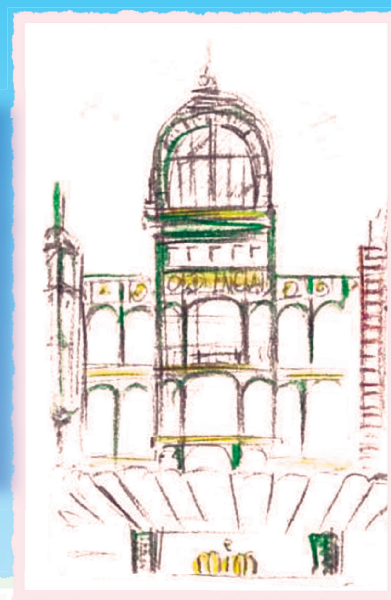
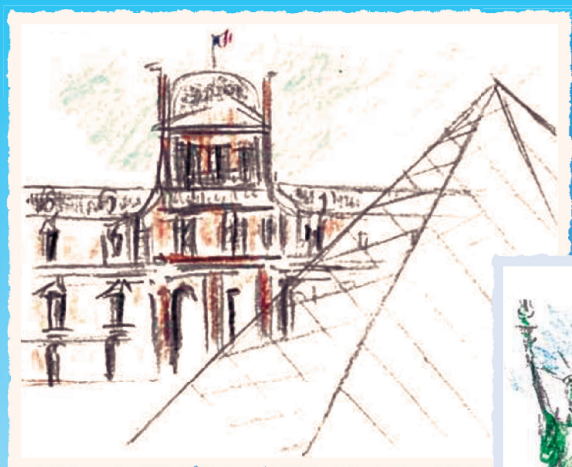


2020

R I S K R E P O R T
P I L L A R 3 O F B A S E L I I I



DEXIA

Contents

Introduction	5
Basel Framework	5
First Pillar.....	5
Second Pillar.....	6
Third Pillar	6
Dexia Management Board.....	7
Dexia’s Key Figures and Risk Profile.....	7
1. Risk Management Objectives and Policies	9
1.1. Risk Organisation and Governance.....	10
1.2. Accounting and Prudential Consolidation Scope.....	13
1.3. Own Funds and Capital Adequacy.....	13
1.4. Risk-Weighted Assets by Type of Risk.....	17
1.5. Capital Adequacy.....	18
1.6. Leverage Ratio	21
1.7. Significant Banking Subsidiary: Dexia Crédit Local.....	23
2. Credit Risk	24
2.1. Credit Risk Management.....	24
2.2. Credit Risk Exposure.....	24
2.3. Internal model (ex AIRB Approaches).....	32
2.4. Standard Approach	33
2.5. Impairment, Past-Due and Related Provisions.....	34
2.6. Credit Risk Mitigation Techniques	43
2.7. Counterparty Credit Risk.....	46
2.8. Focus on Equity Exposure.....	47
2.9. Focus on Securitisation Activities.....	48
3. Market Risk	51
3.1. Market Risk Measures	51
4. Transformation Risk	54
4.1. Management of Interest and Exchange Rate Risk	54
4.2. Management of Liquidity Risk.....	54
5. Operational Risk	56
5.1. Risk Measurement and Management.....	56
5.2. Management of Operational Risk during the Resolution Period.....	57
6. Remuneration Policies and Practices	58
6.1. Fixed and Variable Remuneration.....	58
6.2. Link between Performance and Remuneration.....	59
6.3. Quantitative Information	59
Appendix 1 – Glossary	60

Appendix 2 – Credit Models Systems	63
1. Structure of Credit Model Systems.....	63
2. Description of the Credit Model Process	63
3. Control Mechanisms for Credit Model Systems.....	67
4. Credit Risk IT System.....	69
Appendix 3 – Basics of Securitisation	71
Appendix 4 – Dexia Originations	73
Appendix 5 – Complement on subsidiaries	74
1. Dexia Crediop	74
1.1. Accounting and Regulatory Equity Figures	74
1.2. Capital Requirements by Type of Risk.....	74
1.3. Capital Adequacy.....	75
1.4. Exposure at Default by Geographic Distribution.....	75
1.5. Exposure at Default by Exposure Class and Economic Sector	75
1.6. Overview of Past-Due Exposure and Impairments	75
1.7. Exposure Covered by Credit Risk Mitigants by Exposure Class	76
1.8. Leverage Ratio	76

Introduction

Basel Framework

Basel III is the response of the Basel Committee on Banking Supervision (BCBS) to the financial crisis, which revealed some deficiencies in the Basel II regulation as to the appropriate measurement of credit risk.

As a result, the Basel Committee undertook a comprehensive set of reform measures, known as the Basel III reform, aimed at strengthening the regulation, supervision and risk management of the banking sector.

In 2013, the European Parliament and Council adopted a set of measures to implement the Basel III reform within the EU legal framework. Taking effect on 1 January 2014, with some provisions to be phased in between 2014 and 2019, the Capital Requirement Regulation (CRR) and the Capital Requirement Directive IV (CRD IV) form the common regulatory bases for all Member States in implementing Basel III capital requirements. The CRR contains detailed prudential requirements for credit institutions and investment firms while the CRD IV was transposed by Member States into their respective national legal frameworks.

The Basel III capital standards have significantly changed the minimum requirements framework by introducing:

- New capital definition and capital buffers;
- Liquidity and stable funding requirements;
- Governance requirements;
- A leverage ratio to complement the risk-weighted framework and restrict the build-up of excessive leverage;
- Own funds for Credit Valuation Adjustment (CVA) risk;
- Additional disclosure for large exposures.
- The general framework defined by Basel II, which is developed around three Pillars, was upheld.

First Pillar

The first Pillar, related to minimum capital requirements, defines the way banking institutions calculate their regulatory capital requirements in order to cover credit risk, market risk and operational risk. The framework provides different approaches for calculating:

- Credit risk through three different approaches: Standard Approach, Foundation Internal Rating-Based Approach and Advanced Internal Rating-Based Approach;
- Market risk through two approaches: Standard Approach and Internal Model Approach;
- Operational risk through three approaches: Basic Indicator Approach, Standard Approach and Advanced Measurement Approach.

Regarding credit risk, since the first quarter of 2020 Dexia has been authorised by its supervisors to move from the Advanced Internal Rating-Based Approach (AIRB Approach) to the Standard approach for the determination of its regulatory capital requirements under the Basel III Pillar 1 for credit risk and for the calculation of its solvency ratios.

This is applicable to all entities and subsidiaries consolidated within the Dexia Group, which are established in a Member State of the European Union and subject to the Capital Requirement Directive.

However, the ex AIRB models continue to be used for risk management purposes (more details on 3.3 Internal model).

In terms of market risk, Dexia calculates its capital requirements on the basis of both the Internal Model Approach and the Standardised Approach for general interest rate risk and the Standardised Approach for specific interest rate risk and foreign exchange risk.

For operational risk, Dexia applies the Standard Approach. Incident collection and reporting take place on a regular basis and the Risk and Control Self-Assessment (RCSA) process covers the entire bank, including foreign subsidiaries and branches.

Second Pillar

The aim of the Pillar 2 internal processes as recalled by the EBA is “to enhance the link between an institution’s risk profile, its risk management and risk mitigation systems, and its capital planning.” Pillar 2 can be divided into two major components:

- The Internal Capital Adequacy Assessment Process (ICAAP) aimed at establishing sound, effective and complete strategies and processes to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital commensurate to Dexia’s risk profile, as well as robust governance and internal control arrangements.
- The Supervisory Review and Evaluation Process (SREP). The purpose of the SREP is to ensure that Dexia has adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of its risks, to which it is or might be exposed, including those revealed by stress-testing.

Dexia has developed adapted and proportionate capabilities to address all Pillar 2 requirements under its orderly resolution plan and keeps its supervisors closely informed of all related developments.

Third Pillar

The third Pillar, market discipline, encourages market discipline by developing a set of qualitative and quantitative disclosures which will allow market participants to make a better assessment of capital, risk exposure, risk assessment processes, and hence the capital adequacy of the institution.

Part of the information requested by the CRR to comply with the disclosure requirements is provided in Dexia and Dexia Crédit Local’s Annual Reports. In such case, a clear reference has been included in this report.

Dexia’s Annual Report 2020 is available on:

<https://www.dexia.com/en/all-report-financy?year=2020>

An internal validation process at a Dexia level guarantees the quality of the information provided.

The Pillar 3 report is a joint publication by the Risk Management and Communication departments. The Management Board is responsible for final validation of the Pillar 3 disclosure. Statutory Auditors’ approval is not required. Information is not disclosed if it is considered non-material, proprietary or confidential.

Dexia Crédit Local, as an institution controlled by a EU parent financial holding company, must fulfil the obligations laid down in Part Eight of the CRR in the framework of Pillar 3 disclosure requirements under the Basel III capital framework on the basis of the consolidated situation of the financial holding company. This consolidation is achieved by Dexia located at Tour Bastion, Place du Champ de Mars 5, B-1050 Brussels, Belgium.

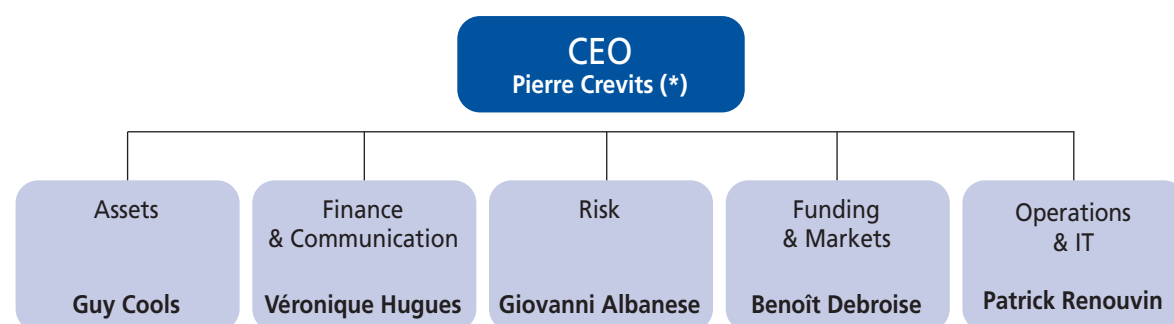
The Pillar 3 report has been published since 2008. The disclosure is organised on an annual basis together with the publication of the Annual Report.

Dexia releases the Risk Report – Pillar 3 of Basel III on Dexia’s website: www.dexia.com

The figures in the tables displayed in this report are provided in millions of Euros (EUR) unless otherwise stated.

The requirements of the third Pillar are met by this publication.

Dexia Management Board



(*) as from 20 May 2020

Dexia's Key Figures and Risk Profile

In 2020, the Risk activity line continued actively to manage the risk carried by Dexia, in line with the Risk Appetite Framework (RAF). This framework which includes risk indicators for solvency, liquidity, profitability, operational and business continuity, aims to define principles for assessing any deviation of the risk profile from the strategic plan approved by the Group's management bodies.

In a context affected by the Covid-19 pandemic, the Group has swiftly deployed the necessary means to protect its teams and to ensure operational continuity. The department in charge of monitoring operational risks was fully involved in the coordination of the generalized teleworking set-up, thus ensuring the continuation of all activities within a strengthened security framework.

The crisis also had an impact on the Group's results, in particular through an impact of EUR -169 million on the cost of risk at 31 December 2020, mainly due to the adjustment of the macroeconomic scenario assumptions used to assess Expected Credit Losses under the IFRS 9 framework and the review of the sensitive sectors perimeter carried out by the Group.

During the year, Dexia continued its asset disposal programme, despite a slowdown in the first half-year, at the peak of the crisis. The sales were mainly concentrated on Projects and Corporate Finance and Public Sector assets.

In addition, by the end of the first quarter, Dexia switched from the advanced method to the standard method for the valuation of credit risk-weighted assets. This change in methodology, validated by the European Central Bank, implies a simplification of the bank's operational processes in a run-off context. This resulted in an increase in total credit risk-weighted assets.

Outsourcing contracts, in particular the agreements between Dexia and Cognizant regarding IT and Back-Office services as well as IT infrastructure, are closely monitored, in particular through indicators from the Risk Appetite Framework.

Finally, as in 2019, Dexia took part in the transparency exercise organised by the European Banking Authority (EBA), the elements and conclusions of which were published at the end of November 2020. This exercise aimed to provide detailed and harmonised information on the balance sheets and portfolios of the main European banks.

The risk profile is illustrated by the following key figures as at 31 December 2020:

- Total Capital ratio stood at 28.5% (IFRS 9 transitional definition).
- CET 1 ratio stood at 28.1% (IFRS 9 transitional definition).
- Total risk-weighted assets amounted to EUR 24,196 billion.
- Credit risk
 - Dexia's Exposure at Default (EAD) amounted to EUR 82.9 billion, a decrease of 6% in comparison with 2019, explained by natural portfolio amortisation, asset disposals and early redemptions. Exposure was at EUR 39 billion in loans and EUR 39 billion in bonds. It is for the most part concentrated in the European Union (80%) and the United States (16%);
 - As at 31 December 2020 the majority of exposures remained concentrated on the local public sector and sovereigns (75%), taking account of Dexia's historical activity;
 - The portfolio comprises high quality assets which are 92% investment grade; non-investment grade exposures are predominantly situated in the 'BB' range;
 - Total impairments amounted to EUR 454 million, of which EUR 320 million of collective impairments, and EUR 134 million of specific impairments;
 - Credit risk-weighted assets (EUR 22,2 billion) are mostly on public sector (38%), project finance (26%) and corporate (20%);

-
- Counterparty credit risk on derivatives and repo is included in the figure for credit risk-weighted assets and the amount related to CVA capital charge is EUR 918 million.
 - Market risk (including interest rate and FX risk)
 - The end-of-period value at risk amounted to EUR 1,1 million concentrated on interest risk;
 - Market risk-weighted assets amounted to EUR 1 billion.
 - Operational risk-weighted assets amounted to EUR 1 billion.

1. Risk Management Objectives and Policies

Dexia Group policy on risks is defined and supervised by the Board of Directors.

The role of the Risk activity line is to implement the Group's strategy on monitoring and managing risk and to put independent and integrated risk measures in place. The Risk activity line identifies and monitors the risks to which the Group is exposed. If necessary, it proactively alerts the relevant committees and proposes corrective actions where applicable. In particular, the Risk activity line decides on the amount of provisions deemed necessary to cover the risks to which the Group is exposed.

The main tasks of the Risk activity line are to:

- Define and control the bank's risk appetite and provide relevant independent information, analyses and expert judgement on risk exposures, and advice on proposals and risk decisions made by the management bodies, other business divisions or support units as to whether they are consistent with the risk tolerance and appetite;
- Set up risk policies, guidelines, calculation methodologies and limits to constrain risk generated by the bank activities;
- Ensure that each key or emerging risk is identified and properly managed by the relevant units in the institution and that a comprehensive overview of all relevant risks is submitted to the management body;
- Establish a comprehensive and integrated assessment of risks: integrated risk map with appropriate granularity of risk factors, demonstrating diversification and major sensitivities/vulnerabilities in order to assess the adequacy of capital to Dexia's risk profile;
- Control and monitor credit, market and operational risks;
- Design / review internal models and carry out model performance assessment, including calibration of model buffers when needed;
- Anticipate negative risk evolution so that action can be taken by the bank to mitigate such risk;
- Manage strategic and regulatory projects proactively and evaluate the potential impact of regulatory evolutions;
- Set frameworks for the better identification of areas of increasing operational risk so that dedicated mitigating action plans can be implemented by the relevant activity lines;
- Maintain appropriate data-warehouses and risk systems ensuring timely and accurate regulatory and internal risk reporting;
- Implement best risk management practices in the entire Group and maintain efficient coordination with the risk units of subsidiaries and branches;
- Recommend improvements to the risk management framework and options to remedy breaches of risk policies, procedures and limits.

Information flow on risk to the management body (Management Board, Board of Directors or Risk Committee) is organised through regular presentations including:

- The Quarterly Risk Report and sector annual reviews;
- The Risk Appetite Framework monitoring (quarterly);
- Model validation status;
- New or updates of risk policies;
- Annual disclosures in regulatory risk related reports, including ICAAP/LAAP reports and outcomes of Pillar 2 related analyses;
- Presentations on expected changes in the regulatory and prudential framework impacting the bank's models and systems;
- Recommendations on the risk monitoring framework and operational management of Group risks under the supervision of the Transaction Committee.

The terms of office of Directors are detailed in the chapter "Governance" of Dexia's Annual Report 2020.

1.1. Risk Organisation and Governance

1.1.1. Organisation

Role of the Risk Committee, the Management Board, the Market Risk Committee, the Transaction Committee and the ALCO

The Risk Committee, created within the Dexia Board of Directors is responsible for monitoring aspects relating to risk strategy and validation of the level of tolerance of both current and future risk, as defined by the Board of Directors. It assists the Board of Directors in its supervision of the implementation of that strategy.

The Management Board is responsible for implementation of the various policies and directives framing Group strategy, particularly with regard to risk. To facilitate Group operations, a system of delegation of Management Board powers has been put in place.

The Management Board delegates its decision-taking powers in relation to:

- operations giving rise to credit risk to a Transaction Committee;
- balance sheet management to an ALCO Committee;
- market operations to a Market Risk Committee.

The Risk activity line establishes risk policies and submits its recommendations to the Management Board and to the sub-committees. It deals with the monitoring and operational management of Group risks under the supervision of those committees.

More detailed information on the Risk Committee, the Management Board, the Transaction Committee and the ALCO Committee is provided in the chapter "Governance" of Dexia's Annual Report 2020.

Organisation of the Risk Activity Line

The decision-taking body of the activity line is the Risk Management Executive Committee.

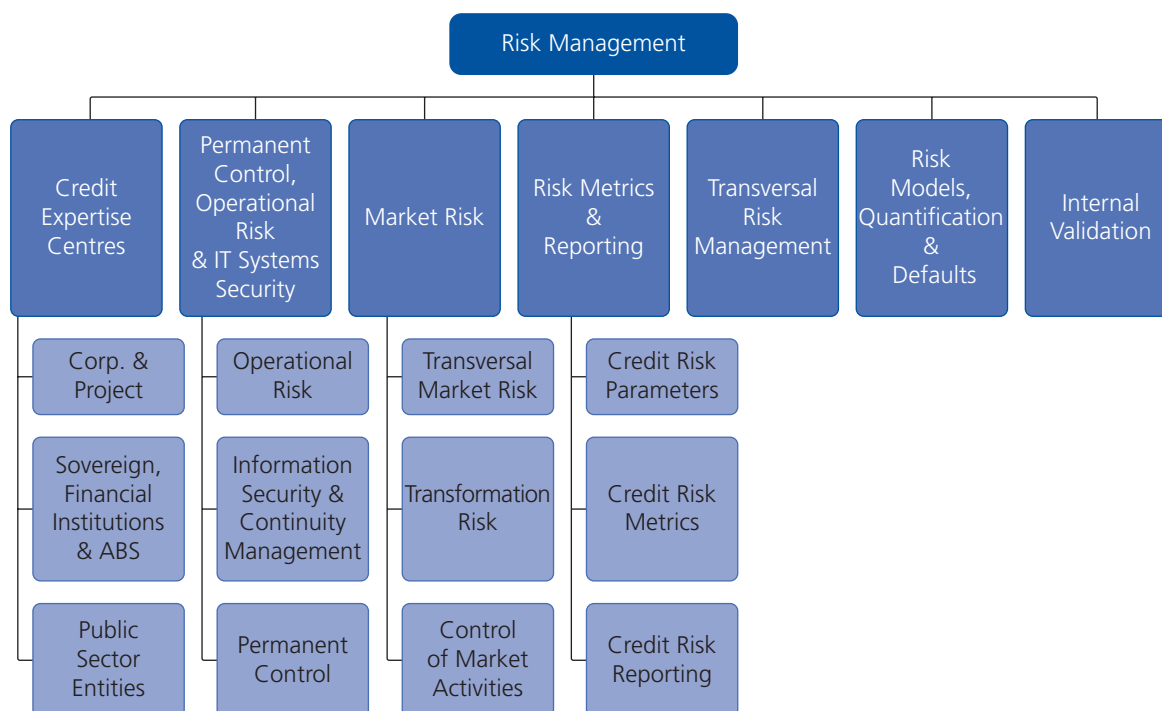
As at 31 December 2020, the Risk Management Executive Committee is chaired by the Chief Risk Officer and each department is represented within it:

- The Credit Analysis Centres department,
- The Market Risk department,
- The Permanent Control, Operational Risk and IT Systems Security department,
- The Credit Models and Default Monitoring department,
- The Transversal Risk Management department,
- The Internal Validation department,
- The Risk Metrics & Reporting department.

It meets on a weekly basis to review risk management strategies and policies as well as the main internal reports prior to their dissemination outside the activity line. In addition, it is responsible for monitoring regulatory issues, validating collective provisioning methodologies and the general organisation of the activity line.

In particular, the Risk Executive Committee is responsible for monitoring internal models (developments, reviews, back-testing, stress testing) on proposals from the teams responsible for the management of credit models and default monitoring and the market risk team. It regularly informs the Management Board and the Risk Committee of the use of models and, as the case may be, developments and/or difficulties.

The organisation and operation of the activity line also relies on certain committees, the prerogatives of which are governed by a system for the delegation of powers, defined in relation to the nature of the risks to which the Group is exposed.



The Risk Appetite Framework

The Risk Appetite Framework (RAF) is a regulatory requirement which defines Dexia's level of risk tolerance and falls within the implementation of Dexia strategy. It defines the Group's risk profile and qualifies the types of risk which Dexia is inclined to hold, minimise, attenuate or transfer in order to achieve its strategic objectives. The RAF considers Dexia's significant risks and relies on Dexia's strategy and capital forecasts.

The RAF was introduced in Dexia in 2016. It includes a declaration of risk appetite, qualitative and quantitative risk limits and an overview of the roles and responsibilities of bodies and functions which supervise implementation and monitoring.

It is subject to regular monitoring and an annual review in order to integrate any new regulatory, strategic or operational development. A quarterly consolidated schedule is presented by Risk Management to the Risk Committee and to the Board of Directors, with the aim of close and in-depth monitoring of the main risk indicators and of informing the Group's decision-making bodies.

Credit Risk

Credit risk represents the potential loss, materialised by the reduction in value of an asset or by the payment default which Dexia may suffer as the result of deterioration in the solvency of a counterparty.

The Credit Analysis Centres department defines the Group's credit risk policy, which encompasses supervision of the processes for rating counterparties, analysing credit files and monitoring exposures within the Group. It also proposes the specific provisions presented quarterly when the accounts are approved by the Board of Directors.

Along with the Risk Committee, the Management Board and the Transaction Committee, the following three committees meet on a quarterly basis:

- The Watch-list Committee supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside;
- The Default Committee screens and monitors counterparties in default by applying Group internal rules, in compliance with the regulatory framework;
- The Rating Committee ensures that internal rating processes are aligned with the established principles and that those processes are consistent across the Group's various entities.

Market Risk

Market risk represents the Group's exposure to changes in market parameters, such as interest and exchange rates. Interest rate risk consists of structural interest rate risk and specific interest rate risk associated with a given credit counterparty. The latter arises from fluctuations in the credit spread on specific counterparties within a rating class. The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which the Dexia Group prepares its financial statements. The interest rate and foreign exchange risk of the positions within the banking portfolio are part of the transformation risk.

Market risk policy and management are in the hands of the Management Board. To facilitate the Group's operational management, a system of delegated authority has been put in place:

- The Market Risk Committee is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group's risk policy, analyses risk results and positions and approves risk measurement methods. It meets on a monthly basis.
- The Valuation and Collateral Monitoring Committee meets on a monthly basis to analyse indicators relating to collateral management, to decide on action plans for significant valuation differences and to monitor the valuation of structured products.

Under the aegis of the Management Board and specialist risk committees, the Market Risk department identifies, analyses and monitors risks and results (including financial instrument valuations) associated with market activities.

Transformation Risk

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio as well as liquidity risk. Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies. Liquidity risk measures Dexia's ability to deal with its current and future cash requirements, both on a discounted basis and in the event of a deterioration of the Group's environment, on the basis of a range of stress scenarios.

Within the Risk activity line, a dedicated ALM Risk team is in charge of defining the risk framework within which management may be placed in the hands of the Financial Strategy team within the Finance activity line, of validating the models used to manage that risk and of monitoring exposures and checking compliance with Group standards. ALM Risk also defines the stresses to be applied to the various risk factors, proposes the risk acceptance levels and ensures that it complies with the regulatory framework in force.

Operational Risk and IT Systems Security

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or information systems, or external factors. This definition includes IT, legal and compliance risks.

The Management Board regularly monitors the evolution of the risk profile of the various Group activities and delegates the operational management of risk monitoring to the Operational Risk Committee. This committee examines the main risks identified and decides on the corrective actions to be taken. It validates measurement, prevention or improvement proposals in relation to the various elements of the mechanism. The Operational Risk Committee relies on committees dedicated to activity continuity and IT systems security, which examine and decide on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.

Operational risk, activity continuity and IT systems security management are coordinated by a central team within the Risk activity line supported by a network of correspondents within all subsidiaries and branches, as well as within the Group's various departments. Within each activity domain, an operational risk correspondent coordinates data collection and assesses risks and proposes and monitors remediation action plans. Supported by the operational risk management function, it ensures good operational continuity management.

Regulatory Risk

To ensure a proactive response to the various regulatory requirements, the Regulatory Risk Committee is responsible for defining Dexia's general approach to prudential problems and ensuring exhaustive cover for the various regulatory topics. It informs the different activity lines of the main regulatory developments, asks for and organises the various impact analyses and liaises with the various international entities on the implementation of new reforms.

ICAAP/ILAAP

The "Stress Tests and Pillar 2" Committee, under the joint responsibility of the Finance and Risk activity lines, steers the internal ICAAP and ILAAP processes. This committee approves all matters concerning governance, risk measures and results before they are submitted to the Management Board, the Risk Committee and the Board of Directors. The results are subject to independent analysis by the Internal Validation department. In continuity with previous years, analyses of the risks of deviations from the strategic plan were carried out for the ICAAP/ILAAP dossier (subject of exchanges with the European Central Bank within the framework of the SREP) and ad hoc analyses to support strategic choices. In the context of the pandemic, the stress tests have been performed regularly so as to account for the increased macro-economic uncertainty.

1.1.2. Governance

The elements related to the description of governance arrangements pursuant to Article 435 §2 of the Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR") are disclosed in the section entitled "Declaration of corporate governance" of Dexia Crédit Local's Annual Report 2020, as well as, if needed at a Dexia level, in the section entitled "Governance" published in Dexia's Annual Report 2020.

1.2. Accounting and Prudential Consolidation Scope

There is no difference between the consolidation scope for accounting and prudential purposes. The Dexia Group applies all rules with regard to the consolidation scope resulting from:

- IFRS 10 on the preparation and presentation of consolidated financial statements;
- IFRS 3 on business combinations and the impact of accounting methods on the consolidated accounts;
- IAS 28 (revised) on Investments in associates and joint ventures;
- IFRS 11 on joint arrangements.

The policies laid down by these standards imply that all companies over which the Group exercises exclusive or joint control or notable influence must be consolidated. Consequently, all companies exclusively or jointly controlled, or over which the Group holds a notable influence, are consolidated.

Pursuant to the principle of a true and fair view of the Group's financial statements, any companies the contribution of which to the consolidated financial statements is not material shall not be included in the consolidation scope.

Entities are considered as non-significant when, at a consolidated level, the aggregate of their total assets, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income.

As at 31 December 2020, the sum of the total balance sheet and net income of unconsolidated entities does not exceed this threshold.

