2023

H1 FINANCIAL REPORT

DEXIA CRÉDIT LOCAL
DCL

CONTENTS

MANAGEMENT REPORT[1]

FINANCIAL HIGHLIGHTS

CONSOLIDATED INCOME STATEMENT - ANC FORMAT		
(in EUR million)	H1 2022	H1 2023
NET BANKING INCOME	**343**	**-9**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-171	-155
GROSS OPERATING INCOME	**172**	**-164**
Cost of credit risk	6	-33
NET RESULT BEFORE TAX	**178**	**-197**
Income tax	-16	41
NET RESULT	**162**	**-156**
Minority interests	0	0
NET INCOME, GROUP SHARE	**162**	**-156**

BALANCE SHEET KEY FIGURES – ANC FORMAT		
(in EUR million)	31/12/2022	30/06/2023
TOTAL ASSETS	**63,442**	**59,672**
of which		
Cash and central banks	2,024	1,183
Financial assets at fair value through profit or loss	3,497	3,048
Hedging derivatives	1,759	1,472
Financial assets at fair value through other comprehensive income	1,581	1,353
Financial assets at amortised cost – Debt securities	26,774	26,411
Financial assets at amortised cost – Interbank loans and advances	6,881	6,645
Financial assets at amortised cost – Customer loans and advances	20,734	19,339
TOTAL LIABILITIES	**57,622**	**54,031**
of which		
Financial liabilities at fair value through profit or loss	4,126	3,469
Hedging derivatives	8,352	7,938
Interbank borrowings and deposits	3,149	2,004
Customer borrowings and deposits	4,765	3,633
Debt securities	36,690	36,439
TOTAL EQUITY	**5,820**	**5,641**
of which		
Equity, Group share	5,820	5,641

(1) The data in this management report are unaudited.

INTRODUCTION

During the first half of 2023, Dexia Crédit Local took further decisive steps towards the implementation of the Dexia Group resolution. On the one hand, efforts to centralise activities at head office were intensified via two emblematic projects: the preparation of the cross-border merger between Dexia Crédit Local and Dexia Crediop, which will be effective on 30 September, and the launch of a programme to repatriate assets from Dexia Crédit Local Dublin to its parent company. On the other hand, in line with the decision of the Board of Directors on 3 July 2023, Dexia Crédit Local submitted on 4 July 2023 a request to the ACPR to withdraw its banking and investment services authorisations.

As at 30 June 2023, after two consecutive years of sharp falls linked to the rise in interest rates, the level of net collateral posted by Dexia Crédit Local to its derivatives counterparties stabilised at EUR 8.3 billion. As a result of the reduction in portfolios, the funding need nevertheless contracted by EUR 1.9 billion during the first half of 2023, to EUR 42.9 billion as at 30 June 2023.

Against this backdrop, the balance sheet total stood at EUR 59.7 billion as at 30 June 2023, down 6% over the half-year.

The net income generated by the Group in the first half of 2023 amounted to EUR -156 million, marked in particular by the rise in the cost of risk linked to the increase of provisioning on part of the water distribution sector in the United Kingdom and by a deferred tax gain following asset transfers between Dexia Crédit Local and its branch in Ireland.

Dexia continues to post robust solvency ratios, above the minimum required for the year 2023 within the framework of the Supervisory Review and Evaluation Process (SREP).

1. SIGNIFICANT EVENTS AND TRANSACTIONS

A. Progress on the Group's resolution

Request to withdraw banking and investment services authorisations

On 4 July 2023, Dexia Crédit Local submitted a request to the ACPR to withdraw its credit institution licence and investment services authorisations as well as the finance company authorisations of Dexia Flobail and Dexia CLF Régions Bail, in order to continue its orderly resolution as a non-bank from the beginning of 2024, subject to the consent of the competent authorities.

This important step, which is in line with the implementation of the orderly resolution plan validated by the European Commission in December 2012, will, in the long term, greatly simplify Dexia Crédit Local's organisation, in particular associated with regulatory production, and generate substantial savings, without affecting the quality of the monitoring of its portfolio or the Group's ability to carry out its resolution.

Maintenance of the capacity of Dexia Crédit Local to implement its orderly resolution

Dexia Crédit Local's decision to apply for the withdrawal of its banking and investment services authorisations is based on a detailed analysis of the impacts and risks, which showed that Dexia Crédit Local is perfectly capable of pursuing its orderly resolution outside this regulatory framework. In fact, despite the withdrawal of the authorisations, the applicable legal framework, supplemented by managerial measures which will be taken by the company once the withdrawal of the banking licence has been approved, does not suggest any difficulty in continuing the management in run-off of the balance sheet and will enable Dexia Crédit Local to continue to carry its portfolio as a non-financial entity. In addition, Dexia Crédit Local will retain the possibility of carrying out own-account transactions, which are essential for the continuation of its orderly resolution, and will maintain direct access to clearing houses and the main trading platforms.

In this context, particular attention was also paid to maintaining an Investment Grade rating for Dexia Crédit Local (cf. section "Ratings" of this Management Report).

Preservation of Dexia Crédit Local's ability to finance itself, via the issue of debt guaranteed by the Belgian and French States

Dexia Crédit Local will continue to benefit from the guarantee of the Belgian and French States for its financing. To recall, this guarantee was extended in 2021, for a period of ten years. The securities issued under this guarantee will retain HQLA Level 1 qualification, both for issues following the withdrawal of Dexia Crédit Local's banking authorisation and for those prior to it[1].

In addition, Dexia Crédit Local will set up a Contingency Liquidity Buffer, from the beginning of 2024, to replace the Emergency Liquidity Agreement (ELA) of the national banks, access to which will be closed to Dexia Crédit Local when its banking authorisation is withdrawn.

All other things being equal, these elements will enable Dexia Crédit Local to continue to finance itself under appropriate conditions and volumes and, with the necessary safety margins, to manage any situations of liquidity tension.

Maintenance of Dexia Crédit Local's ability to ensure robust risk monitoring and management

The Dexia Group will replace the prudential banking supervision framework with an appropriate ad hoc risk management and monitoring framework so as to ensure the sustainability of the resolution for the benefit of its counterparties as well as the State shareholders and guarantors. This system will maintain three lines of defence, including compliance monitoring and AML control procedures, as well as an internal audit mechanism. It will be based, as it is today, on a risk appetite framework (RAF) and appropriate monitoring indicators, which will enable solvency and liquidity risks as well as operational risk and asset and liability management (ALM) to be monitored on the basis of precise indicators.

Dexia Crédit Local will thus see to it that solvency is ensured in the short, medium and long term by maintaining a level of capital sufficient to continue the orderly resolution of the Group and by preserving the best possible funding conditions. Based on trajectories projecting the remaining capital at different timeframes and until maturity, in a base scenario and adverse scenarios, Dexia Crédit Local will ensure that the level of capital is always sufficient to see the orderly resolution of the Group to its end.

Furthermore, Dexia Crédit Local will maintain its liquidity via liquidity buffers and the monitoring of survival horizons in each relevant currency, including in adverse scenarios. These liquidity buffers will also be calibrated to cope with stressed market situations and thus avoid calling on the funding guarantee granted by the Belgian and French governments.

Maintenance of the necessary expertise to continue the orderly resolution and the employability of Dexia Crédit Local staff members will remain a major point of attention for the company and its shareholders. Dexia Crédit Local will ensure that staff members are regularly informed of their prospects and that their uncertainty is reduced at every stage of the transformation.

Dexia Crédit Local will also ensure that risks linked in particular to relations with service providers and access to market infrastructures are contained. Globally, operational risks must never significantly affect Dexia Crédit Local's ability to manage its short-term liquidity or solvency, or jeopardise business continuity.

Finally, Dexia Crédit Local will maintain Asset Liability Management (ALM) in order to measure and control the interest rate, exchange rate and liquidity risks on its balance sheet.

An independent Surveillance Committee, set up by the State guarantors and composed of members with strong expertise in banking supervision, will take over from the banking supervisors, particularly in terms of risk and internal control monitoring.

For the purposes of its mission, the Committee will carry out the following tasks in particular:

- it will issue an opinion concerning compliance with the fit and proper requirements by candidates for the positions of members of the Board, the Management Board and candidates for the positions of heads of internal control functions (risk management, compliance, internal audit), before they are appointed,
- it will issue technical opinions to the Board of Directors on the assessment of Dexia Crédit Local's risks with regard to the asset and derivative portfolios, the funding structure and the solvency and liquidity positions on a quarterly basis,
- it will issue an opinion if it observes a shortcoming concerning, in particular, the quality of the quantitative data submitted to the Board of Directors, the quality of the tools for monitoring risk indicators, the internal control organisation and systems and the maintenance of the fit and proper requirements of the aforementioned persons,
- it will issue an opinion on the risks associated with any project the impact of which on Dexia Crédit Local's balance sheet, income statement, shareholders' equity or liquidity position could lead to the crossing of warning thresholds in the short, medium or long term,
- it will alert the Board of Directors when Dexia Crédit Local's strategic decisions or their execution suggest incompatibility with the orderly resolution plan or the risk appetite framework and related indicators.

(1) Confirmation in the ACPR notice 2023, Section 6.1.1.6 relating to the eligibility of shares issued by financial sector operators: *https://acpr.banque-france.fr/sites/defaut/files/media/2023/07/17/20230711_notice_college.pdf*

The Committee's opinions and recommendations will be transmitted to Dexia and Dexia Crédit Local's Management Board and Board of Directors and, in certain cases, to the Belgian and French governments. If the Board intends to depart from the position issued and from any recommendations contained in an opinion of the Committee, it must explain its stance and state the reasons for doing so (*comply or explain*).

Change of status of the entities

The withdrawal of Dexia Crédit Local's status as a credit institution will lead to a change in the status of its parent company Dexia SA, which will cease to be a financial holding company under Belgian law. Dexia Crédit Local will remain a limited company under French law. These changes in status will have no impact on the Dexia Group's ability to continue the activities essential to its orderly resolution.

Ongoing operational simplification

Cross-border merger of Dexia Crédit Local and Dexia Crediop

At the end of 2022, as part of the plan to simplify its network of entities, the Dexia Group validated the principle of the cross-border merger between Dexia Crédit Local and Dexia Crediop.

In the first half of 2023, Dexia continued to implement this merger. On 15 February 2023, Dexia Crediop submitted a merger authorisation request to the Bank of Italy, which approved it on 12 May 2023.

The Boards of Directors of Dexia Crédit Local and Dexia Crediop also approved the agreement, which provides for a merger by absorption of Dexia Crediop by Dexia Crédit Local on 30 September 2023, with retroactive accounting and tax effect from 1 July 2023.

Following the merger, Dexia Crédit Local intends to maintain a local presence in Italy by establishing an unregulated branch (*sede secondaria*) in Rome. This branch will carry out exclusively auxiliary and non-regulated activities in support of its head office. It will facilitate communication with counterparties based in Italy, in relation to existing transactions, without conducting regulated activity or providing investment services in Italy.

In parallel with the implementation of the merger with Dexia Crediop, Dexia Crédit Local also undertook the securitisation of its loans granted to Italian local authorities in a new special purpose vehicle (SPV), regulated under Article 106 of the Italian Banking Act, which will enable it to continue to manage them after the withdrawal of Dexia Crédit Local's banking licence at the beginning of 2024.

During the first half of 2023, the Dexia Group's loans to Italian local authorities were thus transferred to this SPV, managed by the regulated Italian service provider Zenith and, at the same time, Dexia subscribed to the notes issued by the SPV. As at 30 June 2023, the securitised assets represent a nominal amount of EUR 2.8 billion in the Dexia Group consolidated balance sheet.

Asset transfer

As part of the Dexia Group's operational simplification, Dexia Crédit Local has undertaken the repatriation of assets and associated derivatives from its Dublin branch to its Paris head office.

As at 30 June 2023, a portfolio of EUR 3.8 billion in assets had already been transferred, representing around 40% of the Dublin branch's portfolio (nominal value). This transfer was carried out at market value and gave rise to the recognition of a deferred tax gain of EUR +42 million, which was recognised in the first half of 2023 in Dexia Crédit Local's consolidated financial statements (cf. the "Dexia Crédit Local consolidated results H1 2023" section of this management report).

The transfers will be finalised during the second half of 2023.

Slowdown of asset disposals in an unfavourable market environment

As in 2022, the high volatility seen on the markets since the outbreak of the conflict in Ukraine continued to slow the pace of asset disposals in the first half of 2023. Nevertheless, the general rise in interest rates observed in Europe and the United Kingdom favoured Dexia's early repayment dynamic.

To recall, by 2022 Dexia Crédit Local had achieved the target volume of disposals set by the Board of Directors in July 2019, at a cost 35% lower than the allocated loss budget. In order to pursue the objective of reducing portfolios, the Dexia Group's governing bodies decided to extend this programme into 2023.

