IDR if it sustainably reduces the size of its balance sheet to well below the state guarantee size, while the need for additional capital injection becomes clearly remote.

Other Debt and Issuer Ratings

Dexia Credit Local S.A.	Rating
State guaranteed: Long Term/Short Term	AA-/F1+
Senior Preferred: Long Term	BBB+
Junior Subordinated: Long Term	C

Source: Fitch Ratings

DCL's Short-Term IDR of 'F1' is the higher of the two possible Short-Term IDRs mapping to a 'BBB+' Long-Term IDR. This is because we view the sovereigns' propensity to support as more certain in the near term. We also view the risk of the Belgian or French sovereign paying their direct obligations ahead of providing support to DCL as low and have not identified other potential impediments to the prompt flow of funds to DCL.

The 'AA-'/'F1+' ratings of DCL's debt guaranteed by Belgium at 53% and France at 47% are aligned with Belgium's ratings as it is the lowest-rated guarantor. Both sovereigns are responsible for a share of the overall guarantee (several but not joint guarantee) and Fitch rates DCL's state-guaranteed debt on a 'first-dollar-of-loss' basis. The guarantee is unconditional, irrevocable and at first demand.

Since 1 January 2022, DCL has been operating under the extended guarantee, which covers maturities of up to 10 years and debt issued before end-2032. The terms of the extended funding guarantee are substantially the same except for a lower maximum of EUR75 billion instead of EUR85 billion, including EUR72 billion for debt issues and EUR3 billion for intraday interbank overdraft. The decrease of the size of the funding guarantee is consistent with the decline in DCL's balance sheet. The 5bp guarantee fee is increased by a conditional deferred commission that will progressively rise up to 135bp in 2027, payable at the time of the liquidation of the group and insofar as DCL no longer has a banking licence.

DCL's senior preferred debt is rated in line with the Long-Term IDR.

The 'BBB+(dcr)' DCR is at the same level as DCL's Long-Term IDR as the IDR is based on sovereign support and because derivative counterparties in France have no preferential status over other preferred senior obligations in a resolution scenario.

DCL's deeply subordinated Tier 1 notes' (FR0010251421) 'C' rating reflects the continued ban imposed by the European Commission on contractually non-mandatory coupon payment on these notes and the poor recovery prospects. The securities will be subordinated to the conditional deferred fee that will accrue from 2022.

Company Summary and Key Qualitative Factors

Business Profile

Orderly Wind-Down Since End-2012

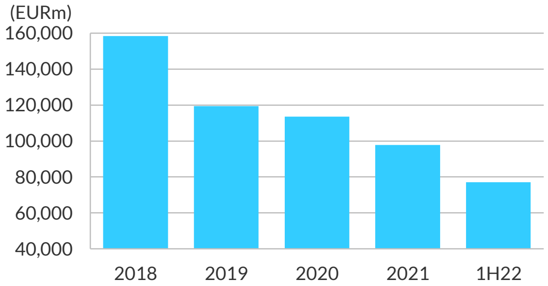
DCL was a specialised public-sector lender operating worldwide. The European Commission approved DCL's parent Dexia's orderly resolution plan in December 2012. It aims to wind down the group in an orderly manner, without threatening financial market stability. The resolution plan included a EUR5.5 billion capital injection by Belgium and France, which results in the two states owning about 53% and 47% of the group's share capital, respectively.

Deep Restructuring of Operations

DCL is no longer commercially active. However, its balance sheet will remain quite large for an extended period. The bank's balance sheet was EUR77 billion at end-June 2022 (end-2021: EUR98 billion), well ahead of its 2022 and 2023 schedule due to the rise in interest rates, which limits the amount of cash collateral required to be posted to cover negative mark to market of derivatives contracts.

Since entering wind-down, it has sold many operating subsidiaries and completed the mandatory divestment of its commercial franchises, as agreed with the European Commission. DCL's only significant remaining subsidiary is Dexia Crediop S.p.A. in Italy, which is now 100% owned after DCL bought back the 30% of minority interests in 2020. DCL is looking at different strategic options for its Italian subsidiary, notably to reduce its exposure to Italian risk, and has already transferred some assets to its French operating entity. DCL is also working on the restructuring of its US-based entities.

Steadily Declining Balance Sheet
Total assets at year-end



Source: Fitch Ratings, DCL

Risk Profile

Significant Exposure to European Countries

DCL is incorporated in France, which has a large, diversified and wealthy economy. The bank has some exposure to higher-risk European countries, which represented about 30% of total exposure at end-June 2022. At end-June 2022, 75% of the bank's portfolio was exposed to the public sector or to central governments.

Low Appetite for Market Risk

DCL has a low appetite for market risk. Its strategy is to hedge almost all interest rate risk, which results in low sensitivity of the net present value of the banking book to a 1% upward parallel shift of the yield curve (about -EUR32 million at end-June 2022). The bank significantly reduced its sensitivity to spread movements by reclassifying its peripheral European sovereign bonds to amortised costs under IFRS 9, instead of at fair value through equity (previously available-for-sale).