The list of subsidiaries by method of consolidation is available in the Note 1.2 to the consolidated financial statements of Dexia's Annual Report 2020.

No participation is deducted from the prudential equity as at 31 December 2020.

1.3. Own Funds and Capital Adequacy

Dexia monitors its solvency using rules established by the Basel Committee on Banking Supervision and European Directive CRD IV. On the other hand, the Group ensures observance of the capital requirements imposed by the European Central Bank (ECB), within the framework of Pillar 2 of Basel III, following the Supervisory Review and Evaluation Process (SREP).

1.3.1. Strengthening of Prudential Requirements Applicable to Dexia with Regard to Solvency as from 1 January 2020

On 10 December 2019, the European Central Bank (ECB) informed the Dexia Group of the qualitative and quantitative prudential requirements with regard to solvency applicable to Dexia and Dexia Crédit Local, on a consolidated basis, as well as its Italian subsidiary Dexia Crediop as from 1 January 2020, in accordance with Council Regulation (EU) 1024/2013 dated 15 October 2013. These requirements are based in particular on the conclusions of work carried out by the ECB within the framework of the Supervisory Review and Evaluation Process (SREP)⁽¹⁾.

The Total SREP Capital Requirement (TSCR) has been set at 11.25% on a consolidated basis. This level includes a minimum own funds requirement of 8% (Pillar 1) and an additional own funds requirement of 3.25% (P2R – Pillar 2 Requirement) required entirely in Common Equity Tier 1 capital (CET 1). By including the capital conservation buffer of 2.5%, as well as the countercyclical buffer relating to exposures in France and the United Kingdom, estimated at 0.50%⁽²⁾, this takes the own funds requirement to 14.25% (by including the capital conservation buffer).

Furthermore the ECB expects Dexia to comply with Pillar 2 capital guidance (P2G) of 1%, to be held over the level of 14.25% and to be made up entirely of Common Equity Tier 1 capital (CET 1).

Within the framework of the fight against the crisis caused by the Covid-19 epidemic, on 12 March 2020 the ECB announced a series of measures to ease capital requirements under the SREP. These measures resulted in the relaxation of the capital conservation buffer and additional capital (P2G – Pillar 2 guidance). In conjunction with the ECB's announcement, some national authorities such as France and the United Kingdom also reset the countercyclical buffer to zero.

By integrating these easing measures, the capital requirement applicable to Dexia increases to 11.25% on a consolidated basis, compared to 15.25% initially communicated for the year 2020. This 11.25% requirement includes an additional capital level of 3.25% (P2R – Pillar 2 requirement) to be covered at least 56% by Common Equity Tier 1 capital and 75% by Tier 1 capital.

(1) Cf. Dexia press release dated 24 January 2020, available at www.dexia.com.

(2) Applicable as from the second half-year 2020, take into account the countercyclical buffer relating to the French exposures

On 7 January 2021, ACPR informed Dexia that, in the absence of any significant change in its risk profile and in order to take into account the exceptional circumstances generated by the current health crisis, the total capital requirement of 11.25% was maintained in 2021.

On 5 February 2021, ACPR also confirmed to Dexia the provisional maintenance of a tolerance that allows it to deduct from its CET1 regulatory capital the economic impact of remedying a failure to comply with the large exposure ratio for one sovereign exposure.

1.3.2. Temporary adjustments to the Capital Requirements Regulation (CRR Quick-Fix)

On 18 June 2020 the European Parliament validated a series of temporary adjustments to the Capital Requirements Regulation (CRR Quick-Fix), allowing banks to mitigate the impact of the Covid-19 pandemic on their regulatory capital. Thus, the transitional provisions allow the reintegration into regulatory capital of potential new expected credit losses recognised in 2020 and 2021 under IFRS 9 (Dynamic phase-in).

A temporary increase of the diversification factor from 50% to 66% applicable within the context of the prudent valuation (Prudent Valuation Adjustment – PVA) was also authorised, making it possible to limit the amount of the additional value adjustment to be taken into account in the calculation of prudential capital, as well as a temporary regulatory capital neutralisation of changes in the fair value of certain sovereign and public sector assets classified at fair value through equity.

Finally, risk-weighted assets (RWA) for sovereign exposures of European Union member states were temporarily reduced to 0% for exposures denominated and financed in the national currency of another member state.

Dexia and its subsidiaries made use of these temporary provisions when preparing their prudential statements and their solvency ratios as at 31 December 2020. Those adjustments had an impact of EUR 221 million and are detailed hereunder.

It should be noted that the temporary reduction of 25% of risk-weighted assets (RWA) of certain infrastructure exposures will be applied by Dexia in 2021.

1.3.3. Accounting and Prudential Equity Figures

(in EUR million)	31/12/2019			31/12/2020		
	Financial statements	Regulatory purposes	Difference	Financial statements	Regulatory purposes	Difference
Equity, Group share	7,302	7,659	(357)	6,631	6,944	(313)
of which share capital and related reserves	2,489	2,449	40	2,489	2,449	40
of which consolidated reserves	6,152	6,152	0	5,262	5,262	0
of which gains and losses directly recognised in equity	(441)	(44)	(397)	(501)	(149)	(352)
of which net result of the period	(898)	(898)	0	(618)	(618)	0
Minority interests	60	0	60	56	0	60
TOTAL EQUITY	7,362	7,659	(297)	6,687	6,944	(253)
Prudential filters and deductions		(501)			(435)	
IFRS 9 static phase-in ⁽¹⁾		150			123	
IFRS 9 dynamic phase-in ⁽²⁾					152	
Phase-in OCI variations on sovereign exposures ⁽²⁾					10	
Common Equity Tier 1		7,308			6,795	
Additional Tier 1		29			19	
Tier 2		67			77	
TOTAL CAPITAL		7,404			6,891	

(1) Transitional provisions to mitigate the impact of the first-time application of the IFRS 9 accounting standard.

(2) Transitional provisions to mitigate the impact of the Covid-19 crisis.

1.3.3.1. Share capital and Related Reserves

The residual outstanding of deeply subordinated non-cumulative notes issued in October 2006 by Dexia Funding Luxembourg (DFL) amounted to EUR 40 million as at 31 December 2020. Following the merge of DFL with Dexia, this amount is booked in equity, Group share. However, for regulatory purposes and taking into account the transitional dispositions of Basel III, this amount has to be considered partly as additional Tier 1 and as Tier 2.

1.3.3.2. Minority Interests

Minority interests are no longer recognised in prudential equity following the increase of Dexia's interest in Dexia Credipol to 99.57% in 2019 and 100% at the end of 2020.

1.3.3.3. Gains and Losses Directly Recognised in Equity – Breakdown

(in EUR million)	31/12/2019			31/12/2020		
	Financial statements	Regulatory purposes	Difference	Financial statements	Regulatory purposes	Difference
Gains and losses directly recognised in equity	(441)	(44)	(397)	(501)	(149)	(352)
Available for sale reserve on debt instruments, loans and receivables and equities						
Change in fair value of debt instruments and of equity instruments measured at fair value through other comprehensive income	(141)	(141)	0	(141)	(141)	0
Cash flow hedge reserve	(432)	0	(432)	(385)	1	(386)
Non realised performance - own credit risk on liabilities designated at fair value through profit or loss	35	0	35	33	0	33
Actuarial gains and losses on defined benefit plans	(5)	(5)	0	(3)	(3)	0
Cumulative translation adjustments	102	102	0	(6)	(6)	0
Gains and losses directly recognised in equity of non current assets held for sale	0	0	0	0	0	0

In application of Article 33.1 (a) of Regulation (EU) 575/2013, only the amount of cash flow hedge reserve related to financial instruments at fair value is taken into account in prudential equity.

An amount of EUR 1 million was taken into account as at 31 December 2020, while no amount was taken into account as at 31 December 2019.

Regarding the own credit risk on financial liabilities at fair value through profit or loss, as allowed by the IFRS 9 accounting standard, since 1 January 2017, Dexia has recognised the own credit risk of those financial liabilities in gains and losses directly recognised through equity. In application of Article 33.1 (b) in the CRR 575/2013, this amount is not recognised in prudential equity.

1.3.4. Prudential Equity

1.3.4.1. Prudential Equity- Breakdown

Total Capital can be broken down as follows:

- Common Equity Tier 1 capital, including in particular:
 - share capital, issuance premiums and retained capital,
 - profits for the year,
 - gains and losses directly recognised in equity (revaluation of financial instruments at fair value through equity, revaluation of cash flow hedge derivatives, translation adjustments, actuarial differences on defined benefit plans),
 - the eligible amount of non-controlling interests,
 - after deduction of intangible assets, goodwill, accrued dividends, own shares, the amount exceeding thresholds provided with regard to deferred tax assets and for holding shares and interests in credit or financial institutions, irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, the amount for persistent breaches of the large exposure constraint⁽³⁾ and elements subject to prudential filters (own debt risk, Debit Valuation Adjustment, cash flow hedge reserve, Prudent Valuation) and additional prudential provisions.
- Additional Tier 1, including Tier 1 subordinated debt (hybrid);
- Additional Tier 2 Capital, which includes the eligible portion of Tier 2 subordinated debt as well as surplus provisions on the level of expected losses, reduced by the surplus amount of thresholds provided with regard to holding subordinated debt issued by financial institutions.

In accordance with regulatory requirements and applicable transitional provisions:

- Dexia uses the approach to mitigating the impact of the new IFRS 9 provisioning model on prudential capital. This is spread over five years. The effect of increasing provisions for expected credit losses in view of the application of the IFRS 9 accounting standard was 85% in 2019 and 70% in 2020 (Static phase-in).

(3) Cf. Dexia press release dated 5 February 2018, available at www.dexia.com.

Certain adjustments on subordinated and hybrid debt are taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments. The Group's Total Capital amounted to EUR 6.9 billion as at 31 December 2020, compared to EUR 7.4 billion as at 31 December 2019.

As at 31 December 2020, Dexia Group's Common Equity Tier 1 Capital amounted to EUR 6.8 billion, against EUR 7.3 billion as at 31 December 2019. It is burdened by the negative net income for the year (EUR -618 million).

Prudential equity		
(in EUR million)	31/12/2019	31/12/2020
TOTAL CAPITAL	7,404	6,891
Common Equity Tier 1 Capital	7,308	6,795
Core shareholders' equity of which	7,659	6,944
<i>Eligible gains or losses directly recognised in equity</i>	(141)	(141)
<i>Cumulative translation adjustments (group share)</i>	102	(6)
<i>Actuarial differences on defined benefit plans</i>	(5)	(3)
Non-controlling interests eligible in Tier 1	0	0
Mitigation of the effect of the increase of expected credit losses following the application of IFRS 9 (85% in 2019 - 70% in 2020) (static phase-in)	150	123
Dynamic phase-in (covid-19 measures)	0	152
Temporary neutralisation of changes in fair value of certain sovereign and public sector assets classified at fair value through equity (covid-19 measures)	0	10
Items to be deducted:		
<i>Intangible assets and goodwill</i>	(29)	(21)
<i>Debit Valuation Adjustment</i>	(41)	(49)
<i>Prudent Valuation</i>	(212)	(190)
<i>Deduction of irrevocable payment commitments to resolution funds and other guarantee funds</i>	(49)	(59)
<i>Assets from defined benefit pension plans</i>	0	(1)
<i>Deduction for persistent breaches of the large exposure constraint</i>	(89)	(75)
<i>Additional prudential provisions</i>	(80)	(41)
Additional Tier 1 Capital	29	19
Subordinated debt	29	19
Tier 2 Capital	67	77
Subordinated debt	67	77
<i>of which additional Tier 1 reclassified</i>	67	77

The Group's solvency was impacted by the effects of the Covid-19 crisis. Indeed, additional value adjustments taken into account in regulatory capital within the context of the Prudent Valuation Adjustment (PVA) amounted to EUR -190 million as at 31 December 2020, despite a positive impact of EUR +59 million related to the increase in the diversification factor provided for by the temporary adjustment to the CRR (CRR Quick-Fix) validated by the European Parliament in June 2020.

Dexia also made use of the temporary adjustment to the CRR to reintegrate into prudential equity any new expected credit losses recognised under IFRS 9 (dynamic phase-in), resulting in a positive impact of EUR +152 million. The temporary neutralisation of changes in fair value of certain sovereign and public sector assets classified at fair value through equity also had a positive impact of EUR +10 million on the level of prudential equity.

In addition, in line with ECB requirements, two significant items are deducted from prudential equity at the end of 2020.

- The theoretical amount of loss corresponding to the remediation of the non-compliance with the large exposure ratio which, as at 31 December 2020, amounted to EUR -75 million⁽⁴⁾;
- The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, at EUR -59 million.

Finally, following its on-site inspection of credit risk which it conducted in 2018, the ECB issued a number of recommendations. As a consequence, Dexia deducted from its prudential equity an amount of EUR -41 million as additional specific provisions.

As at 31 December 2020, the nominal amount of the Group's hybrid Tier 1 securities amounted to EUR 96 million, of which EUR 19 million are eligible as additional Tier 1.

(4) Cf. Dexia Press Release dated 5 February and 26 July 2018, available at www.dexia.com.

No hybrid debt repurchase was carried out during 2020, in line with the ban imposed by the European Commission and communicated by Dexia on 24 January 2014⁽⁵⁾. The Group's hybrid Tier 1 capital is therefore composed of:

- EUR 56.25 million nominal value of perpetual non-cumulative securities issued by Dexia Crédit Local: these shares (FR0010251421) are listed on the Luxembourg Stock Exchange;
- EUR 39.79 million nominal value of perpetual non-cumulative securities issued by Dexia Funding Luxembourg, now incorporated at Dexia: these securities (XS0273230572) are listed on the Luxembourg Stock Exchange.

As at 31 December 2020, the amount of Dexia's additional equity (Tier 2 Capital) amounted to EUR 77 million, including reclassified hybrid debts.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia is constrained not to pay coupons on hybrid capital issued by Group issuers. So Dexia is constrained only to pay coupons on its subordinated debt instruments and hybrid capital if there is a contractual obligation to do so. In addition, Dexia cannot exercise any discretionary options for the early redemption of these securities. Finally, the Dexia Group is not authorised to repurchase hybrid capital debt issued by Dexia Funding Luxembourg (XS0273230572), and by Dexia Crédit Local (FR0010251421), as subordinated creditors must share in the financial burden resulting from the restructuring of financial institutions which have been granted State aid.

1.3.4.2. Prudential Filters

As a consequence of the application of Article 33 of Regulation (EU) No. 575/2013 (Capital Requirements Regulation – CRR) on cash flow hedges and changes in the value of own liabilities, Dexia shall not include the following items in any element of own funds:

- The fair value reserves related to gains or losses on cash flow hedges of financial instruments not valued at fair value, including projected cash flows. Out of the amount of EUR -384 million of CFH reserve as at 31 December 2020, only an amount of EUR 1 million was eligible as prudential equity. As at 31 December 2019, out of an amount of EUR -432 million, everything was filtered. As a consequence nothing was eligible as prudential equity.
- The gains or losses on financial liabilities of the institution valued at fair value through profit or loss that result from changes in the own credit risk (OCR) of Dexia. It amounted to EUR 33 million as at 31 December 2020 (EUR 35 million as at 31 December 2019). The amount is completely filtered out.
- Fair value gains and losses arising from Dexia's own credit risk related to derivative liabilities. The Debit Valuation Adjustment (DVA) amounted to EUR 49 million as at 31 December 2020 (EUR 41 million as at 31 December 2019).

Also, in accordance with the regulation, prudent valuation requirements are applied to all fair-valued positions regardless of whether they are held in the trading book or the banking book.

The prudent valuation adjustment was EUR 190 million as at 31 December 2020 (EUR 212 million as at 31 December 2019).

1.3.4.3. Deductions pursuant to Articles 36, 56 and 66 and items not Deducted in Accordance with Articles 47, 48, 56, 66 and 79 of the CRR

As at 31 December 2020, the Dexia Group was concerned by the deductions under review only for the intangible assets.

- The amount of intangible assets (software acquired or internally developed) to be deducted represented EUR 21 million.
- The holdings in capital instruments of financial sector entities without representing a significant investment in those entities amounted to EUR 27 million as at 31 December 2020, far below the threshold (EUR 662 million) from which deductions have to be made.
- As at 31 December 2020 the Group did not recognise any deferred tax assets. As at 31 December 2019 the deferred tax assets on the face of the balance sheet represented an amount of EUR 20 million and arose from temporary differences.
- Significant investments in financial sector entities, at less than EUR 1 million, did not exceed the threshold for deduction. This limited amount did not exceed the second threshold required in Article 48. They are included in risk-weighted assets with a weight of 250%.

1.4. Risk-Weighted Assets by Type of Risk

As at 31 December 2020, risk-weighted assets amounted to EUR 24.2 billion against EUR 27.3 billion at the end of December 2019, of which EUR 22.2 billion for credit risk, EUR 1 billion for market risk and EUR 1 billion for operational risk. Over the year, credit risk-weighted assets decreased by EUR 0.9 billion. The decrease due to the reduction of the asset portfolio is partially masked by the EUR 3.2 billion increase induced by the changeover to the standard method for the valuation of these weighted assets in March 2020. Market risk-weighted assets decreased by EUR 2.2 billion, mainly due to the reversal of an additional capital charge recorded as at 31 December 2019 at the request of the ECB.

(5) Cf. Dexia Press Release dated 24 January 2014, available at www.dexia.com.

Risk-weighted assets		
(in EUR million)	31/12/2019	31/12/2020
Credit risk-weighted assets	23,080	22,166
Market risk-weighted assets	3,183	1,031
Operational risk-weighted assets	1,000	1,000
TOTAL	27,263	24,196

The following table shows the risk-weighted assets (RWA) and capital for each type of risk (and exposure class for credit risk) at year-end 2020. Regarding credit risk, the breakdown by exposure class presented in the following table reflects the historic presence of Dexia in financing public sector entities and project finance.

Type of risk	Basel III treatment	Exposure class	31/12/2019		31/12/2020		
			RWA	Capital requirements	RWA	Capital requirements	
Credit risk	Advanced	Corporate	2,945	236			
		Equities	154	12			
		Financial Institutions ⁽¹⁾	2,263	181			
		Project Finance	2,230	178			
		Public Sector Entities	1,327	106			
		Securitisation ⁽²⁾					
		Total	7,919	634			
	Standard	Corporate	100	8	4,350	348	
		Equities	25	2	63	5	
		Financial Institutions ⁽¹⁾	564	45	2,779	222	
		Monolines	270	22	263	21	
		Project Finance	408	33	5,617	449	
		Public Sector Entities	4,435	355	8,084	647	
		Retail (leasing)	0	0	0	0	
		Total	5,804	464	21,365	1,709	
	RBA	Securitisation ⁽²⁾	438	35	800	64	
		Total	438	35	800	64	
	Market risk	Internal Model	Interest Rate Risk	2,751	220	458	37
			Total	2,751	220	458	37
Standard		Interest Rate Risk	1	0	0	0	
		Total	432	35	573	46	
Operational risk	Basic	Total	1,000	80	1,000	80	
TOTAL		27,263	2,181	24,197	1,936		

1.5. Capital Adequacy

1.5.1. Regulatory Solvency Ratios

Dexia's Common Equity Tier 1 ratio was 28.1% as at 31 December 2020, compared to 26.8% at the end of 2019. The Total Capital ratio was 28.5%, compared to 27.2% at the end of 2019, a level above the minimum of 15.25% required for the year 2020 by the ECB within the context of the Supervisory Review and Evaluation Process (SREP) and temporarily reduced to 11.25% as part of the temporary easing measures related to the Covid-19 pandemic.

1.5.2. Regulatory Equity and Solvency Ratios

(in EUR million except where indicated)	31/12/2019		31/12/2020	
	transitional definition	fully-loaded definition	transitional definition	fully-loaded definition
Common equity Tier 1	7,308	7,158	6,795	6,509
Total capital	7,404	7,323	6,891	6,605
Risk-weighted assets	27,263	27,254	24,196	24,024
Common equity Tier 1 ratio	26.8%	26.3%	28.1%	27.1%
Total capital ratio	27.2%	26.9%	28.5%	27.5%

1.5.3. Internal Capital Adequacy

From 2012 Dexia has reshaped the internal capital adequacy assessment process, taking account of its specific situation as a bank in orderly resolution and in line with regulatory requirements. The ICAAP process considers both the regulatory and economic capital requirements. Within the framework of the Single Supervisory Mechanism (SSM), this approach is the Group's response to the requirements of the European Central Bank (ECB) in relation to the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Supervisory Review and Evaluation Process (SREP).

This approach consists of establishing an exhaustive map of the qualitative and quantitative risks which might simultaneously affect the Group's accounting and prudential situation as well as its liquidity. The risk map considers all material risk identified in the risk taxonomy that categorises the different risks and risk factors which Dexia is or might be exposed to. Such risk mapping aims primarily to measure the sensitivities and exposure to different risk factors impacting the bank. Secondly, the simultaneous impact of various unfavourable future risk scenarios is measured, particularly in terms of the evolution of the principal accounting and prudential indicators; as well as an economic view. In this regard, and within the same framework, multiple transversal stress tests are performed. Possible departures from the baseline financial and strategic plans are thus identified, measured and analysed. These unfavourable scenarios simultaneously include scenarios of macroeconomic stress and scenarios which are simulated mathematically and reverse stress tests.

In accordance with the requirements of Pillar 2 and in line with best market practices, the conclusions from these processes are regularly submitted for the approval of the bank's decision-taking bodies (Management Board, Risk Committee and Board of Directors).

The ICAAP approach builds upon key strengths of regular economic capital approaches, stress testing techniques and Risk Appetite Framework. It aims at being fully integrated into the financial planning process, thus demonstrating the capital and liquidity adequacy as required by regulation.

In practical terms, the ICAAP process consists of 3 main steps:

- **An Integrated Risk Map (IRM):** this IRM is Dexia's comprehensive risk taxonomy and cartography inter alia allowing assessments to measure the sensitivities of the financial, prudential and economic statements to each major identified risk factor (default, rating migration, market spread indices, foreign exchange rates, interest rates...). It covers all qualitative and quantitative risks affecting Dexia beyond the risks of Pillar 1. For example, the IRM data provides the sensitivity to a decrease of interest rates simultaneously on liquidity reserve, CVA, cash collateral, hedge accounting, risk-weighted assets, etc. and ultimately on available capital, capital ratios and funding sources. This risk map establishes a transparent link between a comprehensive and economic approach to risks and their impact on accounting and prudential measures.
- **Risk Evaluation:** consistent evaluation of risk scenarios and assessment of their impact. These risk scenarios are evaluated for each of the main building blocks in dedicated tools (credit, market and funding, operational and budget risk). Multiple risk scenarios (expert, historical, market forwards and Monte Carlo) are aggregated in a single format for comparison and benchmarking purposes. Their impact in terms of capital and liquidity requirements is assessed and benchmarked towards base case scenarios. The adequacy between available financial and funding resources and the risks facing the bank for a variety of risk scenarios at different severity levels is assessed from both a regulatory and an economic capital perspective.
- **Reporting:** an integrated cascade of reporting is devised ranging from the most synthetic reports submitted to the decision-taking bodies, to more detailed reporting for intermediate Finance and Risk committees. These reports are designed to meet regulatory requirements in terms of ICAAP and ILAAP (Internal Capital/Liquidity Adequacy Assessment Process) and above all to provide insights into key risks and drivers of the volatilities of key accounting and prudential indicators. These reports will ultimately be used by the departments in charge of optimising Dexia's run-off.

Possible departures from the baseline financial and strategic plans are identified, measured and analysed. These unfavourable scenarios simultaneously include macro-economic stress scenarios, scenarios simulated mathematically and reverse stress tests. The key focus of the ICAAP scenarios are established over a horizon of three years with an annual step.

The conclusions of the internal capital adequacy approach in terms of capital adequacy measures and capacities to absorb losses were formally submitted to the bank's executive bodies on a quarterly basis in 2020. A key focus of the quarterly updates is the increased macro-economic uncertainty in the context of the Covid-19 pandemic that inter alia consider the severe economic scenarios published by the European Central Bank and the adverse scenario of the European Banking Authority.

1.5.4. Stress Tests

The objective of the stress test framework is to ensure that the Dexia Group's financial position provides sufficient resilience to withstand the impact of severe economic and financial stress.

In line with the final versions of the EBA guidelines published in July 2018 – Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing and Guidelines on institutions' stress testing – and the requirements formulated by the European Central Bank in November – ECB Guide to the internal capital adequacy assessment process (ICAAP) and ECB Guide to the internal liquidity adequacy assessment process (ILAAP) – for application as from 1 January 2019, Dexia performs multiple scenario analysis exercises and stress tests in a transversal and integrated approach to the Group's risk management process. This is a complete programme of stress tests in observance of the EBA guidelines which guarantees consistent articulation between the different types and granularities of stress.

Globally and transversally, these stress tests consist of sensitivity analyses, scenario impact analyses at multiple levels of severity and reverse stress tests. They exhaustively cover all the bank's risks, particularly and principally credit and counterparty risk, market and foreign exchange risk, liquidity risk, interest rate risk specific to banking portfolios (excluding the trading portfolio), operational risk including legal risk and concentration risk.

In addition to the stress tests applied within the framework of the ICAAP/ILAAP described below, Dexia also applies other stress tests:

- Credit stress tests. As Dexia applies the standard approach for credit risk-weighted assets from the first quarter of 2020 onwards, the Pillar 1 stress tests by sector and type of internal rating system for the advanced internal ratings based approach are no longer applied. On the level of the global portfolio, the different types of stress tests are maintained: sensitivity tests, macroeconomic stress tests, historical stress tests and expert scenarios. A focus was made on the sectors/counterparties which were the most impacted by the Covid-19 pandemic. These stress tests are applied for the ICAAP, strategic and managerial stress tests.
- Market stress tests (highlighting potential events outside the probability of VaR measurement techniques). They have been divided into tests of unique risk factors, tests of historic scenarios, tests of hypothetical scenarios and reverse stress tests.
- Stress tests associated with the structural interest rate risk enabling the potential impact on Dexia equity of a sudden and unexpected fluctuation of interest rates, to be measured, responding to regulatory expectations.
- Liquidity stress tests enabling additional liquidity requirements to be estimated in exceptional but plausible scenarios at different time horizons up to two years. Their aim is to identify possible vulnerabilities and simultaneously in an adverse shock situation to assess the possible increase of risk-weighted assets, additional liquidity requirements or capital requirements.
- Operational risk stress tests based on analysis of the frequency and severity of operational incidents, completed by scenario analyses.
- A series of internal transversal stress tests, complementary to and consistent with those of the ICAAP and ILAAP processes, relying on macroeconomic scenarios simulating crisis situations for Dexia for the purpose of internal analyses of capital adequacy and the risks of deviations from the strategic plan. They were approved internally and forwarded to the supervisory authorities on various occasions in 2020, in addition to the formal documentation of the ICAAP and ILAAP processes.

Crisis simulations for the purposes of ICAAP and ILAAP, described in detail in the following sections, are the object of internal validation and verification by the validation department and the internal audit. In accordance with regulatory requirements, the complete annual exercise for 2020 was forwarded to the ECB.

1.5.4.1. Stress Tests Related to Credit Risk

The macroeconomic stresses are evaluated by means of quantitative point-in-time models per credit sector. These models are developed for the purpose of stress testing, financial planning and IFRS 9 multi-scenario expected credit loss calculations, to link the evolution of the credit risk parameters (migration rates, default rates, loss rates) to the change of the main macro-economic variables (GDP evolution rate, unemployment rate, interest rate, etc.). The macroeconomic stresses are either (i) dedicated stress scenarios, e.g., the EBA stress test adverse scenario or the ECB severe macroeconomic scenario published in the context of the pandemic; or (ii) historical macroeconomic scenarios observed during downturns.

