Press release DEXIA

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Dexia Group consolidated results 2019[1]

In 2019, acceleration of the resolution leading to a reduction of the balance sheet by 24% and the simplification of the Group structure

- *Balance sheet total down 24% over the year, to EUR 120.3 billion as at 31 December 2019: sharp contraction of commercial portfolios from EUR 80 billion to EUR 49 billion*
- *Sale of Dexia Kommunalbank Deutschland, closure of the Dexia Crédit Local branch in Madrid and launch of the transformation of the Dexia Crédit Local branch in New York into a representative office*
- *Implementation of two new asset sales programmes leading to an adaptation of the IFRS business model*

Dexia's Total Capital Ratio at 27.2% at the end of December 2019, against 27.3% as at 31 December 2018

Net income of EUR -898 million in 2019 reflecting measures to simplify the Group and to reduce risks

- *Net recurring income of EUR -28 million: net interest margin under pressure mainly due to historically low interest rates, severe impact of regulatory taxes and contributions and positive contribution of the cost of risk*
- *Accounting volatility items at EUR -15 million*
- *Non-recurring items (EUR -855 million) mainly related to the asset portfolio reduction strategy (EUR -403 million) and to the adaptation of the business model (EUR -314 million)*

Validation by the European Commission of the prolongation of Dexia's senior debt State guarantee beyond 2021

Delisting of the Dexia shares from trading on Euronext Brussels at the end of November 2019

Bart Bronselaer, *ad interim* CEO of Dexia, stated: *"The year 2019 saw a significant acceleration of the Group's transformation, which led to a 24% reduction in total assets to EUR 120 billion and saw asset portfolios fall below EUR 50 billion. The achievements are remarkable and the fruit of tremendous teamwork: we finalised the sale of our German subsidiary Dexia Kommunalbank Deutschland, closed our Madrid branch and began the transformation of our New York branch. We also continued and accelerated the sale of our commercial portfolios, which resulted in the disposal of EUR 14 billion of assets against a very favourable market background. The negative result for the year reflects these measures to simplify and reduce the Group's risks. Solvency ratios were kept above regulatory requirements, the negative impact of the result being offset by a sharp decline in risk-weighted assets, notably due to the acceleration of asset disposals. In an environment that remains demanding, I would like to thank the Group's staff members for their unstinting commitment to the Group's resolution."*

Gilles Denoyel, Chairman on the Board of Directors of Dexia, said: "*During the year, we accelerated our progress following our roadmap, anticipating the implementation of several strategic objectives. All stakeholders were actively engaged in the Group's orderly resolution. Thus, in May and July, the Board of Directors validated two ambitious asset disposal programmes, the implementation of which is already well underway. The Belgian and French States reaffirmed their support for the Group by finalising the procedures for the renewal of the funding guarantee beyond 31 December 2021. In September, the European Commission confirmed its agreement to the prolongation of this guarantee. Finally, an Extraordinary Shareholders' Meeting approved the delisting of the Dexia share from Euronext Brussels, which has been effective since the end of November, thus enabling the Group to continue its simplification. Once again I would like to pay tribute to the important work accomplished by the management and the teams during this year, under the leadership of Wouter Devriendt and then Bart Bronselaer."*

[1] *The data in this Press Release are not audited.*

Introduction

Since its entry into orderly resolution, Dexia has been implementing a proactive strategy of reducing business and the Group's balance sheet through the sale of its commercial franchises and asset portfolios. The year 2019 represents an important stage in this dynamic, in particular because of the conclusion of the sale of Dexia Kommunalbank Deutschland (DKD), Dexia's subsidiary in Germany, the closure of DCL Madrid and the launch of the project to transform the US branch of Dexia Crédit Local (DCL New York) into a representative office. In addition, in May and July, the Group took structuring decisions on two new asset disposal programmes which contributed to a sharp reduction of the bank's balance sheet and liquidity requirements without deteriorating its solvency ratios.

The Group took advantage of favourable market conditions, particularly in the United States, to implement this strategy, which will continue into 2020.