As a result, at the end of June 2023, the asset portfolios were EUR 1.5 billion lower than at the end of December 2022, thanks to EUR 1 billion in natural amortisation and EUR 0.5 billion in disposals and early repayments, 70% of which related to loans and 30% to bonds.

In the first half of 2023, 50% of the assets sold or redeemed early were denominated in euros. The assets sold have an average life of around five years.

Most of the assets sold and early repaid relate to project finance and local public sector assets.

More than a hundred transactions were early repaid or restructured, including 'complex' transactions (loans indexed to structured indices, revolving credit), thus contributing to the continued simplification of the commercial portfolio and its management.

B. Evolution of Dexia Crédit Local's Governance

On 26 January 2023, Dexia Crédit Local's Board of Directors co-opted Anne Blondy-Touret as a non-executive director to replace Marie-Anne Barbat-Layani, who resigned from the Board of Directors on 24 October 2022, following her appointment as Chairman of the Financial Market Authority. Her definitive appointment was approved by Dexia Crédit Local's Ordinary Shareholders' Meeting on 23 May 2023.

On 10 March 2023, the Board of Directors of Dexia Crédit Local co-opted Ludovic Planté as representative of the French State, non-executive director, to replace Claire Vernet-Garnier, who resigned from the Board of Directors on 15 November 2022 following a career change. His definitive appointment was approved by Dexia Crédit Local's Ordinary Shareholders' Meeting on 23 May 2023.

On 26 May 2023, Dexia Crédit Local's Board of Directors appointed Jean Le Naour Chief Operating Officer, member of the Management Board and Executive Vice-President of Dexia Crédit Local, as from 1 June 2023, replacing Patrick Renouvin, who is taking his retirement. Jean Le Naour has extensive and diversified experience within the Group, having held many positions of responsibility. In particular, he was a member of the Management Board of Dexia Crédit Local, in charge of Accounting and Management Control, Operations, Information Systems, Purchasing and Logistics. Since 2009, he has also been CEO of Dexia Crediop, the Italian subsidiary of Dexia Crédit Local, a position in which he was replaced on 1 June 2023.

As the governance of Dexia and Dexia Crédit Local is integrated, Anne Blondy-Touret and Ludovic Planté are also non-executive directors of Dexia. Jean Le Naour is also Chief Operating Officer and member of the Management Board of Dexia.

C. Prudential capital requirements applicable to Dexia Crédit Local for 2023

On 27 October 2022, the ACPR informed Dexia Crédit Local that the total capital requirement (excluding the capital conservation buffer) of 11.25% on a consolidated basis was maintained in 2023. This level includes a minimum capital requirement of 8% (Pillar 1) and an additional capital level of 3.25% (P2R - Pillar 2 requirement) which must be covered at least 56% by Common Equity Tier 1 capital and 75% by Tier 1 capital.

Dexia Crédit Local is also required to hold a capital conservation buffer of 2.5%, made up entirely of Common Equity Tier 1 capital. Including the impact of the capital conservation buffer, Dexia's overall capital requirement is 13.75% for 2023.

In addition, the High Council for Financial Stability has decided to raise the level of the countercyclical buffer to 0.5% from 7 April 2023 and to 1% from 2 January 2024. The Bank of England requires a countercyclical buffer of 1% for the first two quarters of 2023 and 2% for the last two quarters of 2023. As a result, Dexia Crédit Local's countercyclical buffer requirement is 0.6% as at 30 June 2023 and is estimated at 1.25% for the last two quarters of 2023.

Finally, the ACPR recommends maintaining a level of additional capital (P2G - Pillar 2 guidance) of 1%, which is added to the overall capital requirement and must be made up entirely of Common Equity Tier 1 capital.

Including the impact of the countercyclical buffer and the P2G, Dexia Crédit Local's overall capital requirement will be 16% from 1 July 2023.

On 22 December 2022, the ACPR also confirmed to Dexia Crédit Local the maintenance in 2023 of a tolerance which allows it to deduct from its Common Equity Tier 1 regulatory capital the economic impact of remedying a failure to comply with the large exposures ratio for one of its exposures.

2. HALF-YEARLY RESULTS H1 2023

A. Presentation of the Dexia Crédit Local condensed consolidated financial statements as at 30 June 2022

Going concern

The Dexia Crédit Local condensed consolidated financial statements as at 30 June 2023 have been prepared in accordance with the going concern basis of accounting in accordance with IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the resolution of the Dexia Group, developed in Appendix 1 to this Half-Yearly Financial Report.

B. Dexia Crédit Local consolidated results H1 2023

Net income Group share was EUR -156 million as at 30 June 2023, compared with EUR +162 million at the end of June 2022.

Over the half-year, net banking income amounted to EUR -9 million, including:

- The net interest margin, which amounted to EUR +60 million, corresponds to the cost of carrying assets and the bank's transformation result. It is EUR 26 million higher than on 30 June 2022, due to the rise in interest rates, and in particular the steepening of the curve, which is favourable to portfolio carry, the sharp contraction in cash collateral and, to a lesser extent, the improvement in funding costs.
- Net commissions were EUR -2 million.
- Net gains or losses on financial instruments at fair value through profit or loss amounted to EUR -63 million. They include in particular an unfavourable impact (EUR -27 million) on fair value hedge inefficiencies, mainly linked to the tightening of credit spreads on Currency Basis Swaps and the negative change (EUR -55 million) in the valuation of derivatives and the WISE securitisation. Funding Value Adjustment (FVA), Credit Value Adjustment (CVA) and Debit Valuation Adjustment (DVA) showed a positive change (EUR +23 million).
- Net gains or losses on financial instruments at amortised cost amounted to EUR -13 million, linked to asset disposal programmes.
- Net income from other activities of EUR 10 million, was mainly due to the positive evolution of legal procedures.

At EUR -155 million, costs were down compared with 30 June 2022, mainly as a result of the reduction in taxes and regulatory contributions (EUR -23 million) linked to the downward revision of the contribution to the Single Resolution Fund. They also include an impact of EUR -24 million, mainly linked to restructuring and transformation costs, within the context of the Group's resolution. Dexia Crédit Local is in fact engaged in a major transformation programme, including in particular work relating to the withdrawal of Dexia Crédit Local's banking authorisation and the overhaul of its operating model, which entails major project costs.

The cost of credit risk was EUR -33 million as at 30 June 2023. A charge to collective provisions, linked to the transition to Stage 2 of part of the water distribution sector in the United Kingdom, was partially offset by a positive impact linked to the update of the base case macroeconomic scenario used to assess expected credit losses under IFRS 9, and to the effects of rising interest rates and changes in the portfolio (rating changes, disposals, natural depreciation). Ultimately, this resulted in a net impact of EUR -34 million on the stock of collective provisions for the first half of the year.

Income tax amounted to EUR +41 million, including a current tax charge of EUR -16 million and deferred tax income of EUR +57 million, mainly related to the transfer of a securities portfolio of EUR 3.8 billion from the Dublin branch to the Paris head office, at a nominal value different from the book value of the assets transferred. In accordance with IAS 12 "Income Taxes", this temporary difference gives rise to the recognition of deferred tax of EUR +42 million.

3. EVOLUTION OF THE BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION OF DEXIA CRÉDIT LOCAL

A. Balance sheet and solvency

Half-yearly balance sheet evolution

As at 30 June 2023, Dexia Crédit Local's consolidated balance sheet total stood at EUR 59.7 billion, compared with EUR 63.4 billion as at 31 December 2022, a fall of EUR 3.7 billion, driven by the reduction in the asset portfolio and the continued rise in interest rates, mainly in sterling.

The asset portfolio now stands at EUR 31.6 billion, comprising EUR 18.3 billion in bonds and EUR 13.3 billion in loans, mainly denominated in euros. It includes exposure to Italian sovereigns and the European public sector (Spain, Portugal), as well as residual portfolios of UK, US and Japanese assets.

On the assets side, the decrease in the balance sheet is explained, at constant exchange rates, by the reduction in the asset portfolio (EUR -1.5 billion), the decrease in fair value items and cash collateral posted (EUR -1.1 billion) and, to a lesser extent, by the decrease in the cash reserve (EUR -0.6 billion).

On the liabilities side, the change in the balance sheet is mainly reflected, at constant exchange rates, by the fall in fair value items and cash collateral received (EUR -1.7 billion) and by the reduction in the stock of market financing (EUR -2.1 billion).

Over the half-year, the impact of exchange rate fluctuations on changes in the balance sheet amounted to EUR +0.3 billion.

Solvency

As at 30 June 2023, Dexia Crédit Local's "Total Capital" amounted to EUR 5.6 billion, against EUR 5.8 billion as at 31 December 2022, down slightly following the loss recorded in the first half of 2023 (EUR -156 million).

Two significant items are deducted from the regulatory capital, in line with the requirements of the European Central Bank (ECB):

- the theoretical loss amount corresponding to the remediation of the large exposures ratio which was down to EUR -13 million, as a result of the actions undertaken by Dexia to reduce its concentration;
- the amount of irrevocable payment undertakings (IPC) to resolution funds and other guarantee funds, which amounted to EUR -90 million.

Furthermore, following the on-site inspection relating to credit risk which it carried out in 2018, the ECB issued a number of recommendations. As a result, Dexia Crédit Local deducts from its prudential equity an amount of EUR -27 million as a supplement for specific provisions.

The additional value adjustments taken into account in regulatory capital as part of the Prudent Valuation Adjustment (PVA) were stable at EUR -6 million as at 30 June 2023.

The amount recorded under the Debit Valuation Adjustment (DVA) was also stable, at EUR -22 million as at 30 June 2023.

Lastly, as a result of the end of the transitional provisions aimed at mitigating the impact of the IFRS 9 expected credit loss provision model (static phase-in), no amount has been taken into account in the first half of 2023, compared with a positive impact of EUR +44 million at the end of 2022.

As at 30 June 2023, risk-weighted assets amounted to EUR 16.1 billion compared with EUR 16.3 billion at the end of December 2022, of which EUR 13 billion related to credit risk, EUR 1 billion to market risk and EUR 2 billion to operational risk. The slight decrease is entirely attributable to credit risk and is mainly linked to the reduction in the asset portfolio.

Taking these elements into account, Dexia Crédit Local 's Total Capital ratio amounted to 35% as at 30 June 2023 against 35.7%[1] at the end of 2022, a level well above the minimum required for the year 2023 within the framework of the supervisory review and assessment process.

PRUDENTIAL EQUITY

(in EUR million, unless otherwise stated)	31/12/2022	30/06/2023
Common Equity Tier 1	5,745	5,566
Total Capital	5,801	5,623
Risk-weighted assets	16,267	16,081
Total Capital ratio	35.7%[1]	35%

RISK-WEIGHTED ASSETS

(in EUR million)	31/12/2022	30/06/2023
Credit risk	13,296	12,987
Market risk	971	1,094
Operational risk	2,000	2,000
TOTAL	**16,267**	**16,081**

B. Evolution of the liquidity situation of Dexia Crédit Local

After two consecutive years of sharp falls linked to rising interest rates, the level of net cash collateral posted by Dexia Crédit Local to its derivatives counterparties stabilised at EUR 8.3 billion as at 30 June 2023. As a result of the reduction in portfolios, the funding requirement nevertheless contracted by EUR 1.9 billion during the first half of 2023, to EUR 42.9 billion as at 30 June 2023.

In a cautious approach, taking into account a volatile market context and the announcement that its banking licence would be withdrawn at the beginning of 2024, Dexia Crédit Local finalised its long-term issue programme for the year in May, with the execution of a GBP 500 million benchmark in April, followed by a EUR 1.5 billion benchmark in May. Both transactions were very well received by the market.

In terms of funding mix, secured funding amounted to EUR 4.5 billion as at 30 June 2023, and State-guaranteed funding accounted for 86% of outstanding financing, or EUR 37.5 billion.

(1) This ratio includes the positive net result of the half-year.

Dexia Crédtit Local's liquidity reserve increased by EUR 0.7 billion during the half-year, to EUR 11.5 billion as at 30 June 2023, in volatile markets, against a backdrop of crisis in the banking sector, and torn between inflationary fears and anticipation of recession. Within this context, Dexia Crédit Local has also favoured a prudent approach to liquidity management and has set up a contingency liquidity reserve which will replace the Emergency Liquidity Agreement (ELA) of the national banks after the banking licence of Dexia Crédit Local is withdrawn at the beginning of 2024 (cf. the Significant events and transactions section of this Management Report).

This liquidity reserve is made up of EUR 2.9 billion in cash and EUR 8.6 billion in liquid reserves. Dexia Crédit Local no longer has access to refinancing from the European Central Bank, as from 1 January 2022, and this has automatically reduced the proportion of reserves which can be mobilised in the event of stress. Eligible securities were partly used to raise secured funding and partly deposited on the EUREX and RepoClear platforms in order to reconstitute reserves. Dexia Crédit Local also pursued its strategy of transforming part of its cash reserve into securities that can be mobilised via a reverse repos activity, with a view to optimising costs linked to the rise in rates.