Synthetic stress tests are applied by means of a latent factor credit value-at-risk approach. The data generating process is a CreditMetrics latent factor model for both regions and sectors. The correlated latent factor shocks as well as idiosyncratic shocks impact default, migration and loss rates.

The quantitative modelling is complemented by an expert approach to take into account the actual vulnerabilities of each credit sector, especially in the context of the pandemic. These expert scenarios are designed and discussed during the credit workshops with credit risk experts involved in the different asset classes. A specific focus has been applied to the sectors and/or counterparties impacted by the crisis.

Sensitivity stress tests consider simple increases of default or loss rates, or rating downgrades. The outcomes of the macroeconomic, synthetic and expert stress scenarios are benchmarked across each other. These stress tests are applied for the ICAAP, strategic and managerial stress tests. During 2020, a specific focus was applied on the potential impact of the Covid-19 pandemic.

1.5.4.2. Stress Tests Related to Market Risk

The market risk stress tests complete the risk management framework by stressing potential exceptional events outside the probability framework of VaR measurement techniques. They are performed on a quarterly basis on the Group scope. The results of these stress tests are reported to the Market Risk Committee.

A number of scenarios are regularly assessed covering the main market risk factors: interest rate, foreign exchange rate, volatility and credit spread.

Stress tests performed by Dexia can be broken down into four categories:

- Single risk factor (mono-factorial) stress tests, including some stress tests recommended by the banking supervisors.
- Integrated historical scenario stress tests: Equity crash (1987), Monetary crisis (1992), Terrorist attack (2001), Financial crisis scenario (2008) capturing the turmoil triggered by the Lehman default, Sovereign crisis (2012) simulating the crisis propagation of the sovereign debt crisis in the Euro zone.

- Integrated hypothetical scenarios stress tests.
- Reverse stress tests.

1.5.4.3. Stress Tests Related to Structural Interest Rate Risk

Dexia applies the supervisory standard shock as defined by the EBA, assessing the change in economic value by more than 20% on own funds as a result of a sudden and unexpected change in interest rates. This is achieved by means of a 200 basis point parallel shift of the yield curve. The results of these stress tests are reported to the Group Assets and Liabilities Committee.

1.5.4.4. Stress Tests Related to Liquidity Risk

Dexia performs liquidity stress tests to estimate the additional liquidity requirements under exceptional although plausible scenarios in a certain time horizon up to two years such as:

- Market-wide shocks which affect all banks in the system;
- Idiosyncratic shocks, e.g. due to the financial deterioration of Dexia;
- Combined scenario.

Stress scenarios are applied on balance sheet and off-balance-sheet components of the residual gap that is the main liquidity driver. The residual gap is the difference between:

- Dynamic liquidity gap composed of the static liquidity gap profile adjusted for gap assumptions (new transactions, roll of repo, roll of short-term funding, etc.).
- Dynamic buffer of reserves composed of the static buffer of eligible reserves adjusted for reserve assumptions.
- Stress tests mainly performed on wholesale funding, cash collateral and reserves (assets) eligible for pledging to central banks, funding deposits and secured funding. The stress encompasses off-balance-sheet commitments and downgrade triggers.

1.5.4.5. Integrated Pillar 2 Stress Tests

Following the EBA Pillar 2 guidelines Dexia includes in its ICAAP a comprehensive stress testing framework, clearly distinct and independent from the ICAAP economic capital risk measurement, providing a challenging perspective to the latter, including of its underlying assumptions.

More specifically, for regulatory stresses of the ICAAP and ILAAP type, as defined in the EBA guidelines and in association with reviews of financial plans over multiple horizons, Dexia performed a complete review of its vulnerabilities to cover all material risks associated with its business model under stressed macroeconomic and financial conditions in addition to reverse stress tests. In accordance with regulatory requirements, the documentation for the ICAAP 2020 annual exercise was forwarded to the ECB.

The ICAAP stress tests form an integral part of the bank's reporting system, and its Risk Appetite Framework (RAF) and are incorporated in the definition and review of global strategy. They systematically complete the financial planning process. The link between risk tolerance, adaptations to the strategic plan for resolution and the ICAAP and ILAAP stress tests is also guaranteed by specific consumption and capital adequacy indicators forming part of the RAF.

1.5.4.6. Internal Transversal Stress Tests

A series of internal transversal stress tests, complementary to and consistent with those of the ICAAP and ILAAP processes, relying on macroeconomic scenarios simulating crisis situations for Dexia for the purpose of internal analyses of capital adequacy and the risks of deviations from the strategic plan. They were approved internally and forwarded to the supervisory authorities on various occasions in 2020, in addition to the formal documentation of the ICAAP and ILAAP processes.

1.6. Leverage Ratio

The Basel III / CRD IV Regulation introduced the leverage ratio, the main objective of which is to serve as a complementary measure on capital. This ratio is obtained by dividing Tier 1 Capital by exposures calculated using the balance-sheet assets and off-balance-sheet commitments, assessed according to a prudential approach. Derivatives and repurchase agreements are also adjusted.

The European Commission published the CRR revision (CRR 2) on 7 June 2019 in the EU Official Journal with final date of application on 28 June 2021. Under CRR 2 a minimum level of 3% is applicable. However, banks have been required to publish their leverage ratio since 1 January 2015.

As at 31 December 2020, the Dexia Group ratio calculated according to the CRR/CRD IV rules as amended by the Delegated Act of October 2014 reached 8.25% (using a transitional definition of Tier 1 capital), compared to 8.38% as at 31 December 2019. This slight decrease is explained by a decrease of the Tier 1 capital which was greater than the decline of the Total Exposure amount over the past year.

As at 31 December 2020, the Dexia Group leverage ratio calculated using a fully phased-in definition of Tier 1 capital reached 7.88%.

Quarterly follow-up of the leverage ratio is performed at both Group and entity levels, in order to manage the risk of excessive leverage. This follow-up is included in the quarterly "Capital Management" report.

Summary Comparison of Accounting Assets against Leverage Ratio Exposure Measure

LEVERAGE EXPOSURE: RECONCILIATION WITH TOTAL BALANCE SHEET		
in EUR million except where indicated	31/12/2019	31/12/2020
TOTAL BALANCE SHEET	120,326	114,427
Neutralisation of the balance-sheet value of items the leverage exposure of which is different from that of the balance sheet	(39,528)	(37,892)
<i>Trading derivatives (assets)</i>	11,181	9,411
<i>Hedging derivatives (assets)</i>	1,378	1,263
<i>Securities Financing Transactions- SFT (assets)</i>	1,502	936
<i>Cash collateral (paid)</i>	25,467	26,282
Leverage Exposure of derivatives	4,279	4,058
Leverage exposure of reverse repo		
Leverage exposure of repo (liabilities) counterparty credit risk	2,124	1,632
Leverage exposure of off-balance-sheet items	629	560
Leverage exposure adjustment on assets deducted from capital CET 1	(242)	(211)
<i>Intangible assets</i>	29	21
<i>Additional value adjustments</i>	212	190
TOTAL LEVERAGE EXPOSURE	87,589	82,575
TIER 1 capital, transitional provisions	7,336	6,814
LEVERAGE RATIO	8.38%	8.25%

LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE		
in EUR million except where indicated	31/12/2019	31/12/2020
On-balance-sheet exposures		
1 On-balance-sheet items (excluding derivatives and SFTs, but including collateral)	106,265	102,817
2 (Asset amounts deducted in determining Basel III Tier 1 capital transitional definition)	(242)	(211)
3 Total on-balance-sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	106,023	102,606
Derivative exposures		
4 Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	5,664	5,397
5 Add-on amounts for Potential Future Exposure (PFE) associated with all derivatives transactions	1,498	1,402
6 Gross-up for derivative collateral provided where deducted from the balance-sheet assets pursuant to the operative accounting framework	(25,467)	(26,282)
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(2,884)	(2,741)
8 (Exempted Central Counterparty (CCP) leg of client-cleared trade exposures)		
9 Adjusted effective notional amount of written credit derivatives		
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11 Total derivative exposures	4,279	4,058
Securities financing transaction exposures		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)		
14 Counterparty credit risk (CCR) exposure for SFT assets	2,124	1,632
15 Agent transaction exposures		
16 Total securities financing transaction exposures (sum of lines 12 to 15)	2,124	1,632
Other off-balance-sheet exposures		
17 Off-balance-sheet exposure at gross notional amount	1,007	793
18 (Adjustments for conversion to credit equivalent amounts)	(378)	(233)
19 Off-balance-sheet items (sum of lines 17 and 18)	629	560
Capital and total exposures		
20 Tier 1 capital	7,336	6,814
21 Total exposures (sum of lines 3, 6, 11, 16 and 19)	87,589	82,575
Leverage ratio		
22 Basel III leverage ratio	8.38%	8.25%

1.7. Significant Banking Subsidiary: Dexia Crédit Local

Dexia Crédit Local (DCL) is Dexia Group's sole significant subsidiary following the orderly resolution plan. DCL exposure amounts are almost the same as those of the Dexia Group.

1.7.1. Prudential Equity and Solvency Ratios

(in EUR million except where indicated)	Solvency			
	31/12/2019		31/12/2020	
	transitional definition	fully-loaded definition	transitional definition	fully-loaded definition
Common equity Tier 1	6,269	6,119	5,807	5,531
Total capital	6,325	6,247	5,863	5,588
Risk-weighted assets	26,706	26,697	23,692	23,520
Common equity Tier 1 ratio	23.50%	22.90%	24.51%	23.52%
Total capital ratio	23.70%	23.40%	24.75%	23.76%

Dexia Crédit Local's Total Capital amounted to EUR 5.9 billion as at 31 December 2020, compared to EUR 6.3 billion as at 31 December 2019.

As at 31 December 2020, Dexia Crédit Local's Common Equity Tier 1 Capital amounted to EUR 5.8 billion, against EUR 6.3 billion as at 31 December 2019. It is burdened by the negative net income for the year (EUR -557 million).

In line with ECB requirements, two significant items are deducted from regulatory capital at the end of 2020.

- The theoretical amount of loss corresponding to the remediation of the non-compliance with the large exposure ratio which, as at 31 December 2020, amounted to EUR -107 million⁽⁶⁾;
- The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, at EUR -59 million.

In addition, following its on-site inspection of credit risk which it conducted in 2018, the ECB issued a number of recommendations. As a consequence, Dexia Crédit Local deducted from its prudential capital an amount of EUR -41 million as additional specific provisions.

As at 31 December 2020, risk-weighted assets amounted to EUR 23.7 billion against EUR 22.9 billion at the end of December 2019, of which EUR 22.1 billion for credit risk, EUR 1 billion for market risk and EUR 0.6 billion for operational risk. Over the year, credit risk-weighted assets decreased by EUR 0.9 billion. The decrease due to the reduction of the asset portfolio is partially masked by the EUR 3.2 billion increase induced by the changeover to the standard method for the valuation of these weighted assets in March 2020. Market risk-weighted assets decreased by EUR 2.2 billion, mainly due to the reversal of an additional capital charge recorded as at 31 December 2019 at the request of the ECB.

Dexia Crédit Local's Common Equity Tier 1 ratio was 24.5% as at 31 December 2020, compared to 23.5% at the end of 2019. The Total Capital ratio was 24.7%, compared to 23.7% at the end of 2019, a level above the minimum of 15.25% required for the year 2020 by the ECB within the context of the Supervisory Review and Evaluation Process (SREP) and temporarily reduced to 11.25% as part of the temporary easing measures related to the Covid-19 pandemic.

⁽⁶⁾ Cf. Dexia Press Release dated 5 February and 26 July 2018, available at www.dexia.com.

2. Credit Risk

2.1. Credit Risk Management

2.1.1. Dexia Credit Risk Policy

In order to manage credit risk, Dexia Risk Management has established a general framework of policies and procedures. This framework guides credit risk management in its functions of analysis, decision-making and risk surveillance.

Risk Management contributes to the process of credit by setting up a framework of credit limits mainly for banking activities (funding and derivatives) dedicated to the residual portfolio. The rest of the transactions (restructuring, additional credit limits beyond the framework) have to be approved by the Transaction Committee.

2.1.2. Risk Measures

Despite the move to the standard approach, the assessment of credit risk relies on internal rating systems developed within the context of the Basel II reform: in this Advanced approach, each counterparty is attributed an internal rating by credit risk analysts relying on dedicated rating tools. This internal rating corresponds to an assessment of the level of the counterparty's risk of default, expressed through an internal rating scale, constituting a key element in the credit decision making process. Ratings are revised annually, allowing proactive identification of the sensitive counterparties and risks. Watch-list committees are organised to monitor sensitive exposures on the basis of objective criteria or expert judgment. The Internal Rating Systems are backtested and/or updated on an annual basis in the perspective of IFRS 9 expected credit losses, stress testing, economic capital view and ICAAP.

In order to control the Group's overall credit risk profile, and to limit the concentration of risks, credit risk limits are defined per counterparty, setting the maximum exposure deemed acceptable. The risk management teams can also set limits per product: they proactively monitor limits and may reduce them at any time depending on the evolution of associated risks.

2.2. Credit Risk Exposure

Dexia's credit risk exposure is expressed as Exposure at Default (EAD). It corresponds to the best estimate of credit risk exposure in the event of default. The Dexia Group uses the standard approach to calculating its risk-weighted assets. Thus, the regulatory metric has been adapted to allow the treatment of impairments to be homogenised for comparison purposes.

- For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments, taking account of accrued interest and the impact of hedge accounting;
- For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to its book value, before impairments;
- For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No. 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;
- For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia Group applies the standard method (Article 111 of the Regulation (EU) No. 575/2013) to determine credit conversion factors.

As at 31 December 2020, Dexia's credit risk exposure was EUR 82.9 billion, compared with EUR 87.9 billion at the end of December 2019, i.e. down 6%, linked to asset disposals, natural portfolio amortisation and early redemptions.

Exposure was for EUR 39 billion in loans and EUR 39 billion in bonds. It was for the most part concentrated in the European Union (80%) and the United States (16%).

2.2.1. Exposure per Type of Product and Geographic Area

The table below shows the total exposure with a breakdown by type of product and geographic area at year-end 2019 and 2020.

Exposure at year-end 2019 (EAD)					
	Eurozone ⁽¹⁾	Rest of Europe	USA	Rest of the world	Total
Loans and advances	24,509	12,508	3,773	1,162	41,951
Debt securities	21,176	6,583	4,604	5,349	37,712
Repo	1,074	123	12	358	1,567
ABS	46	1,360	3	1	1,410
Derivatives	1,804	1,261	321	214	3,601
Given guarantees	895	556	168	45	1,664
Retail loans	2	0	0	0	2
TOTAL	49,506	22,392	8,881	7,128	87,907

(1) Countries using the Euro currency as at year-end.

Exposure at year-end 2020 (EAD)					
	Eurozone ⁽¹⁾	Rest of Europe	USA	Rest of the world	Total
Loans and advances	24,770	11,910	490	631	37,802
Debt securities	23,023	6,353	3,726	4,594	37,696
Repo	885	169	11	0	1,066
ABS	34	1,274	2	1	1,311
Derivatives	1,574	1,266	328	167	3,335
Given guarantees	954	588	70	13	1,625
Retail loans	24	0	0	0	24
TOTAL	51,264	21,560	4,628	5,406	82,858

(1) Countries using the Euro currency as at year-end.

2.2.2. Exposure per type of product and obligor grade

The following tables show the total exposure and the average exposure with a breakdown by type of product and obligor grade at year-end 2019 and 2020. For reporting purposes, a rating "master scale" has been applied. This scale is structured in grades ranging from AAA to CCC and the modifiers plus, flat and minus.

Exposure at year-end 2019 (EAD)						
Rating	AAA+ to AA-	A+ to BBB-	NIG ⁽¹⁾	Default	Unrated	Total
Loans and advances	17,513	20,084	3,680	539	135	41,951
Debt securities	2,283	32,909	2,517	3	0	37,712
Repo	0	1,567	0	0	0	1,567
ABS	1,304	1	55	0	49	1,410
Derivatives	144	3,024	312	120	0	3,601
Given guarantees	421	1,193	24	18	8	1,664
Retail loans	0	0	0	2	0	2
TOTAL	21,666	58,778	6,589	682	192	87,907

(1) Non-investment grade.

Exposure at year-end 2020 (EAD)						
Rating	AAA+ to AA-	A+ to BBB-	NIG ⁽¹⁾	Default	Unrated	Total
Loans and advances	15,941	18,212	3,162	451	36	37,802
Debt securities	4,007	31,180	2,506	2	0	37,696
Repo	0	1,066	0	0	0	1,066
ABS	1,212	3	96	0	0	1,311
Derivatives	109	2,961	227	37	0	3,335
Given guarantees	270	1,296	28	23	8	1,625
Retail loans	0	19	3	1	0	24
TOTAL	21,540	54,737	6,022	515	44	82,858

(1) Non-investment grade.

As at 31 December 2020, 92.1% of the exposure was investment grade. Non-investment grade (NIG) files represented 7.3% of the portfolio, 0.1% were unrated and 0.6% were in default.

2.2.3. Exposure per Exposure Class and Economic Sector

The following tables show the total exposure with a breakdown per economic sector and exposure class at year-end 2019 and 2020.

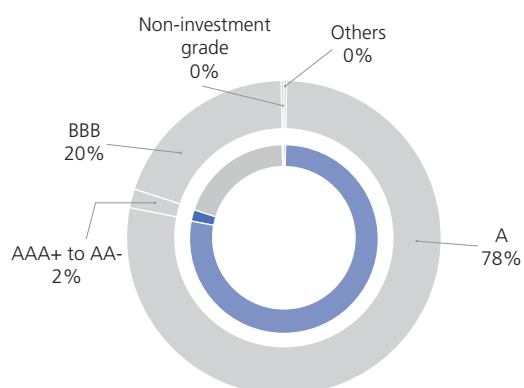
Exposure at year-end 2019 (EAD)										
	Corporate	Financial institutions	Financial guarantors	Project finance	Public sector entities	Retail	Securitisation	Sovereign	Total	
Industry	4,609	76	0	1,159	491	0	0	0	6,335	
Construction	8	0	0	5,472	135	0	0	0	5,616	
Trade-tourism	1	0	0	0	9	0	0	0	10	
Services	Transportation and storage	574	0	0	275	531	0	0	48	1,428
	Financial and insurance activities	0	6,775	1,349	21	193	0	1,410	9,997	19,745
	Real estate activities	72	2	0	2,402	4,711	0	0	0	7,186
	Professional, scientific and technical activities	0	0	0	0	14	0	0	0	14
	Administrative and support service activities	1	0	0	0	2,433	0	0	0	2,434
	Public administration and defence-compulsory social security	0	0	0	0	27,188	0	0	15,635	42,823
	Human health and social work activities	8	0	0	0	1,750	0	0	0	1,758
	Arts, entertainment and recreation	0	0	0	0	101	0	0	0	101
	Other services activities	0	0	0	0	134	0	0	0	134
	Education	0	0	0	0	120	0	0	0	120
	Other services	0	0	0	0	0	0	0	191	191
	Others	14	0	0	0	0	1	0	0	14
	TOTAL	5,286	6,852	1,349	9,329	37,809	1	1,410	25,871	87,907

Exposure at year-end 2020 (EAD)

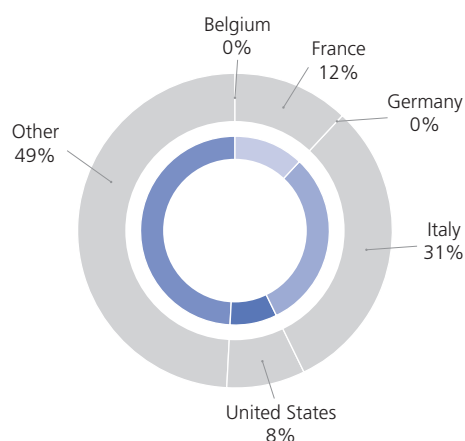
	Corporate	Financial institutions	Monolines	Project finance	Public sector entities	Retail	Securitisation	Sovereign	Total
Industry	4,548	61	0	675	236	0	0	0	5,521
Construction	5	0	0	3,682	101	0	0	0	3,788
Trade-Tourism	0	0	0	0	7	0	0	0	7
Transportation and storage	936	0	0	162	509	0	0	43	1,650
Financial and insurance activities	0	6,155	1,317	18	148	0	1,311	10,009	18,958
Real estate activities	74	2	0	1,779	3,400	0	0	0	5,255
Professional, scientific and technical activities	0	0	0	0	9	0	0	0	9
Administrative and support service activities	1	0	0	0	1,651	0	0	0	1,652
Public administration and defence-compulsory social security	0	0	0	264	25,316	0	0	18,523	44,103
Human health and social work activities	6	0	0	0	1,581	0	0	0	1,587
Arts, entertainment and recreation	0	0	0	0	96	0	0	0	96
Other services activities	0	0	0	0	76	0	0	0	76
Education	1	0	0	0	122	0	0	0	122
Other services	0	0	0	0	0	0	0	21	21
Others	13	0	0	0	0	0	0	0	14
TOTAL	5,584	6,218	1,317	6,581	33,251	0	1,311	28,595	82,858

Exposure in the coloured cells is further detailed in the following diagrams.

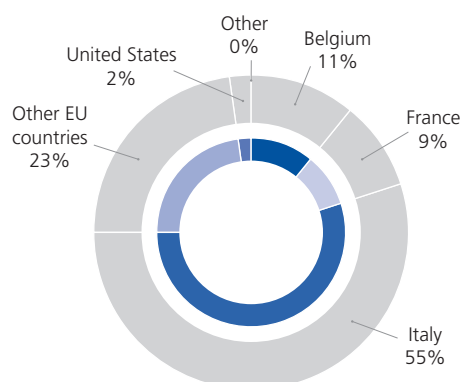
Financial institutions: split by rating class



Public administration / Public sector entities: split by country



Public administration / Sovereign: split by country



2.2.4. Fundamentals of Dexia's Credit Risk in 2020

As at 31 December 2020, exposures remain mainly concentrated on the local public sector and sovereigns (75%) given Dexia's historical activity.

2.2.4.1. Dexia Group Commitments to sovereigns

Dexia Group commitments to sovereigns are concentrated essentially on Italy, France and, to a lesser extent, Portugal. The increase of the exposure to sovereigns results from the increase of deposits with the Banque de France, within the framework of the management of the liquidity reserve. These deposits amounted to EUR 9.9 billion as at 31 December 2020.

(in EUR million)	Sovereigns	
	2019	2020
France	6,408	11,592
Italy	10,472	10,098
Portugal	2,974	3,073
Poland	634	691
United States	3,672	440
Japan	21	Absent
Others	1,690	2,702
TOTAL	25,871	28,595

The Covid-19 pandemic had an unprecedented global impact. In Europe, it hit Italy, Spain and the UK particularly hard. As a result of the lockdown measures, economic activity collapsed, with GDP expected to fall by around 10% for these three countries and a rebound of around 4-5% expected in 2021.

The States, the European Union and supervisors have deployed extensive monetary and fiscal measures to deal with this exceptionally severe economic crisis. The fall in tax revenues and the measures put in place have resulted in a significant increase in public debt levels. However, central bank support measures are now allowing European sovereigns to finance themselves at low rates, making these debt levels more sustainable.

Italian sovereign exposure amounted to EUR 10 billion as at 31 December 2020. Following the sharp increase in Italy's public debt level, Dexia Crédit Local lowered its internal rating from BBB to BBB-, in line with the ratings assigned by the main rating agencies.

The negotiations concerning the exit of the United Kingdom from the European Union finally led to the conclusion of an agreement just before the end of the transition period. This agreement is essentially limited to goods, with little on services and no decision on equivalence for financial services.

Dexia has no significant exposure to the British sovereign. Its total exposure to the United Kingdom is nevertheless significant, at EUR 20 billion as at 31 December 2020, and mainly concerns local authorities, utilities active in the field of water, gas and electricity transmission and distribution, project finance and social housing, a priori not very sensitive to the consequences of the United Kingdom's exit from the European Union.

Tunisia has been hit hard by the Covid-19 pandemic, notably through the decline in tourism, a key sector for the country. Public and external debt, already high, has risen sharply. Even if an agreement with the International Monetary Fund still seems possible, the current political and social turmoil weighs considerably on the country's situation. As a consequence, Dexia downgraded Tunisia's rating from B+ to B, keeping the negative outlook. As at 31 December 2020, Dexia's outstanding exposure to Tunisia amounted to EUR 128.5 million, entirely concentrated on the sovereign.

2.2.4.2. Dexia Group Commitments to the local public sector

Considering Dexia's historical activity as a lender to local authorities, the local public sector represents a significant proportion of the Dexia Group's outstanding, principally concentrated in the countries of Western Europe (United Kingdom, Italy, France, Spain) and in North America.

(in EUR million)	Local public sector	
	2019	2020
United Kingdom	10,315	10,228
Italy	8,612	8,275
France	7,290	5,786
Spain	3,584	3,059
United States	2,740	1,934
Portugal	1,006	553
Canada	459	204
Others	3,803	3,211
TOTAL	37,809	33,251

United Kingdom

Dexia's exposure on the United Kingdom was EUR 10.2 billion as at 31 December 2020, relating to local authorities, Utilities (water, gas transmission and distribution and electricity), project finance and social housing, all rated in the investment grade category and for which Dexia does not anticipate any major negative impact in the short term as a result of Brexit.

Italy

Dexia's exposure to the Italian public sector amounted to EUR 8.3 billion as at 31 December 2020, of which the bulk is with Regions (55.4%) and Municipalities (32.2%). Dexia benefits on these exposures from guarantees provided by law (delegazione di pagamento or iscrizione in bilancio).

According to government forecasts, municipalities are the most affected by the pandemic, with an overall decrease in revenues of 11%. The fall is limited to 1% for the regions and provinces, which benefit from an increase in current transfers and record a 2% increase in revenue. Various support funds have been set up by the government to help the public sector to offset these revenue declines. The main ones are:

- The funds for the exercise of the fundamental functions of local authorities, with an allocation of EUR 3.5 billion for 2020 for municipalities, provinces and metropolitan cities;
- The fund for the exercise of the health, welfare and education functions of the regions with an allocation of EUR 4.3 billion for 2020;
- The fund for local public transport with an allocation of EUR 0.9 billion for 2020;
- The fund for the payment of old bills to suppliers, with an allocation of EUR 12 billion for 2020.

To date, no payment default has been observed on Italian local authorities, including municipalities.

France

Dexia's exposure to the French public sector amounted to EUR 5.8 billion as at 31 December 2020.

On the eve of the crisis, local authorities were in very good financial health, with self-financing capacities increasing thanks to good management and dynamic local taxation.

The impact of the crisis on local government finances is nevertheless material and will be spread over time, depending on the nature of the authority. The most significant impact is recorded in 2020, since a drop of EUR 55.2 billion in tax revenue is expected, primarily affecting municipalities and departments, as well as a EUR 2.3 billion decrease in tariff revenue (parking, family benefits and so on) linked to the lockdown episodes. An additional cost of EUR 3.6 billion could also materialise in order to adapt public services and help the population. However, this overall impact should be put into perspective since it is partially offset by the growth in household tax revenue (EUR +2.4 billion) and operating savings (EUR +1.4 billion).

However, the impact suffered by each level of authority is heterogeneous. Tourist municipalities and overseas towns are particularly affected and require special attention. The departments are also faced with a significant scissor effect given the probably lasting increase in their social expenditure, which could vary significantly from one territory to another. They could also be penalised by the immediate fall in revenue from the property market. The regions are less affected in 2020 but should see their investment capacity reduced in 2021.