The Board of Directors of Dexia SA met on 10 March 2020 and approved the income statement and balance sheet of Dexia SA for the financial year 2019. The Dexia Group annual report will be published on 30 April 2020 on the website *www.dexia.com*.

Finally, Dexia is closely following the evolution of the situation regarding the spread of the Covid-19 coronavirus throughout the world and particularly in Europe. The Group's Management Board has activated the operational crisis unit in order to protect its teams, to ensure the operational continuity of the company and to manage all impacts related to this situation.

1. Significant events and transactions

- *Dynamic balance sheet and risk reduction strategy*
- *Sale of DKD and simplification of the international network: closure of DCL Madrid and launch of the transformation of DCL New York into a representative office.*
- *Validation by the European Commission of the prolongation of Dexia's senior debt State guarantee beyond 31 December 2021*
- *Withdrawal from the trading of Dexia shares on Euronext Brussels at the end of November 2019*

A. Reduction of the balance sheet and simplification of the Group structure

Reduction of the asset portfolios

At the end of December 2019, asset portfolios were down EUR 31 billion compared to the end of December 2018, of which EUR 14 billion related to the sale of DKD, EUR 14 billion to disposals and early redemptions and EUR 2 billion to natural amortisation. The share of assets denominated in non-euro currencies is significant and amounts to 76% of total sales for the year.

Within the framework of the DCL New York transformation project and in order to facilitate the transfer of the entity's balance sheet to Dexia Crédit Local's head office in Paris, the Board of Directors decided to dispose of a significant portfolio of assets held by that branch (cf. section "Simplification of the Group's international scope").

Furthermore, on 19 July 2019, the Board of Directors validated the implementation of a second asset sale programme, relating to nominal outstanding of EUR 10.4 billion. This programme takes place against a background of changing and strengthening regulatory requirements applicable to the Group and reflects a prudent approach to risk management. In particular, it targets sales, which will enable Dexia to reduce its exposure to currency liquidity risk, while preserving its solvency situation.

These two strategic decisions taken by the Board of Directors led to a change in the business model applicable to the selected portfolios. As a consequence, the assets concerned, which had been classified at amortised cost on first-time application of IFRS 9, were reclassified at fair value through profit or loss (FVP&L) or at fair value through equity (FVOCI) on 1 July 2019 for the asset portfolio recorded in DCL New York's balance sheet and on 1 January 2020 for the second portfolio.

During the year, in view of favourable market dynamics, Dexia sold EUR 7.7 billion of US assets. Assets sold include the remaining portfolio of ABS on student loans (EUR 1.1 billion) as well as public sector assets (EUR 5.1 billion). The entirety of the Group's exposure to the Chicago Board of Education was thus bought back or sold.

The Group also sold Japanese assets (EUR 1.4 billion), loans to French local authorities (EUR 0.6 billion) and loans to UK social housing (EUR 0.6 billion).

The planned disposals under these two programmes will ultimately reduce Dexia's risk exposure and balance sheet sensitivity, although in the meantime the reclassification of these assets at fair value exposes Dexia more than ever to changes in macroeconomic conditions. Moreover, the Board of Directors confirmed its intention to hold Dexia portfolios of residual assets until their maturity, portfolios to which a “Held to Collect” IFRS model will continue to apply.

Simplification of the Group’s international scope

Following the restructuring undertaken in 2016 and the transfer of all assets to the head office of Dexia Crédit Local in Paris in 2018, i.e. 434 loans, Dexia proceeded with the transfer of the residual balance sheet (EUR 35 million, of which EUR 20 million of deferred tax assets) and the definitive closure of its Madrid branch on 29 March 2019, without impact on the Group's consolidated financial statements.

On 2 May 2019, after obtaining all the regulatory approvals, Dexia also concluded the sale of DKD to Helaba for a total amount of EUR 352 million, thus reducing its balance sheet total by EUR 24.4 billion. The net impact of the sale on Dexia's income statement, booked as at 30 June 2019, amounts to EUR -115 million. The impact on the Group's solvency ratios is slightly positive and amounts to 15 basis points.