CREDIT RISK

Exposure to credit risk

Dexia Crédit Local's exposure to credit risk is expressed as Exposure at Default (EAD). It corresponds to the best estimate of exposure to credit risk in the event of default. The definition of EAD used by Dexia Crédit Local is included in note 7 to the consolidated financial statements in Dexia Crédit Local's 2022 annual report.

As at 30 June 2023, Dexia Crédit Local's exposure to credit risk amounted to EUR 47.5 billion, compared to EUR 49.8 billion at the end of December 2022, i.e. a decrease of 5% mainly due to asset sales and the natural amortisation of the portfolio, as well as the impact of rising interest rates on assets classified at fair value. Loans accounted for EUR 18.6 billion of exposure and bonds for EUR 27.1 billion. They are mainly concentrated in Italy (28%), the United Kingdom (23%) and France (17%). Exposure to France includes deposits with the Banque de France, as part of the management of the liquidity reserve. These deposits amounted to EUR 1.1 billion as at 30 June 2023.

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2022	30/06/2023
Italy	13,406	13,214
United Kingdom	11,114	11,153
France	9,487	8,289
United States and Canada	3,486	3,019
Spain	2,991	2,856
Portugal	2,378	2,221
Japan	2,157	2,095
Belgium	1,648	1,581
Australia	1,016	994
Germany	766	730
Central and Eastern Europe	423	401
Other countries	885	908
TOTAL	**49,761**	**47,461**

As at 30 June 2023, exposures remain mainly concentrated on the local public sector and sovereigns (70%), given Dexia Crédit Local's historical activity.

EXPOSURE BY CATEGORY OF COUNTERPARTY

(in EUR million)	31/12/2022	30/06/2023
Local public sector	20,696	19,423
Sovereigns	15,032	13,983
Financial institutions	4,276	4,504
Project finance	4,207	4,011
Corporates	3,031	2,975
Monolines	1,142	1,132
ABS/MBS	1,036	1,070
Other	339	363
TOTAL	**49,761**	**47,461**

The quality of Dexia Crédit Local's credit portfolio remains high, with 91% of exposures rated Investment Grade as at 30 June 2023.

EXPOSURE BY CATEGORY OF COUNTERPARTY (INTERNAL RATING SYSTEM)

	31/12/2022	30/06/2023
AAA	13.2%	12.3%
AA	6.1%	5.4%
A	21.8%	22.4%
BBB	49.2%	50.5%
NIG(1)	8.7%	8.2%
D	0.6%	0.6%
No rating	0.4%	0.6%
TOTAL	**100%**	**100%**

(1) Non Investment Grade.

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES (AS AT 30 JUNE 2023)								
(in EUR million)	Total	Local public sector	Project finance and corporates	Financial institutions	ABS/MBS	Sovereigns	Monolines	Other
Italy	13,214	5,814	27	117	0	7,090	0	166
United Kingdom	11,153	4,874	3,520	887	1,070	0	801	0
France	8,289	2,938	1,060	1,154	0	2,725	290	122
United States and Canada	3,019	1,167	1,053	564	0	192	42	0
Spain	2,856	2,159	402	36	0	258	0	0
Portugal	2,221	365	25	0	0	1,831	0	0
Japan	2,095	1,880	0	215	0	0	0	0
Belgium	1,581	0	0	134	0	1,446	0	0
Australia	994	190	805	0	0	0	0	0
TOTAL	**45,421**	**19,388**	**6,890**	**3,108**	**1,070**	**13,543**	**1,132**	**289**

GROUP SECTOR EXPOSURE PER RATING (AS AT 30 JUNE 2023)								
(in EUR million)	Total	AAA	AA	A	BBB	NIG(1)	D	No rating
Local public sector	19,423	1,396	1,359	4,978	8,379	3,210	98	4
Sovereigns	13,983	4,366	0	659	8,921	0	38	0
Financial institutions	4,504	0	146	3,539	799	3	0	16
Project finance	4,011	0	0	282	2,967	622	140	0
Corporates	2,975	0	0	54	2,904	15	0	1
ABS/MBS	1,070	0	1,036	0	0	34	0	0
Monolines	1,132	0	0	1,132	0	0	0	0
Other	363	94	0	0	13	0	0	255
TOTAL	**47,461**	**5,855**	**2,542**	**10,645**	**23,983**	**3,884**	**276**	**275**

(1) Non Investment Grade.

Particular attention is paid to the sectors and countries listed in the table above because of the significant amounts of exposure or their level of sensitivity. The main developments and highlights for these sectors and countries in 2023 are discussed in the following paragraphs.

Dexia Crédit Local Group commitments to sovereigns

Dexia Crédit Local's sovereign commitments are mainly concentrated in Italy, France and, to a lesser extent, Portugal and Belgium.

The global economy started 2023 in a mixed way, but better than expected. In the United States, growth slowed between the fourth quarter of 2022 and the first quarter of 2023, from 0.6% to 0.3%. However, in the European Union, after a slight contraction of -0.1% in the fourth quarter of 2022, the economy returned to growth at 0.3% in the first quarter of 2023, avoiding a recession thanks to the sharp fall in gas prices. Little growth is expected for 2023 (1.3% for the United States and 0.7% for the European Union), with rising interest rates and persistently high inflation weighing on the economy.

For the eurozone, GDP is expected to rise by just 0.5% in 2023, with France and Italy at 0.6% and 1.1% respectively. Within the eurozone, only Germany has suffered a slight recession, in late 2022 and early 2023.

With the exception of the UK, public debt levels should continue to fall slightly after the sharp rise caused by Covid. However, the rise in interest rates has triggered a rise in financing costs, increasing the burden of a still high level of debt.

Dexia Crédit Local's outstanding Italian sovereign debt stood at EUR 7.1 billion as at 30 June 2023. Market fears following the election of a right-wing coalition led by Prime Minister Giorgia Meloni have eased. Thanks to the stated desire to maintain a relatively prudent fiscal policy, the yield differential between Italian and German 10-year bonds narrowed by almost 50 basis points in the first half of 2023. Nevertheless, the fragile coalition is making it difficult to implement the necessary reforms. Dexia Crédit Local has no exposure to British sovereign debt. Its total exposure in the United Kingdom is nevertheless significant, at EUR 11.2 billion as at 30 June 2023, and mainly concerns local authorities, Utilities active in the field of water, gas and electricity transmission and distribution, and project finance. Already under pressure following Brexit, the UK continues to have one of the highest inflation rates, with virtually no economic growth. For 2023, GDP growth is expected to be just 0.2%, with inflation still high at 4.8% in the fourth quarter 2022.

As at 30 June 2023, Dexia Crédit Local's exposure to Tunisia amounted to EUR 37.6 million, entirely concentrated on the sovereign. Tunisia was one of the emerging countries hardest hit by the Russian-Ukrainian conflict because of its heavy dependence on food and energy imports from the war-torn countries. Although the key tourism sector has rebounded, social and political instability has weighed on growth. Public and external debt, already high, continued to rise. In these conditions, the implementation of a new agreement with the IMF is vital for market confidence. A preliminary agreement was reached at the end of 2022, but its final approval remains uncertain given the lack of popular support for the reforms underway, while the country faces difficult financing conditions and significant financing needs. As a result, Dexia Crédit Local has maintained the provisioning level of its exposure to the Tunisian sovereign at 56% for the first half of 2023.

Dexia Crédit Local Group commitments to the local public sector

Given Dexia Crédit Local's historical activity as a lender to local authorities, the local public sector represents a significant proportion of outstandings, which are mainly concentrated in Western Europe (Italy, United Kingdom, France, Spain), Japan and the United States.

France

Dexia Crédit Local's exposure to the French public sector was EUR 2.9 billion as at 30 June 2023.

The financial fundamentals of local authorities remained solid in 2022. Like all economic agents, they are subject to a rise in prices, the impact of which remains difficult to assess for 2023. Dynamic tax revenues will support their financial room for manoeuvre, and guarantees will make it possible to support local authorities in difficulty.

As the second half of the municipal mandate gets underway, local authorities and their groupings, and more broadly all local authorities, are expected to implement projects to accelerate the ecological transition.

For local authorities, the increase in operating revenue in 2022 (EUR +90.1 billion, i.e. +3%), boosted by tax receipts, has not been enough to offset the rise in expenditure (EUR 78.4 billion, i.e. +5.5%) linked to the increase in prices (particularly energy), staff costs (revaluation of the index point) and intervention expenditure (social action, subsidies paid to associations, CCAS, SDIS). The result is a reduction in savings, but they remain at high levels, enabling local authorities to maintain their investments (+7.3%) while keeping borrowing under control (+0.3%).

For the Regions and Local Authorities, investment will continue to rise, with priority given to the repayment of European funds, rail transport and secondary schools. A high level of savings (EUR 4.4 billion in 2022, representing 32% of investment), supported by dynamic revenues, particularly from VAT, will enable them to cope with the increase in expenditure.

For the Departments, operating expenditure is rising faster than revenue (3.6% for expenditure compared with 3.0% for revenue) under the influence of inflation. Revenues are marking time due to less dynamic tax resources (transfer duties), but savings remain sufficient (EUR 7.6 billion, representing 62% of investments) to allow investment to continue.

Italy

Dexia Crédit Local's exposure to the Italian public sector amounted to EUR 5.8 billion as at 30 June 2023, of which Regions (53%) and Municipalities (31%) accounted for the bulk.

The budgetary performance of the Italian Regions has broadly returned to pre-pandemic levels, thanks to strong support from central government, but forecasts of rising operating costs will put some pressure on operating balances.

Operating expenditure is normalising at higher levels than before the pandemic in the short to medium term, reflecting the increasing resources devoted to improving the delivery of health services in each region.

The Italian government's reform package will not affect the fiscal performance of the regions, although it will change their sources of funding.

Spain

Dexia Crédit Local's exposure to the Spanish public sector amounted to EUR 2.2 billion as at 30 June 2023, most of which relating to Regions (52%) and Municipalities (15%).

The Spanish Regions receive support from the Spanish State and, to a lesser extent, from the European Union through the Financing Fund of the Autonomous Communities, which in 2022 resulted in a payment of EUR 31 billion from the Spanish State, mainly via the Liquidity Fund for the Regions, and a payment of EUR 1.5 billion from the European Union, via the REACT-EU Liquidity Fund, which provides liquidity in the form of loans. This support will continue into 2023, with the government having already granted EUR 16.9 billion to the Autonomous Communities in the first half of 2023.

Dexia Crédit Local has a high exposure of EUR 1 billion to Catalonia and its related entities. Catalonia is one of the main Spanish regions and an important centre of economic attraction for Spain, but its financial situation remains tense. It therefore has the benefit of strong support from the State, i.e. EUR 6.2 billion planned for the first half of 2023.

Most of Dexia Crédit Local's clients in the municipal segment are in good financial health, with a low level of debt and a surplus cash position, with the exception of a few clients supported through state funds, such as the Economic Impulse Fund and the *Fondo de Ordenacion*, which allow debt maturities to be covered. Municipalities are also authorised to use their surpluses to meet social needs arising from the health crisis and the war in Ukraine. In the event of a cash shortage, the municipalities benefit from cash lines from the Provinces (Diputaciones), in the form of advances for tax collection.

United Kingdom

Dexia's exposure to UK local authorities amounted to EUR 4.9 billion in June 2023. However, in recent years, the financial situation of British local authorities has weakened as a result of the health crisis and the deterioration of the economic situation in the United Kingdom.

UK local authorities are highly centralised. Their main sources of funding are council tax, retained business rates and government transfers, over which local authorities have little or no control.

In addition, over the last ten years successive governments have changed the way in which local authorities are funded, leading to a decline in government grants and an increase in local authorities' dependence on locally generated revenue.

It is important to note that UK local authorities are required by law to have a balanced budget. If this is not the case, the Chief Financial Officer must issue a notice under Section 114 of the Local Government Finance Act 1988, whereby all non-essential expenditure is suspended. There has been an increase in the number of Section 114 notifications, including within Dexia's portfolio. However, given that the sector is highly centralised and strictly controlled by the government, the negative impact on the credit quality of the sector as a whole should remain limited.

Dexia Crédit Local Group commitments to project finance and corporates

The project finance and corporate loan portfolio stood at EUR 7 billion as at 30 June 2023, stable compared with the end of 2022. The natural amortisation of the portfolio was offset by the impact of lower long-term interest rates.

Project finance accounts for 57% of the portfolio[(1)], with the balance made up of financing for large corporates, such as acquisition finance, commercial transactions and corporate bonds.

The portfolio is of good quality: 81% of project finance and 99% of corporate finance is rated investment grade (after taking associated guarantees into account).

In terms of geographical breakdown, the United Kingdom accounts for around 50% of the portfolio of project finance (PPP) and large corporates (Utilities). 99.7% of this exposure is rated investment grade.