Nevertheless, access to borrowing is also facilitated for the local public sector, which benefits from conditions close to those of the State and much better than those of companies. Finally, the State provides rapid and substantial support to local authorities in difficulty via cash advances, a guarantee to maintain tax revenues, resource guarantees for overseas authorities or a repayable advance to compensate for the drop in revenues from the property market for the departments.

Spain

The Spanish State's support for the regions and municipalities continues through the renewal of several financial support funds. Indeed, in 2020, EUR 35.9 billion was paid to the regions, in particular via the Liquidity Fund for the Regions (FLA) and EUR 4.2 billion under the extra FLA, making it possible to cover the deficit gap in relation to the objective. In return for this aid, the State's control over regional or local finances is reinforced.

Following the Alarma Decree, the State took control of health services throughout Spain, in coordination with the autonomous Regions.

The liquidity of the regions is still provided by the State (FLA, FF). In addition, the State has granted funds to its regions, including EUR 16 billion via the Covid-19 fund at the end of 2020, EUR 325 million via the extraordinary fund for the provision of basic social services and EUR 300 million via the health and pharmacy benefits programme. Finally, the deployment of the resources of the national housing plan has been brought forward, representing EUR 447 million.

Dexia has a high outstanding amount of EUR 1.4 billion on Catalonia and its related entities. Catalonia is one of the main Spanish regions and an important centre of economic attractiveness for Spain, but its financial situation remains tense. It therefore benefits from strong support from the State. No payment incident on Catalonia or the other Spanish regions to which the Group is exposed was recorded in 2020.

Most of Dexia's clients in the municipal and provincial segment are in good financial health, with a surplus cash situation except for some clients the maturities of which are covered by the *Fondo de Ordenacion*. In addition, municipalities and provinces are allowed to allocate their surpluses to meet social needs due to Covid-19 (Article 3 of the Decree on State Alert Measures). In case of a lack of liquidity, municipalities benefit from cash lines from the Provinces (*Diputaciones*), in the form of advances for tax collection. Finally, cities and provinces in difficulty due to the crisis benefit from the Extraordinary Fund for the provision of social services, as well as from current transfers from their respective regions.

United States

Most of the local public sector exposure in the US is to states (55%) and local governments (4.8%). Like the US local government market, Dexia's portfolio is of good quality and is generally insured by monolines.

The main risks affecting the sector are the medium and long-term risks related to the increase of pension liabilities, with a greater or lesser capacity for reform depending on the legislative framework of each State, and to the possible subordination of bond lenders to the beneficiaries of the pension schemes.

As at 31 December 2020, Dexia had an exposure of EUR 1.1 billion on the State of Illinois. The latter is strongly impacted by the Covid-19 crisis and lockdown measures, with VAT and income tax revenues representing 72% of the State's revenues. In addition, the State has low financial flexibility, due to its high unfunded pension liabilities and rising unpaid bills. However, the State will benefit from the USD 1.9 trillion federal support package. USD 350 billion of this plan will be reserved for the states, which will have greater flexibility in the use of these funds.

2.2.4.3. Dexia Group Commitments to project finance and corporates

The project finance and corporate loan portfolio amounted to EUR 12.2 billion as at 31 December 2020, down 17% compared to the end of 2019. This portfolio contracted, on the one hand, due to natural amortisation and some early redemptions and, on the other hand, as a result of Dexia's asset disposal programme.

(in EUR million)	Corporate		Project finance	
	2019	2020	2019	2020
United Kingdom	4,076	4,292	3,382	2,299
France	637	827	1,904	890
Spain	22	19	1,147	850
Italy	197	28	79	82
United States	331	222	507	871
Canada	0	0	645	384
Germany	0	0	109	82
Portugal	0	0	59	47
Greece	0	0	18	16
Others	23	196	1,479	1,060
TOTAL	5,286	5,584	9,329	6,581

54.1% of this portfolio is composed of project finance⁽⁷⁾, the remainder being corporate finance, such as acquisition finance, trade finance or corporate bonds.

The portfolio is of good quality: 79% of project finance and 99% of corporate finance is rated investment grade.

In terms of geographical spread, the UK accounts for approximately 54% of the project finance (PPP) and corporate (utility) portfolio. 97% of this exposure is rated investment grade. At this stage, Dexia has not seen any significant negative impact from the UK's exit from the European Union and does not anticipate any in the short term.

The Project and Corporate Finance sector is one of the sectors the activity which has been strongly impacted by the Covid-19 pandemic. Given the security and liquidity reserves included in project finance, the impacts of the pandemic are bearable in the short term. The final impact will depend on the duration of the crisis and the recovery conditions. After analysis of the Group's portfolio, the main sectors impacted in which Dexia has a significant presence are:

- The airport sector (exposure of EUR 184.6 million). The sector is very heavily impacted but the counterparties seem to be able to cope with the temporary reduction of their activity. Some of these exposures are guaranteed by a monoline.
- The transport infrastructure sector bearing a traffic risk (excluding airports) on which Dexia has an exposure of EUR 785.5 million, mainly in Europe. These counterparties generally benefit from reserve accounts allowing them to cover a half-yearly maturity, which allows them to assume the very strong decrease in traffic observed during the months of lockdown. Initial traffic data indicate a satisfactory recovery after the first lockdown and a lesser impact during the second.
- The oil and gas sector to which Dexia Crédit Local has a low exposure, amounting to EUR 11.9 million. The difficulties encountered in 2020 (falls in energy prices), are only partly due to the health crisis. To date, the quality of Dexia's exposures in this sector remains globally satisfactory, with the exception of one fully provisioned case.

2.2.4.4. Dexia Group Commitments to ABS

(in EUR million)	ABS/MBS	
	2019	2020
United Kingdom	1,360	1,274
Spain	42	32
Italy	3	2
United States	3	2
Others	1	1
TOTAL	1,410	1,311

As at 31 December 2020, the Group's ABS portfolio amounted to EUR 1.3 billion. 92.7% of the portfolio is investment grade, compared to 92.6% at the end of December 2019.

2.2.4.5. Dexia Group Commitments to Financial Institutions

(in EUR million)	Financial institutions	
	2019	2020
United Kingdom	1,362	1,712
France	1,490	1,563
United States	1,125	975
Germany	945	572
Spain	246	287
Italy	114	158
Canada	78	13
Portugal	11	0
Others	1,481	938
TOTAL	6,852	6,218

Dexia's commitments to financial institutions amounted to EUR 6.2 billion as at 31 December 2020.

The sudden halt of activity in a large number of world economies in the first half of 2020 led to a decrease in lending volumes and a fall in interest income. Some financial institutions, notably systemic banks, have nevertheless seen their trading revenues benefit from the volatility on the financial markets.

Supervisors provided unprecedented support measures to ease regulatory pressures on financial institutions, which mitigated the credit risk on those counterparties. However, financial players have significantly increased provisions on their outstanding loans, notably due to significant downgrades in GDP assumptions, coupled for some financial counterparties with negative developments in the commodities market, notably oil.

(7) Non-recourse transactions on their sponsors the redemption of which is based solely on their own cash flows and which are highly secured for the benefit of the bank, e.g. through collateral on assets and contracts or a limitation on dividends.

With regard to outstanding loans granted within the context of the pandemic, specific reporting is now published on the basis of data from the first half of 2020, making it possible to establish the impact of the crisis more precisely, by sector or by geographical area. While the volume of loans granted by banks and classified as sensitive sectors was revised upwards during the year, uncertainties remain regarding the medium-term evolution of the stock of non-performing exposures, which is limited at this stage.

For banks concentrated in the UK market, there is evidence of further potential deterioration in their credit quality due to Brexit and the domestic economic slowdown. Overall, the impact of the Covid-19 crisis and the rating outlook remain negative, particularly for banks with a high concentration in their domestic retail market.

2.2.4.6. Group Commitments on monolines

Dexia is indirectly exposed to monolines in the form of financial guarantees covering timely payment of the principal and interest payable on certain bonds and loans. Claims against monoline insurers only become payable if real defaults occur in the underlying assets. Dexia's enhanced bonds benefit from increased trading values and, in some cases, a reduction of capital in view of the credit enhancement provided by monolines.

As at 31 December 2020, the amount of exposures enhanced by monolines was EUR 8 billion and 74% of the exposures were insured by monolines rated investment grade by at least one external rating agency. With the exception of one counterparty, all monolines continue to honour their original commitments.

2.3. Internal model (ex AIRB Approaches)

By letter sent on 21 December 2007 by the Belgian supervisory authorities, Dexia was authorised to use the Advanced Internal Rating-Based Approach (AIRB Approach) for the calculation and the reporting of its capital requirements for credit risk starting from 1 January 2008.

In the first quarter of 2021 Dexia received the supervisory approval to apply the Standard Approach for the calculation of credit risk-weighted assets. As a result from that date, Dexia no longer applies the AIRB approach for credit risk-weighted calculation.

However, the AIRB models continue to be used for risk management purposes. The internal rating systems developed by Dexia are set up to evaluate the three Basel parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For each counterparty type in the advanced method, a set of two or three models, one for each parameter, has been developed.

- The PD models estimate the one-year probability of default. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed and adjusted during the yearly back-testing when applicable. The number of ratings on each scale depends on the characteristics of the underlying portfolio (the number of counterparties, their homogeneity, whether it is a low default portfolio or not) and varies between 6 and 18 non-default classes. In addition, each scale has been attributed two default classes (named D1 and D2). The average or best estimate PD is still applied and the regulatory PD which applies a conservative add-on is no longer applied.
- LGD models estimate the ultimate loss incurred on a defaulting counterparty before taking the credit risk mitigants into account. The unsecured LGD depends on different factors such as the product type, the level of subordination or the rating of the counterparty. The granularity of the estimate is a function of the quantity and quality of data available. The default weighted average LGD or best estimate LGD is still applied, the regulatory LGD which applies a conservative add-on and/or downturn add-on is no longer applied.
- CCF models estimate the portion of off-balance-sheet commitments which would be drawn should counterparties go into default. The regulation authorises the use of CCF models only when the CCF under the foundation approach is not equal to 100% (as it is for credit substitutes for instance). CCF granularity also depends on data availability. As a consequence of the orderly resolution plan, internal CCF models are used only on project finance assets; on all other asset classes the foundation parameters are applied. The default weighted average CCF or best estimate CCF is still applied and the regulatory CCF which applies a conservative add-on and/or downturn add-on is no longer applied.

The Credit models continue to be controlled, as they are used for risk management purposes.

The control mechanisms are organised in 3 levels:

- Credit IRS control is defined, in accordance with the regulatory directives, as an internal and independent containment function to ensure that the credit model are being used properly, that they are operationally effective and that the audit trail in the rating process remains clear;
- The Validation department is responsible for the independent review of all models used within Dexia, back-testing and stress testing, either market risk models, pricing models, credit rating models, IFRS 9 models, ICAAP models;
- Audit is responsible for auditing the general consistency and compliance with the regulation (CRR). Audit then acts as an additional level of control, included in its audit plan.

The internal estimates of PD, LGD and CCF models are used in areas such as lending policies (including exposure limits), early warning systems or credit risk adjustments (provisioning policy). The ex AIRB models are also expanded to the internal exercises of stress tests, financial plan, ICAAP (Internal Capital Adequacy Assessment Process) as well as the internal and external reporting (notably the Quarterly Risk Report and the Annual Report). The collection and recovery policies and processes are partially based on the risk parameters of the ex AIRB models and were enhanced in 2019. The ratings and best estimate parameters are also used, after a Point-in-Time overlay, for the calculation of the IFRS 9 Expected Credit Losses.

Internal ratings, default and loss estimates used in capital requirements play an essential role in Dexia's risk management and decision-making process, in credit approval (limited to activities authorised in the context of the Orderly Resolution Plan), internal capital allocation, and corporate governance functions. An independent unit ensures that effective use of internal ratings and the resulting parameters is made across the risk management processes including: Transaction Committee files instruction, overall rating process consistency (country ceiling, state/mother support), limits set-up and update, credit watch, corporate governance and reporting.

According to Dexia's Watch List policy, all the sensitive files (including counterparties in ex AIRB) are followed up by the Watch List Committee, which is entitled to make recommendations of actions on credit issues. The criteria of the counterparties selected in the Watch List process are based on ratings thresholds defined per sector in the risk policies and as a consequence of the ex IRB rating models for the ex IRB portfolio.

2.4. Standard Approach

2.4.1. Introduction

In the first quarter of 2020 Dexia received the supervisory approval to apply the Standard Approach for the calculation of credit risk-weighted assets. As a result from that date, Dexia no longer applies the AIRB approach for credit risk-weighted calculation.

However, the ex AIRB models continue to be used for risk management purposes (more details on 3.3).

2.4.2. Nominated external credit assessment institutions (ECAI)

The standard approach provides risk-weighted asset figures based on external ratings. In order to apply the standard approach for risk-weighted exposure, Dexia uses the external ratings assigned by the following rating agencies: Standard & Poor's, Moody's, and Fitch.

The rating used for the regulatory capital calculation is the lower of the two ratings, if two ratings are available, or the lower of the best two ratings, if three ratings are available. If no external rating is available, the standard approach provides specific risk weights which vary depending on the counterparty type.

Credit rating agencies and credit quality step under the standard approach			
Standard & Poor's	Moody's	Fitch	Regulatory credit quality step
AAA to AA-	Aaa to Aa3	AAA to AA-	1
A+ to A-	A1 to A3	A+ to A-	2
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	3
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	4
B+ to B-	B1 to B3	B+ to B-	5
CCC+ and below	Caa and below	CCC+ and below	6

Risk weights are mainly determined in relation to the credit quality step and the exposure class.

2.4.3. Exposure at default and average risk weights

The following table shows the total exposure at default (banking book) and exposure to weighted-average risk weights broken down by exposure class and obligor grade at year-end 2019 and 2020.

In 2019, EUR 66,921 million was calculated under the AIRB approach and EUR 20,585 million under the standard approach.

In 2020, due to the move to the standard approach, the totality of the exposure (EUR 82,264 million) is calculated under the standard approach.

Exposure class	Obligor grade	2019		2020	
		EAD (in EUR million)	Average RW	EAD (in EUR million)	Average RW
	A+ to A-	0	0%	2,451	50%
	BBB+ to BBB-	0	0%	3,009	98%
	No external rating	12	114%	124	101%
Total corporate		12	114%	5,584	77%
Equities	AAA to AA-	0	0%	3	150%
	A+ to A-	0	0%	0	142%
	BBB+ to BBB-	0	0%	27	150%
	No external rating	25	102%	14	137%
Total equities		25	102%	43	146%
Financial institutions	AAA to AA-	220	2%	962	13%
	A+ to A-	103	40%	2,427	48%
	BBB+ to BBB-	103	2%	399	20%
	No external rating ⁽¹⁾	1,484	11%	1,946	14%
Total financial institutions		1,910	11%	6,218	29%
Monolines	AAA to AA-	1,349	20%	1,317	20%
	No external rating ⁽¹⁾	0	100%	0	100%
Total monolines		1,349	20%	1,317	20%
Project finance	AAA to AA-	259	20%	639	20%
	A+ to A-	33	50%	959	50%
	BBB+ to BBB-	117	100%	671	100%
	BB+ to B-	0	0%	67	100%
	Below B-	0	0%	2	0%
	No external rating	224	101%	4,244	104%
Total project finance		632	65%	6,581	87%
Public sector entities	AAA to AA-	10,480	27%	16,001	22%
	A+ to A-	3,406	20%	4,322	43%
	BBB+ to BBB-	1,994	44%	7,582	26%
	BB+ to B-	12	149%	5,345	15%
Total public sector entities		15,892	28%	33,251	24%
Retail	No external rating	1	516%	0	6162%
Total retail		1	516%	0	6162%
Securitisation	AAA to AA-	3	20%	2	20%
Total securitisation		3	20%	2	20%
Sovereign	AAA to AA-	22	0%	13,763	0%
	A+ to A-	0	0%	796	7%
	BBB+ to BBB-	0	0%	13,584	0%
	BB+ to B-	0	0%	128	100%
	No external rating	0	0%	6	100%
Total sovereign		22	0%	28,595	1%
Others		739	24%	672	21%
Total others		739	33%	672	21%
TOTAL		20,585	-	82,264	-

(1) Exposure on Central Counterparties (CCP), clearing houses.

In case no external rating is available, standard risk weights can be applied based on national discretions or Basel III rules (reference to the sovereign rating depending on the exposure type).

2.5. Impairment, Past-Due and Related Provisions

2.5.1. Concepts and Implementation within Dexia

2.5.1.1. Principles of Past-Due Exposure

A past due is defined as a payment which has become due but has not been made according to the terms of the agreement. A past due is considered by contract. Even if a counterparty fails to pay only the required interests at due date, the entire loan exposure is considered as past due.

2.5.1.2. Principles of Default, Non-Performing Exposure and Forbearance (EBA)

The concept of default includes counterparties that are unlikely to pay or that have past due on material obligation. Since the second half of 2020, Dexia has applied the new definition of default as specified by the EBA guidelines on the application of the definition of default under Article 178 of the EU regulation No 575/2013.

There are two types of default:

- For counterparties which are unlikely to pay, Dexia has identified situations described by the different criteria listed below:
 - A specific credit adjustments,
 - A distressed restructuring: when a restructuring of at least one of the position of the counterparty is likely to result in a diminished financial obligation,
 - The bankruptcy of the counterparty,
 - Other indications of Unlikely to Pay such as: unavailability of the borrower's income sources, concerns about the borrower's future cash flows, increase (or expectation of a change) of the borrower's overall leverage level, breach of the financial covenants of a credit contract, call of a collateral,
 - Information identified by the credit risk analyst teams in external databases relative to: significant delays in payments to other creditors, crisis of the sector combined with a weak position of the counterparty in this sector, disappearance of an active market for a financial asset because of the financial difficulties of the debtor,
 - A credit fraud.

These counterparties receive a credit rating of D1 on a case-by-case analysis.

- For past dues: the obligor has a past due on a credit obligation which is material for more than 90 days. The default counting is specified by EBA default definition, considering, inter alia, interruption by legal actions or updated payment schedules in the context of the Covid-19 pandemic. A past due is material when the past-due amount is more than EUR 500 and more than 1% of the counterparty EAD.

For these counterparties, a credit rating of D2 is given.

Following the early implementation in the second half of 2020 of the *EBA 2021 Guideline on Default and Non Performing Exposures*, Dexia has defined, by exception to this rule, that technical past dues should not be considered as default; They are defined as:

- past dues which are the result of data or system error of the institution, including manual errors of standardized processes but excluding wrong credit decisions;
- past dues which are the result of the non-execution, defective or late execution of the payment transaction or of the failure of the payment system following payment order of the obligor;
- past dues linked to French Public sector entities. Due to the nature of the transfers (public administrative acts subject to creation or competence transfer decrees) and the time-lag between the effective date of the transfer and the receipt of all official documentation needed to allocate within the institution systems and the request the credit obligation repayment to the right public counterparty, the past dues in breach are identified as technical past dues. These public transfers do not represent credit issues. These are payment delays due to the complex payment process at the bank and at the counterparties when transferring the credit between public sector entities;
- past dues which are the result of a time lag between the receipt of the payment by an institution and the allocation of that payment to the relevant account.

2.5.1.3. Non-Performing Exposure

To facilitate monitoring and comparison between the different European banks, the European Banking Authority (EBA) harmonised the definition of Non-Performing Exposure (NPE) and Forbearance.

According to the EBA, non-performing exposures on the balance sheet are those which meet at least one of the following criteria (§ 145 ITS):

- Material exposures which are more than 90 days past-due (quantitative criterion);
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past-due (qualitative criterion).

The Dexia Group has identified exposures corresponding to the said EBA definition.

2.5.1.4. Non-Performing and Forborne Exposures

Exposures at year-end 2019

(in EUR million)	Gross carrying amount							Accumulated impairment and provision and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	On performing exposures			On non-performing exposures				On performing exposures		On non-performing exposures		On non-performing exposures	
		of which: past due <= 90 days or not past due	of which: forborne		of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne		of which: forborne
Debt securities	38,754	38,707	0	47	47	45	0	(63)	0	(3)	0	0	0
Loans and advances	68,357	67,601	74	756	569	539	259	(101)	(5)	(126)	(72)	304	103
Debt instruments other than held for sale	107,111	106,308	74	803	617	583	259	(164)	(5)	(129)	(72)	304	103
Off-balance-sheet exposures	1,464	1,431	0	33	33	0	7	2	0	6	0	0	0

Exposures at year-end 2020

(in EUR million)	Gross carrying amount							Accumulated impairment and provision and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	On performing exposures			On non-performing exposures				On performing exposures		On non-performing exposures		On non-performing exposures	
			of which: forborne		of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne		of which: forborne
Debt securities	38,962	38,922	14	40	40	37	0	(172)	0	(2)	0	0	0
Loans and advances	64,585	64,014	80	571	571	500	327	(145)	(1)	(126)	(80)	155	110
Debt instruments other than held for sale	103,547	102,937	94	611	611	537	327	(318)	(1)	(128)	(80)	155	110
Off-balance-sheet exposures	1,287	1,262	0	24	24	23	0	3	0	8	0	0	0

2.5.1.5. Forbearance (EBA)

Forborne exposures are restructured contracts in respect of which forbearance measures have been extended. Forbearance is applied to healthy or safe assets or on non-performing assets. Regarding Dexia activities, restructured exposures include three different types of restructuring:

1. Restructuring related to commercial relationships with customers, which represented almost all restructuring until 2011 except litigation in the Netherlands;
2. Restructuring related to litigation, mainly on structured loans, with customers without any financial difficulties;
3. Restructuring related to financial difficulties of the counterparty either under normal relationship or under litigation. In accordance with the EBA's definition of Forbearance, only the third case is considered as a forborne loan. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

As at 31 December 2020, EUR 0.45 billion of outstanding were considered as forborne (compared to EUR 0.4 billion as at 31 December 2019).

2.5.1.6. Impairments

The IFRS 9 standard has introduced an impairment model of financial assets based on expected credit losses (ECL), which applies to debt instruments (loans or bonds) measured at amortised cost or measured at fair value through OCI, as well as lease receivables and trade receivables. The impairment model also applies to Dexia's off-balance-sheet undrawn loan commitments and financial guarantee given.

Each financial instrument (except assets which are purchased or originated in default) is allocated among three stages according to the wording used by IFRS 9) depending on the evolution of credit risk since initial recognition:

- Stage 1: financial instruments which have not deteriorated significantly in credit quality since initial recognition.

- Stage 2: financial instruments which have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss.
- Stage 3: financial assets which have objective evidence of impairment at the reporting date, i.e. the related counterparty is identified as defaulted.

A loss allowance is defined according to the stage in which the financial instrument is allocated:

- When the financial instrument is in Stage 1, the amount of loss allowance is equal to 12-month expected credit losses corresponding to the lifetime cash shortfall which would result in case of a default occurring in the next 12 months, weighted by the probability that the default occurs during this 12 month-period.
- When the financial instrument is in Stage 2 or 3, the amount of loss allowance is equal to lifetime expected credit losses, corresponding to the lifetime cash shortfall which would result in case of a default occurring over the life of the instrument, weighted by the probability of default (PD) that the default occurs over the residual maturity of the instrument.

Interest revenue for financial assets allocated in Stage 1 or 2 is calculated by applying the Effective Interest Rate (EIR) to the gross carrying amount, while for financial assets in Stage 3, EIR is applied to amortised cost.

Dexia does not apply the simplified approach allowed by IFRS 9 for trade receivables (which have a significant financing component) or lease receivables. The ECL calculation of these assets follows the general approach described below.

Significant Increase in Credit Risk (SICR)

For financial instruments which do not show objective evidence of impairment, and which, therefore, are allocated to either Stage 1 or 2, Dexia developed an approach based on both a qualitative and a quantitative test to assess whether there is any significant increase in credit risk since initial recognition.

The quantitative test consists of comparing lifetime average through the cycle PDs of the contract at the reporting date and at the inception date. This variation of PD is then normalised by the lifetime average through the cycle PDs of the contract at the inception date. These PDs are considered over a time horizon equal to the initial maturity of the financial instrument. If the variation is above a given threshold, the variation of the PDs indicates that there is a significant deterioration of credit risk and that the financial instrument should be allocated to Stage 2. This threshold is included in regular validation processes by governance bodies.

Dexia has applied the low credit risk exemption and therefore assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date – financial instruments being limited to bonds positions.

The qualitative part of the approach, relying on forward-looking counterparty specific indicators, consists of allocating to Stage 2 those exposures which are closely followed up under the Watch List process, which have been granted forbearance measures or which belong to a sensitive economic sector⁽⁸⁾. The IFRS 9 accounting standard indicates that regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past-due. Given Dexia's portfolio characteristics and especially its significant public sector sub-portfolio, administration procedures may delay contractual payments. Dexia has demonstrated that this presumption was not appropriate and therefore has rebutted it.

The rating at origination is not expected to be modified and is determined once and for all for each exposure. However, if the contractual terms of a financial asset are restructured (i.e. renegotiated or refinanced), and if this restructuring leads to a de-recognition according to IFRS 9 accounting rules, the restructured asset is considered as a new asset. This new asset is either recognised as a POCI (Purchased or Originated Credit Impaired) if it meets the identification criteria for this type of assets and in this case a lifetime ECL will be recognised, or it is initially recognised in Stage 1. The test of SICR is then performed on the new characteristics of the restructured asset. The rating at origination is therefore updated given the rating of the counterparty at the restructuring date and the maturity of the restructured financial asset.

Measurement of Expected Credit Losses

Expected Credit Losses Calculation for Financial Instruments Classified in Stage 1 or 2

Forward-looking: the calculation of Expected Credit Losses (ECL) is a function of rating migration probabilities, Default Probabilities (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters. The rating migration probabilities, PD and LGD are point-in-time and forward-looking, meaning they take into account current and forecast macro-economic conditions.

Capitalising on the Pillar 1 framework, Dexia developed internal rating models based on sector segmentation as well as best estimate average PD, rating migrations and LGD models, built on a multi-year horizon based on historical data.

⁽⁸⁾ Sensitive sectors are economic sectors which show indication(s) of elevated credit risk.

These best estimate parameters have been adjusted to derive IFRS 9 Point in Time (PIT) PD and LGD models, which capture dependencies between various macro-economic variables and risk parameters and are built statistically by finding historical relations between them. The most relevant macro-economic variables include GDP, unemployment rate, inflation, GDP growth, as well as yields and interest indicators. Such an approach allows the projection of PD, rating migrations and LGD given any state of the economy.

The PIT rating migration probabilities, default probabilities and LGD are back-tested on a regular basis according to Dexia's internal back-test policy. The results of these back-tests are submitted to the internal validation department and presented to the management bodies.

Scenarios: Dexia developed ECL projections for three macro-economic scenarios: baseline, upward and downturn, the last two defined symmetrically around the baseline. The baseline macro-economic scenario consists of predictions over a three-year time horizon on a number of macro-economic and financial market data obtained from international institutions, such as the European Commission and the International Monetary Fund (IMF). The projections are discussed by the working group, combining experts from the Risk and Finance functions, who can additionally overrule certain forecasts if appropriate. The methodology to construct the upturn and downturn scenarios is based on the historical error range observed between economic forecasts and empirical observations. Probability-weighted ECLs are then obtained by weighting the various scenario ECL outcomes with probabilities of the two alternative scenarios.

Cure rate: The probability that an obligor cures the default to return to a normal situation (i.e. with zero loss) is taken into account in all risk parameters estimation.

Credit Risk Mitigants: Credit risk deterioration is measured by the default risk evolution of the original counterparty. The guarantors contractually allocated to the exposure (for example the credit risk enhancer) are taken in account in the calculation of credit risk expected loss by applying the probability of double default of both the borrower and the guarantor. The other guarantees (like mortgages, pledges and cash collateral) when they are not recognised separately are taken into account in the calculation of expected credit loss by reducing the loss in case of default.