Dexia Crédit Local has terminated the standby letters granted to DKD, with effect from the closing date of the sale. DKD now operates under the name of KOFIBA-Kommunalfinanzierungsbank GmbH.

Finally, after a study phase conducted in 2018, Dexia Crédit Local started, at the beginning of 2019, to implement the transformation of its New York branch. This project, which is part of the process of reducing the Group's geographic footprint and operational simplification, has three components:

- The transfer to the Dexia Crédit Local head office of the asset portfolios, funding and derivatives linked to these operations. This transfer was successfully completed in July and related to nominal assets of EUR 0.9 billion, consisting of 50 loans and one security. In October 2019 151 securities representing nominal outstanding of EUR 4.5 billion were transferred to Dexia Crédit Local, the operational risk having been reduced by the sales of US assets initiated in the second half of 2019;
- The centralisation of management processes in Paris and Dublin ;
- The transformation, during the first half of 2020, of Dexia Crédit Local New York into a representative office. EUR 13 million of restructuring provisions were booked in 2019 to cover the costs related to this in-depth transformation of the Dexia Group's US activities.

B. Increase of the capital of Dexia Crediop

The end of the specific approach granted by the European Central Bank results in a progressive erosion of the prudential equity of Dexia Crediop, the Italian subsidiary of Dexia Crédit Local, due in particular to the obligation to respect the Liquidity Coverage Ratio (LCR). In order to deal with this and to ensure compliance with the bank's solvency ratios, an Extraordinary Shareholders' Meeting of Dexia Crediop was held on 22 November 2019 and approved a capital increase of EUR 120 million consisting of the issue of 12 billion new ordinary shares without nominal value, at a subscription price per share of EUR 0.01.

As the minority shareholders of Dexia Crediop, Banco BPM SpA and BPER Banca SpA, did not wish to participate in this capital increase, Dexia Crédit Local subscribed to the entire amount, thus increasing its stake in Dexia Crediop from 70% to 99.57%.

The impact of this capital increase on the prudential equity of Dexia Crédit Local is negligible. On the other hand, taking into account the prospects for the future profitability of Dexia Crediop, the value of the Dexia Crédit Local holding in this entity was brought to zero in the statutory accounts of Dexia Crédit Local at the end of December 2019.

C. Evolution of the Group's governance

On 25 February 2019, Dexia's Board of Directors appointed Patrick Renouvin to succeed Aline Bec as Chief Operating Officer of Dexia as from 1 May 2019.

On 4 February 2019, the Dexia Board of Directors appointed Claire Cheremetinski as a non-executive director of Dexia, replacing Lucie Muniesa.

On 21 March 2019, the Dexia Board of Directors appointed Tamar Joulia-Paris as a non-executive director of Dexia, replacing Martine De Rouck.

On 8 October 2019, the Dexia Board of Directors appointed Bart Bronselaer as Chief Executive Officer and Chairman of the Management Board of Dexia *ad interim* as from 15 November 2019, replacing Wouter Devriendt, who had expressed his wish to leave the Dexia Group in order to pursue his international career.

As the governance of Dexia and Dexia Crédit Local is integrated, Bart Bronselaer is also Chief Executive Officer *ad interim* of Dexia Crédit Local, Patrick Renouvin is also Chief Operating Officer and Director of Operations of Dexia Crédit Local. Claire Cheremetinski and Tamar Joulia-Paris are also directors of Dexia Crédit Local.

In the coming days, Dexia should be informed of the Belgian Government's proposal to appoint Mr Pierre Crevits as Chief Executive Officer and Chairman of the Management Board of Dexia, after he has had the opportunity to meet the Finance Ministers of the two countries or their representatives. The Appointments Committee and the Boards of Directors of Dexia SA and Dexia Crédit Local will meet to examine this proposed appointment, which would be subject to the "fit and proper" process followed by the European Central Bank and approval by the Shareholders' Meeting on 20 May 2020.