After analysis of Dexia Crédit Local's portfolio, the transport infrastructure sector (exposure of EUR 1.28 billion, mainly in Europe) is the main sector sensitive to the impact of the war in Ukraine (increase in energy and commodity prices). These counterparties generally have reserve accounts to cover half-yearly maturities, enabling them to withstand a sharp drop in traffic. Nevertheless, few counterparties in Dexia Crédit Local's portfolio have had to draw on reserve accounts to pay their debts. Available information on traffic indicates a satisfactory recovery, with a return to or even a surpassing of pre-Covid levels.

Following the difficulties encountered in the first half of 2023 in part of the water distribution sector in the United Kingdom, Dexia Crédit Local has, in a prudent approach, decided to downgrade part of the exposures in this sector to Stage 2 in the second quarter of 2023 (cf. asset quality section of this Management Report).

Dexia Crédit Local Group commitments to financial institutions

Dexia Crédit Local's commitments to financial institutions amounted to EUR 4.5 billion as at 30 June 2023.

Risks linked to the banking sector have been the focus of attention since the beginning of 2023 following the significant tensions which appeared on the world markets following the bankruptcy of Silicon Valley Bank, the beginning of contagion to other regional banks in the United States and the difficulties of Crédit Suisse in Europe.

(1) Transactions without recourse to their sponsors the redemption of which is only on the basis of their own cash-flows and strongly secured in favour of the bank, for example via sureties on assets and contracts or a limitation of dividends.

Dexia Crédit Local has no exposure to US regional banks. Its exposure to the major US national banks amounted to EUR 429 million as at 30 June 2023, 68% of which relates to Citigroup because of its clearer activity for Dexia Crédit Local.

As regards Crédit Suisse and UBS, Dexia Crédit Local's exposure is limited to EUR 127 million and relates solely to collateralised derivatives as part of portfolio hedging operations.

Although the fallout for European banks has been limited, the turbulence has served as a reminder of the importance of ensuring that the fundamentals of banking systems are sound, particularly in a volatile environment which is weighing on the profitability and resilience of banks which, despite higher interest rates, could see their profits fall as a result of the slowdown in the economy and the inversion of the yield curve.

Dexia Crédit Local Group commitments to monolines

Dexia Crédit Local is indirectly exposed to monolines in the form of financial guarantees ensuring the timely payment of principal and interest due on certain bonds and borrowings. Actual claims against monolines only become payable if real defaults of the underlying assets occur. Dexia Crédit Local's insured bonds benefit from increased trading values and, in some cases, capital relief as a result of the credit enhancements provided.

As at 30 June 2023, the exposure to monolines used to calculate risk weights was EUR 1.1 billion. All exposure is insured by monolines rated investment grade by at least one external rating agency.

Impairment on counterparty risks – Asset quality

As at 30 June 2023, impaired assets fell slightly from EUR 502 million as at 31 December 2022 to EUR 486 million. Specific provisions were stable at EUR 167 million as at 30 June 2023. As a result, the coverage ratio improved slightly to 34.4% as at 30 June 2023.

As at 30 June 2023, collective provisions amounted to EUR 170 million, including EUR 6 million in Stage 1 provisions and EUR 164 million in Stage 2 provisions. They increased by EUR 34 million over the half-year. A charge to collective provisions, linked to the move to Stage 2 of part of Dexia Crédit Local's exposure to the water distribution sector in the United Kingdom, was partially offset by a positive impact linked to the updating of the base case macroeconomic scenario used for the assessment of expected credit losses within the framework of IFRS 9 and to effects induced by the rise in rates and the evolution of the portfolio (rating changes, disposals, natural depreciation).

ASSET QUALITY

(in EUR million)	31/12/2022	30/06/2023
Impaired assets(1)	502	486
Specific provisions(2)	166	167
Of which Stage 3	*160*	*151*
Of which POCI	*6*	*15*
Coverage ratio(3)	33.1%	34.4%
Collective provisions	136	170
Of which Stage 1	*14*	*6*
Of which Stage 2	*122*	*164*

(1) Outstanding: calculated on the impairable IFRS 9 scope (fair value through equity + 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.

Review of macroeconomic scenarios and sensitive sectors

Taking into account a more stable macroeconomic context in the first half of 2023, Dexia Crédit Local has changed the assumptions and estimates used for the preparation of its condensed consolidated financial statements as at 30 June 2023. In particular, Dexia Crédit Local has reviewed the macroeconomic scenarios included in the point-in-time and forward-looking measures of the probability of default and loss given default models used for the assessment of expected credit losses within the framework of IFRS 9 and has retained a base case macroeconomic scenario based on the projections published by the European Central Bank (ECB) in June 2023 or by national supervisors (Federal Reserve, Bank of England, European countries, etc.) when available.

After a limited economic slowdown at the start of the year, the ECB's central scenario forecasts a recovery in growth over the following quarters, driven by lower energy prices, stronger foreign demand and the easing of bottlenecks in supply chains, enabling companies to continue to manage their order books. Uncertainty, particularly that linked to the recent tensions in the banking sector, continues to diminish. Average real GDP growth is expected to slow to 0.9% in 2023 (from 3.5% in 2022) before rebounding to 1.5% in 2024 and 1.6% in 2025.

In the US, the central scenario forecasts real GDP growth of 1.0%, 1.1% and 1.8% for 2023, 2024 and 2025 respectively. Unemployment remains low and inflation high, leading to an increase in the central bank's benchmark interest rate. In the UK, the outlook has improved and moderate GDP growth is expected: 0.25% in 2023 and 0.75% in 2024 and 2025.

Whereas during the pandemic and/or the first quarters after the Russian invasion of Ukraine, Dexia's base case scenario for credit loss assessment was a 50/50 mix between the central scenario and the ECB's downside scenario, a systemic bias (among others linked to the more recent major developments) is no longer expected. As a consequence, Dexia's base case scenario for credit loss assessment is again equal to the central banks' central scenario and the downside scenario is no longer published by the ECB.

The IFRS 9 approach also allows for macroeconomic uncertainty surrounding the base case scenario (cf. accounting valuation rules). In this approach, a deviation of two standard deviations has been taken into account on macroeconomic indicators for a projection horizon of three years. This deviation is calibrated by comparing macroeconomic projections for past years with actual macroeconomic trends. The result is the creation of an IFRS 9 multi-scenario add-on, which is applied in addition to the provisions calculated within the framework of the base case scenario.

In addition, Dexia Crédit Local pays particular attention to sensitive economic sectors, in particular those sectors which continue to be impacted by the consequences of the health crisis and/or the increase in energy prices since the start of the war in Ukraine. As a result, counterparties likely to be weakened by these crises are systematically classified in Stage 2 if they are not classified in Stage 3. This applies in particular to airports, French overseas communities, public transport, the tourism and entertainment sectors, waste management and infrastructures at risk from traffic. The UK hospital sector is also affected, following the impacts of Brexit, rising sovereign borrowing rates and inflation, which could put pressure on the financial balances of the government and the healthcare system. Together, these sensitive sectors represent an exposure of EUR 9 billion out of a total of EUR 47 billion.

MARKET RISK

Value at Risk (VaR)

At the end of June 2023, the total VaR consumption of the portfolios was EUR 1.9 million, compared with EUR 2.0 million at the end of 2022.

Sensitivity to changes in credit spreads on banking portfolios measured at fair value

The portfolio classified at fair value through equity was sensitive to an increase in credit spreads of EUR -0.6 million per basis point as at 30 June 2023 compared with EUR -0.7 million per basis point as at 31 December 2022.

The portfolio classified at fair value through profit or loss was sensitive to an increase in credit margins of EUR -0.5 million per basis point as at 30 June 2023, compared with EUR -0.6 million per basis point as at 31 December 2022. Of these assets at fair value through profit or loss, those not meeting the SPPI criterion had a sensitivity of EUR -0.3 million per basis point as at 30 June 2023, compared with EUR -0.4 million per basis point as at 31 December 2022.

TRANSFORMATION RISK

Dexia Crédit Local'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.

Management of exchange rate risk

The sensitivity of long-term ALM was EUR -30.2 million as at 30 June 2023 compared with EUR -40.8 million as at 31 December 2022. The change is explained by the desire to hedge the sensitivity of the net interest margin by investing in fixed-rate exposures, which opens up a sensitivity on the economic value. However, this remains well within the limits (EUR +/- 130 million).

Management of liquidity risk

As at 30 June 2023, the Dexia Group (consolidated) and Dexia Crédit Local (statutory) had LCR ratios of 228% and 204% respectively, well above the minimum requirement of 100%.

As at the same date, the net stable funding ratios (NFSR) were also in line with these requirements and stood at 150% for the Dexia Group (consolidated) and 142% for Dexia Crédit Local (statutory).

OPERATIONAL RISK AND IT SYSTEMS SECURITY

Operational risk management is identified as one of the pillars of Dexia Crédit Local's strategy, within the context of its orderly resolution. The operational risk management system is based on the standard approach set out in the Basel regulatory framework.

In the first half of 2023, of all operational incidents reported, no major financial impact was observed. Non-financial impacts were nonetheless measured, in particular the loss of man-days linked to a limited number of IT system connectivity incidents.

In 2023, Dexia Crédit Local continued to adapt its structure and operational processes to its orderly resolution mandate. This resolution phase is, by its very nature, conducive to the development of operational risks, particularly as a result of factors such as the departure of key people, the possible demotivation of staff members or the modification of processing procedures. In particular, projects to outsource certain activities may represent a source of operational risk during the implementation phases, but in the medium term should ensure the Bank's operational continuity and limit the operational risks associated with systems, processes and people.

Operational risks associated with major transformation projects are also monitored on a quarterly basis to ensure that corrective action is taken to reduce the most significant risks.

Finally, psychosocial risks are closely monitored at Dexia Crédit Local, along with preventive and support actions.

More information on the actions taken by Human Resources to mitigate operational risk is provided in the chapter "Non-financial statement. Corporate social, environmental and societal responsibility" in Dexia's annual report.

STRESS TESTS

In line with the Pillar 2 stress test policy, Dexia Crédit Local carries out multiple scenario analysis and stress test exercises in a transversal approach integrated into the Group's risk management process. The aim is to identify possible vulnerabilities and simultaneously, in an unfavourable shock situation, to estimate additional losses, a possible increase in risk-weighted assets, additional liquidity needs or capital requirements.

These exercises used for internal steering purposes also ensure compliance with the relevant regulatory requirements, in particular those relating to stress tests, Pillar 2 and the ICAAP and ILAAP processes defined by the ECB[1]. Indeed, a comprehensive programme of stress tests in accordance with the relevant regulations is being implemented to ensure a coherent articulation between the different types of stress, notably market, credit, liquidity and the stresses required under Pillar 2.

The main stresses carried out in 2023 concern:

- Specific credit stress tests for the main asset classes. Credit exposures by asset class were subject to annual sensitivity tests, macroeconomic, historical scenarios related to an economic slowdown, climate and expert scenarios. The impacts on the cost of risk, risk-weighted assets and liquidity reserve were analysed. The results of the stress scenarios were compared with the results of the Value at Risk (VaR) approach to credit risk. Specific analyses of the sensitivity to environmental risks were also performed.
- Market stress tests highlighting potential events outside the probabilistic framework of VaR measurement techniques. They were divided into single risk factor tests, historical scenario tests and hypothetical scenario tests.
- Structural interest rate risk stress tests to measure the potential impact on Dexia Crédit Local's capital of a sudden and unexpected change in interest rates, thus meeting regulatory expectations.
- Liquidity stress tests to estimate additional liquidity needs in exceptional but plausible scenarios over multiple time horizons.
- Operational risk stress tests based on the analysis of the frequency and severity of operational incidents, complemented by "expert scenario" analyses covering IT, HR and outsourcing risks. These different categories of risk are managed within the framework of the Risk Appetite Framework.

(1) In line with the directives of the European Banking Authority (EBA) 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 requirements formulated by the European Central Bank in November 2018 – ECB Guide to the internal capital adequacy assessment process (ICAAP) and ECB Guide to the internal liquidity adequacy assessment process (ILAAP).

A series of specific stress tests including sensitivity and scenario analyses based on macroeconomic scenarios simulating crisis situations and on expert scenarios is also performed. In line with the Pillar 2 requirements and the capital adequacy measurement requirements, these stress tests are linked to the ICAAP and ILAAP processes.

In the specific context of 2023, taking into account the positive effect of vaccinations on the pandemic in combination with increased geo-political and monetary pressures, specific scenarios have been applied. These stress tests take into account, inter alia, the severe macroeconomic scenario as published by the European Central Bank (ECB) and the national banks. The European Banking Authority (EBA) adverse scenario for 2023 was also assessed and combined with stagflation scenarios.

For the ICAAP and ILAAP stresses, at regular intervals Dexia Crédit Local performs a full review of its vulnerabilities to cover all material risks, linked to its business model under stressed macroeconomic and financial conditions. This review documented by the ICAAP/ILAAP processes is applied and complements the financial planning process.