Discounting: Yearly probability weighted ECLs are discounted to the reporting date by the effective interest rate.

For instruments in Stage 1 and Stage 2, interest revenue is calculated based on the gross carrying amount of the instrument according to models defined for different sub-portfolios of Dexia.

Expected Credit Losses Calculation for Financial Instruments Classified in Stage 3

Expected credit losses are defined according to the individual characteristics of the exposure, mainly based on cash flow models, market price models or collateral value. In some marginal cases, no impairment may be allocated, especially when the collateral value exceeds the value of the debt instrument. For instruments in Stage 3, interest revenue is calculated on the amortised cost (i.e., the gross carrying amount after deducting the impairment loss allowance).

When Dexia has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, the gross carrying amount of a financial asset is reduced. Dexia policy is therefore to recognise a loss through profit or loss upon debt forgiveness, which means that no enforcement action will take place.

Accounting Treatment of Expected Credit Losses

Dexia recognises the changes in the amount of expected credit losses related to debt instruments, loan commitments and financial guarantee contracts in profit or loss in "Cost of credit risk" as an impairment gain or loss.

For off-balance-sheet undrawn loan commitments and financial guarantees given, expected credit losses are booked on the liability side of Dexia's balance sheet.

For purchased or originated credit-impaired financial assets, the amount of loss allowance recognised in profit or loss is the cumulative changes in lifetime expected credit losses since initial recognition. The amount of favourable change in lifetime expected credit losses is recognised in profit or loss as an impairment gain.

2.5.2. Overview of Past-Due Exposure and Impairments

The year 2020 was marked by:

- the impact of the health crisis on the estimation of collective provisions with, in particular, an update of the macroeconomic scenarios used to determine the Probability of Default (PD) and Loss Given Default (LGD) taken into account for the assessment of expected credit losses under IFRS 9 and a review of the sensitive sectors systematically integrated in stage 2,
- the review of the PD and LGD models on the US municipal sector,
- the review of specific provisioning models, following the introduction of a new methodological guide defining the various applicable provisioning models for each type of counterparty,
- the continuing transformation of the Group and the asset disposal programme.

	31/12/2019	31/12/2020
Impaired assets ⁽¹⁾	615	556
Specific impairments ⁽²⁾	143	134
of which Stage 3	136	125
of which POCI	7	9
Coverage ratio ⁽³⁾	23.3%	24.1%
Collective provisions	166	320
of which Stage 1	5	21
of which Stage 2	161	299

(1) Outstanding: calculated on the impairable IFRS 9 scope (fair value by own capital + amortised cost + off-balance-sheet)

(2) Provisions: in line with the portion of the portfolio taken into account for calculation of the outstanding including impairments related to Purchased or Originated Credit Impaired (POCI).

(3) Ratio between specific provisions and impaired assets

As at 31 December 2020, collective provisions amounted to EUR 320 million, of which EUR 21 million in Stage 1 provisions and EUR 299 million in Stage 2 provisions. The increase of EUR 138 million in Stage 2 provisions over the year is spread over the whole portfolio with however a concentration on the Tunisian sovereign (EUR +51 million) and the State of Illinois (EUR +25 million).

Dexia's stock of impaired loans and receivables amounted to EUR 556 million as at 31 December 2020, down by EUR 59 million compared to the end of 2019. Earmarked specific provisions amount to EUR 134 million, down EUR 9 million compared to 31 December 2019.

The decrease in impaired assets and specific provisions was mainly explained by the sale of a motorway concession in France, the resolution of a dispute with an Italian local authority resulting in a reversal of provisions recorded on unpaid margin calls and the removal of the doubtful status for a solar energy plant in Spain.

The additional variations in specific provisions are linked to the implementation of new directives standardising the specific provisioning models applicable to Dexia's portfolios as well as to scenario reviews linked either to the impacts of the health crisis or to the latest financial developments on certain counterparties.

As a consequence, the coverage ratio stood at 24.1% as at 31 December 2020.

Overview of exposures with past-due amounts at year-end 2019

(in EUR million)	Carrying amount (*)			
	Loans and advances	Less than 90 days	Over 90 days	Total
Assets without SICR (**) since initial recognition (Stage 1)		822	32	854
Assets with SICR (**) since initial recognition but not credit-impaired (Stage 2)		231	30	261
Credit-impaired assets (Stage 3)		61	1	61

(*) Net of provisions (**) Significant Increase in Credit Risk

(in EUR million)	2019					
	As at 1 Jan.	Transfers between stages	Decreases due to de-recognition	Changes due to change in credit risk ⁽³⁾	Other adjustments	As at 31 Dec.
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	5	0	0	0	0	5
Financial assets at amortised cost	4	0	0	0	0	5
- Customer debt securities	3	0	0	1	0	4
- Customer loans and advances	1	0	0	(1)	0	1
Financial assets at fair value through other comprehensive income	1	0	0	0	0	0
- Debt securities	1	0	0	0	0	0
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)⁽¹⁾	337	(130)	(1)	(35)	(12)	159
Financial assets at amortised cost	333	(131)	0	(31)	(24)	147
- Interbank debt securities	19	(0)	0	(1)	1	19
- Customer debt securities	223	(153)	0	(25)	(13)	31
- Interbank loans and advances	2	0	0	0	0	2
- Customer loans and advances	90	22	0	(5)	(11)	95
Financial assets at fair value through other comprehensive income	4	0	(1)	(4)	12	12
- Debt securities	2	0	(1)	(3)	11	9
- Customer loans and advances	2	0	0	0	1	3
Allowances for credit-impaired debt instruments (Stage 3)⁽²⁾	292	(4)	(17)	(138)	0	131
Financial assets at amortised cost	281	(4)	(17)	(109)	(30)	121
- Customer debt securities	93	0	0	(88)	(2)	3
- Customer loans and advances	187	(4)	(17)	(20)	(27)	118
Financial assets at fair value through other comprehensive income	1	0	0	(30)	29	0
- Customer loans and advances	1	0	0	(30)	29	0
Other accounts receivable	10	0	0	1	0	11
Allowances for purchased or originated credit impaired debt instruments	7	0	0	(1)	0	6
Financial assets at amortised cost	7	0	0	(1)	0	6
- Customer loans and advances	7	0	0	(1)	0	6
Financial assets at fair value through other comprehensive income	0	0	0	0	0	0
Total allowances for financial assets	641	(135)	(19)	(174)	(12)	302
Total provisions on commitments and financial guarantees given (Stage 2)	2	0	0	0	0	2
Total provisions on commitments and financial guarantees given (Stage 3)	6	0	0	0	0	6
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	8	0	0	0	0	8

(1) In 2019, the allowances on debt instruments in Stage 2 decreased mainly following the reclassification of the Portuguese sovereign exposures from Stage 2 to Stage 1 after applying the revised methodology for identifying the Significant Increase in Credit Risk (SICR) (EUR +164 million). This evolution is in line with the improvement of the external rating of the Portuguese sovereign.

(2) The decrease of allowances in Stage 3 is mainly due to the write-back of provisions amounting to EUR 93 million following the sale of provisioned exposures, in particular the Chicago Board of Education.

(3) Those amounts are reported in the statement of income.

(4) This category includes exchange differences and the impact of reclassification of a portfolio of financial assets of Dexia Credit Local New York Representative Office from Amortised cost category to Financial assets at fair value through other comprehensive income and from Amortised cost to Financial assets at fair value through profit or loss. In the first case, the total impact is zero (the allowances are reclassified from the portfolio at amortised cost to the financial assets at fair value through other comprehensive income), in the second case, the total impact is a decrease in allowances of EUR 18 million.

Overview of exposures with past-due amounts at year-end 2020

(in EUR million)	Carrying amount (*)			
	Loans and advances	Less than 90 days	Over 90 days	Total
Assets without SICR (**) since initial recognition (Stage 1)		235	0	235
Assets with SICR (**) since initial recognition but not credit-impaired (Stage 2)		215	0	215
Credit-impaired assets (Stage 3)		53	19	72

(*) Net of provisions (**) Significant Increase in Credit Risk

(in EUR million)	2020					As at 31 Dec.
	As at 1 Jan.	Transfers between stages ⁽²⁾	Decreases due to de-recognition	Changes due to change in credit risk ⁽²⁾	Other adjustments ⁽³⁾	
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	5	(1)	(1)	18	(1)	21
Financial assets at amortised cost	5	(1)		18	(1)	20
- Interbank debt securities	0			1		1
- Customer debt securities	4	(1)		15	(1)	17
- Customer loans and advances	1			1	(1)	1
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)⁽¹⁾	159	42	(11)	118	(11)	296
Financial assets at amortised cost	147	37	(3)	123	(21)	283
- Interbank debt securities	19			56	(3)	72
- Customer debt securities	31	33		18	(1)	81
- Interbank loans and advances	2			12		14
- Customer loans and advances	95	4	(3)	37	(17)	117
Financial assets at fair value through other comprehensive income	12	5	(9)	(5)	10	13
- Debt securities	9		(9)			0
- Customer loans and advances	3	5		(5)	10	13
Allowances for credit-impaired debt instruments (Stage 3)⁽²⁾	131	(3)	(4)	(4)	(3)	117
Financial assets at amortised cost	121		(1)	2	(15)	106
- Customer debt securities	3			(1)		2
- Customer loans and advances	118		(1)	2	(15)	104
Financial assets at fair value through other comprehensive income	0	(3)	0	(2)	12	7
- Customer loans and advances	0	(3)		(2)	12	7
Other accounts receivable	11		(4)	(3)		4
Allowances for purchased or originated credit impaired debt instruments	6			3	0	9
Financial assets at amortised cost	6			3	0	9
- Customer loans and advances	6			3		9
Total allowances for financial assets	302	38	(16)	135	(14)	444
Total provisions on commitments and financial guarantees given (Stage 2)	2	1		0	(0)	3
Total provisions on commitments and financial guarantees given (Stage 3)	6			2	(0)	8
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	8	1		2	(0)	11

(1) In 2020, impairments on receivables instruments in Stage 2 increased mainly due to the Covid-19 crisis, with the recording of EUR 96 million of provisions related to changes in macroeconomic scenarios and the review of sensitive sectors. In addition, a EUR 51 million provision was booked on a Tunisian counterparty to take into account the risks linked to Covid-19 and the downgrading of the Tunisian sovereign.

(2) The total of the «Transfers» column represents the amount transferred to income following the review of provisions at the time of the change of Stage.

(3) This category includes exchange differences, as well as the impacts of the reclassification of a portfolio of financial assets of the Remedial Deleveraging Plan of EUR 6.4 billion from the amortized cost category to the category at fair value through other comprehensive income (EUR 3 billion), and to the category at fair value through profit or loss (EUR 3.4 billion). In the first case, the total impact is nil: impairments are reclassified from the category at amortized cost to the category at fair value through other comprehensive income. In the second case, the total impact is a decrease of impairments of EUR 7 million on customer loans (outstandings reclassified from EUR 3 billion).

In 2020, there were no recoveries directly recognised in profit or loss or write-offs directly recognised in profit or loss.

Past-Due Amounts Overview by Cause and Counterparty Type

Since the second quarter of 2020, Dexia has applied the new definition of default as specified by the EBA guidelines on the application of the definition of default under Article 178 of the EU regulation No 575/2013. Not qualified default past dues represent 69% of the past dues and Credit default (31%). By counterparty type, the private satellites represents 50%.

Overview of past-due amounts at year-end 2019

(in EUR million)	Operational default	Operational default > 1 year	Credit default	Not qualified	Past-due amounts
Corporate	0	0	1	1	2
Local Public Sector	0	17	14	20	51
Project Finance	3	0	3	9	14
TOTAL	3	17	18	30	67

Overview of past-due amounts at year-end 2020

(in EUR million)	Credit default	Not qualified	Past-due amounts
Corporate	1	0	1
Local authorities	3	2	5
Private satellites	0	15	16
Project finance	2	0	2
Public satellites	0	4	5
Others	2	0	2
TOTAL	10	22	32

Past-Due Amounts Overview by Country and Cause

France represents 62% of past-due amounts, followed by Italy (31%)

Overview of past-due amounts at year-end 2019

(in EUR million)	Operational default	Operational default > 1 year	Credit default	Not qualified	Past-due amounts
Canada	0	0	0	3	3
France	0	13	4	16	33
Italy	0	4	14	3	20
Portugal	3	0	0	1	4
Spain	0	0	0	5	5
Sweden	0	0	0	1	1
United Kingdom	0	0	0	1	1
TOTAL	3	17	18	30	67

Overview of past-due amounts at year-end 2020

(in EUR million)	Not qualified	Credit default	Past-due amounts
Italy	5	5	10
France	16	4	20
United Kingdom	1	0	1
TOTAL	22	10	32

Past-Due Amounts overview by Country and Bucket Past-Due Date

Overview of past-due amounts at year-end 2019

(in EUR million)	< 6 days	<= 90 days	>90 days	Past-due amounts
Canada	3	0	0	3
France	2	14	16	33
Italy	5	0	14	20
Portugal	1	0	3	4
Spain	1	5	0	5
Sweden	0	1	0	1
United Kingdom	1	0	0	1
TOTAL	13	20	34	67

Overview of past-due amounts at year-end 2020

(in EUR million)	< 6 days	<= 90 days	>90 days	Total past-due amounts
Italy	2	1	7	10
France	0	1	19	20
United Kingdom	0	0	1	1
TOTAL	2	2	27	32

2.6. Credit Risk Mitigation Techniques

2.6.1. Description of the Main Types of Credit Risk Mitigants (CRM)

Credit risk mitigants (CRM) are used by a bank to reduce the credit risk associated with an exposure. CRMs are one of the “risk” components used to determine the regulatory capital. CRMs can be classified in two main categories:

- Funded credit protection, gathered under the generic name “collaterals”;
- Unfunded credit protection, gathered under the generic name “guarantees and credit derivatives”.

Funded Credit Protection: Collaterals

From a regulatory point of view, funded credit protection represents a technique for mitigating credit risk whereby the credit risk associated with the bank’s exposure is reduced by the institution’s right – in the event of a default by the counterparty or the occurrence of other predetermined events involving the counterparty – to liquidate certain amounts or assets, to have them transferred, to seize or to hold them, or to reduce the amount of the exposure by the difference between this exposure and the amount of a claim which might be held on the bank, or to replace it by the balance of this difference.

Funded credit protection can adopt several sub-forms:

- *Financial collateral* (securities portfolio under rating conditions, cash, gold, precious materials, and so on);
- *Netting agreements*: banks have legally enforceable netting arrangements by which they may calculate capital requirements on the basis of net credit exposures subject to specific regulatory conditions. Types of netting are payment netting, novation netting, close-out netting or multilateral netting.
- *Physical collaterals*:
 - Residential or commercial real estate collateral;
 - Receivables (eligible only under advanced approach);
 - Other types of physical collaterals...

Unfunded Credit Protection: Guarantees and Credit Derivatives

From a regulatory point of view, unfunded credit protection represents a technique for mitigating credit risk whereby the credit risk associated with the bank is reduced by the commitment of a third party to pay an amount in the event of a default by the borrower or in the event that other predetermined events should occur.

They include for example:

- Guarantees: guarantees refer to personal guarantees, first-demand guarantees, support commitments and “tri-partite agreements”;
- Credit derivatives. The following types of credit derivatives are eligible for recognition:
 - *Credit default swaps* provide credit protection equivalent to guarantees. A credit default swap is a contract according to which one party to the contract undertakes to make a payment to the other party to the contract on the occurrence of a specified event or events relating to the creditworthiness of a third party. The making of such payment does not in itself give rise to a legal entitlement of the protection provider against the third party.
 - *Total return swaps* provide credit protection equivalent to guarantees. A total return swap is a contract according to which one party to the contract undertakes to make payments to the other party to the contract of all cash flows arising from a specified asset (or assets) plus any increase in the market value of the asset (or assets) since the last payment date or the commencement date of the contract, whichever is the most recent, and according to which the recipient of these amounts undertakes to pay to the first party an interest rate related flow plus any decrease in the market value of the asset (or assets) since the last payment date or the commencement date, whichever is the most recent.
 - *Credit derivatives treated as cash collateral*. A credit-linked note is a cash-funded debt instrument which is redeemable by the issuer in accordance with the terms of the instrument, or the terms of redemption of which are altered, on the occurrence of a specified event or events related to the creditworthiness of a third party.
- Other credit commitments received from a third-party.

2.6.2. Policies and Processes

Institutions should use robust procedures and processes to control risks arising from the use of collateral, including in particular strategy, consideration of the underlying credit, valuation, policies and procedures, systems, control of roll-off risks and management of concentration risk arising from the institution's use of collateral and its interaction with the institution's overall credit risk profile.

Collateral and Guarantees/Credit Derivatives

Within the Dexia Group, managing the CRMs involves the following tasks:

- Analysis of the eligibility of all CRMs under the standard approach. To summarise, only financial collaterals, guarantees, credit derivatives, real estate assets and leased real estate assets are eligible under the standard approach (provided they respect the related requirements).
- Collateral valuation in mark-to-market;
- Description of all CRM characteristics in Dexia risk systems, such as:
 - Financial collateral: valuation frequency and holding period;
 - Guarantee/credit derivative: identification of the guarantor, analysis of the legal mandatory conditions, check whether the credit derivative covers restructuring clauses;
 - Security portfolio: description of each security.
- Periodic review of the descriptive data of its CRMs;
- Detailed procedures for collateral eligibility, valuation and management are documented in line with the regulatory standards.

On and Off-Balance-Sheet Netting

Dexia does not make use of on or off-balance-sheet netting for regulatory purposes, except for over-the-counter (OTC) derivative products. The following derivative products are eligible to netting agreements: swap, contracts forward, options, etc. covering the following underlying risks:

- Interest rate contracts;
- Exchange rates;
- Contracts on ownership titles;
- Credit derivative contracts.

For these products, internal policies document the eligibility criteria and minimum requirements which netting agreements must meet in order to be recognised for regulatory purposes. Eligibility criteria are different for on-balance-sheet netting agreements and off-balance-sheet netting agreements. Adequate documentation should also be put in place. Appropriate internal procedures and minimum requirements have been implemented in the internal risk management process.

Information about Market or Credit Risk Concentrations

Concentration risk is related to a concentration of collateral on one issuer, country, industry or market. As a result, credit deterioration might have a significant impact on the overall value of collateral held by Dexia to mitigate its credit exposure. Dexia is indirectly exposed to the quality of the signature of:

- monolines, through insurance contracts to cover the timely end of certain types of bonds issued in the form of securities or loans. As at 31 December 2020, EUR 8 billion of the Dexia portfolio was insured by monolines (cf. section 2.2.4.6 above and section 2.6.4 below).
- Several southern Europe local authorities (Italy, Spain) which are natural guarantee providers for local public satellites or smaller public sector entities (cf. section 2.6.4 below).

2.6.3. Basel Treatment

For netting agreements (and subject to eligibility conditions), Dexia recognises their impact by applying the netting impact of these agreements on the calculation of its Exposure at Default (EAD) used for calculating its risk-weighted assets.

For guarantees and credit derivatives, Dexia recognises the impact by replacing, under the AIRB approach, the PD, LGD and risk weight formula of the borrower by those of the guarantor (i.e. the exposure is considered to be directly towards the guarantor) if the risk weight of the guarantor is lower than or equal to the risk weight of the borrower. The same process of substitution is applied only to the risk weight under the standard approach which is applied on all portfolios (excl. securitisation) from the first quarter of 2020 onwards.

For collateral (both financial and physical), the Dexia methodology relating to eligible CRMs depends on the Basel approach:

- AIRB approach exposures – two methodologies might be applied:
 - CRMs are incorporated into the calculation of LGD based on internal loss data and calculated by the AIRB approach models (the "so called" preliminary LGD).
 - CRMs are not incorporated into the LGD computed by the model. The impact of each individual CRM is taken into account in the LGD according to each transaction.
- Standard approach exposures: eligible CRMs (after regulatory haircuts) are directly taken into account in the EAD.

The CRMs considered are consistently applied for the purpose of both the calculation of risk-weighted assets and large exposures.

2.6.4. Exposure Covered by Credit Risk Mitigants per Exposure Class

The chart below shows the amount of exposure per class of original counterparty, for which the guarantee is eligible, i.e. the guaranteed exposure has a lower risk weight than the exposure with the original counterparty (substitution principle).

IRBA – Credit Risk Mitigation Technique

In 2019, EUR 68,328 million was calculated under the AIRB approach and EUR 20,585 million under the standard approach. In 2020, due to the move to the standard approach, the totality of the exposure (EUR 82,264 million) is calculated under the standard approach.

(in EUR million)	31/12/2019			
	Total	Risk mitigation		
		Guarantees and credit derivatives	Collateral	Total guarantees and collateral
Corporate	5,276	673	1	674
Financial institutions	5,014	685	8,878	9,563
Project finance	8,697	0	9	9
Public sector entities	21,930	1,753	9	1,762
Central governments	26,004	369	0	369
ABS/MBS	1,407	0	0	0
TOTAL	68,328	3,480	8,898	12,378

(in EUR million)	31/12/2020			
	Total	Risk mitigation		
		Guarantees and credit derivatives	Collateral	Total guarantees and collateral
ABS/MBS	1,309	0	0	0
TOTAL	1,309	0	0	0

STANDARD APPROACH – Credit risk mitigation technique

(in EUR million)	31/12/2019			
	Total	Risk mitigation		
		Guarantees and credit derivatives	Collateral	Total guarantees and collateral
Corporate	99	0	0	0
Financial institutions	2,587	10	4,515	4,525
Project finance	632	0	0	0
Public sector entities	15,892	432	7	439
Central governments	22	0	0	0
Individuals, SME and self employed	1	0	0	0
ABS/MBS	3	3	0	3
Monolines	1,349	1,349	0	1,349
TOTAL	20,585	1,795	4,522	6,316

(in EUR million)	31/12/2020			
	Total	Risk mitigation		
		Guarantees and credit derivatives	Collateral	Total guarantees and collateral
Corporate	5,653	2,158	1	2,159
Financial institutions	6,697	483	8,670	9,154
Project finance	6,581	0	8	8
Public sector entities	33,256	2,580	16	2,596
Central governments	28,757	383	0	383
ABS/MBS	2	2	0	2
Monolines	1,317	1,317	0	1,317
TOTAL	82,264	6,924	8,696	15,619

2.7. Counterparty Credit Risk

2.7.1. Definition

Dexia enters into derivative contracts primarily to protect cash flows and the fair value of financial assets and liabilities from market fluctuations. Derivative transactions are mainly concluded to reduce risk exposure with regard to interest rate risk and foreign exchange risk.

Even though it is the objective of the bank to enter into risk reduction strategies, only some of the derivative transactions can be classified as hedge accounting. In the event that a strategy applied by the bank does not meet the stringent requirements defined under IAS 39, transactions are classified as derivatives “held for trading” notwithstanding their risk reducing character.

2.7.2. Counterparty Credit Risk – Basel III

Counterparty or replacement risk corresponds to the market value of transactions with counterparties. It represents the current cost of replacing transactions with a positive value should the counterparty default.

Calculation of Exposure at Default within the Regulatory Framework

The EAD relative to counterparty risk is determined by aggregating the positive market values of all transactions (replacement cost) and increasing the sum with a regulatory add-on. This add-on, which is calculated in line with the CRD (Capital Requirement Directive) guidelines, is a fixed percentage according to the type of transaction (complexity), the underlying and the residual maturity, which is applied to the transaction's nominal value. In both cases, the effects of netting agreements and collateral are factored in by applying the netting rules as defined by the mark-to-market method and subtracting guarantees or collateral.

Dexia is engaged in two types of transactions presenting counterparty credit risks:

- Derivatives: counterparty exposure arises as a result of positive market valuation of derivative contracts. A positive market value represents Dexia's claim on the counterparty. Since market values fluctuate during the term to maturity, the uncertainty of future market conditions is taken into account by means of an ‘add-on’ to the current market value reflecting potential market movements for the specific contract. The total credit exposure on the counterparty, the credit risk equivalent, is the sum of the market value of the contract and the add-on.
- Repurchase agreements and securities lending or borrowing: given Dexia is cash taker, most repo transactions record a positive transactional haircut (difference between received cash and posted collateral). This difference represents a Dexia risk on the counterparty. Bond prices fluctuate during the term to maturity and with the uncertainty of future markets. This explains why, as for derivatives, add-ons are included to obtain an economic view of counterparty risk.

To reduce the counterparty risk, Dexia OTC derivatives and Dexia repos are in most cases concluded within the framework of a master agreement (i.e. the International Swap and Derivative Association – ISDA or Global Master Repurchase Agreement – GMRA) taking account of the general rules and procedures set out in the Dexia credit risk policies. These framework agreements reduce Dexia's credit exposure through:

- The use of close-out netting agreements where all positive and negative market values (haircut for repos) under the same agreement can be netted on a counterparty level;
- The netting agreement is supplemented with a collateral agreement where the net market value exposure (net positive variation in haircut for repos) is reduced further by the reception of margin calls. Margin calls are regulated by the terms and rules stipulated in the Credit Support Annex (CSA) for derivatives and GMRA negotiated with the counterparty.

Dexia complies with the EMIR regulation and has been admitted by a central counterparty (clearing house) to net the allowed derivative transactions. Dexia also uses general collateral pooling with a central counterparty for funding via repos.

Counterparty credit risk is taken into account in the calculation of credit risk on financial institutions.

Credit Valuation Adjustment

The credit valuation adjustment (CVA) corresponds to the difference between:

- A risk-free valuation; and
- The valuation which takes into account the possibility of a counterparty's default.

When applied to an OTC derivative portfolio, it corresponds to the market value of the counterparty credit risk. It is a “fair value” adjustment which reflects the expected losses due to counterparty's default.

Banks now consider this derivative fair value component as a standard market practice. The credit and liquidity crisis highlighted the need for a better measurement of this risk arising on derivative portfolios. The widening of credit spreads over past years has accentuated the significance of counterparty credit risk and CVA measurement.

From an accounting standard point of view, and since the release of IFRS 13, despite the changes in the fair value definition, calculation of CVA becomes a clear requirement.

The CVA is equal to expected exposure multiplied by the probability of default (PD) and the loss given default (LGD). Dexia computes the expected exposure by replicating a string of swaptions, or where not appropriate or too cumbersome, by applying the Basel exposure at default (net present value + add-on). Credit spreads are used for implying PDs.

For collateralised derivatives, Dexia uses a conservative 10-day margin period of risk.

CVA Capital Charge

Since the implementation of the Basel III framework, Dexia has been subject to a capital charge for potential mark-to-market losses associated with deterioration in the creditworthiness of its counterparties.

Basel III aims at applying to CVA risk an approach equivalent to that used for market risk capital charge measurement (based on Value at Risk): the CVA capital charge corresponds to a Value at Risk (VaR) applied to CVA.

Capital charge is computed in accordance with EBA guidelines.

As at 31 December 2020, Dexia had EUR 918 million related to CVA capital charge.

Downgrade of Dexia's Own Credit Rating – impact

Taking into account the current level of credit rating, no additional amount of collateral would have to be provided should Dexia Crédit Local incur a downgrade.

2.7.3. Accounting Treatment of Derivatives

The accounting treatment of Dexia's derivative strategies is described in note 1.1.10. and note 1.1.11. to the consolidated financial statements in Dexia's Annual Report 2020.

2.7.4. Derivative Portfolio

Detailed information is provided in note 4.1 and 7.7 to the consolidated financial statements in Dexia's Annual Report 2020. The notional value of credit derivatives is provided in table 4.1.b of the notes to the consolidated financial statements. All credit derivatives are used for Dexia's own credit portfolio (no intermediation activities) as protections bought (however not designated as IFRS hedges).