D. Approval by the European Commission of the prolongation of the Dexia's senior debt State guarantee

On 27 September 2019, the European Commission confirmed[2] its approval of the prolongation by Belgium and France of Dexia's senior debt State guarantee granted to Dexia Crédit Local for a new period of 10 years as from 1 January 2022.

The funding guarantee will retain most of its current characteristics and will therefore remain joint, unconditional, irrevocable and on first demand. However, the following changes have been made to the scheme:

- The new guarantee ceiling will be EUR 75 billion, which, given the sharp reduction in the Group's funding requirements, represents a comfortable level for achieving its resolution;
- The Luxembourg State will no longer take part in the guarantee mechanism. Its 3% share will be divided between the Belgian and French States in proportion to their current respective shares of 51.41% and 45.59%, i.e. 53% for Belgium and 47% for France.
- The remuneration of the guarantee will remain at 5 basis points per annum on the guaranteed outstanding amounts, payable monthly. This commission may be increased by a conditional deferred commission which will be payable in the event of liquidation of the Group and provided that Dexia Crédit Local no longer has a banking licence on that date. The pricing of this commission will be progressive as of 2022 and will reach an annual rate of 135 basis points on outstanding amounts in 2027. This guarantee remuneration structure allows the full implementation of the principle of burden sharing which underlies the orderly resolution of Dexia, the deferred contingent commission being subordinated to the rights of the preferential, unsecured or subordinated creditors at a “Tier 2” level or higher of Dexia Crédit Local but taking precedence over the hybrid “Tier 1” securities of Dexia Crédit Local (ISIN FR0010251421) and Dexia SA (ISIN XS0273230572).

To the extent that Dexia anticipates negative net liquidation proceeds from Dexia Crédit Local after payment to the States of the deferred part of the guarantee commission, the book value of the Dexia Crédit Local holding in the Dexia SA company financial statements of EUR 2.25 billion as at 31 December 2018 has been reduced to zero as at 31 December 2019.

The Belgian and French States will have to validate the Dexia funding guarantee in accordance with the procedures applicable in each State.

Dexia Crédit Local continues to fund itself under the guarantee scheme currently in force until 31 December 2021 and the debt already issued or to be issued before that date is covered until its contractual maturity by the guarantee agreement of 24 January 2013.

E. Delisting of the Dexia shares from trading on Euronext Brussels

The Extraordinary Shareholders' Meeting of Dexia SA held on 16 October 2019 approved the proposal to withdraw Dexia shares from trading on the regulated market of Euronext Brussels. The delisting has been effective since 2 December 2019.

The Extraordinary Shareholders' Meeting of 16 October 2019 also decided, in order to rationalise and simplify the administrative management of the company, to abolish the dematerialised form of the shares. As a consequence, since 2 December 2019, Dexia's capital has been represented solely by registered shares.

Shareholders who hold dematerialised Dexia shares must be registered in the Dexia share register in order to be able to continue to exercise their rights[3]. They have the possibility to sell their registered shares over the counter or on the Euronext Expert Market.

To recall, since the entry of the Group into orderly resolution, Dexia shares have had no prospect of being allocated a dividend or liquidation bonus. The resolution plan, validated in December 2012 by the European Commission, is in fact underpinned by a principle of burden sharing which requires that any improvement in Dexia's financial situation benefits only the State shareholders and guarantors of the Group's liquidity. This principle is materialised in particular via the profit shares containing Contingent Liquidation Rights (CLR) held

[3] https://www.dexia.com/en/about-the-dexia-group/delisting-of-dexia-shares

by the Belgian and French States. These CLRs do not represent the capital, but confer on the States the right to benefit from a preferential distribution, exercised once only at the time of the liquidation of the company[4].

Dexia considers that the delisting is in the interest of the company, given the costs that this listing generates and the reduced liquidity offered to the shareholders.