Within the context of ICAAP, “correlation risk” (CRR2 Article 291) is analysed. “General correlation risk” reflects the positive correlation between the probability of default and general market factors. This risk, in line with the “correlation risk” policy, is assessed by means of stress tests and scenario analyses. “Specific correlation risk” arises when the future exposure to a counterparty is positively correlated with the probability of default of that counterparty due to the nature of the transactions with that counterparty. This risk is identified, monitored and controlled in line with the correlation risk policy and capital requirements are assessed on a quarterly basis.

In addition, reverse stress tests are also conducted. The ICAAP and ILAAP file is independently reviewed by the Validation and Internal Audit departments.

Crisis simulations and other stress tests for ICAAP and ILAAP purposes are carried out several times a year and cover both the regulatory and economic perspectives. In accordance with regulatory requirements, the annual exercise carried out in April 2023, based on figures for the end of 2022, has been transmitted to national supervisors. These tests are an integral part of the Risk Appetite Framework (RAF) and are incorporated into the definition and review of the overall strategy. The link between the risk appetite, the adaptations of the strategic resolution plan and the ICAAP and ILAAP stress tests is ensured by specific capital consumption indicators that are part of the RAF.

RISK APPETITE FRAMEWORK

The Risk Appetite Framework (RAF) is a regulatory requirement which defines Dexia Crédit Local’s risk tolerance as approved by the Board of Directors and is part of the implementation of the Dexia Group’s strategy. It defines Dexia Crédit Local’s risk profile, setting out the types of risk the bank is willing to hold, minimise, mitigate or transfer in order to achieve its strategic objectives. The RAF considers the most significant risks and is based on Dexia’s strategy and capital projections.

The RAF was implemented at Dexia Crédit Local in 2016. It includes a Risk Appetite Statement (RAS), qualitative and quantitative risk limits and an overview of the roles and responsibilities of the bodies and functions that oversee implementation and monitoring. It is monitored regularly and reviewed annually to incorporate any new regulatory, strategic or operational developments. The RAS and RAF indicators were updated at the beginning of 2023 to reflect the new environment. In particular, it includes a specific focus on climate risks. A consolidated quarterly dashboard is presented by the Risk activity line to the Risk Committee and the Board of Directors, with the aim of closely monitoring the main risk indicators and informing the Group’s decision-making bodies.

RISK MONITORING AND MANAGEMENT IN CONNECTION WITH THE WITHDRAWAL OF BANKING AND INVESTMENT SERVICES AUTHORISATIONS

Further details are provided in the “Significant events and transactions” section of this Management Report.

RATINGS

On 3 July 2023, the Dexia Group announced the filing of an application with the ACPR to surrender Dexia Crédit's credit institution licence and investment services authorisations, in order to pursue its orderly resolution as a non-bank from the beginning of 2024, provided that the competent authorities authorise it to do so. Following this announcement, S&P placed Dexia Crédit Local's BBB/A-2 long-term and short-term ratings on Negative Credit Watch. According to S&P, this decision reflects the planned debanking, albeit partially mitigated by the surveillance framework to be established by the States and their support, which would result in a one-notch lowering of the issuer credit ratings on rated group entities. S&P expects to resolve the Credit Watch within the coming months, upon approval of the debanking from relevant authorities.

Moody's has affirmed Dexia Crédit Local's long-term and short-term ratings at Baa3 stable/P-3.

RATINGS AS AT 8 SEPTEMBER 2023

	Long term	Outlook	Short term
DEXIA CRÉDIT LOCAL			
Fitch	BBB+	Stable	F1
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor's	BBB	Watch Neg	A-2
DEXIA CRÉDIT LOCAL (GUARANTEED DEBT)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *(in EUR million)*	30/06/2022	31/12/2022	30/06/2023
Cash and central banks	10,300	2,024	1,183
Financial assets at fair value through profit or loss	5,353	3,497	3,048
Hedging derivatives	1,548	1,759	1,472
Financial assets at fair value through other comprehensive income	1,736	1,581	1,353
Financial assets at amortised cost - Debt securities	29,339	26,774	26,411
Financial assets at amortised cost - Interbank loans and advances	9,581	6,881	6,645
Financial assets at amortised cost - Customer loans and advances	18,902	20,734	19,339
Fair value revaluation of portfolio hedges	(6)	(116)	(105)
Current tax assets	28	6	13
Accruals and other assets	175	282	297
Tangible fixed assets	17	16	13
Intangible assets	6	4	3
TOTAL ASSETS	**76,979**	**63,442**	**59,672**

LIABILITIES *(in EUR million)*	30/06/2022	31/12/2022	30/06/2023
Financial liabilities at fair value through profit or loss	5,496	4,126	3,469
Hedging derivatives	10,949	8,352	7,938
Interbank borrowings and deposits	4,324	3,149	2,004
Customer borrowings and deposits	8,490	4,765	3,633
Debt securities	41,430	36,690	36,439
Fair value revaluation of portfolio hedges	(1)	(2)	(1)
Current tax liabilities	1	2	3
Deferred tax liabilities	89	89	30
Accruals and other liabilities	307	387	451
Provisions	72	41	41
Subordinated debt	21	23	24
TOTAL LIABILITIES	**71,178**	**57,622**	**54,031**
Equity	**5,801**	**5,820**	**5,641**
Equity, Group share	5,801	5,820	5,641
Capital stock and related reserves	2,465	2,465	2,465
Consolidated reserves	3,444	3,448	3,519
Gains and losses directly recognised in equity	(270)	(152)	(187)
Net result of the period	162	59	(156)
TOTAL LIABILITIES AND EQUITY	**76,979**	**63,442**	**59,672**

The notes on pages 27 to 42 are integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in EUR million)	30/06/2022	30/06/2023
Interest income	1,224	2,468
Interest expense	(1,190)	(2,408)
Commission income	3	3
Commission expense	(8)	(5)
Net gains (losses) on financial instruments at fair value through profit or loss	320	(63)
Net gains (losses) arising on derecognition of financial assets measured at amortised cost	(18)	(13)
Other income	19	11
Other expenses	(7)	(2)
NET BANKING INCOME	**343**	**(9)**
Operating expenses	(166)	(150)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(5)	(5)
GROSS OPERATING INCOME	**172**	**(164)**
Cost of credit risk	6	(33)
OPERATING INCOME	**178**	**(197)**
NET RESULT BEFORE TAX	**178**	**(197)**
Income tax	(16)	41
NET INCOME	**162**	**(156)**
NET INCOME, GROUP SHARE	**162**	**(156)**

The notes on pages 27 to 42 are integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
(in EUR million)	30/06/2022	30/06/2023
NET INCOME	162	(156)
Elements reclassified or likely to be subsequently reclassified in net income		
- Changes in fair value of debt instruments at fair value through other comprehensive income	(11)	1
- Revaluation of hedging derivatives	(9)	(33)
- Tax (expense) benefit	1	0
Elements that will never be reclassified or likely to be subsequently reclassified in net income		
- Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss	(1)	(3)
- Tax (expense) benefit	1	1
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	(19)	(34)
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	143	(190)
of which, Group share	143	(190)

The notes on pages 27 to 42 are integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2023 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock and related reserves			Consolidated reserves	Gains and losses directly recognised in equity							Net income, Group share	Equity, Group share	Equity
(in EUR million)	Capital stock	Related reserves	Total		Change in fair value of debt instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of equity instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of cash flow hedges, net of taxes	Actuarial gains and losses on defined benefit plans	Change in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk, net of taxes	Translation adjustments	Total			
AS AT 31/12/2021	279	2,186	2,465	3,691	(60)	(1)	(250)	(5)	28	38	(251)	(277)	5,628	5,628
Correction of opening equity[(1)]				25									25	25
AS AT 01/01/2022	279	2,186	2,465	3,716	(60)	(1)	(250)	(5)	28	38	(251)	(277)	5,653	5,653
Movements during the period														
- Appropriation of net income 2021				(277)								277	0	0
Subtotal of shareholders related movements				**(277)**								**277**	**0**	**0**
- Own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period				5					(5)		(5)		0	0
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity					(11)						(11)		(11)	(11)
- Gains and losses of the period of cash flow hedge derivatives, through equity							(57)				(57)		(57)	(57)
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss							48				48		48	48
- Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)									5		5		5	5
- Net income for the period												162	162	162
AS AT 30/06/2022	279	2,186	2,465	3,444	(71)	(1)	(259)	(5)	28	38	(270)	162	5,801	5,801
AS AT 31/12/2022	279	2,186	2,465	3,448	(77)	(1)	(127)	(3)	19	37	(152)	59	5,820	5,820
Correction of opening equity[(2)]				12									12	12
AS AT 01/01/2023	279	2,186	2,465	3,460	(77)	(1)	(127)	(3)	19	37	(152)	59	5,832	5,832
Movements during the period														
- Appropriation of net income 2022				59								(59)	0	0
Subtotal of shareholders related movements				**59**								**(59)**	**0**	**0**
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity					(2)						(2)		(2)	(2)
- Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income					3						3		3	3
- Gains and losses of the period of cash flow hedge derivatives, through equity							(62)				(62)		(62)	(62)
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss							29				29		29	29
- Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)									(2)		(2)		(2)	(2)
- Net income for the period												(156)	(156)	(156)
AS AT 30/06/2023	279	2,186	2,465	3,519	(76)	(1)	(160)	(3)	17	37	(187)	(156)	5,641	5,641

(1) Following data quality work carried out during the first half of the year, the ratings at origin of certain counterparties turned out to be erroneous. This error correction led to a favorable effect of EUR +25 million on expected credit losses as of 01/01/2022 recognised as a correction to opening equity.
(2) Correction of the amortisation of the discount of a bond.

The notes on pages 27 to 42 are integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in EUR million)	30/06/2022	30/06/2023
Cash flow from operating activities		
Net income after income taxes	162	(156)
Adjustment for:		
- Depreciation, amortisation and other impairment	5	5
- Impairment losses (reversal impairment losses) on bonds, loans and other assets	(6)	32
- Net increases (net decreases) in provisions	(15)	0
- Unrealised (gains) or losses on financial instruments	(272)	25
- Conditional deferred commission	1	7
- Deferred taxes	8	(57)
Changes in operating assets and liabilities	592	(538)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**475**	**(682)**
Cash flow from investing activities		
Purchase of fixed assets	(1)	0
Sales of unconsolidated equity shares	11	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**10**	**0**
Cash flow from financing activities		
Reimbursement of subordinated debts	0	(7)
Cash outflow related to lease liabilities	(4)	(4)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(4)**	**(11)**
NET CASH PROVIDED	**481**	**(693)**
Cash and cash equivalents at the beginning of the period	**10,836**	**3,113**
Cash flow from operating activities	475	(682)
Cash flow from investing activities	10	0
Cash flow from financing activities	(4)	(11)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	17	(2)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**11,334**	**2,418**
Additional information		
Income taxes (paid) refund	(1)	(22)
Interest received	2,468	4,549
Interest paid	(2,451)	(4,592)

The notes on pages 27 to 42 are integral part of these condensed consolidated financial statements.

NOTE I. ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CHANGES IN SCOPE OF CONSOLIDATION – SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF INCOME – OTHER SIGNIFICANT EVENTS OF THE PERIOD – POST-BALANCE-SHEET EVENTS

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors. Its registered office is located at Tour CBX La Défense 2 – 1, Passerelle des Reflets, 92913 La Défense.

These condensed consolidated financial statements were authorised for issue by the Board of Directors on 8 September 2023.

Accounting policies

The principal accounting policies adopted in the preparation of these condensed consolidated financial statements are set out below.

The commonly used abbreviations below are:

- IASB: International Accounting Standards Board
- IFRS IC: IFRS Interpretations Committee (ex IFRIC)
- IFRS: International Financial Reporting Standards

1. Basis of accounting

Dexia Crédit Local's condensed consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Commission up to 30 June 2023 and applicable as from 1 January 2023.

The interim condensed consolidated financial statements as at 30 June 2023 have been prepared in accordance with the same accounting policies and methods of computation as those used in the preparation of the 2022 annual financial statements, except for the elements stated in the section 2. "Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group".

In particular, interim financial statements have been prepared and presented in accordance with IAS 34 "Interim Financial Reporting" which provides for condensed set of financial statements and measurements for interim reporting purposes made on a financial year-to-date basis.

The Dexia Crédit Local condensed financial statements as at 30 June 2023 have been prepared in accordance with the going concern accounting rules under IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the Dexia Group's resolution which was the subject of a decision by the European Commission in December 2012 and reassessed on the basis of the elements available at the date of closing the accounts.