2.8. Focus on Equity Exposure

2.8.1. Accounting Rules

Detailed information is provided in note 1.1 to the consolidated financial statements in Dexia's annual report 2020.

2.8.2. Equity Exposure

The following tables show the amount of exposure to equities included in the banking book broken down by type of asset and by calculation process at year-end 2019 and 2020.

Financial equity instruments within the scope of IFRS 9 are classified in one of the following categories: mandatorily measured at Fair Value Through Profit or Loss (FVTPL) as non-SPPI financial instrument and equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI). Dexia does not have any equity securities held-for-trading.

	2019		2020	
	Accounting value	Fair value	Accounting value	Fair value
Financial assets at fair value through OCI	39	39	35	35
Non-trading financial assets mandatorily at fair value through profit or loss	62	62	8	8
TOTAL	101	101	43	43

2.9. Focus on Securitisation Activities

2.9.1. Objectives and Roles of Dexia

Dexia is managing a portfolio of senior ABS bonds in run-off. Dexia also manages a synthetic securitisation (WISE) with public finance and utility assets as underlying.

Dexia has not originated any securitisation transactions since 2011. The same goes for new investments or acting as sponsor for providing liquidity facilities in Dexia securitisation transactions or to third parties.

2.9.2. Risk Monitoring

The Credit Risk Management department monitors Dexia's ABS positions. The process in place to monitor the changes in the underlying credit or market risk is organised as follows:

- Depending on the level of risk of each position, an annual or half-yearly full review is carried out analysing both the market on which the underlying assets are based (real estate markets for RMBS, corporate markets for CDOs and so on) and also the underlying performance and credit or market risk features of each individual transaction. Based on this individual analysis (with cash-flow models for the RMBS and CDOs), an internal rating is attributed to each position.
- On a quarterly basis, the most sensitive exposures classified in the "Watch" or "Quarterly review" lists are reviewed by a dedicated Watch-List Risk Committee, which also decides on impairments.

Analysis of rating migration related to external rating agencies is based on daily monitoring. As to the inherent liquidity risk in ABS positions:

- The vast majority of the ABS positions are characterised by static pools of assets, limiting the risk of cash-flow mismatches between assets and liabilities.
- Liquidity risk might be partially related to the difference between the interest rate paid by the pool of underlying assets and the rate paid on the notes issued, in case of a mismatch between the assets.

Securitisation Exposures in the Banking Book

(in EUR million)	2020	
	Bank acts as originator	Bank acts as investor
	Synthetic	Traditional
RETAIL (TOTAL)	0	35
of which residential mortgage	0	35
WHOLESALE (TOTAL)	1,249	25
of which other wholesale	1,249	25

2.9.3. Basel III Treatment and Accounting Rules

2.9.3.1. Basel III Treatment

Dexia applies the external rating-based approach (SEC-ERBA) to calculate the risk-weighted assets corresponding to securitisation exposures. The SEC-ERBA method determines the risk weight percentage applicable as a function of the external rating of the securitisation exposure, the tranche seniority, the tranche tickness (for non-senior tranches) and the maturity. When no external or inferred rating is available, the amount of the securitisation position is deducted from capital or receives a risk weight of 1250%. Re-securitisation positions receive a 1250% risk weight.

For both securitisation originations and calculating risk-weighted assets in relation to its investments in securitisation positions, Dexia uses the services of the following rating agencies: Standard & Poor's, Moody's and Fitch.

2.9.3.2. Accounting Rules

The recognition and de-recognition of financial assets and liabilities relating to securitisation transactions, their valuation and accounting treatment are pursuant to IFRS 9 relating to "Financial instrument recognition and measurement".

Securitisation positions where the bank acts as an investor are classified in the IFRS 9 category of "amortised cost", "fair value through OCI" and "fair value through profit or loss". cf. section 1.1.6.2 of Dexia's Annual Report 2020. The valuation techniques for such assets are detailed in section 1.1.7.2 of Dexia's Annual Report 2020. For consolidation purposes, a securitisation-structured entity is consolidated in accordance with IFRS 10 relating to consolidation as described in Note 1.1.3 to the consolidated financial statements in Dexia's Annual Report 2020. Dexia has no assets awaiting securitisation.

2.9.4. Securitisation Activity as Originator

All of Dexia's origination operations, except WISE, were carried out with a view to obtaining long-term funding or establishing a liquidity buffer. The risk was not transferred out of the Group. Dexia Crédit Local has not initiated any new securitisation transaction since 2010. Dexia has not securitised any revolving exposure or liquidity facilities which are shared between investors and Dexia as originator.

The following tables show the outstanding notional amounts of reference obligations in the securitised pool. Variations between 2019 and 2020 are due to the amortisation of the securitisation portfolios.

(in EUR million)	EAD	
	31/12/2019	31/12/2020
Synthetic securitisation (Wise)	1,360	1,274

Securitisation Exposures in the Banking Book and Associated Regulatory Capital Requirements – Bank Acting as Originator or as Sponsor

(in EUR million)	2020								
	Exposure values (by RW bands)			Exposure values (by regulatory approach)		RWA (by regulatory approach)		Capital charge after cap	
	≤ 20% RW	> 20% to 50% RW	1250% RW	SEC-ERBA	1250%	SEC-ERBA	1250%	SEC-ERBA	1250%
TOTAL EXPOSURE	71	1,178	25	1,249	25	473	317	38	25
Synthetic securitisation (*)	71	1,178	25	1,249	25	473	317	38	25

(*) 100% wholesale

2.9.5. Securitisation Activity as Investor

2.9.5.1. Dexia Portfolios

(in EUR million)	2019 – EAD						Total
	[0 - 8%]]8% - 16%]]16% - 106%]]106% - 1250%[1250%		
CDO	1,334	0	0	0	26		1,360
MBS	46	1	3	0	0		50
TOTAL	1,380	1	3	0	26		1,410

(in EUR million)	2020 – EAD						Total
	[0-8%]]8%-16%]]16%-106%]]106%-1250%[1250%		
CDO	71	0	1,178	0	25		1,274
MBS	0	0	37	0	0		37
TOTAL	71	0	1,215	0	25		1,311

Dexia invested almost exclusively in originally AAA externally rated transactions, explaining the current low risk-weighted assets associated to this portfolio. 89% of the portfolio is within the BBB or above rating range as at the end of 2020, against 96% as at year-end 2019. This reduction is largely due to higher amortisation of some of the better rated transactions and to a lesser extent by the downgrade of one position from BBB- to BB. No positions are rated below the BB range.

The following table shows the exposure at default (EAD) of securitisation positions retained or purchased, broken down by seniority.

Seniority	2019	2020
Senior	1,309	1,215
Mezzanine	0	0
First loss	101	96
TOTAL	1,410	1,311

Securitisation Exposures in the Banking Book and Associated Regulatory Capital Requirements – Bank Acting as Investor

2019											
(in EUR million)	Exposure values (by RW bands)					Exposure values (by regulatory approach)		RWA (by regulatory approach)		Capital charge after cap	
	≤ 20% RW	> 20% to 50% RW	> 50% to 100% RW	> 100% to < 1250% RW	1250% RW	IRB RBA (incl. IAA)	1250%	IRB RBA (incl. IAA)	1250%	IRB RBA (incl. IAA)	1250%
Traditional securitisation	50	0	0	0	0	50	0	5	0	0	0
of which securitisation	46	0	0	0	0	46	0	4	0	0	0
of which retail underlying	46	0	0	0	0	46	0	4	0	0	0
of which re-securitisation (*)	3	0	0	0	0	3	0	1	0	0	0
Of which senior	3	0	0	0	0	3	0	1	0	0	0
TOTAL EXPOSURE	50	0	0	0	0	50	0	5	0	0	0

(*) Senior only.

2020													
(in EUR million)	Exposure values (by RW bands)					Exposure values (by regulatory approach)		RWA (by regulatory approach)		Capital charge after cap			
	≤ 20% RW	> 20% to 50% RW	> 50% to 100% RW	> 100% to < 1250% RW	1250% RW	IRB RBA (including IAA)	1250%	IRB RBA (including IAA)	1250%	IRB RBA (including IAA)	SEC- ERBA	1250%	
Traditional securitisation	4	32	1	0	0	0	0	0	0	0	1	0	
of which securitisation	2	32	1	0	0	0	0	0	0	0	1	0	
of which retail underlying	2	32	1	0	0	0	0	0	0	0	1	0	
of which re-securitisation (*)	2	0	0	0	0	0	0	0	0	0	0	0	
of which senior	2	0	0	0	0	0	0	0	0	0	0	0	
TOTAL EXPOSURE	4	32	1	0	0	0	0	0	0	0	1	0	

(*) Senior only.

2.9.5.2. Gains or Losses on Sales

The tables below show the recognised gains or losses by type of exposure in 2020 and 2019 arising from the sale of securitisation positions in line with Dexia deleveraging strategy. No ABS has been sold in 2020. The loss recorded in 2019 is mainly attributable to the sale of ABS on US student loans as part of the Dexia deleveraging plan.

	US Student Loans	Residential Mortgage Loans	Commercial Mortgage Loans	Total
Gain or losses in 2019	(56)	(2)	(1)	(59)
Gain or losses in 2020	0	0	0	0

3. Market Risk

3.1. Market Risk Measures

3.1.1. Risk Measurement

The Dexia Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.

Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia relies on a parametric VaR to measure the market risk inherent in the various portfolios and activities. The method of this VaR is based on a normal distribution of yields relating to risk factors.

Limits in terms of position, maturity, market and authorised products are put in place per type of activity, ensuring consistency between global risk limits and the operational thresholds used by front office.

The risk management system is completed by stress tests, which include events outside the probabilistic framework of VaR measurement techniques. The different assumptions of these degraded scenarios are regularly revised and updated. The consolidated stress-tests results and the corresponding analysis are presented to the Risk Committee on a quarterly basis.

3.1.2. Exposure to Market Risk

3.1.2.1. Value at Risk

The Dexia trading portfolio is composed of two groups of activity:

- Transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;
- Transactions intended to hedge risks arising from disinvestments or asset sales within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:

- Interest rate risk, in particular on the euro zone and the dollar zone,
- Cross-currency basis swap risk,
- Basis risk BOR-OIS in the same currency.

Value adjustments (CVA, DVA, FVA) and their variation are not included in the VaR model but are included in stress scenarios.

Value at Risk (VaR)

The detail of the VaR from the trading portfolios is presented in the following table. At the end of December 2020, total consumption in VaR was EUR 1.1 million against EUR 1 million at the end of 2019.

(in EUR million) VaR (10 days, 99%)	2019	2020
Average	1.4	1.5
End of period	1.0	1.1
Maximum	2.9	20.3
Minimum	0.8	1.0

3.1.2.2. Sensitivity of Banking Portfolios Classified at Fair Value through Equity to the Evolution of Credit Spreads

On 19 July 2019, the Board of Directors approved the implementation of a new asset disposal programme. In accordance with IFRS 9, this change in management intent has resulted in a change in business model and therefore in the reclassification of the assets concerned as at 1 January 2020. The assets concerned, which had been classified at amortised cost when IFRS 9 was

first applied, have been reclassified at fair value through profit or loss or equity, which has increased the Group's sensitivity to changes in the fair value of the assets concerned until they are disposed of. However, the credit risk sensitivity of assets classified at fair value has decreased during 2020 as a result of asset sales and natural amortisation.

Indeed, the portfolio classified at fair value through equity has a sensitivity to an increase in credit spreads of EUR -2.2 million as at 31 December 2020 against EUR -2.9 million in January 2020. The portfolio classified at fair value through profit or loss has a sensitivity to an increase in credit spreads of EUR -2.1 million as at 31 December 2020 compared to EUR -3.4 million in January 2020. Of these assets classified at fair value through profit or loss, those not meeting the SPPI criterion have a stable sensitivity over 2020 at EUR -1 million per basis point.

3.1.3. Regulatory Internal Model and Back-Testing

3.1.3.1. Basel Treatment

Internal Model

The parametric Value at Risk (VaR) model is the one used for the regulatory capital requirement calculation of general interest rate risk within the trading scope.

The Stressed VaR (SVaR) is calculated on a weekly basis using parameters from the period September 2008-September 2009.

Regulatory capital is calculated as the sum of both a multiple of VaR and a multiple of SVaR, applying multipliers agreed with the ECB.

The portfolios covered by the internal model are exclusively composed of derivatives and are located at Dexia Crédit Local, Paris and Dublin, and at Dexia Crediop. As part of the independent price verification, their valuation is checked against external sources to assess the performance of the valuation models used. Dexia also takes part in the annual supervisory benchmarking exercise, which allows its regulators to assess the quality of its internal model by comparison with the results submitted by other institutions on prescribed benchmarking portfolios.

Standard Approach

Dexia uses the standard approach for the foreign exchange and specific interest Market Risk.

3.1.3.2. Back-Testing

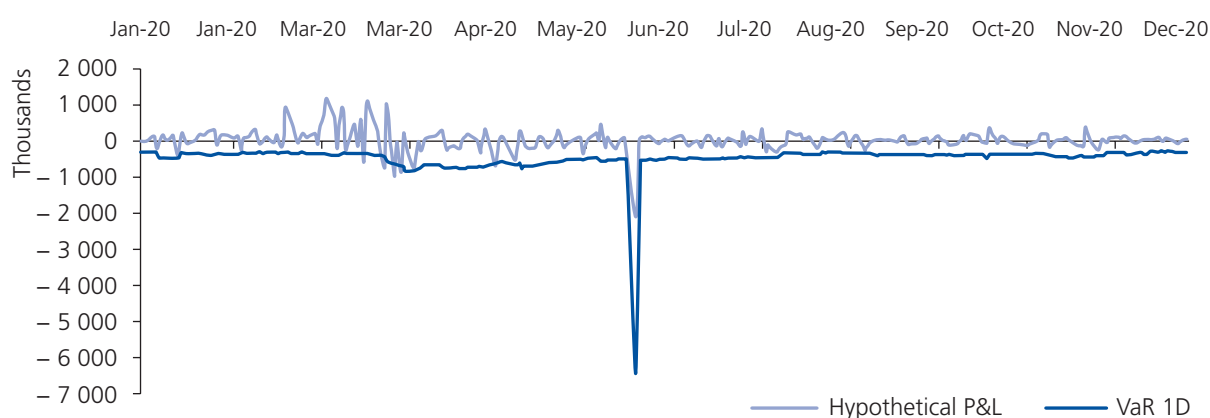
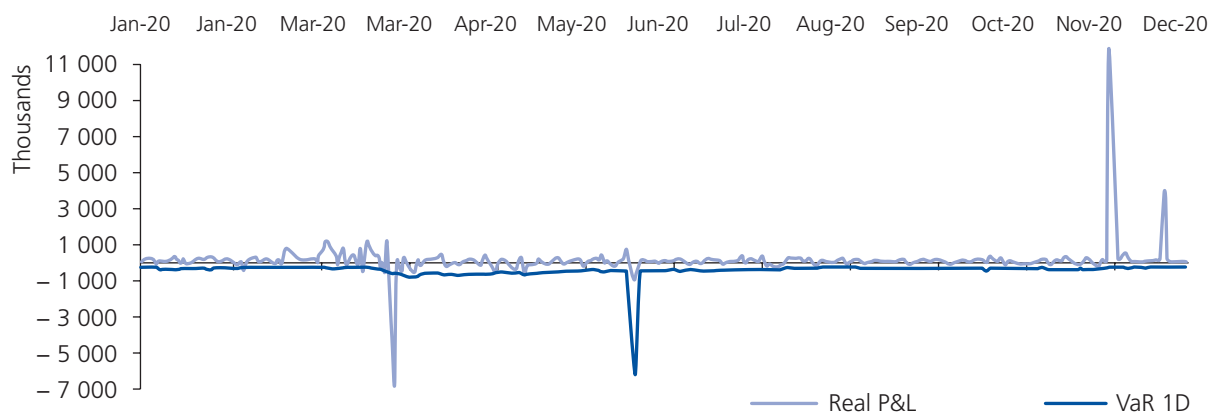
Back-testing is performed on a daily basis on the internal model perimeter. The result of the back-testing is the number of losses exceeding their corresponding VaR figures (i.e. "the number of exceptions"). For back-testing purposes, the VaR amounts need to be recalculated using a 1-day holding period. For VaR figures calculated under a parametric approach, rescaling is achieved through the application of a square root of 10 conversions. Risk reports are based on end-of-day positions meaning that risk figures refer to the maximum loss at the chosen confidence interval over the holding period of the portfolio held at the end of the business day. With a 1-day holding period, this figure is compared with the variation of the income statement for the following business day, restated to exclude accounting elements that are not captured by the Value at Risk such as fees, in order to challenge the robustness of the Dexia model better.

Back-testing is performed both on actual and hypothetical changes in the portfolio's value. Hypothetical back-tests are run under the scenarios of change in interest rate alone. The back-testing process provides the Market Risk Management department with a view of the number of exceptions. This number is taken into account to adjust, through an addend, the multiplier used for calculating the bank's risk capital requirements for market risk under the regulatory internal model.

In 2020, 9 back-testing overshootings (of which 2 technical overshootings arising from operational incidents) occurred on the IR perimeter on internal models (compared with 3 in 2018). Dexia was allowed, in compliance with the 'CRR quick fix' in response to the Covid-19 pandemic (Article 500c of Regulation (EU) No. 575/2013 as amended), to withdraw 3 overshootings (out of the 9) from the calculation of the addend.

Following the 2018 Target Review of Internal Models (TRIM) on Market Risk, in 2020 Dexia received the final decision from the ECB, imposing an increase to the multiplication factors m_c and m_s (as referred to in Article 366(1) of Regulation (EU) No. 575/2013) instead of applying a more punitive floor of 2.5 times the VaR capital charge while calculating the SVaR capital charge.

Back-testing results for 2020



3.1.4. Validation

Validation is responsible for the overall assessment of the market risk models, including the VaR internal model. The process set up to endorse the validation of models deployed within the Dexia Group is multi-layered, ensuring total compliance with regulations and local regulatory requirements through the work-out of proposals by the Validation department: an approval of these proposals by the Market Validation Committee and a final endorsement by the Dexia Management Board.

3.1.5. Systems and Controls

On a daily basis, the risks and results are calculated, analysed and reported both at the entity level and at the consolidated level. The Market Risk Committee (MRC) meets on a monthly basis, to analyse the risk and results, possibly to adjust market limits, to present procedures, guidelines and policies and to approve or amend new valuation methodologies.

All market activities are backed by specific guidelines describing the objectives, the authorised products, sensitivity, VaR and/or outstanding limits. The systems and controls established within the Dexia Group are described in various procedures to ensure a complete and formal framework established to support all the market risk responsibilities.

As an example, the New Product Approval Procedure (NPAP) describes the approval process for requests to trade new products from the Front Office until the formal approval of each new product by the Executive Operational Market Committee (EOMC). During this formal process, Market Risk analyses and proposes a valuation strategy for each product and presents its validation to the MRC prior to its formal validation by the EOMC.

Dexia set up a ratio to conduct a self-assessment of its capacity to deliver correct valuations. The results are discussed in the Valuation & Collateral Monitoring Committee and if necessary, this committee puts in place an action plan to improve the valuation strategies.

4. Transformation Risk

Dexia's Asset and Liability Management (ALM) policy aims to reduce liquidity risk as much as possible and to limit exposure to interest rate and exchange rate risk.

The actions taken by Dexia in 2020 to reduce the sensitivity of its balance sheet and its results to interest and exchange rate parameters are detailed in the "Highlights" chapter in Dexia's Annual Report 2020.

4.1. Management of Interest and Exchange Rate Risk

4.1.1. Measurement of Interest Rate Risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% parallel shift on the yield curve. The sensitivity of the net present value of the positions measured in accrued interest to a movement in interest rates is the main indicator for measuring risk and for setting limits and monitoring risks.

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM Risk Committee, organised within the ALCO, to manage risk. The Dexia Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia's assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR -14.3 million as at 31 December 2020, against EUR -27.7 million as at 31 December 2019. This is in line with the ALM strategy, which seeks to minimise net interest margin volatility.

(in EUR million)	2019	2020
Sensitivity	(27.7)	(14.3)
Limit	+/-80	+/-130

4.1.2. Measurement of Foreign Exchange Risk

The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which the Dexia Group prepares its financial statements.

With regard to foreign exchange, the ALCO decides on the policy for hedging foreign exchange risk generated by the existence of assets, liabilities, income and expenditure in foreign currencies. Also subject to regular monitoring are:

- the structural risks associated with the funding of holdings in foreign currencies,
- elements liable to increase the volatility of the solvency ratios of the Group or its entities.

Structural exchange positions are subject to strict limits below which a systematic hedge policy is applied.

4.2. Management of Liquidity Risk

4.2.1. Dexia's Policy on the Management of Liquidity Risk

Dexia's main objective is to manage the liquidity risk in euros and in foreign currencies for the Group, as well as to monitor the cost of funding so as to optimise the Group's results and to minimise volatility.

The liquidity management process aims to optimise the coverage of the Group's funding requirements taking into account the constraints to which it is exposed. Funding requirements are assessed, taking existing transactions into account as well as planned on and off-balance-sheet forecasts.

Dexia has a liquidity buffer, consisting of deposits with central banks and liquid assets on the repo market, enabling it to deal with stressed situations for at least one month without the need to take contingency measures. To manage the Group's liquidity situation, the Management Board regularly monitors the conditions for funding transactions on the market segments on which Dexia operates. It also guarantees proper execution of the funding programmes put in place. To that end, a specific and regular mode of information has been introduced:

- A daily and, if necessary, weekly report is provided to members of the Management Board, the State shareholders and guarantors and the supervisory authorities. This information is also used by all parties involved in managing the Dexia Group's liquidity position, in particular the Finance and Risk activity lines in charge of these topics, and the Funding and Markets activity line.
- A twelve-month funding plan is sent monthly to the State shareholders and guarantors, central banks and the supervisory authorities.
- A fortnightly conference call is held with the supervisory authorities and central banks.

4.2.2. Liquidity Risk Measurement

The Dexia Group posted a consolidated LCR ratio of 222% as at 31 December 2020 against 238% as at 31 December 2019, in line with these requirements. This ratio is also respected at subsidiary level, each exceeding the minimum requirement of 100%.

The net stable funding ratio (NFSR) was also well above the 100% threshold and increased from 130.4% at the end of December 2019 to 136.2% at the end of December 2020.

4.2.3. Asset encumbrance

Assets

(in EUR million)	31 December 2019			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	21,300		99,025	
Equity instruments	0	0	101	101
Debt securities	14,946	13,266	23,742	19,324
Other assets	6,353		75,182	

	31 December 2020			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	49,088		65,339	
Equity instruments	0	0	43	43
Debt securities	16,398	14,473	22,390	16,537
Other assets	32,690		42,906	

Collateral received

	31 December 2019		31 December 2020	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	1,235	318	271	846
Debt securities	0		64	839
Other collateral received	1,235	318	207	7

Encumbered assets/collateral received and associated liabilities

	31 December 2019		31 December 2020	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued
Carrying amount of selected financial liabilities	49,282	21,103	49,416	48,100

5. Operational Risk

Dexia's policy regarding operational risk management consists of regularly identifying, measuring and assessing the various risks and implementing corrective actions or improvements to reduce the most significant operational risks. This system is supplemented by a prevention policy in particular covering IT security, business continuity and, when necessary, the transfer of certain risks via insurance.

5.1. Risk Measurement and Management

Operational risk management is identified as one of the pillars of Dexia's strategy, within the context of its orderly resolution.

This risk is monitored within the framework of the standard approach determined by the Basel regulatory methodology. Under this methodology, information relating to the operational risk must be transferred to the managers in charge of monitoring this risk, and the tasks identified as critical must be monitored.

The operational risk management system relies on the following components:

- Operational risk event database: the systematic capture and monitoring of operational incidents is one of the main requirements of the Basel Committee. In accordance with its regulatory obligations, Dexia has put in place a system to identify operational incidents and to collect specific data. The information collected enables it to improve the quality of its internal control system. Over the last three years, 99% of the losses according to the Basel definition came from incidents referenced in the "Execution, delivery and process management" category. For the year 2020 as a whole, there was no direct financial impact, the impact being mainly related to days/men lost as a result of IT incidents and reported under the category "Systems or infrastructure failure". In general, operational incidents are reported when there is a failure in a business line process such as connectivity to the IT system, and the direct cause is often a failure in the correct operation of IT systems.
- Risk and Control Self-Assessment (RCSA): in addition to establishing a loss history, a mapping of Dexia's exposure to key risks is carried out regularly. All entities of the Dexia Group carry out risk self-assessment exercises taking into account existing controls and thus making it possible to build up an overall view of operational risks in the various entities and activities of the Group, in France and internationally. The overall mapping is presented to the Management Committee. Risk mitigation actions can be defined if necessary. Finally, an RCSA specifically covering the IT and Back-Office activities provided by Cognizant is conducted annually by Cognizant and then challenged by the Operational Risk and Permanent Control functions of Dexia. It should be noted that a Risk and Control Assessment (RCA) covering critical or important services has also been implemented.
- Definition and monitoring of action plans: remedial actions are defined to avoid major incidents recurring, to correct deficient controls or to reduce important risks identified. Regular monitoring is carried out by the operational risk management function. This process allows the internal control system to be constantly improved and risks to be reduced appropriately over time.
- Key Risk Indicators (KRI): KRI have been developed and enable the Risk Committee to monitor the evolution of the principal risks identified in the Risk Appetite Framework.
- IT security management: the IT security policy and the associated instructions, standards and practices are aimed at ensuring that Dexia's IT assets are secure.
- Business continuity management: all the activities take place in a secure environment. The business lines establish impact analyses for vital activities in the case of disaster or interruption. They define and then regularly update business continuity plans.

In particular in 2020, from the very beginning of the crisis, Dexia closely monitored the evolution of the situation linked to the spread of Covid-19 throughout the world and particularly in Europe. The Management Board rapidly activated an operational and a strategic crisis cell in order to protect its teams and ensure operational continuity. The effective deployment of the necessary resources and the exceptional mobilisation of the teams quickly enabled all staff members to work remotely. Crisis management was facilitated by the finalisation, with Cognizant, of the IT infrastructure renovation project at the end of 2019. The department in charge of monitoring operational risks was fully involved in the coordination of this mechanism, thus ensuring the continuity of all activities within a reinforced security framework.

Dexia applies the standard approach provided for in the Basel regulatory framework to calculate the minimum regulatory capital for operational risk management.

5.2. Management of Operational Risk during the Resolution Period

In 2020, the Dexia Group continued to adapt its structure and its operational processes to its mandate of orderly resolution. This resolution phase is by its nature propitious to the development of operational risks, particularly from elements such as the departure of key individuals, possible demotivation among staff members, or changes to treatment processes. In particular, projects to outsource certain activities may represent a source of operational risk during the implementation phase but should in the medium term guarantee the bank's operational continuity and limit the operational risks associated with systems, processes and people.

A follow-up of operational risks in the execution of major projects is also carried out on a quarterly basis and ensures that corrective actions are implemented to reduce the most important risks.

Finally, psychosocial risks are closely monitored at Dexia, accompanied by preventive and support actions.

More detailed information on the actions taken by Human Resources to mitigate operational risk are provided in the Dexia's 2020 Annual Report chapter entitled "Non-financial declaration. Corporate, social responsibility".

In 2019, the ECB performed an On-Site Inspection (OSI) on outsourcing arrangements of Dexia covering both execution and provider selection. The final report was received in April 2020. Dexia has established the action plans to address the 12 recommendations: the closing has been requested for 3 of these recommendations while the implementation of remediation for the other recommendations is scheduled in the first half of 2021.