[4] *Cf. Press Release issued by Dexia on 7 December 2017, available at www.dexia.com*

2. Annual results 2019

A – *Presentation of the Dexia consolidated financial statements as at 31 December 2019*

Going concern

The consolidated financial statements of Dexia as at 31 December 2019 have been prepared on a going concern basis in accordance with IAS 1 § 25 and 26. This makes a number of assumptions made in the business plan underlying the Dexia Group's resolution, which are developed in the Appendix to this Press Release.

B – Dexia Group consolidated results 2019

- *Net income Group share of EUR -898 million: significant impact of non-recurring items (EUR -855 million) linked to asset disposals (EUR -403 million), the change in business model (EUR -314 million) and the completion of the sale of DKD (EUR -115 million)*
- *Accounting volatility items at EUR -15 million*
- *Recurring net income (EUR -28 million) mainly impacted by regulatory taxes and contributions (EUR -62 million) and the persistence of low rates, offset by a strongly positive cost of risk (EUR +265 million)*

In order to facilitate the reading of its results and to measure their dynamics during the year, Dexia breaks down its results into three distinct analytical segments.

Analytical presentation of the Dexia Group results 2019 (data not audited)

EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**-19**	**-15**	**-711**	**-745**
General operating charges and allocations to amortisations and depreciations of intangible and tangible fixed assets	-347	0	-33	-380
Gross operating income	**-366**	**-15**	**-744**	**-1.125**
Cost of credit risk	265	0	0	265
Net gains or losses on other assets	0	0	0	0
Pre-tax income	**-101**	**-15**	**-744**	**-860**
Tax on profits	33	0	0	33
Income net of tax on abandoned activities	0	0	-111	-111
Net income	**-68**	**-15**	**-855**	**-938**
Minority interests	-40	0	0	-40
Net income Group share	**-28**	**-15**	**-855**	**-898**

Net income Group share of EUR -898 million for the year 2019 is composed of the following elements:

- EUR -28 million is attributable to recurring elements[5];
- EUR -15 million is associated with accounting volatility elements[6];
- EUR -855 million is generated by non-recurring elements[7].

b.1 – Recurring elements

Recurring elements (non-audited figures)		
EUR million	**2018**	**2019**
Net banking income	***45***	***-19***
o/w Net interest margin	*50*	*-12*
o/w Other	*-5*	*-7*
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	***-369***	***-347***
o/w Expenses excl. operational taxes	*-280*	*-285*
o/w Operational taxes	*-88*	*-62*
Gross operating income	***-323***	***-366***
Cost of risk	*128*	*265*
Pre-tax income	***-195***	***-101***
Income tax	*-40*	*33*
Net income	***-236***	***-68***
Minority interests	*-26*	*-40*
Net income Group share	***-210***	***-28***

Net income Group share from recurring items amounted to EUR -28 million as at 31 December 2019, compared to EUR -210 million at the end of December 2018.

Over the year, net banking income was negative at EUR -19 million, reflecting the net interest margin, which corresponds to the cost of carry of the assets as well as the transformation result of the Group. The net interest margin decreased, principally due to the persistence of historically low interest rates.

[5] *Recurring elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.*
[6] *Accounting volatility elements associated with asset and liability fair value adjustments in particular including the impacts of the IFRS 13 accounting standard (CVA, DVA, FVA) ,the valuation of OTC derivatives, the various impacts relating to financial instruments booked at fair value through profit and loss (in particular non-SPPI assets) and the variation of value of derivatives hedging the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds).*
[7] *Non-recurring elements, in particular gains and losses on the disposal of holdings and instruments booked at amortised cost or at fair value through equity, costs and gains associated with litigation, cost and indemnities induced by the exit of projects or contracts, restructuring costs or exceptional operational.*

Costs amounted to EUR -347 million compared to EUR -369 million as at 31 December 2018. Taxes and regulatory contributions of EUR -62 million were down, in line with the reduction of the Group's size and the improvement of its risk profile, while general operating charges were impacted by transformation costs, notably related to the renewal of the IT infrastructure.