The main assumptions used by management to prepare the condensed financial statements as at 30 June 2023 and the areas of uncertainty are summarised below:

- The continuation of the resolution assumes that Dexia Crédit Local maintains a good funding capacity which relies in particular on the maintenance of the rating of Dexia Crédit Local at a level equivalent to or higher than Investment Grade, the appetite of investors for the debt guaranteed by the Belgian and French States and Dexia Crédit Local's ability to raise secured funding. Since 1 January 2022, Dexia Crédit Local's issues have benefited from the 2022 guarantee, which extends the 2013 guarantee, after it expired on 31 December 2021.
- Although it manages these risks very proactively, Dexia Crédit Local remains extremely sensitive to the evolution of the macroeconomic environment and to market parameters such as exchange rates, interest rates or credit spreads. An unfavourable evolution of these parameters in the long term could weigh on Dexia Crédit Local's liquidity and solvency level. It could also have an impact on the valuation of assets, financial liabilities or OTC derivatives, the changes in the fair value of which are recognised in the income statement or through equity and are likely to result in a change in Dexia Crédit Local's regulatory capital level.
- Finally, residual uncertainties related, for example, to new developments in accounting and prudential rules over the duration of Dexia Crédit Local's resolution could lead to a significant change in the initially anticipated resolution trajectory.

In assessing the appropriateness of the going concern basis, management has considered each of these assumptions and areas of uncertainty.

- Since the Dexia Group entered into orderly resolution, Dexia Crédit Local has continuously reduced its funding requirement and diversified its funding sources, from the point of view of the prudent management of its liquidity. The increase in interest rates, which began in 2021, has led to a sharp reduction in the net cash collateral posted by Dexia Crédit Local. Combined with the reduction of portfolios, this resulted in a significant decrease of EUR 42.9 billion in Dexia Crédit Local's funding requirement as at 30 June 2023. In this context, Dexia Crédit Local successfully launched two benchmarks of respectively GBP 500 million in April 2023 and EUR 1.5 billion in May 2023, enabling it to finalise its annual long-term refinancing programme from the 1st half of 2023. In addition, Dexia Crédit Local maintains a liquidity reserve which is deemed adequate in view of the restriction on access to financing by the European Central Bank (ECB), effective since 1 January 2022. This liquidity reserve amounted to EUR 11.5 billion as at 30 June 2023, of which EUR 2.9 billion in the form of cash.
- Within the framework of the preparation of the condensed financial statements as at 30 June 2023, Dexia Crédit Local reviewed the macroeconomic scenarios used for the assessment of expected credit losses under IFRS 9 and retained a base case macroeconomic scenario, based on the most recent European Central Bank (ECB) projections published in June 2023, supplemented by scenarios published by national central banks when available. After a limited economic slowdown at the start of the year, the ECB's central scenario is for growth to pick up over the following quarters, driven by lower energy prices, stronger foreign demand and the easing of bottlenecks in supply chains, enabling companies to continue to manage their order books. Uncertainty, linked in particular to the recent tensions in the banking sector, continues to diminish.
- Management has also taken into account all of these constraints and uncertainties associated with its operating model as well as the risks related to the continuity of operations, inherent to Dexia Crédit Local's specific character as a bank in resolution.

Consequently, after having taken all these elements and uncertainties into account, Dexia Crédit Local's management confirms that, as at 30 June 2023, they do not call into question the fundamentals of the orderly resolution of the Dexia Group or the assessment of the application of the going concern assumption. As a consequence, the condensed financial statements can be prepared in accordance with the going concern accounting rules under IAS 1 § 25 and 26.

The condensed consolidated financial statements are presented in millions of euro (EUR) unless otherwise stated.

2. Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group

2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2023

- **IFRS 17** "Insurance Contracts". This standard issued by the IASB in May 2017 to replace IFRS 4 "Insurance Contracts" establishes principles for the recognition, measurement and presentation of insurance contracts falling within its scope. This new standard has no impact on Dexia Crédit Local's financial statements as Dexia Crédit Local has no insurance contracts within the scope of the standard.
- **Amendment to IAS 12** "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" which specifies how companies should account for deferred tax on transactions such as leases. As a result, separate deferred tax liabilities and deferred tax assets must be recognized respectively in respect of the balance sheet items of the lessee's rights of use and lease liabilities. This amendment has no impact on Dexia Crédit Local's financial statements considering the amounts relating to its leases and insofar as, for the same tax entity, Dexia Crédit Local offsets deferred tax assets and liabilities on the balance sheet and depreciate net deferred tax assets, after deduction of deferred tax liabilities.
- **Amendment to IAS 1 and IFRS 2 Practice Statement** "Disclosure of Accounting policies". These amendments, which aim to help companies to identify the useful information to provide to users of financial statements on accounting methods, will be reflected in Dexia Crédit Local's annual financial statement disclosures related to the accounting policies.
- **Amendment to IAS 8** "Definition of Accounting Estimates". This amendment, which aims to facilitate the distinction between accounting methods and accounting estimates, has no immediate impact on Dexia Crédit Local's financial statements.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2023

None.

2.3. New IFRS standards, IFRIC interpretations and amendments issued during the current year but not yet endorsed by the European Commission

- Amendment to IAS 7 and IFRS 7 “Supplier Finance Arrangements” (issued by the IASB in May 2023). This amendment, applicable from 1 January 2024, is intended to enable users of the financial statements to assess the effects of these agreements on the entity’s liabilities and cash flows. The impact of this amendment on Dexia Crédit Local’s financial statements is currently being analyzed.
- Amendments to IAS 12 “International Tax Reform – Pillar Two Model Rules” (issued by the IASB in May 2023). This amendment introduces a temporary exception to the obligation to recognize deferred taxes resulting from the implementation of Pillar 2 rules (worldwide minimum tax) within the framework of the OECD’s international tax reform, as well as a specific disclosure requirement in the notes to the financial statements. This amendment has no impact on Dexia Crédit Local’s financial statements, as it is currently outside the scope of Pillar 2 provisions due to the amount of its net banking income.

3. Changes in presentation of condensed consolidated financial statements of Dexia Crédit Local

The condensed consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the ANC (French Authority for Accounting Standards) presentation. As at 30 June 2023, they are compliant with ANC Recommendation 2022-01 issued on 8 April 2022 ”on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards” which cancels and replaces ANC recommendation 2017-02 of 2 June 2017.

There were no other changes in the presentation of Dexia Crédit Local’s condensed consolidated financial statements during the current financial year.

4. Use of estimations and judgments

In preparing the condensed consolidated financial statements, management is required to make estimates and assumptions that involve uncertainties relating to their occurrence in the future and that affect the amounts reported, including in the disclosures. To make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the financial statements.

The main valuation processes requiring the use of assumptions and estimates are:

- valuation of financial instruments by means of valuation techniques, determination whether or not there is an active market and the use of internal models when determining the fair value for financial instruments that are not quoted on an active market;
- determination of expected credit losses (ECL) to be recognised for impairment of financial assets under IFRS 9: assessment of criteria for significant increase in credit risk, choice of appropriate models and assumptions for the measurement of ECL, establishment of the number and relative weightings of forward-looking scenarios and determination of the forward looking information relevant to each scenario, determination of Probability of Default (PD) and Loss Given Default (LGD) (IFRS 9);
- determination of fair value less costs to sell for non-current assets and disposal groups held for sale. Dexia Crédit Local uses its judgment for identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5);
- assessment of the conditions allowing the application of hedge accounting and measurement of hedge effectiveness in hedging relationships;
- analysis of renegotiated assets in order to determine whether they should be maintained on the balance sheet or derecognised;
- determination of the useful life and the residual value of property, plant and equipment, and intangible assets. Dexia Crédit Local exercises its judgment in assessing the conditions for capitalising assets;
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets;
- determination of the value of right-of-use assets and lease liabilities of lease contracts and in particular determination of the lease period;
- determination of the uncertainty over income tax treatments and other provisions for liabilities and charges. Like many financial institutions, Dexia Crédit Local is subject to several regulatory investigations and is named as a defendant in a number of lawsuits. The existence of a present obligation with probable outflows in the context of litigations requires the use of judgment. The Group’s consolidated financial statements reflect the consequences, as assessed by Dexia Crédit Local in accordance with the information available to it on the date of preparation of the financial statements, of major disputes and investigations that could have a material impact on the Group’s financial situation, performance or activities and provisions were recorded when deemed necessary.

Moreover, the exercise of judgment is necessary to assess the business model followed by Dexia Crédit Local for the management of financial instruments and whether a financial instrument can be categorised as SPPI or "basic", as well as for the assessment on whether Dexia Crédit Local controls the investee, including structured entities, for determining the consolidation scope (IFRS 10).

5. IBOR benchmark rates reform

Presentation of the IBOR reform

Following the weaknesses of IBOR interbank rates revealed by the financial crisis, a reform has been launched at international level in order to strengthen the reliability of benchmark methodologies and to replace IBOR benchmarks by new risk-free rates.

Dexia Crédit Local being exposed to the IBOR indices, mainly in euros, US dollars and pounds sterling, through its financial instruments still remains impacted by this reform. The great majority of financial instruments have been already amended in order to reflect the new rates (via the replacement of the benchmark interest rate or via the insertion of fallback clauses, setting out the terms and conditions of replacement in the event of the cessation of a benchmark interest rate) considering the reform progress as follows:

- in the euro zone, EONIA has been replaced by €STR since 3 January 2022. Since 2 October 2019 ant till its replacement, EONIA was based on €STR (EONIA = €STR + 8.5 bps). Regarding EURIBOR, a new so-called "hybrid" methodology has been recognised as BMR compliant since July 2019 and this rate was added to the benchmark register of the European Securities and Markets Authority (ESMA). Since then, the durability or the maintaining of the EURIBOR for the next years has not been called into question, neither by the supervisor of the index, ESMA, nor by its administrator, EMMI (European Money Markets Institute).
- regarding the USD LIBOR and GBP LIBOR replacement indices, the new SOFR and SONIA risk-free rates which comply with the BMR regulations have been published since 2018. The index based on SOFR (CME term SOFR or compounded overnight SOFR) has replaced the former LIBOR USD index, whose publication was continued until 30 June 2023 for most of its tenors. The GBP LIBOR index has been replaced by SONIA since 1 January 2022.
  However, for certain contracts indexed to USD LIBOR or GBP LIBOR, qualified as tough legacy and for a limited period of time (until 30 September 2024 for USD LIBOR 1 month, 3 month and 6 month and until 31 March 2024 for 3 month GBP LIBOR), LIBOR indices are maintained according to "synthetic LIBOR" methodologies which are based on the new risk-free rates respectively in USD or GBP. The contracts concerned are contracts that could not be renegotiated before the index cessation because their transition is particularly difficult or it requires a prior agreement from the authorities, thus lengthening the renegotiation period.
- concerning the JPY LIBOR and the CHF LIBOR, the publication of which ceased on 1 January 2022, the new risk-free rates TONA and SARON have definitively replaced these indices since this date.
- concerning the CAD CDOR index, the end of its publication is scheduled for 28 June 2024. It will be replaced by the CORRA index.

Management of the transition within Dexia Crédit Local and new risks arising from the IBOR reform

A project structure has been set up within Dexia Crédit Local since the second half of 2018 in order to ensure the transition to the new benchmark rates. This project involves all of Dexia Crédit Local's business lines and functions. It aims to anticipate the impacts of the reform from a legal, commercial, financial, accounting, risk framework and operational viewpoint and to implement the transition process to the new indexes while reducing the risks linked to this transition and respecting the deadlines defined by the regulators. As part of this project, the following work is being carried out, in particular:

- monitoring of the regulatory developments of the IBOR reform;
- mapping of the financial instruments concerned by the reform;
- analysis and management of risks generated by the reform. These risks are mainly legal (related to the contractual documentation and the associated litigation risk), conduct risk (related to negotiations with clients and banking counterparties given the necessary amendments to existing contracts), financial (related to the possible market disruptions due to the interest rate reform and mainly limited to the interest rate risk), operational (related to the execution of transaction migrations and change in information systems) and accounting (related to the potential impacts in the income statement due to the transition of hedging relationships and following the post-transition revaluation of hedging instruments and hedged items);
- legal analysis and update of contracts (benchmark rates replacement in contracts and transactions, insertion of robust fallback clauses);
- implementation of the strategy, organisation and execution of the transition of contracts qualified as tough legacy;
- implementation of changes in information and management systems, process update;
- external and internal communications.

The reporting on the progress of the project is done on a regular basis to the Management Committee as well as to the Board of Directors.

During 2021 and 2022, Dexia Crédit Local focused its work on the transition of its contracts indexed to the GBP LIBOR, JPY LIBOR, CHF LIBOR and EONIA considering the discontinuation of these indices respectively on 1st January 2022 and 3 January 2022. In particular, Dexia Crédit Local accomplished the transition to the new reference rates for its derivative contracts traded with clearing houses and bilateral counterparties, of its cash collateral arrangements linked to derivative and repo contracts, of its securities contracts, loans and credit lines as well as funding contracts. For most of Dexia Credit Local's bilateral derivative products, the replacement of the index took effect in January 2022 through the activation of fallback clauses under the ISDA contract (see Impacts on Dexia Credit Local's financial statements).