In 2018, the ECB also performed an OSI on IT. Dexia communicated its action plans aiming at addressing the 9 recommendations established by the JST (in September 2019) based on the ECB final report (dated May 2019), covering the findings, relating for the most critical ones to the monitoring of IT outsourced activities, the Management of IT Security and IT Continuity. As at the end of 2020, action plans were for the most part now delivered and the formal closing of recommendations is validated or is being discussed with the Supervisors to ensure that the appropriate documentation is provided to support the closing. On IT Disaster Recovery Plan however, the full coverage of the recommendation still requires additional work planned over the next quarters.

6. Remuneration Policies and Practices

The scheme in place within the Group provides that the Dexia Remuneration Committee prepares all matters relating to remuneration policy. Its proposals are then submitted to Dexia's Board of Directors, which decides on the appropriate measures to be taken. Dexia defines its remuneration policy in observance of the commitments made to the Belgian and French States and the European Commission within the framework of the Group's orderly resolution plan. In particular Dexia applies the remuneration principles derived within the context of the G20, the national bodies and the CRD IV. The Group ensures that it makes the best use of public funds as regards remuneration. This policy applies to both fixed (non-performance-related) remuneration and any variable (performance-related) remuneration, the general principles of which apply to all staff members. These principles include aligning remuneration policies and practices in order to create a balance between fixed and variable remuneration which does not encourage excessive risk-taking and establishing methods for assessing the relationship between performance and variable remuneration.

The remuneration policy and its implementation are regularly assessed in order to identify provisions which require adaptation particularly in view of the entry into force of new legal or regulatory provisions.

6.1. Fixed and Variable Remuneration

The remuneration of staff whose professional activities have a significant impact on the risk profile is made up of a fixed part that may be accompanied by a variable part.

6.1.1. Fixed Remuneration

Fixed remuneration may be made up of basic remuneration, determined considering the nature and importance of the responsibilities assumed by each staff member, plus a 'function bonus' or salary supplement which is not affected by performance, paid quarterly.

This supplement was introduced correlatively to the decision by the Board of Directors to reduce variable remuneration based on performance in order to reduce the potential incentive to take excessive risks. In this way the Board, in accordance with the statutory and regulatory provisions in the matter, has increased remuneration not linked to performance, which must represent a significant proportion of the whole of the remuneration.

The remuneration of Management Board members consists solely of a part not linked to performance, constituting a whole from which, unless there is a decision to the contrary by the Board of Directors on a proposal from the Remuneration Committee, there shall be deducted any attendance fee paid to a member of the Management Board or by a third party company in which a mandate is exercised in the name and on behalf of Dexia.

6.1.2. Variable Remuneration

Members of the Management Board have no contractual right to receive variable remuneration.

As a rule, in order to discourage excessive risk-taking and to allow a sufficiently flexible policy of granting variable compensation, the maximum ratios observed between fixed and variable compensation is 1 (fixed compensation) for 0.3 (variable compensation). Exceptionally, this ratio may reach 0.5 in case of premium having the goal to keep the necessary competencies to maintain the operational continuity. In any case, variable remuneration will not exceed EUR 75,000.

Given the ratios set out above, the variable remuneration paid to a staff member will not be deferred over time, except where there is an exception such as keeping key competencies (cf. paragraph above). Nevertheless, the company reserves the right to apply a retrospective clawback adjustment in certain cases (cf. below).

6.1.3. Retrospective Clawback Adjustment of Variable Remuneration

Payment of variable remuneration is based on the premise that, as long as the staff member is working within the Group, he or she fully observes the law and the rules that apply to the company, as well as its values. Variable remuneration may be the subject of retrospective clawback adjustments.

In the event of fraud being observed after the allocation of variable remuneration, and in cases where variable remuneration might have been granted on the basis of intentionally erroneous information, the Board of Directors of Dexia reserves the right to bring civil action with a view to recovering the part of the variable remuneration which might already have been paid, or at least damages to remedy the consequences of those actions.

6.2. Link between Performance and Remuneration

Performance may influence movements in fixed remuneration and the amount of any variable remuneration.

All variable remuneration is influenced by the company's situation and may fluctuate based on the results of the Group, of the entity and the individual performance. In compliance with statutory constraints and obligations, any variable remuneration which may have been granted may therefore be reduced to zero, by decision of the Board of Directors.

The link between the variable remuneration and staff member's performance is assessed with regard to former targets and results expected in the future, linked to past activity.

When being determined, the directors' targets, set by the Board of Directors, include the risk criteria. Subsequently, the targets streamed down to lower levels of the organisation will also take account of the risk factors specific to the business line in question.

The performance is linked to quantitative and qualitative, financial and non-financial criteria and is assessed every year.

The individual objectives are split between business objectives and behavioural objectives.

6.3. Quantitative Information

The information regarding the remuneration of the Management Board is disclosed in the chapter entitled "Declaration of corporate governance" of Dexia Crédit Local's Annual Report 2020, as well as in the chapter entitled "Governance" published in Dexia's Annual Report 2020.

2019							
Number of staff ⁽¹⁾	Remuneration			Severance payments			A posteriori adjustment of variable remuneration
	Fixed	Variable ⁽²⁾	Retention premium	Number of beneficiaries	Paid amounts	Highest paid amount	
Management Board members	8	3.03	-	-	-	-	-
Other staff ⁽¹⁾	23	5.23	0.61	-	3	1.26	0.46

1) This table is related to executives and staff members whose activity has a significant material impact on the Group risk's profile.

2) In the light of the applicable ratios between fixed and variable pay, the payment of the variable remuneration will not be deferred.

2020							
Number of staff ⁽¹⁾	Remuneration			Severance payments			A posteriori adjustment of variable remuneration
	Fixed	Variable ⁽²⁾	Retention premium	Number of beneficiaries	Paid amounts	Highest paid amount	
Management Board members	7	3.00	-	-	-	-	-
Other staff ⁽¹⁾	22	5.00	0.43	-	4	1.38	0.42

1) This table is related to executives and staff members whose activity has a significant material impact on the Group risk's profile.

2) In the light of the applicable ratios between fixed and variable pay, the payment of the variable remuneration will not be deferred.

Appendix 1

Glossary

Concept	Definition
ABS Asset-Backed Security	Securities issued by a vehicle created for the purpose of buying assets from a bank, a company or a state, like trade receivables or inventories, and to provide the seller with cash and the buyer with a financial product characterised by a certain risk profile and a rate of return.
AFS Available For Sale	Non-derivative financial assets designated on initial recognition as available for sale or any other instruments which are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.
AIRBA Advanced Internal Rating-Based Approach	Institutions using the Advanced IRB approach are allowed to determine borrowers' probabilities of default and to rely on own estimates of loss given default and exposure at default on an exposure-by-exposure basis. These risk measures are converted into risk weights and regulatory capital requirements by means of risk weight formulas specified by the Basel Committee.
ALM Asset and Liability Management	Action, for instance in a financial institution or a corporate, of managing the net risk position between assets and liabilities, particularly with respect to imbalances generated by the evolution of interest rates, currencies and inflation, but also maturity mismatch, liquidity mismatch, market risk and credit risk.
AVC Asset Value Correlation	The AVC parameter is a means by which the framework captures the extent to which defaults across firms will cluster together. A multiplier of 1.25 is applied to the correlation parameter of all exposures to financial institutions meeting defined criteria (see LFI/UFI).
BIS Bank for International Settlements	"Bank for International Settlements" ("BIS") designates the international financial institution which acts as the central bank of the national central banks and of some supranational organisations, such as the European Central Bank (ECB). The BIS receives deposits from, and makes loans to, these entities. The BIS is also a forum to discuss co-ordination of macroeconomic policies in general, with a focus on monetary policies, such as the evolution of interest rates and currency exchange rates. The institution's prime objective is the overall stability of the world's financial system. In that context, capital adequacy ratios applicable to banks are set up by the Basel Committee which is part of the BIS.
CCF Credit Conversion Factor	The ratio of the currently undrawn amount of a commitment which will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment will be determined by the advised limit, unless the unadvised limit is higher.
CRD Capital Requirement Directive	The Capital Requirement Directive (CRD) for the financial services industry introduces a supervisory framework in the EU which reflects the Basel III rules on capital measurement and capital standards.
CRM Credit Risk Mitigant	Range of techniques whereby a bank can, partially, protect itself against counterparty default (for example by taking guarantees or collateral, or buying a hedging instrument).
CVA Credit Valuation Adjustment	The Credit Valuation Adjustment (CVA) is one of the components of the fair value (FV) of derivatives. CVA adjusts FV in order to take counterparty risk into account.
CVA capital charge	Under Basel III, banks are subject to a "CVA" capital charge for potential mark-to-market losses associated with any deterioration in the creditworthiness of a counterparty. The CVA capital charge corresponds to a Value At Risk (VaR) applied to CVA.
DVA Debit Valuation Adjustment	The Debit Valuation Adjustment (DVA) is the measure of a bank's possibility of not fulfilling its own obligations based on its probability of default.
EAD Exposure at Default	Exposure at Default (EAD) is one of the parameters used to calculate the regulatory capital requirement under the Basel III framework. EAD is a Dexia best estimate of its credit risk exposure value in case of default of a counterparty. Definition of EAD depends on the approach taken into account by Dexia: both Standard and IRB approaches (Basel III regulation) are used by Dexia.

Concept	Definition
ECAI External Credit Assessment Institutions	Under the agreement of the Basel Committee on Banking Supervision, banking regulators can allow banks to use credit ratings from certain approved Credit Rating Agencies when calculating the risk weight of an exposure. Competent authorities will recognise an ECAI as eligible only if they are satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency.
EL Expected Loss	The amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one-year period.
Forbearance	Forborne exposures are restructured contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (in other words, forbearance bears upon counterparties which are in “financial difficulties”). Restructured contracts are transactions renegotiated (modification of the previous terms and conditions) or refinanced (use of debt contracts to ensure the total or partial payment of other debt). Concession refers to either of the following actions: (a) a modification of the previous terms and conditions of a contract with which the debtor is considered unable to comply due to its financial difficulties (“troubled debt”) to allow for sufficient debt service ability, which would not have been granted had the debtor not been in financial difficulties; (b) a total or partial refinancing of a troubled debt contract, which would not have been granted had the debtor not been in financial difficulties. The concept of forbearance applies to all loans and debt securities on-balance-sheet. “Debt” includes loans, debt securities and revocable and irrevocable loan commitments given, but excludes exposures held for trading.
FX Foreign eXchange	Transaction of international monetary business, as between governments or businesses of different countries.
IAS International Accounting Standards	IAS stands for International Accounting Standards. IAS are used outside the US, predominantly in continental Europe.
ICAAP Internal Capital Adequacy Assessment Process	The main objective of the Pillar 2 requirements is to implement procedures which will be more sensitive to an institution’s individual risk profile. This is to be achieved by introducing internal Capital Adequacy Assessment processes (ICAAP).
IFRS International Financial Reporting Standards	International Financial Reporting Standards published by the IASB and adopted by most countries but the USA. They have been designed to ensure globally transparent and comparable accounting and disclosure.
IR Interest Rate	Interest expressed as an annual percentage rate.
IRB Approach	Internal Rating-Based Approach. Institutions using the IRB approach are allowed to determine borrowers’ probabilities of default. Two IRB approaches exist: the Advanced Approach (AIRBA) and the Foundation Approach.
ISDA International Swap and Derivative Association	Trade organisation of participants in the market for over-the-counter derivatives. It has created a standard contract (the ISDA Master Agreement) to enter into derivative transactions.
IT Information Technology	Study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware. IT deals with the use of electronic computers and computer software to convert, store, protect, process, transmit, and securely retrieve information.
L&R Loans & Receivables	Non-derivative financial assets with fixed or determinable payments which are not quoted on an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available for sale.
LCR Liquidity Coverage Ratio	A 30-day liquidity coverage ratio set up by the new Capital Requirement Regulation (CRR) designed to ensure short-term resilience to liquidity disruption. The stock of high liquid assets in stressed conditions is compared to the total expected cash inflows minus outflows.
Leverage Ratio	<p>The leverage ratio is defined as the “capital measure” (the numerator) divided by the “exposure measure” (the denominator) and is expressed as a percentage. The capital measure is currently defined as Tier 1 capital and the minimum leverage ratio is 3%.</p> <p>The leverage ratio is intended to (i) restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes which can damage the broader financial system and the economy and (ii) reinforce the risk-based requirements with a simple, non-risk based “backstop” measure.</p>

Concept	Definition
LFI Large Financial Institution	A Large Financial Institution is a regulated financial institution (defined as an institution which provides financial services to its clients or acts as an intermediary in providing such services) the total assets of which, on the level of that individual firm or on the consolidated level of the Group, are greater than or equal to EUR 70 billion.
LGD Loss Given Default	The ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default.
Master scale	For reporting purposes, a “master scale” has been set up. This master scale is structured in grades ranging from AAA to CCC and the modifiers plus, flat and minus (except for both extremes of the scale). The two default classes D1 and D2 are also reported. Each rating corresponds to a bucket of PD set up according to the one-year average default rate of rating agencies. This rating is obtained by mapping its probability of default as estimated by the relevant IRS (Internal Rating System) into the master scale bucket. Rating classes provided in the present document stem from the master scale.
MBS Mortgage-Backed Securities	Asset-backed securities or debt obligations representing claims on the cash flows from mortgage loans.
NBB National Bank of Belgium	The National Bank of Belgium is the Belgian Financial Institutions regulator.
NPE Non-Performing Exposure	Non-performing exposures satisfy at least one of the following criteria: (i) material exposures which are more than 90 days past-due (quantitative criterion); (ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of past-due days (qualitative criterion). The concept of non-performing exposure applies to all debt instruments (loans and advances as well as debt securities) and off-balance-sheet exposures (loan commitments given, financial guarantees given, and other commitments given). This definition does not include equities, derivatives, repos and exposures held for trading.
NSFR Net Stable Funding Ratio	Long-term structural liquidity ratio set up by the new Capital Requirement Regulation (CRR) designed to address liquidity mismatches and to promote the use of stable funding (the amount of available stable funding is compared to the amount of required stable funding).
P/L Profit and Loss	The income statement is a document showing all wealth-creating revenues and wealth-destroying charges. There are two major income statement formats: the by-nature income statement format and the by-function income statement format. Also called profit and loss account (or P/L).
PD Probability of Default	The probability of default of a counterparty over a one-year period.
RCSA Risk & Control Self-Assessment	This is an annual self-assessment exercise consisting of identifying and evaluating the most significant risk areas in a coherent way across entities and activities. RCSA also includes the identification, challenging and description of key controls and indicators and eventually defines action plans that will allow for an improvement of risk mitigation.
RWA Risk-Weighted Assets	Used in the calculation of risk-based capital ratios, they are the total assets calculated by applying risk-weights to the amount of exposure.
UFI Unregulated Financial Institution	From a regulatory standpoint, unregulated financial institutions are defined as non-regulated financial entities which, as their main business, perform one or more of the activities performed by regulated financial entities. The following entities can be included in the UFI list: unregulated non-equity funds (may include funds involved in credit intermediation and operating with some degree of maturity and/or liquidity transformation) and unregulated structured finance vehicles (securitisation vehicles created for the purpose of warehousing assets and issuing ABS).
VaR Value at Risk	(VaR) represents an investor’s maximum potential loss on the value of an asset or a portfolio of financial assets and liabilities, based on the investment timeframe and a confidence interval. This potential loss is calculated on the basis of historical data or deduced from normal statistical laws.
Asset Encumbrance	An asset will be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Appendix 2

Credit models Systems

1. Structure of Credit model Systems

The internal rating systems developed by Dexia were set up to evaluate the three Basel risk parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For each counterparty type in the advanced method, a set of three models has been developed for each parameter.

The PD models estimate the one-year probability of default. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed and adjusted during the yearly back-testing when applicable. The number of ratings on each scale depends on the characteristics of the underlying portfolio (the number of counterparties, their homogeneity, whether it is a low default portfolio or not) and varies between 7 and 17 non-default classes. In addition, each scale has been attributed two default classes (named D1 and D2).

For reporting purposes, a “master scale” has been set up. This master scale is structured in grades ranging from AAA to CCC and the modifiers plus, flat and minus (except for both extremes of the scale). The two default classes D1 and D2 are also reported. Each rating corresponds to a bucket of PD set up according to the one-year average default rate of rating agencies. This rating is obtained by mapping its probability of default as estimated by the relevant IRS (Internal Rating System) into the master scale bucket. Rating classes provided in the present document stem from the master scale.

LGD models estimate the ultimate loss incurred on a defaulting counterparty before taking the credit risk mitigants into account. The unsecured LGD depends on different factors such as the product type, the level of subordination or the rating of the counterparty. The granularity of the estimate is a function of the quantity and quality of data available.

CCF models estimate the part of off-balance-sheet commitments which would be drawn should a counterparty go into default. The regulation authorises the use of CCF models only when CCF under the foundation approach is not equal to 100% (as it is for credit substitutes for instance). CCF granularity also depends on the availability of data.

The relation between the outcomes of internal rating systems and external agency ratings is at two levels:

- While designing the models: some internal rating systems have been designed and calibrated on the basis of external ratings. This is typically the case when internal default data are scarce;
- While establishing reporting: information on the portfolio is reported using the master scale which is representative for the external agency probability of default.

As already stated above, since March 2020, Dexia has used the standard approach for its credit portfolio, which implies the withdrawal of IRB models for the RWA calculation. However, the previous IRB models are still used for the rating process.

2. Description of the Credit Model Process

General Organisation of the Credit Model Process

The credit model process is organised in three stages: the model development, the maintenance and the control. The Risk Models, Quantification & Defaults division is responsible for the entire process of developing and maintaining a model whereas the control of the credit model is dispatched through several control functions within the Dexia Group (validation, audit, credit internal rating systems control...).

Model Development and/or Review

The different steps of model's development are:

- Defining the scope of the model application;
- Identifying and gathering the most pertinent available data like financial data, data on defaults and recoveries (internal and/or external data), institutional and legal framework etc.;
- Building a database for the purpose of modelling, calibration of risk parameters (internal and/or external default, financial and qualitative information, internal data on recovery process, etc.); the database source depends on the case at hand, with a preference for objective above subjective data and a long data history. The data source varies by model. The data quality is checked by RMQD analysts before launching the testing phase;
- Defining the methodology: expert, statistical or mixed statistical and expert approaches, definition of a broad list of financial ratios or / and qualitative criteria, definition of material risk drivers for discrimination, computation of quantitative and qualitative criteria according to the type of model chosen;
- Model construction
 - Testing ratios methods and/or material risk driver for discrimination in an interactive way between quantitative analysts from RMQD and qualitative analysts from CEC teams when necessary. Testing ratios, methods and/or material risk driver for discrimination in an interactive way between quantitative analysts from RMQD and qualitative analysts from CEC teams when necessary.
 - Segmentation (per homogeneous group or segment) and calibration (through-the-cycle average and conservative margin) steps:
- Model evaluation: Expert evaluation, Formal back test, Statistical performance, Criteria to rank models;
- Documentation writing: Model documentation and documentation to be disclosed to the Supervisor;
- Validation: Internal validation (validation team, ad hoc committees (COTEC), Validation Committee), Risk Executive Committee;
- Information to the Supervisor;
- Model Implementation in IT systems;
- Adapting risk policies.

Nevertheless, some steps in the development process detailed above may not be applied. Models based on an assimilation approach have specific development processes. Counterparties treated by assimilation inherit the rating of their “master” counterparty. Assimilations are applied when it is neither financially intuitive nor statistically relevant to develop, adapt or use an existing model. Such cases occur typically for low default portfolios with a low number of observations, limited data availability (both for design and for model use) and for portfolios where strong relations exist between the “master” counterparty and the “assimilated” counterparty. These relations can be legally bound or based upon long-term past experience and practice.

Maintenance of the models

As mentioned above, the RMQD division is responsible for the entire process linked to the model review, including the maintenance of the model. The main model maintenance steps encompass:

- Centralising, analysing and storing of default data;
- Coordinating the various quantitative and qualitative analyses required throughout the model life cycle;
- Gathering information and feed-back from the credit analysis and rating teams to update risk analysis techniques, and identify models' weaknesses;
- Conducting developments, reviews and back tests of models;
- Validating business requirements for IT developments (rating tools);
- Updating model documentation and user guides.

Credit model process by broad exposure class

Type of exposure included in each exposure class

Dexia has developed a wide range of models to estimate PD, LGD and CCF of the following types of counterparties.

Sovereigns and assimilated

Sovereigns

The scope of the model encompasses sovereign counterparties, defined as central governments, central banks and embassies (which are an offshoot of the central state), and all debtors of which liabilities are guaranteed irrevocably and unconditionally by central governments or central banks.

Assimilations to sovereigns

The in-depth analysis of some public sector counterparties (such as public hospitals in France or communities in Germany) shows that they share the same credit risk as the “master” counterparties to which they are assimilated (usually local authorities or sovereigns). They are consequently assimilated to these “master” counterparties and benefit from the same PD and LGD as their “master” counterparties.

Project finance (specialised lending)

This model encompasses the project financing activity of Dexia on all segments of activity in which Dexia intervenes (which at present are mainly Energy and Infrastructure). The specialised lending portfolio is a subgroup of the corporate portfolio which has the following characteristics: the economic objective is to finance or acquire an asset; the flows generated by this asset are the sole or practically the sole source of repayment; this financing represents a significant debt in respect of the liabilities of the borrower; the main distinguishing criterion of risk is essentially the variability in flows generated by the financed asset, much more than the borrower's ability to repay.

Banks

The scope of the model encompasses worldwide bank counterparties, defined as legal entities which have banking activities as their usual profession. Banking activities consist of the receipt of funds from the public, credit operations and putting those funds at customers' disposal, or managing means of payment. Bank status is gained by the delivery of a banking licence granted by the supervisory authority.

Corporates

The scope of the model encompasses worldwide corporate counterparties. Dexia defines a corporate as a private company or a listed publicly owned company with total annual revenues higher than EUR 50 million or belonging to a Group with total annual revenues higher than EUR 50 million which is not a bank, a financial institution, an insurer or a satellite.

Public sector entities: Western Europe, US, assimilations to local authorities

Public sector entities represent a large part of the Dexia portfolio. Some differences between counterparties have been noticed inside this portfolio, and this explains the number of models.

Western European local authorities

This model encompasses local authorities in France, Spain, Italy and Portugal⁽⁹⁾. From this model, the models applicable for German Länder and French "Groupements à fiscalité propre" have been inferred.

Dexia defines local authorities as sub-sovereign governmental elected bodies empowered by the legislation of the country in which they are located with specific responsibilities in providing public services and with certain resources and capacity to decide their own practical organisation in terms of administrative procedures, personnel, buildings, equipment, etc.

US States

The scope of application of the US State model encompasses the 50 States of the United States of America and the Commonwealth of Puerto Rico. The model only rates US State general funds or general obligations. Every US State or local government has a general fund and generally issues general obligation or general fund debt. The general fund of a public entity is the main revenue from direct or indirect taxes and is used for common and general purposes. For instance, a general fund usually backs general obligation bonds, lease or certificate of participation bonds.

US local governments

The scope of the US local government model encompasses cities, counties and school districts. The credit model only rates US local government general funds or general obligations.

Other counterparties from the US municipal sector (expert models)

The scope of application of these expert models covers only the counterparties related to the special revenue funds, i.e. the following categories for Dexia: special tax, utilities (including water and sewer, gas and electricity), higher education, general airport, toll facilities, mass transportation, housing, healthcare and public facility lease. Every local government or public authority generally has one or more special revenue funds, the financial characteristics of which differ from one sector to another. The special revenue funds of a public entity are usually used for a special purpose and they receive either utility revenues (water, public power, toll and so on) or special taxes (sales tax, allocation tax, excise tax and so on).

Social housing

This model encompasses social housing companies in France and the United Kingdom. The social housing sector encompasses dedicated entities with public, private or non-profit entity status which have a social lessor's mission within the regulated field of social housing activity in France and in the United Kingdom. In particular, this field is strongly regulated by the "Code de la Construction et de l'Habitat" in France and by the Housing Corporation in the United Kingdom.

Assimilations to public sector entities

The in-depth analysis of some public sector counterparties shows that they share the same credit risk as the "master" counterparties to which they are assimilated (usually local authorities or sovereigns). They are consequently assimilated to these "master" counterparties and benefit from the same PD/LGD as their "master" counterparties.

⁽⁹⁾ Portuguese Autonomous Regions. In 2018 Dexia obtained the supervisor's approval to revert to the standard approach on Portuguese municipality exposures.

Equity and securitisation transactions

No internal models have been developed specifically for equity or securitisation transactions which follow a different regulatory approach under the Basel framework: securitisation risk weighting is based on external and not internal ratings; equities do not require the development of specific models.

Default definition used in the models

The “default” notion is uniform throughout the entire Dexia Group covering all business segments with some minor exceptions due to special characteristics.

The notion of default has been harmonised from the beginning of the Basel project with the impairment notion used in IFRS. All credits in default and only those flagged as in default give rise to an impairment test (that may or may not ultimately lead to a provision). (Cf. above in section 3.5).

The notion of default is not automatically related to that of potential loss (for instance, a loan may present unpaid terms but may be totally collateralised and consequently present a nil expected loss) or to the notion of denunciation (which is decided on the basis of the interest Dexia may have in doing so).

Definition, methods and data for estimating PD, LGD and CCF

Main principles used for estimating the PD

Types of counterparties	Through The Cycle (TTC) models	Default definition	Time series used	Internal/ external data
Sovereigns	Models are forward looking and Through The Cycle (TTC). They are designated to be optimally discriminative over the long term. The TTC aspect of the rating is also addressed in a best-estimate calibration of the PD	Default at 90 days	> 10 years	External
Banks		Default at 90 days	> 10 years	External and internal
Local public sector		Default at 90 days (except for French: 180 days until 31 December 2016)	Cf. following table	Internal and/or external
Corporates		Default at 90 days	> 10 years	External
Specialised lending		Default at 90 days	> 10 years	Internal
Equity		Specific approach: PD/LGD	N/A	N/A
Securitisation	Rating-based approach	Default if related ABS is classified as impairment 1 (loss probability >50%) or impairment 2 (loss probability =100%)	N/A	N/A

Main principles used for estimating the LGD

Types of counterparties	Main hypotheses	Time series used	Internal/ external Data
Sovereigns	Expert score function based upon Fitch country loss risk methodology and internal expert knowledge to discriminate between high and low risk	> 10 years	Internal + External
Banks	Statistical model based on external rating agencies and internal loss data	> 10 years	Internal + External
Corporates	Statistical model based on external rating agencies loss data	> 10 years	External
Local public sector	Cf. next table		
Specialised lending	Statistical model based on internal loss data	> 10 years	Internal
Equity	Specific approach: PD/LGD	N/A	N/A
Securitisation	Rating-based approach	N/A	N/A

Overview of the local public sector

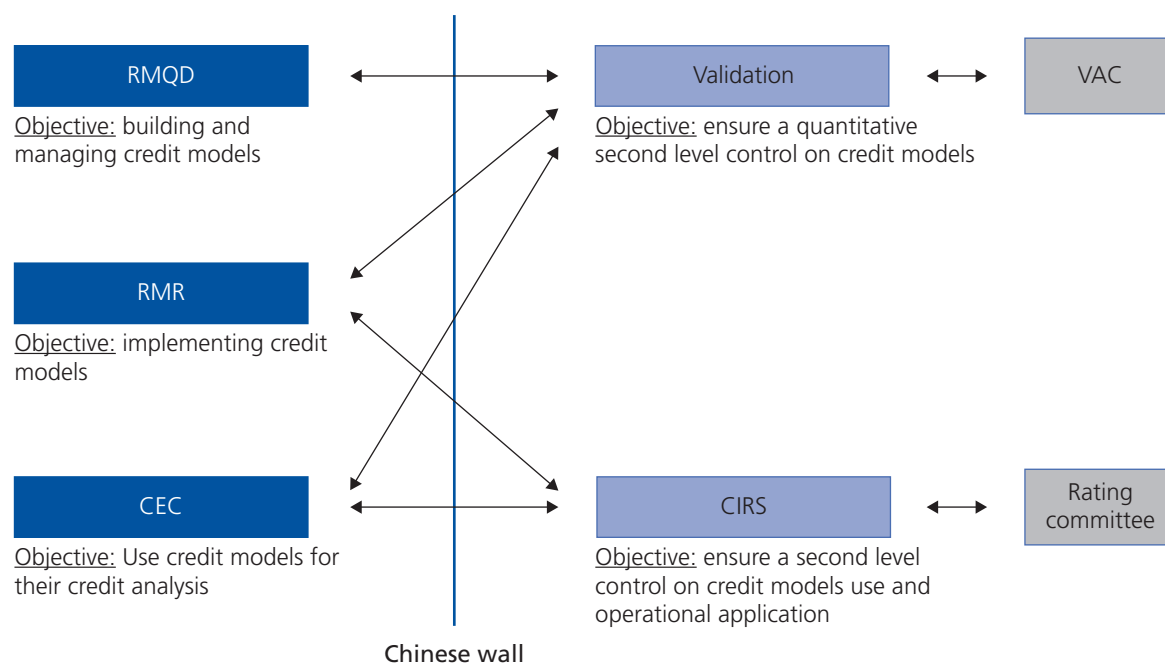
Types of counterparties	Main hypotheses	Time series used	Internal/ external data
Western Europe local authorities	Statistical model based on the internal existing default cases observed on our portfolio.	> 10 years	Internal
US municipalities	The Muni US LGD model is an expert model guided by external recovery rate factors and estimates.	N/A	External
Groupements à fiscalité propre	A mixed analytical - expert model was chosen and constructed based on available observations to determine LGD and quantify potential loss related to a default in this sector.	4 years	Internal
Social housing	Expert model based on a global evaluation of security/credit risk mitigant, based on Western Europe local authorities model.	9 years	Internal + External

Main principles used for estimating CCF

Dexia does not use CCF internal models except for specialised lending.