The cost of risk amounted to EUR +265 million, mainly explained by EUR +95 million reversals of provisions, following the sale of provisioned exposures, notably the provision on the Chicago Board of Education exposure, and by a EUR +150 million change in the estimate of provisioning. Indeed, following the recommendations made by the European Central Bank within the framework of the on-site inspection on credit risk, the Group applied the methodology recommended by the European Banking Authority (EBA) for the identification of the SICR (Significant Increase in Credit Risk), which resulted in particular in a revaluation of the provision on Portugal from stage 2 to stage 1. This reassessment is confirmed by the review of the internal rating of Portugal carried out by Dexia at the beginning of 2020.

Globally, the credit quality of the portfolio remains high and the coverage rate[8] is 22.2% as at 31 December 2019.

The tax amount was positive at EUR +33 million, benefiting from a EUR +22 million favourable impact in 4Q 2019, linked to the positive resolution of a tax dispute.

b.2 – Accounting volatility elements

Accounting volatility elements generated a negative impact of EUR -15 million on the 2019 result.

The variation of market parameters during the year had a strong negative impact on hedging inefficiencies (EUR -209 million). In particular, the valuation of derivatives was marked by the unfavourable evolution of the BOR versus OIS margin in GBP. This negative impact was offset by a favourable evolution of the Funding Value Adjustment (FVA), Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA), for a total amount of EUR +138 million.

b.3 – Non-recurring elements

Non-recurring elements booked over the year amounted to EUR -855 million and in particular included:

- Losses related to asset disposals and, to a lesser extent, liability redemptions amounting to EUR -403 million;
- EUR -314 million impact related to the reclassification of US assets from amortised cost to fair value through profit or loss (FVP&L), within the context of the change of the business model (cf. section “Reduction of the asset portfolios”);
- The net impact resulting from the sale of DKD (EUR -115 million). This amount includes the net capital loss on disposal as well as the net result of DKD as at 30 June 2019 (EUR -9.2 million).

[8] *Ratio between specific provisions (phase 3) and depreciated assets.*

3. Evolution of the Group's balance sheet, solvency and liquidity situation

A – Balance sheet and solvency

- *24% reduction in the size of the balance sheet compared to the end of 2018, linked to the sale of DKD and the acceleration of asset disposals over the year. EUR 31 billion decrease of the commercial asset portfolio to EUR 49 billion.*
- *Dexia's Total Capital Ratio at 27.2% at the end of December 2019, against 27.3% as at 31 December 2018.*

a – Annual evolution of the balance sheet

As at 31 December 2019, the Group's consolidated balance sheet total amounted to EUR 120.3 billion, down sharply by EUR -38.5 billion compared to 31 December 2018, mainly as a result of the dynamic policy of reducing asset portfolios.

The asset portfolio now stands at EUR 49 billion, composed in equal parts of bonds and loans, mainly denominated in EUR. It is mainly focused on the Italian sovereign and the European public sector (Italy, France, Spain, Portugal), with a residual concentration of UK and Japanese assets.

On the assets side and at a constant exchange rate, the decrease is almost entirely explained by the deconsolidation of DKD (EUR -24.4 billion) and the reduction of the asset portfolios (EUR -16 billion). Over the year, the impact of the macroeconomic environment (fair value items and collateral cash posted) was limited (EUR +1.2 billion).

On the liabilities side, at a constant exchange rate, in addition to the impact of the DKD deconsolidation, the evolution of the balance sheet is principally reflected by the reduction of the stock of market funding (EUR -17 billion), slightly offset by an increase of the fair value of liabilities and derivatives and of the amount of collateral cash received (EUR +2.5 billion).

The impact of foreign exchange variations on the balance-sheet evolution is negligible.

b - Solvency

As at 31 December 2019, Dexia Group's Common Equity Tier 1 capital amounted to EUR 7.3 billion, against EUR 8.1 billion as at 31 December 2018. This is burdened by the negative net income for the year (EUR -898 million).

In line with the requirements of the European Central Bank, two items are deducted from regulatory capital for a total of EUR -138 million:

- The theoretical amount of loss corresponding to the remediation of the non-compliance with the large exposures ratio, which amounts to EUR -89 million[9];
- The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, which amounts to EUR -49 million.