In 2023, Dexia Crédit Local continued its work relating to the reform and completed almost all transitions for its instruments indexed on the USD LIBOR in view of the cessation of the index on 1st July 2023. In particular:

- for most of Dexia Crédit Local's bilateral derivatives and the associated cash collateral agreements, the replacement of the index took place on 1st July 2023 via the activation of the fallback clauses under the ISDA contract. However, some derivatives were renegotiated directly with the counterparties (mainly with non-members of the ISDA protocol);
- for Dexia Crédit Local's derivative contracts treated with the clearing house (LCH), the replacement of the index of the floating leg of instruments indexed on USD LIBOR occurred on 22 April 2023 and 20 May 2023 depending on the nature of derivatives;
- for most of loan contracts, credit lines and funding contracts, Dexia Crédit Local completed the update of these contracts. For a very limited number of instruments indexed to LIBOR USD qualified as tough legacy (see above), the "synthetic USD LIBOR" will apply beyond 30 June 2023, from the next coupon date and no later than 30 September 2024. For tough legacy contracts governed by the US law, the "LIBOR Act" solution will apply (CME term SOFR).

In addition, during the year of 2023, Dexia Crédit Local completed the transition of its contracts indexed to the "synthetic GBP LIBOR" 1 month and 6 month (tough legacy) due to the cessation of the index on 31 March 2023. The "synthetic GBP LIBOR" 3 month is still applicable for a few of Dexia Credit Local's contracts, at the latest until 31 March 2024, pending the completion of contract renegotiations with clients. Dexia Credit Local will continue its reform related work, especially for contracts indexed to CAD CDOR, whose discontinuation is planned on 28 June 2024.

Outstanding amounts of financial instruments impacted by the index reform are presented in note 4.8 of Dexia Credit Local's 2022 annual report.

Accounting issues associated with the IBOR reform

This reform has impacts on the accounting treatment and measurement of financial assets and liabilities using these benchmarks as well as on the accounting treatment of the related hedging derivatives. In order to limit the potential accounting impacts of the reform, two texts have been published by the IASB:

- Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest rate benchmark reform" address issues related to hedge accounting in the period of uncertainty preceding the entry into force of these new rates. The IASB amendments aim at maintaining the existing hedging relationships by assuming that the interest rate benchmark on which the hedged cash flows and/or cash flows from the hedging instrument are based will not be altered. These amendments introduced reliefs mainly relating to the highly probable requirement for the cash flows hedged, the respect of the "separately identifiable" requirement for the risk hedged, the prospective and retrospective effectiveness testing. The notional amounts of hedging instruments impacted by the interest rate reform and to which Dexia Crédit Local applied the reliefs introduced by the amendments are presented in note 7.7 of Dexia Credit Local's 2022 annual report.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest rate benchmark reform – Phase 2" on the second phase of the project relating to accounting issues after the entry into force of the new rates. These amendments deal particularly with the derecognition and modification of financial assets and liabilities indexed to the rate references in the scope of the reform and with hedge accounting issues.

The provisions of these amendments are presented in the notes 1.1.6.1, 1.1.6.2.4. and 1.1.10 of Dexia Credit Local's 2022 annual report.

Impacts on Dexia Crédit Local's financial statements

As at 31 December 2022, considering the application of the amendments to IFRS 9 and IAS 39 on interest rate benchmark reform - phase 2, the transition of Dexia Crédit Local's fair value hedge derivative contracts indexed on the GBP LIBOR, JPY LIBOR and CHF LIBOR to new indices via the activation of replacement clauses under the ISDA protocol generated a positive impact on consolidated income of EUR 329 million presented in "Net gains or losses on financial instruments at fair value through profit or loss". This impact is mainly due to derivative contracts indexed on the GBP LIBOR which have been amended in order to incorporate the new SONIA index. The impact on the income statement was generated by the revaluation, based on SONIA's curve, of the fair value of the hedged risk following its redefinition. It corresponds to the reversal of the stock of GBP LIBOR/SONIA accounting inefficiency at the time of the transition. By aligning the fair value hedges to the new benchmark, which is the risk-free rate, the volatility arising from the GBP LIBOR/SONIA risk has therefore been eliminated, along with the associated hedge ineffectiveness.

As of 30 June 2023, and 1st July 2023 (the date of activation of the fallback clause under the ISDA contract) the transition of instruments indexed to the USD LIBOR did not generate a significant impact on Dexia Credit Local's consolidated financial statements.

6. Retirement reform

The law 2023-270 of 14 April 2023 concerning the retirement reform (*"Loi n° 2023-270 du 14 avril 2023 de financement rectificative de la Sécurité Sociale pour 2023"*) has been promulgated and issued in the official journal on 15 April 2023. This law will come into effect on 1 September 2023 and focuses on two main themes: the gradual increase of the legal retirement age (from 62 to 64 years) and the extension of the required contribution period for full pension benefits. Early retirement schemes (for long careers, disability, permanent incapacity, or invalidity) will be maintained and adapted.

In the consolidated financial statements, the changes resulting from the retirement reform constitute a modification of the retirement plan, both for end-of-career indemnity plans and early retirement plans. The impact of this reform on Dexia Crédit Local's financial statements is not significant.

CHANGES IN SCOPE OF CONSOLIDATION

As at 30 June 2022

Nil.

As at 30 June 2023

ALSATRAM and SPV Project 2219 srl are fully consolidated as at 30/06/2023.

SIGNIFICANT ITEMS INCLUDED IN THE INCOME STATEMENT

For the first half of 2023, Dexia Crédit Local posted a net income Group share of EUR -156 million (EUR +162 million in the first half of 2022).

The *net banking income* was negative, at EUR -9 million (EUR +343 million in the first half of 2022). In addition to the carrying costs of assets, this amount included, in particular, impacts associated with the valuation of derivatives, as well as gains from disposals and provisions for legal risk.

The *net interest margin* amounted to EUR +60 million and corresponds to the cost of carrying assets and the bank's transformation result. It is EUR 26 million higher than in the first half of 2022, due to the rise in interest rates, and in particular the steepening of the curve, which is favourable to portfolio carry, the sharp contraction in cash collateral and, to a lesser extent, the improvement in funding costs.

Gains or losses on financial instruments at fair value through profit or loss, at EUR -63 million (EUR +320 million in the first half of 2022) includes a positive evolution of the Funding Value Adjustment (FVA), the Credit Value Adjustment (CVA) and the Debit Valuation Adjustment (DVA), at EUR +18 million (EUR +23 million in the first half of 2022). The change in market parameters during the first half of 2023, in particular the interest rate increase and the tightening of spread EUR/GBP in the first quarter, had an impact of EUR -27 million (EUR -59 million in the first half of 2022) on the fair value hedging inefficiencies, which is associated with the negative evolution (EUR -55 million) in the valuation of derivatives and the WISE securitisation. In the first half of 2022, the item also included an income of EUR +329 million related to the early replacement of the benchmark of fair value hedge derivatives contracts indexed on GBP, JPY and CHF LIBOR in the context of the IBOR reform.

Net gains or losses on derecognition of financial assets at amortised cost amounted to EUR -13 million (EUR -18 million in the first half of 2022), linked to asset disposal programmes.

Net income on other activities at EUR +10 million (EUR +12 million in the first half of 2022) is mainly explained by the evolution of legal procedures.

Costs amounted to EUR -155 million (EUR -171 million in the first half of 2022). Taxes and regulatory contributions amounted to EUR -38 million, and marked a decrease compared to the first half of 2022 (EUR -61 million), due to the decrease in the contribution to the Single Resolution Fund. General operating expenses also remain impacted by significant transformation costs.

The cost of credit risk amounted to EUR -33 million (EUR +6 million in the first half of 2022). A charge to collective provisions, linked to the transition to phase 2 of part of the water distribution sector in the United Kingdom, was partially offset by a positive impact linked to the update of the base case macroeconomic scenario used to assess expected credit losses under IFRS 9, and to the effects of rising interest rates and changes in the portfolio (rating changes, disposals, natural depreciation). Ultimately, this resulted in a net impact of EUR -34 million on the stock of collective provisions for the first half of the year.

Income taxes amounted to EUR +41 million (EUR -16 million in the first half of 2022), including a current tax charge of EUR -16 million, and a deferred tax income of EUR +57 million, which is mainly related to the transfer of a EUR 3.8 billion securities portfolio from the Dublin branch to the Paris head office, at a tax value different from the book value of the transferred assets. In accordance with IAS 12 "Income tax", this temporary difference gives rise to the recognition of deferred tax of EUR +42 million.

OTHER SIGNIFICANT ITEMS OF THE PERIOD

Nil.

POST BALANCE SHEET EVENTS

Request to withdraw banking and investment services authorisations

On 4 July 2023, Dexia Crédit Local submitted a request to the ACPR to withdraw its credit institution licence and investment services authorisations as well as the finance company authorisations of Dexia Flobail and Dexia CLF Régions Bail, in order to continue its orderly resolution as a non-bank from the beginning of 2024, provided that the competent authorities authorise it to do so.

This important step, which is in line with the implementation of the orderly resolution plan validated by the European Commission in December 2012, will, in the long term, greatly simplify Dexia Crédit Local's organisation, in particular associated with regulatory production, and generate substantial savings, without affecting the quality of the monitoring of its portfolio or the Group's ability to carry out its resolution.

More details on Dexia Crédit Local's request to withdraw banking and investment services authorisations is provided in the Management Report of this Half-Year Report.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal programme as required under the resolution plan, Dexia is now focused on managing its residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors and avoiding any systemic risk, in line with the company's mission. In line with the Group's profile and strategy, Dexia Crédit Local's performance is shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

NOTE III. EXCHANGE RATES

EXCHANGE RATES					
	Closing rate			Average rate	
	30/06/2022	31/12/2022	30/06/2023	30/06/2022	30/06/2023
US Dollar	1.0422	1.0679	1.0924	1.0861	1.0828

NOTE IV. FAIR VALUE

Some amounts may not add up due to rounding differences

FAIR VALUE MEASUREMENT AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument. The determination whether or not there is an active market is based on criteria such as volume traded, market liquidity, bid offer spread etc.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia Crédit Local's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorised into one of three fair value hierarchy levels. The following definitions used by Dexia Crédit Local for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly;
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

According to Dexia Crédit Local's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

Valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets measured at fair value through other comprehensive income and valuations for disclosures) can be summarised as follows:

1. Financial instruments measured at fair value (held for trading, non-trading instruments mandatorily measured at fair value through profit or loss, fair value option, measured at fair value through other comprehensive income, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. The Market Risk department regularly monitors the quality of valuations:

- the valuations of derivatives are compared with those provided by a number of counterparties (in particular, via the collateral, the Totem consensus organised by Markit, etc.) and analysed monthly during an ad hoc committee;
- transaction execution levels are used to ensure the quality of the valuation approaches;
- the valuation approaches are regularly reviewed and are subject to validation by a Validation team.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia Crédit Local incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower level committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia Crédit Local's general valuation principals ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Market Risk department based on the information provided by the Front Office and are validated by a Validation team. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. An inventory of the products is regularly produced, with their main features, their materiality and their model status.

For bonds and loans for which no active market exists, Dexia Crédit Local maximises the use of market data.

Dexia Crédit Local uses a discount cash-flow model, based on a credit spread. For bonds, the credit spread is estimated from market data which are directly available from external contributors (for example Bloomberg, Market) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (for example from the same economic sector, rating, currency). For loans, credit spreads are determined by the Asset department based on an expert's opinion based on the characteristics and the complexity of the loans and information on the level of spreads observed by customer managers. These credit spreads are verified by the Market Risk department as part of an independent review.

Concerning the valuation of derivatives, Dexia Crédit Local calculates a market value based on market data quoted at mid-market level. This market value is adjusted, in order to take into account the difference between bid prices and ask prices, by a Bid/Ask reserve on positions that could be reversed by Dexia Crédit Local by anticipation. The calculation of this reserve is mainly based on a sensitivity approach and for certain more complex derivatives on a historical record of exit prices. The market value is also adjusted to take into account credit risks (Credit Valuation Adjustment (CVA) / Debit Valuation Adjustment (DVA)) and funding costs (Funding Valuation Adjustment (FVA)).

A CVA reflects the counterparty's risk of default and a DVA reflects Dexia Crédit Local's own credit risk.

When determining the CVA / DVA, Dexia Crédit Local considers two different markets:

- The market of collateralised derivatives, where there is a periodical exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a margin period of risk.
- The market of uncollateralised derivatives, where there is a risk on the fair value of the derivative at the balance sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Based on the assumptions that market participants would consider when determining the fair value, Dexia Crédit Local uses overnight Risk Free Rate (RFR) discounting curves or RFR curves adjusted to take into account the terms of the collateral remuneration. This approach is applied for all derivatives, regardless if they are collateralised or not.

A Funding Valuation Adjustment (FVA) takes into account the funding costs associated with its uncollateralised derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives.

