Dexia

Half-year results 2020

10 September 2020 – Presentation to the press

DEXIA

Half-year results 2020

Operational continuity fully assured against the background of the Covid-19 crisis

- **Priority to protecting teams**
  - **Strategic and operational crisis units** rapidly activated
  - Swift and efficient switch to **100% teleworking**
  - **Continuity of all activities** within a reinforced security framework
  - **Exceptional commitment** of staff members
  - Regular follow-up of **staff well-being**

- **Sound resilience of funding**
  - Refinancing assured **with no recourse to central bank facilities**
  - **Liquidity reserve** of EUR 18 billion as at the end of June 2020
  - Refinancing carried out on the **secured funding market** at the peak of the crisis
  - Resumption of the **long-term refinancing programme**, enabling **90% execution of the annual funding programme as at 30 June 2020**

- **Contained deterioration of credit risk**
  - **Update of the macroeconomic scenarios** used for the assessment of expected credit losses under IFRS 9
  - **Review of sensitive sectors** and revision of related provisioning
  - Limited impact considering the **limited exposure to sensitive sectors and the good quality of the credit portfolio**

Half-year results 2020

Operational continuity fully assured against the background of the Covid-19 crisis

- **Impacts on Group's results**
  - Accounting volatility items highly impacted by **volatility on the financial markets**
  - **Ongoing asset sales, albeit in more reduced volumes in the second quarter and notable variation in fair value of assets** reclassified within the new asset disposal programme
  - **Increase of fair value items on the balance sheet and net cash collateral** posted to counterparties, consecutive to decreasing interests rates
- **Excess capital, underpinned by easing measures from central banks**
  - **Prudential capital impacted by the effects of the crisis associated with the Covid-19 pandemic,** notably the negative net income for the half-year and adjustments taken into account in regulatory capital within the context of the Prudent Valuation Adjustment (PVA)
  - **Positive impact of temporary easing measures** granted by central banks
  - **Stability of the regulatory excess capital** compared to 31 December 2019, measured against the minimum solvency ratio required within the framework of temporary easing measures granted by the ECB

"*Since the acceleration of the Covid-19 pandemic, our absolute priority has been to ensure the safety of our highly mobilised teams. In less than 10 days, the organisation was entirely switched to teleworking, enabling operational continuity to be maintained. Liquidity, historically the group's Achilles' heel, demonstrated good resilience, and there was no recourse to central bank facilities. Nevertheless, the result is strongly impacted by the crisis we are enduring, with half of the net loss for the half year attributable to it. The impact on the cost of risk remains contained, however, and attests to the intrinsic quality of the Group's credit portfolio and its lower exposure to sectors heavily affected by the crisis. Finally, Dexia continues to post solvency ratios which, although declining, are high and in excess of regulatory requirements.*"

Pierre Crevits, *CEO*

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Continuation of the process of Group resolution

Simplification of the international network

- **Transformation of Dexia Crédit Local New York branch**
  - **Transfer of the entire residual balance sheet** to Dexia Crédit Local in Paris in April 2020
  - **Transformation of the entity into a representative office and withdrawal of the banking licence** planned for the second half-year 2020
- **Dexia Crediop**, subsidiary of Dexia Crédit Local in Italy
  - **Acquisition of the remaining shares** of the minority shareholders Banco BPM and BPER Banca SpA in September 2020
  - **Study of the different strategic options** concerning the future of the subsidiary

Asset sale programme

- **Asset portfolios decreased by EUR -5.2 billion** as at 30 June 2020
  - EUR 3.1 billion of assets sold and early redemption
  - EUR 2 billion of natural amortisation
  - Sales concentrated on public sector and project finance and corporate assets

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Impact of the strategic decisions associated with the simplification of the Group

Reclassification of an asset portfolio at fair value

- Following the implementation of a new **asset disposal programme** approved by the Board of Directors in July 2019
- Aiming at **reducing Group's liquidity risk** and its exposure to certain targeted counterparties while enabling it to **preserve its solvency**
- **Change of business model,** within the IFRS9 accounting standard, driving a reclassification of assets booked at “amortised cost” to “fair value through P&L” or fair value through OCI” as of 1 January 2020
- **Impact of EUR -196 million on equity** of which EUR -104 million via income statement and EUR -92 million via the OCI reserve