3. Control Mechanisms for Credit Model Systems

The BCBS regulation requires internal control of the internal rating systems and processes. The following chart provides an overview of the different control functions.



The control mechanisms for credit models are organised in 3 levels:

- Credit Internal Rating Systems Control (CIRS) is responsible for the monitoring of the models' use and environment review, pertaining to the second level controls of IRS (model scope, overruling, audit trail, external ratings verification...);
- Model Validation is responsible for the quantitative control on credit models (model set-up, model reviews and implementation);

Chinese walls are built between modelling team and controlling team.

Credit Internal Risk Systems (CIRS) control

Purpose

CIRS team is defined, in accordance with the regulatory directives, as an internal and independent control unit aimed at ensuring that the credit models are used properly and in an operationally effective manner and that an audit trail of the rating process is maintained.

In practice, the controls and the organisation are established to meet a number of requirements:

- Ensuring that the assumptions on which the models are founded are respected;

- Ensuring the maintenance of the audit trail in the rating process;
- Facilitating the credit models procedures.

When malfunctions or anomalies in the use of or in the results produced by the model are evidenced, swift and effective remedial action should follow. To this end, controls should not only concentrate on anomalies but also help to explain their cause. Moreover, a regular and constructive relationship with the back-testing functions is in place.

Global and specific key controls are applied for the monitoring of the models' use and environment review. Global controls are applied without distinction of the model reviewed and the specific ones (i.e. dependent on the model) reflect the monitoring of existing issues related to the model in question.

The main controls are described as follows:

- The rating scope exhaustiveness;
- Data quality (quantitative or qualitative) used within the rating process and the calculation of some LGD functions;
- Non-rated and not timely rerating monitoring;
- Files review (counterparties rating) focused on the PD (overrides and ad hoc selection);
- The correct application of the rating guidelines and procedures (mother support/BE, country ceilings, re-rating, country/mother company downgrade impacts, rating inheritances on counterparties etc.);
- Correct data input of FERMAT (ratings) and data recording;
- Large exposures / Group of Connected Client verification;
- Watch-lists and Defaults verification;
- External ratings verifications.

Scope

The scope of the 2nd level of control process covers:

- All rating models;
- All entities within Dexia;
- All geographical locations.

Rating Committee

The key role of the Rating Committee is to monitor the appropriate use of credit models within the Group as a whole and to ensure that these IRS are effective. For these reasons, the Rating Committee:

- Validates overrides above tolerance threshold, proposed by analysts;
- Reviews CIRS reports (in the past) and CIRS summary sheet (now) on the use and performance of credit models;
- Monitors the homogeneous application within the Group of the rating and derogation principles;
- Validates operational establishment of the models once these are validated by the Validation Committee

In case of disagreement between the CIRS and the Credit Expertise Centres (CEC) or RMQD (Risk Models, Quantification & Defaults) divisions (on a recommendation or a rating reviewed), the Committee has a veto right and the possibility to escalate to the Risk Management Executive Committee.

Processes and guarantee of independence

Fully aware of the importance of preserving the neutrality of the control process, Chinese walls have been set between the modelling departments (Risk Models, Quantification & Defaults), analysis functions (CEC), implementation (RMR) and the CIRS function.

Model validation department

Formally a model is defined as a quantitative method, system, or approach which applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.

Model validation department

All the models used within Dexia, either market risk models, pricing models, Basel Pillar 1 credit rating models, IFRS 9 models, ALM models or economic capital models have to be validated by an independent entity.

The Validation department ensures that the models used within the Bank:

- Provide reliable outcomes in line with the objectives assigned by the management;
- Are correctly implemented and adequately used;
- Meet the regulatory requirements.

The main objectives of the Validation department are:

- To identify all models waiting for validation;
- On this basis to elaborate a validation schedule, taking account of a firewall between Validation and Modelling;
- To exercise the validation work on the models, using appropriate information sources, reviewing the consistency of control processes, performing sufficient testing (including stressed scenarios), evaluating the documentation and model risks;

- To assess input relevance and reliability (frequency and availability of data, consistency with corroborative data information, transparency of data, timeliness, maturity and liquidity);
- To formalise a validation report including an executive summary, strengths and weaknesses and a list of recommendations;
- To bring and defend their works before the Validation Committee (VAC) in order to obtain an approval;
- To inform the Management Board and the Audit Committee frequently of the model validation status.

The Validation Committee

As mentioned above, in order to develop an efficient and transparent validation process, the Validation Committee (VAC) has been set up and is responsible for:

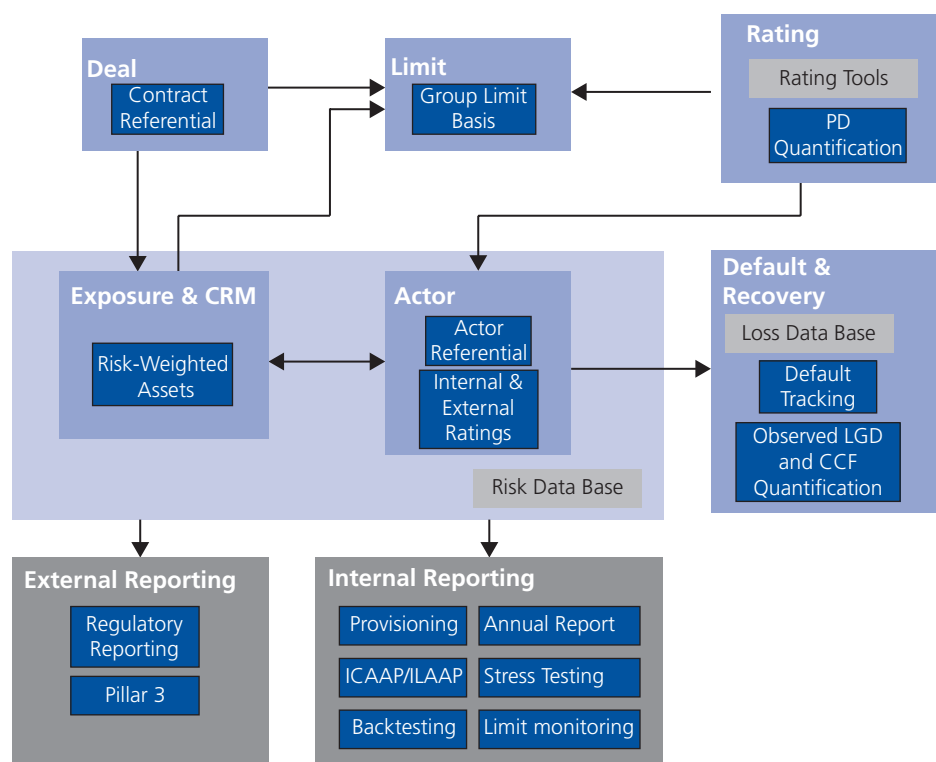
- Establishing and following up the overall validation framework including procedures and subcommittees terms of reference;
- Defining priorities in the validation of the various risk models;
- Reviewing each validation step of the guidelines and model life cycle validations;
- Preparing proposals for decisional committees to facilitate the decision-making process;
- Following-up the recommendations issued.

The governance, organisation and scope is defined in the model validation policy.

4. Credit Risk IT System

Dexia Credit Risk IT Systems is centralised with all Group exposure and counterparties for all Dexia entities. Since March 2014, Credit Risk Systems has been adapted to Basel III requirements.

The following chart provides a global view of the functional architecture of the credit risk information system within Dexia Group.



The core of credit risk IT systems is built around actor and exposure information. Both concepts are united in the central risk data base system which gathers information on all Dexia credit counterparties (identified by a unique internal identification number) and their corresponding exposures and credit risk mitigants.

The actor universe consists of referential information and rating information:

- Type of counterparty (bank, corporate, local authority, and so on);
- Descriptive data;
- External ratings from rating agencies (S&P, Moody's and Fitch);
- The internal rating before and after the Sovereign ceiling impact;
- The internal rating system;

- Available internal credit analyses;
- Relations between different counterparties such as capital or commercial ties.

The individual rating analysis is performed within different rating tools, either individually or in batches, by the credit risk expertise centres. These internal rating data together with the external ratings are collected and linked in the actors' database.

The second component of the central risk database is the exposure and CRM universe. A precise view of the exposure with significant amount valuations (nominal, outstanding, mark-to-market, accrued interests, and so on) is combined with the credit risk mitigants (collateral and guarantees) to provide an integrated risk view of the positions taken by the Group.

Around central risk, three other data sets are situated for different purposes.

- The contract referential databases containing (product type, seniority level, maturity and so on).
- In limit databases current limits on any credit counterparty (limit database) are defined using the counterparty rating information.
- Comparisons are made of current exposure towards the limits in order to take appropriate actions when needed.
- Dexia's default database is used to collect the default and recovery information. This serves to calibrate and back-test Dexia internal rating systems.

Dexia's centralised IT system is linked to a reporting infrastructure allowing credit risk reports to be produced on the basis of the information gathered at different levels. All these IT and reporting systems support general risk monitoring for both internal and external purposes as there are:

- External reporting: regulatory reporting (COREP, Large Exposures, Leverage Ratio, STE, EBA Benchmarking), Pillar 3 Risk Report;
- Internal risk reporting: cost of risk calculations and provisioning, reporting in relation to the risk appetite framework, the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Assessment Process), IFRS 9 model back-testing, limit monitoring, annual report.

Appendix 3

Basics of Securitisation

Securitisation is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations and selling that debt as bonds to various investors. The principal and interest on the debt, underlying the security, is paid to the various investors on a regular basis. Securities backed by mortgage receivables are called mortgage-backed securities, while those backed by other types of receivables are called asset-backed securities. A variant is the collateralised debt obligation, which uses the same structuring technology as an ABS but includes a wider and more diverse range of assets.

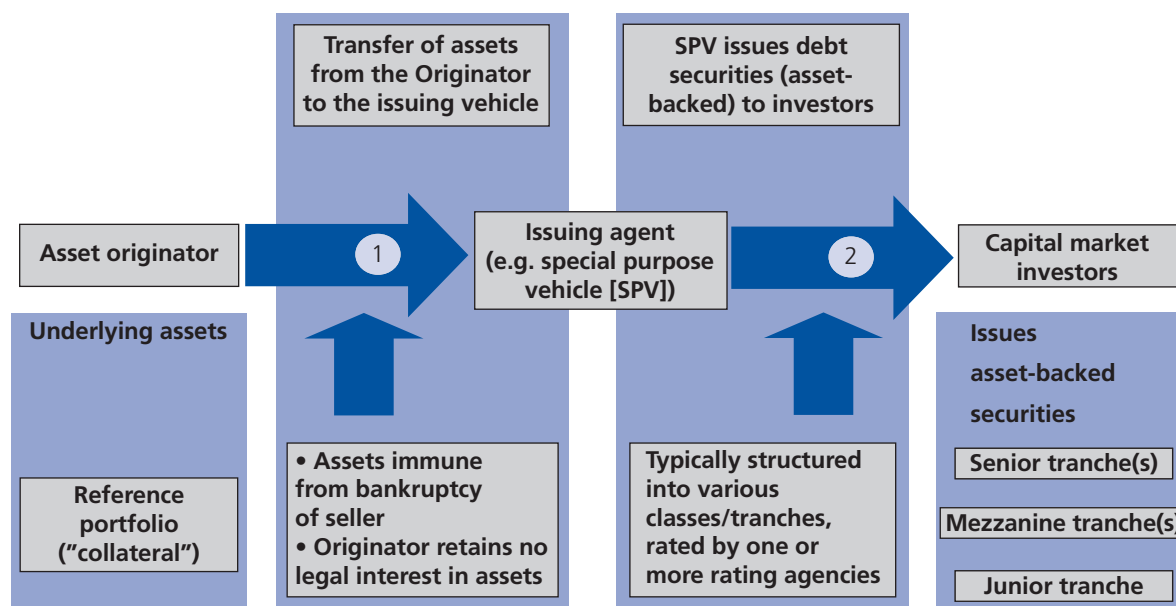
The originator initially owns the assets engaged in the deal. This is typically a company looking to seek financing or to raise capital.

A suitably large portfolio of assets is «pooled» and transferred to a «special purpose vehicle» or «SPV» (the issuer), a company or trust formed for the specific purpose of purchasing or funding the assets. Once the assets are transferred to the issuer, there is normally no recourse to the originator. The issuer is «bankruptcy remote," meaning that the assets of the issuer are legally separated from the creditors of the originator. Additionally, the governing documents of the issuer will restrict its activities only to those necessary to complete the issuance of securities.

Tranching

Securities issued are often split into tranches, or categorised into varying degrees of subordination. Each tranche has a different level of credit protection or risk exposure to another: there is generally a senior ("A") class of securities and one or more junior subordinated ("B", "C", etc.) classes that function as protective layers for the "A" class. The senior classes have first claim on the cash or proceeds which the SPV receives, and the more junior classes generally only start receiving repayment after the more senior classes have been repaid. Because of the cascading effect between classes, this arrangement is often referred to as a cash flow waterfall. In the event that the underlying asset pool becomes insufficient to make payments on the securities (e.g. when loans default within a portfolio of loan receivables), the loss is absorbed first by the subordinated tranches, and the upper-level tranches remain unaffected until the losses exceed the entire amount of the subordinated tranches. The most junior class is often called the equity class and is the most exposed to re-payment or default risk.

The table below describes the way a securitisation process is performed:



Credit enhancement

Tranching in a securitisation deal will create some securities which are « credit enhanced, » meaning the credit quality is increased above that of the originator's unsecured debt or underlying asset pool. This increases the likelihood that the investors will receive cash flows to which they are entitled, and thus causes the securities to have a higher credit rating than the originator. Some securitisations use external credit enhancement provided by third parties, such as financial guarantors or parental guarantees. Credit enhancements affect credit risk by providing more or less protection to promised cash flows for a security. Additional protection can help a security achieve a higher rating, lower protection can help create new securities with differently desired risks, and these differential protections can help place a security on more attractive terms.

Servicing

Most collateral requires the performance of ongoing servicing activities. With credit card receivables, monthly bills must be sent out to credit card holders; payments must be deposited, and account balances must be updated. Similar servicing must be performed with auto loans, mortgages, accounts receivable, etc. Usually, the originator is already performing the servicing at the time of a securitisation, and it continues to do so after the assets have been securitised. It receives a small, ongoing servicing fee for doing so. Whoever actually performs servicing is called the servicing agent.

Appendix 4

Dexia Originations

Traditional Securitisations of Dexia as Originator

In the past Dexia Group entities Dexia Crédit Local and Dexia Crediop issued securitisation transactions to obtain long-term funding or constitute a liquidity buffer. The risk was not transferred outside the Group. DCL has not initiated any new securitisation transaction since 2010. All traditional securitisations of Dexia as originator have been sold/unwound.

Synthetic Securitisations of Dexia as Originator

Wise transaction

WISE 2006-1 is a partially funded synthetic securitisation pursuant to which Dexia Crédit Local Dublin Branch bought credit protection on a portfolio of GBP 1.5 billion wrapped bonds related to PPP/PFI or regulated utilities in the water, electricity or gas sectors. The transaction was closed on 21 December 2006.

Dexia is transferring the credit risk related to the wrapped infrastructure portfolio to external parties by means of two credit default swaps: a non-funded super senior credit default swap with an OECD Bank and a junior credit default swap with WISE 2006-1 Plc, a special purpose company registered in Ireland.

The vehicle WISE 2006-1 has issued 3 tranches of credit linked notes (CLNs) to transfer the risk to the market, ranging from AAA/Aaa to AA-/Aa3 (S&P and Moody's respectively) at inception.

As at 31 December 2020 the rating of the Class A notes was BB-/Ba2, the rating of Class B notes was B-/Caa1 and the rating of the Class C notes was CCC/Caa3 (S&P and Moody's respectively).

The tranches were placed with several investors.

The bonds (underlying assets) remain on the Dexia Crédit Local Dublin Branch balance sheet and will continue to be administered by the company.

The portfolio booked at Dexia Crédit Local Dublin Branch amounted to an outstanding notional of GBP 830 million (EUR 917 million) as at 31 December 2020.

DCL credit risk teams are responsible for the credit risk follow-up of the underlying portfolio; a monthly and quarterly report is sent to the investors in the CLN notes and the super senior CDS counterparty.

Appendix 5

Complement on Subsidiaries

1. Dexia Crediop

1.1. Accounting and Regulatory Equity Figures

(in EUR million)	31/12/2019			31/12/2020		
	Financial statements	Regulatory purposes	Difference	Financial statements	Regulatory purposes	Difference
Equity, Crediop solo	820	820	0	643	643	0
<i>of which share capital and related reserves</i>	943	943	0	889	889	0
<i>of which gains and losses directly recognised in equity</i>	6	6	0	(4)	(4)	0
<i>of which net result of the period</i>	(129)	(129)	0	(242)	(242)	0
Minority interests						
TOTAL EQUITY	820	820	0	643	643	0
Prudential filters	0	(31)	(31)	0	3	3
Common Equity Tier 1	820	789	(31)	643	646	3
Tier 2	0	19	19	0	42	42
TOTAL CAPITAL	820	808	(12)	643	688	45

1.2. Capital Requirements by Type of Risk

(in EUR million)			31/12/2019		31/12/2020	
Type of risk	Basel III treatment	Exposure class	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
Credit risk	Advanced	Corporate	46	4	0	0
		Financial Institutions	247	20	0	0
		Local Authorities	457	37	0	0
		Project Finance	37	3	0	0
		Equities	51	4	0	0
		Sovereign	2,263	181	0	0
		TOTAL	3,099	248	0	0
	Standard	Corporate	96	8	255	20
		Financial Institutions	217	17	359	29
		Local Authorities	101	8	1,481	119
		Sovereign	0	0	5	0
		Public satellite	48	4	168	13
		High risk	0	0	40	3
		Default	0	0	40	3
Other exposure	0	0	9	1		
TOTAL	463	37	2,356	188		
Market risk	Standard	Interest rate risk	76	6	61	5
		TOTAL	76	6	61	5
Operational risk	Basic		21	2	0	0
TOTAL			3,659	293	2,417	193

1.3. Capital Adequacy

(in EUR million)	Basel III 31/12/2019	Basel III 31/12/2020
Common Equity Tier 1	789	646
Total Capital	808	688
Total risk-weighted assets	3,659	2,417
Common Equity Tier 1 Ratio	21.57%	26.73%
Total Capital Ratio	22.07%	28.46%

1.4. Exposure at Default by Geographic Distribution

(in EUR million)	31/12/2020						31/12/2019	
	Sovereign	Local Public Sector	Corporate	Project Finance	Financial Institutions	ABS/MBS	Total	Total
Italy	5,043	7,567	167	82	210	0	13,069	13,775
France	0	17	0	0	696	0	713	696
United Kingdom	0	0	0	0	30	0	30	29
Germany	0	0	0	0	6	0	6	7
United States	0	0	0	0	11	0	11	11
Others	0	0	0	0	27	0	27	29
TOTAL	5,043	7,584	167	82	979	0	13,856	14,546

1.5. Exposure at Default by Exposure Class and Economic Sector

(in EUR million)	31/12/2020					31/12/2019	
	Corporate	Financial institutions	Project finance	Public sector entities	Sovereign	Total	Total
Industry	43	0	0	0	0	43	69
Construction	0	0	21	0	0	21	23
Services	Transportation and storage	0	0	12	0	12	14
	Financial and insurance activities	0	978	0	0	985	1,014
	Real estate activities	47	0	61	0	108	111
	Public administration and defence-compulsory social security	0	0	0	7,440	5,035	12,475
	Human health and social work activities	0	0	0	124	0	124
	Other services	77	2	0	9	0	88
TOTAL	167	979	82	7,584	5,043	13,856	14,546

1.6. Overview of Past-Due Exposure and Impairments

(in EUR million)	31/12/2019				Recoveries directly recognised in profit or loss
	As at 1 January	Additions	Reversals	As at 31 December	
Specific impairments	26.12	0.85	0.03	26.94	0.81
Customer loans and advances	17.43	0	0.03	17.40	0.81
Other accounts and receivables ⁽¹⁾	8.69	0.85	0	9.54	0
Collective impairments	9.54	10.70	0	20.24	0
Customer loans and advances	9.54	10.70	0	20.24	0
TOTAL	35.66	11.55	0.03	47.18	0.81

(1) The amount represents the sum of the unpaid nettings related to a derivative transaction with the Municipality of Messina and the Province of Crotona (in litigation). This sum was allocated to the fund for risks and charges and does NOT represent a credit value adjustment (i.e. specific impairment) not allowed on derivatives transactions by the Italian accounting rules.

31/12/2020						
	As at 1 January	Additions	Reversals	As at 31 December	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
(in EUR million)						
Specific impairments	26.94	4.50	7.9	23.47	3.85	3.85
Customer loans and advances	17.40	3.94	0.27	21.06	0	0
Other accounts and receivables ⁽¹⁾	9.54	0.56	7.69	2.41	3.85	3.85
Collective impairments	20.24	28.51	0	48.75	0	0
Customer loans and advances	20.24	28.51	0	48.75	0	0
TOTAL	47.18	33.01	7.96	72.22	3.85	3.85

(1) The amount represents the sum of the unpaid nettings related to a derivative transaction with the Municipality of Messina and the Province of Crotona (in litigation). This sum was allocated to the fund for risks and charges and does NOT represent a credit value adjustment (i.e. specific impairment) not allowed on derivatives transactions by the Italian accounting rules.

31/12/2019				
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	Less than 90 days	91 days to 180 days	Over 180 days	
(in EUR million)				
Loans and advances (at amortised cost) ⁽¹⁾	4.01	0	4.94	17.40
Financial assets held to maturity ⁽²⁾	13.90	0	0	0
Other financial instruments (*) ⁽³⁾	1.99	0.42	8.76	0
TOTAL	19.90	0.42	13.70	17.40

(*) Unpaid nettings on derivatives affected by litigation.

(1) Of which EUR 4 million are technical past dues.

(2) Technical past dues on bonds.

(3) Of which EUR 9.5 million unpaid nettings on derivatives affected by litigation.

31/12/2020				
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	Less than 90 days	91 days to 180 days	Over 180 days	
(in EUR million)				
Loans and advances (at amortised cost) ⁽¹⁾	3.03	0	4.74	21.06
Other financial instruments (*) ⁽²⁾	0.27	0.13	2.28	0
TOTAL	3.30	0.13	7.02	21.06

(*) Unpaid nettings on derivatives affected by litigation.

(1) Of which EUR 3.03 million are technical past dues.

(2) Of which EUR 2.41 million unpaid nettings on derivatives affected by litigation.

1.7. Exposure Covered by Credit Risk Mitigants by Exposure Class

(in EUR million)	31/12/2020	
	Financial and physical collateral	Guarantees and credit derivatives
Central governments or central banks	0	2
Institutions	5,449	0
Regional governments or local authorities	0	821
TOTAL	5,449	823

1.8. Leverage Ratio

As at 31 December 2020 the level decreased and it is fall at 4.73% against the 5.49% as at 31 December 2019. The reduction in capital (-18%) was not offset by an equal reduction in exposures (-5%).

Summary comparison of accounting assets against leverage ratio exposure measures

LEVERAGE EXPOSURE: RECONCILIATION WITH TOTAL BALANCE SHEET (in EUR million)		
	31/12/2019	31/12/2020
TOTAL BALANCE SHEET	17,681	17,119
Neutralization of the balance-sheet value of items whose leverage exposure is different from that of the balance sheet	4,439	4,665
<i>Trading derivatives (assets)</i>	889	861
<i>Hedging derivatives (assets)</i>	114	107
<i>Cash collateral (paid)</i>	3,435	3,696
Leverage Exposure of derivatives	671	599
Leverage exposure of repo (liabilities) counterparty credit risk	430	561
Leverage exposure of off-balance-sheet items	59	57
Leverage exposure adjustment on assets deducted from capital CET1	(15)	(16)
<i>Intangible assets</i>	(2)	(1)
<i>Breach of threshold on deduction on CET1 of instruments from financial institutions</i>	(13)	(15)
TOTAL LEVERAGE EXPOSURE	14,387	13,656
TIER 1 CAPITAL, TRANSITIONAL PROVISIONS	789	646
LEVERAGE RATIO	5.49%	4.73%

LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE (in EUR million)		
	31/12/2019	31/12/2020
On-balance sheet exposures		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	16,678	16,150
2 (Asset amounts deducted in determining Basel III Tier 1 capital transitional definition)	(15)	(16)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	16,663	16,135
Derivative exposures		
4 Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	516	455
5 Add-on amounts for PFE associated with all derivatives transactions	156	144
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0	0
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
8 (Exempted CCP leg of client-cleared trade exposures)	0	0
9 Adjusted effective notional amount of written credit derivatives	0	0
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
11 Total derivative exposures	671	599
Securities financing transaction exposures		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	5,681	5,682
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	(5,251)	(5,121)
14 CCR exposure for SFT assets	0	0
15 Agent transaction exposures	0	0
16 Total securities financing transaction exposures (sum of lines 12 to 15)	430	561
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	63	57
18 (Adjustments for conversion to credit equivalent amounts)	(4)	0
19 Off-balance sheet items (sum of lines 17 and 18)	59	57
Capital and total exposures		
20 Tier 1 capital	789	646
21 Total exposures (sum of lines 3, 6, 11, 16 and 19)	17,823	17,352
Leverage ratio		
22 Basel III leverage ratio	4.43%	3.72%