The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralised derivatives at rates different from overnight rates.

Dexia Crédit Local applies an additional fair value adjustment on derivatives and assets (model reserve), related to the complexity of certain valuation techniques, by using an alternative valuation technique when possible (e.g. Monte Carlo method for the calculation of XVA, etc.) or by using conservative valuation parameters in the case of the use of unobservable data.

Regarding the valuation of assets, Dexia Crédit Local takes into account the prepayment risk associated with these assets.

Dexia Crédit Local will continue to improve its models in future periods and taking into account the market practices.

2. Financial instruments measured at amortised cost (valuations in disclosures on fair value)

These instruments are valued using the same approach as described above for instruments recognised at fair value on the balance sheet.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables compare fair value with carrying amount of financial instruments not measured at fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/2022		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	2,024	2,024	0
Debt securities at amortised cost	26,774	22,578	(4,195)
Interbank loans and advances, at amortised cost	6,881	6,879	(2)
Customer loans and advances, at amortised cost	20,734	18,869	(1,865)
Interbank borrowings and deposits	3,149	3,139	(10)
Customer borrowings and deposits	4,765	4,729	(36)
Debt securities	36,690	36,054	(636)
Subordinated debt	23	23	0

FAIR VALUE OF FINANCIAL INSTRUMENTS

	30/06/2023		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	1,183	1,183	0
Debt securities at amortised cost	26,411	22,634	(3,777)
Interbank loans and advances, at amortised cost	6,645	6,645	0
Customer loans and advances, at amortised cost	19,339	17,799	(1,540)
Interbank borrowings and deposits	2,004	946	(1,058)
Customer borrowings and deposits	3,633	3,645	12
Debt securities	36,439	35,623	(816)
Subordinated debt	24	24	0

ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide an analysis of the fair value of assets and liabilities, based on the degree to which the fair value is observable (level 1 to 3). The fair value measurement is recurring. The non-recurring fair value measurement is not significant for Dexia Crédit Local.

FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/2022			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss		**1,470**	**2,027**	**3,497**
Financial assets held for trading		756	1,491	2,247
- Derivatives		*756*	*1,491*	*2,247*
Financial assets mandatorily at fair value through profit or loss		714	536	1,250
- Debt securities		*5*		*5*
- Loans and advances		*709*	*533*	*1,242*
- Equity instruments			*2*	*2*
Hedging derivatives		**1,700**	**59**	**1,759**
Financial assets at fair value through other comprehensive income		**1,053**	**528**	**1,581**
- Debt securities		*451*		*451*
- Loans and advances		*575*	*524*	*1,099*
- Equity instruments designated at fair value through other comprehensive income		*27*	*4*	*31*
TOTAL		**4,223**	**2,614**	**6,837**

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/2022			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss		**2,025**	**2,101**	**4,126**
- Financial liabilities designated at fair value		*456*		*456*
- Trading derivatives		*1,568*	*2,101*	*3,669*
Hedging derivatives		**4,363**	**3,989**	**8,352**
TOTAL		**6,388**	**6,090**	**12,478**

FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)	30/06/2023			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss		**1,046**	**2,003**	**3,048**
Financial assets held for trading		473	1,511	1,984
- Derivatives		*473*	*1,511*	*1,984*
Financial assets mandatorily at fair value through profit or loss		573	492	1,065
- Debt securities		*5*		*5*
- Loans and advances		*568*	*490*	*1,058*
- Equity instruments			*2*	*2*
Hedging derivatives		**1,220**	**251**	**1,472**
Financial assets at fair value through other comprehensive income	**192**	**667**	**494**	**1,353**
- Debt securities	*192*	*74*	*0*	*266*
- Loans and advances		*566*	*490*	*1,056*
- Equity instruments designated at fair value through other comprehensive income		*27*	*4*	*31*
TOTAL	192	2,933	2,748	5,873

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)	30/06/2023			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss		**1,495**	**1,973**	**3,469**
- Financial liabilities designated at fair value		452		452
- Trading derivatives		1,043	1,973	3,016
Hedging derivatives		**3,906**	**4,032**	**7,938**
TOTAL	0	5,401	6,005	11,407

TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

The tables hereunder present the amounts of financial instruments at fair value, for which fair value measurement is recurring, still in the books at the end of the period and for which the methodology of valuation has been changed between level 1 and level 2. The amounts of transfers between levels are the amounts of fair value of financial instruments at closing date.

	30/06/2022		30/06/2023	
(in EUR million)	From level 1 to level 2	From level 2 to level 1	From level 1 to level 2	From level 2 to level 1
Financial assets at fair value through other comprehensive income				
- Debt securities				*192*
TOTAL FINANCIAL ASSETS	0	0	0	192
TOTAL FINANCIAL LIABILITIES	0	0	0	0

LEVEL 3 RECONCILIATION

	30/06/2022									
(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss	**920**	**(54)**		**1**	**(41)**	**(95)**			**8**	**740**
- Debt securities	*2*									*2*
- Loans and advances	*916*	*(53)*		*1*	*(41)*	*(94)*			*8*	*736*
- Equity instruments	*2*					*(1)*				*2*
Trading derivatives	**1,820**	**(555)**					**78**	**(189)**	**(15)**	**1,139**
Hedging derivatives	**73**	**(9)**								**64**
Financial assets at fair value through other comprehensive income	**703**		**(14)**	**2**	**(53)**	**(25)**	**1**		**4**	**617**
- Loans and advances	698		(14)	2	(53)	(25)	1		4	613
- Equity instruments	5									5
TOTAL FINANCIAL ASSETS	**3,516**	**(617)**	**(14)**	**3**	**(94)**	**(120)**	**78**	**(189)**	**(3)**	**2,560**
Trading derivatives	2,406	(1,015)					188	(252)	9	1,337
Hedging derivatives	10,508	(3,980)	2				5	(10)	(196)	6,329
TOTAL FINANCIAL LIABILITIES	**12,914**	**(4,994)**	**2**				**193**	**(261)**	**(187)**	**7,666**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -3 million in result.On the liabilities side, they amount to EUR - 217 million recognised in result and EUR +30 million recognised in Gains and losses directly recognised in Equity.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

	30/06/2023									
(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss	535	(1)			(31)	(17)	1	(3)	7	492
- Loans and advances	*533*	*(1)*			*(31)*	*(16)*	*1*	*(3)*	*7*	*490*
- Equity instruments	*2*					*(1)*				*2*
Trading derivatives	1,491	(110)					126	(9)	13	1,511
Hedging derivatives	59	188					4			251
Financial assets at fair value through other comprehensive income	529	3	(7)	5	(30)	(9)	1		4	494
- Loans and advances	*524*	*3*	*(7)*	*5*	*(30)*	*(9)*	*1*		*4*	*490*
- Equity instruments	*5*									*4*
TOTAL FINANCIAL ASSETS	2,614	80	(7)	5	(61)	(26)	132	(12)	24	2,749
Trading derivatives	2,101	(99)						(29)		1,973
Hedging derivatives	3,989	(190)	1				199		32	4,032
TOTAL FINANCIAL LIABILITIES	6,090	(289)	1				199	(29)	32	6,005

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR 23 million in result.On the liabilities side, they amount to EUR 36 million recognised in result and EUR -4 million recognised in Gains and losses directly recognised in Equity.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

SENSITIVITY OF THE FAIR VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

Dexia Crédit Local measures the fair value of the level 3 financial instruments using some unobservable inputs. As this unobservable character injects a certain degree of uncertainty into the valuation, an analysis of the fair value sensitivity of Level 3 instruments to alternative assumptions was performed as of 30/06/2023. The sensitivity analysis has been conducted using reasonably possible inputs or applying assumptions in line with the valuation adjustment policies for the financial instruments in question.

The tables hereunder summarise the financial assets and liabilities classified as Level 3 for which alternative assumptions in one or more unobservable inputs would lead to a significant variation in fair value.

30/06/2022

Financial instruments	Non observables inputs	Alternative assumptions		Impacts on fair value measurement	
		Worst case	Best case	Worst case (in EUR million)	Best case (in EUR million)
Bonds	Credit spread	+ / - one standard deviation		(0.0025)	0.0025
Loans	Credit spread	605 bps	80 bps	(159.1)	94.3
CDS	Credit spread	+ / - one standard deviation		(21.7)	13.8
Derivatives	Interest Rate	+ / - one standard deviation		(2.5)	2.5
	Spread of CBS	+ / - one standard deviation		(5.0)	5.0
	Inflation	+ / - one standard deviation		(0.2)	0.2
TOTAL				**(188.4)**	**115.7**

30/06/2023

Financial instruments	Non observables inputs	Alternative assumptions		Impacts on fair value measurement	
		Worst case	Best case	Worst case (in EUR million)	Best case (in EUR million)
Bonds	Credit spread	+ / - one standard deviation		-	-
Loans	Credit spread	568 bps	95 bps	(93.9)	49.0
CDS	Credit spread	+ / - one standard deviation		(35.7)	2.6
Derivatives	Interest Rate	+ / - one standard deviation		(0.8)	0.8
	Spread of CBS	+ / - one standard deviation		(1.9)	1.9
	Inflation	+ / - one standard deviation		(0.9)	0.9
TOTAL				**(133.2)**	**55.2**

The unobservable input in the valuation of credit default swaps (CDS) and bonds classified in level 3 is the credit spread. The alternative assumptions used to measure the fair value sensitivity of those financial instruments are based on the dispersion of the spreads used for their valorisation, and consist of applying a shock of +/- one standard deviation to the credit spreads. The sensitivity of the CDS' fair value is estimated to range from EUR -35.7 million EUR in the adverse scenario to EUR +2.6 million in the favorable scenario. As of 30/06/2022, the sensitivity of the CDS' fair value was estimated to range from EUR -21.7 million to EUR +13.8 million.

It's worth noting that as of 30/06/2023, there is no bond fair valued and classified in Level 3 within Dexia Crédit Local's bonds portfolios. As of 30/06/2022, the sensitivity of such bonds' fair value was estimated to range from -2500 EUR to +2500 EUR.

For the loans classified in level 3, the alternative assumptions consist in using the minimum and maximum spreads observed when valuating similar assets by Dexia Crédit Local. The impact of those alternative assumptions is estimated to EUR -93.9 million for the worst-case scenario and to EUR +49 million for the best-case scenario (vs. -159.1 million EUR and +94.3 million EUR respectively, as of 30/06/2022).

For level 3 derivatives, the unobservable market inputs are mainly the interest rate, the inflation and the currency basis spreads (CBS). The alternative assumptions used by Dexia Crédit Local are based on the dispersion of available market data by risk factor and pillar. The sensitivity of each derivative is then determined for a variation of +/- one standard deviation in these inputs. The total impact on the fair value is estimated to range between EUR -3.6 million for the worst-case scenario and EUR +3.6 million for the best-case scenario (vs. -7.6 million EUR and +7.6 million EUR respectively, as of 30/06/2022).

NOTE V. RELATED PARTY TRANSACTIONS

We refer to the note 4.4. Related party transactions of the Dexia Crédit Local’s annual report 2022.

CERTIFICATE FROM THE RESPONSIBLE PERSON

I the undersigned, Pierre Crevits, Chief Executive Officer of Dexia Crédit Local,

hereby declare that, to the best of my knowledge, the condensed consolidated financial statements for the past half year have been prepared in accordance with all applicable accounting standards and provide a true and fair view of the assets, financial position and earnings of all the companies included in the consolidation, and that the interim business report presents an accurate account of all significant events that have taken place during the first six months of the year and their impact on the financial statements, and of all the main risks and uncertainties concerning the remaining six months of the financial year.

The half-year financial information presented in this report is covered by an audit report prepared by the statutory auditors. Based on their review, nothing has come to the statutory auditors' attention that causes them to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

La Défense, September 20th, 2023

Pierre Crevits
Chief Executive Officer

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

FOR THE PERIOD FROM JANUARY 1ST, 2023 TO JUNE 30TH, 2023

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2-III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Dexia Crédit Local, for the period from January 1st, 2023 to June 30th, 2023,
- the verification of the information presented in the half-yearly management report,

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the note I.1 to the condensed half-yearly consolidated financial statements, indicating that these financial statements have been prepared on a going concern basis, in accordance with IAS 1.

Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Paris La Défense, September 20th, 2023,

The statutory auditors
French original signed by

Mazars	Deloitte & Associés
Laurence Karagulian	Charlotte Vandeputte
Franck Boyer	

Dexia Crédit Local
1, passerelle des Reflets
Tour CBX – La Défense 2
92913 La Défense Cedex, France
Tel.: +33 1 70 37 55 80
www.dexia-creditlocal.fr

French public limited company (société anonyme) with capital of EUR 279,213,332
Nanterre trade register 351 804 042
VAT: FR 49 351 804 042

Dexia Crédit Local's Financial Report H1 2023 has been published
by the Communication department.
This report is also available in French. In case of discrepancy between the English and the French versions, the text of the French version shall prevail.