Move to the standard method for the valuation of credit risk-weighted assets

- Moving from the advanced method to the standard method for the **valuation of credit risk-weighted assets**
- Move to the standard method enables **a simplification of the bank's operational processes** within a context of management in run-off
- Increase of total credit risk-weighted assets (EUR +2 billion) as at 30 June 2020

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Adaptation of the terms of supervision of the Group and evolution of governance

Adaptation of the terms of prudential supervision

- Since 1July 2020, **move** from a supervision as a *Significant Institution (SI)* **to a supervision as a Less Significant Institution (LSI) within the framework of the Single Supervisory Mechanism (SSM)**
- Dexia Group under **the supervision of the Autorité de Contrôle Prudentiel et de Résolution (ACPR)** as the consolidating supervisor and the **National Bank of Belgium (BNB)**

Appointment of Pierre Crevits

- Approved by the Dexia's Annual Shareholders' Meeting and the Board of Directors on 20 May 2020
- Chief Executive Officer and Chairman of the Management Board of Dexia and Dexia Crédit Local
- Executive director of Dexia and Dexia Crédit Local
- Mandate: 2020-2024

“ I would particularly like to pay tribute to the considerable work accomplished by the management and the teams during this half-year, which has been deeply marked by a crisis of exceptional proportions. The very strong mobilisation of everyone has enabled the Group fully to ensure operational continuity. The rating agencies, Fitch, Moody's and S&P, have also reaffirmed, with a stable outlook, the ratings of Dexia Crédit Local and the debt guaranteed by the States. I am confident in the Group's ability, with all the agility that characterises it, to continue implementation of its orderly resolution, with the support of the State shareholders. ”

Gilles Denoyel, Chairman of the Dexia Board of Directors

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Net income highly impacted by the consequences of the Covid-19 pandemic

Net income Group share: EUR -759 million

Recurring income

EUR -380 m

- **Net banking income** at EUR -93 million, reflecting an increased transformation cost and a net margin affected by persisting **low interest rates**
- **Cost of risk**, at EUR -95 million, mainly comprising collective provisions associated with the updating of macroeconomic scenarios used for the valuation of expected credit losses and the review of sensitive sectors

Accounting volatility

EUR -293 m

- **Strongly negative impact on hedging inefficiencies** (EUR -196 million), particularly due to an evolution of the BOR/OIS and EURIBOR indices against the LIBOR Sterling
- **Change in value of assets classified at fair value through profit or loss** (EUR -125 million)
- Charge of EUR -85 million as the ***Funding Value Adjustment*** (FVA), which represents the cost of financing non-collateralised derivatives

Non-recurring elements

EUR -86 m

- EUR -104 million associated with the **reclassification of targeted assets within the framework of the asset disposal programme** from “amortised cost” to “fair value through profit or loss”
- EUR -62 m of losses linked to **active balance sheet management**
- **Net gain on other assets** associated with the recycling via P/L of a currency translation adjustment carried by the equity of Dexia Crédit Local New York (EUR +101 million)

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Key figures

Balance sheet

- **Decrease in interest rates** due to the Covid-19 crisis
- **Increase in fair value items and cash collateral, neutralising the impact** of asset disposals and natural depreciation of commercial portfolios

Solvency

- Prudential equity impacted by the effects of the **crisis associated with the pandemic**
- **Negative impact on net income** (EUR -759 million)
- **Additional value adjustments** within the context of prudent management*** (EUR -264 million)
- **Stability of regulatory excess capital**, relative to the minimum ratio required under the ECB's temporary easing measures

Guaranteed debt

EUR 30.3 bn

EUR 26.9 bn

EUR 1.8 bn

** Total Capital ratio ** as at 31/12/2019 *** PVA Prudent Value Adjustment*

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