Financial Profile

Asset Quality

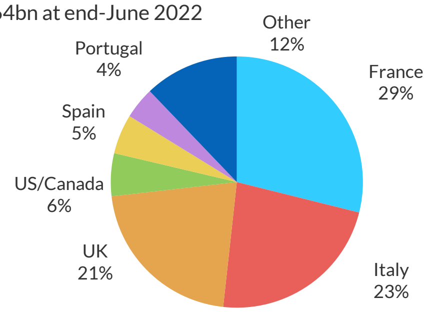
Mainly Exposed to Low Risk Public-Sector Assets

DCL's credit risks are generally contained, but pocket of risks remain in the form of exposure to higher-risk European countries, such as to Italy (EUR14.6 billion at end-June 2022) and Portugal (EUR2.6 billion), which are mainly to local authorities and the Italian (BBB/Stable) and Portuguese (BBB+/Stable) sovereigns. The exposure to Spain (EUR3.3 billion) is dominated by local authorities and project finance, with a low exposure to the sovereign (A-/Stable).

DCL has also a substantial exposure to the UK – this accounted for 21% of total exposure, with 99% of this being investment-grade and nearly 50% being to the public sector. At end-June 2022, slightly more than 90% of credit risk exposure was rated investment-grade based on DCL's internal ratings. Speculative-grade exposure accounted for almost 100% (about EUR5.6 billion) of DCL's equity.

Credit Exposure by Geography

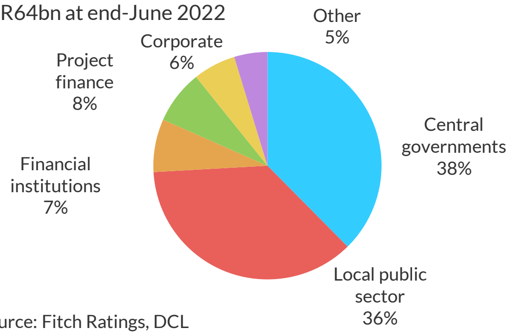
EUR64bn at end-June 2022



Source: Fitch Ratings, DCL

Credit Exposure by Counterparty

EUR64bn at end-June 2022



Source: Fitch Ratings, DCL

Earnings and Profitability

Profitability Is Structurally Low

DCL is structurally loss-making as revenue is declining faster than operating expenses. The significant collateral posted on swaps needs to be funded and inflates interest costs, but it has sharply decreased in 1H22 to EUR10.5 billion due to rising interest rates.

DCL's large book of hedging derivatives generates some accounting volatility and has reduced profitability in recent years. Active deleveraging has generated some non-recurring costs in the past two years. The reversals of loan impairment charges have supported profitability in recent years (except in 2020) and reached EUR6 million in 1H22, mainly linked to a reversal of collective provisions due to a change in macro-economic assumptions in IFRS9 scenarios.

Operating costs are tightly managed, as the bank tries to adapt its costs to the decreasing loan book. DCL outsourced its IT management and its back-office. Outsourcing should enable DCL to switch fixed costs into variable costs as the balance sheet declines further.

Capital and Leverage

Satisfactory Capitalisation

DCL's capitalisation is sound in risk-weighted terms, with a common equity Tier 1 (CET1) ratio of 34.3% and total capital ratio of 34.7% at end-June 2022. After reaching a low point in 2015, capital ratios were supported by the implementation of IFRS9, which allowed the release of negative available-for-sale reserves. This followed the reclassification of assets at amortised cost, and, notably, DCL's Italian and Portuguese sovereign bonds.

Capital ratios at end-June 2022 give the bank an ample buffer over its 11.25% total capital requirement for 2022 (including current temporary easing measures, 11.85% from December 2022) and headroom to absorb operating losses and losses on sales. DCL's risk-weighted assets density is low, at about 20%, as most exposures are public-sector assets or sovereign bonds.

Funding and Liquidity

High Reliance on State-Guaranteed Funding

State-guaranteed debt is the main source of DCL's funding as it represented 78% of DCL's total funding (EUR40 billion) at end-June 2022. Non-guaranteed secured funding was a smaller proportion (less than 20%) of total funding. DCL built a liquidity buffer of EUR12.8 billion at end-June 2022, including EUR11.7 billion of central bank deposits. DCL has no longer access to central bank funding from 2022, as decided by the ECB in July 2017. We do not expect this to have a significant impact on DCL's orderly resolution as the bank is not reliant on this funding source.

DCL's liquidity coverage ratio was well above minimum requirements at around 209% at end-June 2022, and its net stable funding ratio was at 162%. DCL's liquidity is currently supported by the decrease of cash collateral requirement, resulting in lower use of wholesale funding in 2022 than anticipated.

Financials

Financial Statements

	30 Jun 2022		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm)	6 months - interim (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified (emphasis of matter)	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	35	34.0	61.0	40.0	70.0
Net fees and commissions	-5	-5.0	-10.0	-10.0	-7.0
Other operating income	326	314.0	-127.0	-204.0	-694.0
Total operating income	356	343.0	-76.0	-174.0	-631.0
Operating costs	178	171.0	276.0	318.0	358.0
Pre-impairment operating profit	179	172.0	-352.0	-492.0	-989.0
Loan and other impairment charges	-6	-6.0	-130.0	170.0	-265.0
Operating profit	185	178.0	-222.0	-662.0	-724.0
Other non-operating items (net)	n.a.	n.a.	n.a.	104.0	-117.0
Tax	17	16.0	55.0	n.a.	-17.0
Net income	168	162.0	-277.0	-558.0	-824.0
Other comprehensive income	-20	-19.0	209.0	-70.0	415.0
Fitch comprehensive income	149	143.0	-68.0	-628.0	-409.0
Summary balance sheet					
Assets					
Gross loans	19,634	18,902.0	24,043.0	26,913.0	31,990.0
- Of which impaired	n.a.	n.a.	335.0	405.0	476.0
Loan loss allowances	0	0.0	183.0	231.0	219.0
Net loans	19,634	18,902.0	23,860.0	26,682.0	31,771.0
Interbank	9,952	9,581.0	17,306.0	20,776.0	21,564.0
Derivatives	5,577	5,369.0	8,241.0	11,100.0	13,135.0
Other securities and earning assets	33,863	32,601.0	38,454.0	44,918.0	43,417.0
Total earning assets	69,025	66,453.0	87,861.0	103,476.0	109,887.0
Cash and due from banks	10,699	10,300.0	9,753.0	9,866.0	9,211.0
Other assets	235	226.0	172.0	181.0	266.0
Total assets	79,958	76,979.0	97,786.0	113,523.0	119,364.0
Liabilities					
Customer deposits	8,819	8,490.0	558.0	518.0	609.0
Interbank and other short-term funding	4,491	4,324.0	15,552.0	18,717.0	15,596.0
Other long-term funding	43,635	42,009.0	49,602.0	55,897.0	63,542.0
Trading liabilities and derivatives	16,501	15,886.0	26,019.0	32,201.0	32,826.0
Total funding and derivatives	73,446	70,709.0	91,731.0	107,333.0	112,573.0
Other liabilities	487	469.0	427.0	498.0	476.0
Preference shares and hybrid capital	n.a.	n.a.	56.0	56.0	56.0
Total equity	6,026	5,801.0	5,572.0	5,636.0	6,259.0
Total liabilities and equity	79,958	76,979.0	97,786.0	113,523.0	119,364.0
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, DCL

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.1	-1.1	-2.8	-2.7
Net interest income/average earning assets	0.1	0.1	0.0	0.1
Non-interest expense/gross revenue	49.9	-363.2	-182.8	-56.7
Net income/average equity	5.7	-4.9	-9.8	-12.8
Asset quality				
Impaired loans ratio	n.a.	1.4	1.5	1.5
Growth in gross loans	-21.4	-10.7	-15.9	-9.7
Loan loss allowances/impaired loans	n.a.	54.6	57.0	46.0
Loan impairment charges/average gross loans	-0.1	-0.2	0.2	0.0
Capitalisation				
Common equity Tier 1 ratio	34.3	27.3	24.5	23.5
Tangible common equity/tangible assets	7.5	5.7	5.0	5.2
Net impaired loans/common equity Tier 1	n.a.	2.8	3.0	4.1
Funding and liquidity				
Gross loans/customer deposits	222.6	4,308.8	5,195.6	5,252.9
Liquidity coverage ratio	209.0	152.0	199.0	236.0
Net stable funding ratio	162.0	151.5	127.0	n.a.

Source: Fitch Ratings, Fitch Solutions, DCL

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	bbb+
Government ability to support D-SIBs	
Sovereign Rating	AA/ Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Positive
Ownership	Positive

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

High Probability of Support

Fitch considers that there is a high probability that additional support would be provided to DCL by Belgium and France, if required, to complete the orderly wind-down of the company. Both sovereigns are main shareholders of DCL's parent Dexia.

Our view on support is based on the ownership of Dexia, the sizeable funding guarantees provided to DCL by Belgium and France of up to EUR75 billion as well as both sovereigns' ability to provide financial support. The extension of a new guarantee from 2022 does not change our view on support.

At end-June 2022, DCL's assets represented a significant portion (about 15%) of 2021 gross domestic product (GDP) in Belgium, where the bank's holding company is incorporated. DCL's balance sheet represented less than 5% of France's GDP.

Fitch continues to factor in state support for DCL despite the implementation of the BRRD. This reflects our view that the BRRD will not be applied retroactively to DCL, as long as its orderly wind-down progresses consistently with plans agreed with the European Commission. Fitch views the risk of senior creditor bail-in as low for DCL. We expect Belgium and France to act pre-emptively, to the extent possible, to maintain DCL's capitalisation above legal minimum requirements.

Environmental, Social and Governance Considerations

FitchRatings **Dexia Credit Local S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Dexia Credit Local S.A. has 5 ESG potential rating drivers

- Dexia Credit Local S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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