Furthermore, following the ECB's on-site inspection of credit risk in 2018, the ECB issued a number of recommendations. As a consequence, Dexia deducted from its prudential capital an amount of EUR -80 million as a complement to specific provisions.

As at 31 December 2019, risk-weighted assets amounted to EUR 27.3 billion, of which EUR 23.1 billion for credit risk, EUR 3.2 billion for market risk and EUR 1 billion for operational risk. The sharp decrease of EUR -5.6 billion in credit risk-weighted assets, linked to the acceleration of asset sales, was partly offset by an

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[9] *Cf. Press Releases issued by Dexia on 5 February and 26 July 2018, available at www.dexia.com.*

increase of EUR +2.5 billion in market risk-weighted assets, due to an additional capital charge temporarily applied at the request of the ECB.

Taking into account these elements, Dexia's Common Equity Tier 1 ratio stood at 26.8% as at 31 December 2019, against 26.7% at the end of 2018. The Total Capital ratio stood at 27.2%, against 27.3% at the end of 2018, a level above the minimum of 13.85% imposed for the year 2019 by the European Central Bank (ECB) within the context of the Supervisory Review and Evaluation Process (SREP)[10].

Dexia Crédit Local's Common Equity Tier 1 and Total Capital ratios also meet the minimum requirements, at 23.5% and 23.7% respectively as at 31 December 2019.

The solvency requirements imposed by the ECB on Dexia and its consolidated subsidiaries for the year 2020 have been increased[11].

B – Evolution of the Dexia Group's liquidity situation

- *Significant reduction in the volume of funding in 2019, linked to the deconsolidation of DKD and the dynamic asset disposal policy*
- *No recourse to Eurosystem funding since September 2017*
- *State-guaranteed funding increased by 20% in the funding mix, but EUR 5 billion less guaranteed outstanding than at the end of 2018*

As a consequence of the sale of DKD and the reduction of the asset portfolio, outstanding funding decreased by EUR -32.4 billion compared to 31 December 2018, to EUR 73.9 billion on 31 December 2019. At EUR 21.8 billion at the end of December 2019, the net amount of net cash collateral remained almost stable, despite high volatility during the year.

The evolution of the funding mix is significant and is almost entirely explained by the reduction of secured funding (EUR -24.7 billion compared to the end of December 2018) as a result of the sale of the underlying assets and the deconsolidation of DKD, the outstanding covered bonds of which amounted to EUR 13.6 billion as at 31 December 2018. There was also a decrease in unsecured funding (EUR -7.7 billion against the end of December 2018) due to a decrease in State-guaranteed funding (EUR -4.9 billion) as a result of the dynamics of asset portfolio reduction and, to a lesser extent, to the deconsolidation of DKD (EUR -1.9 billion). State-guaranteed funding amounted to EUR 60.5 billion at the end of December 2019, i.e. 82% of the total outstanding funding at that date.

Over the course of the year, Dexia Crédit Local successfully launched various long-term public transactions in euros, US dollars and pounds sterling, raising EUR 7.1 billion at a competitive funding cost. Short-term funding activity in guaranteed format was also sustained, with an average maturity at issue of 7 months.

The Group has not used central bank financing since September 2017.

As at 31 December 2019, Dexia Group had a liquidity reserve of EUR 19.4 billion, of which EUR 9.8 billion in the form of cash deposits with central banks.

On the same date, the Group's Liquidity Coverage Ratio (LCR) stood at 238% against 202% as at 31 December 2018. This ratio is also respected by the subsidiaries, each exceeding the required minimum of 100%. The Group's Net Stable Funding Ratio (NSFR), estimated on the basis of the latest proposed amendments to the CRR, would be above the target threshold of 100%, as a result of the efforts undertaken by the Group since 2013 to improve its funding profile.

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[10] *Cf. Press Release issued by Dexia on 18 February 2019, available at www.dexia.com.*
[11] *Cf. Press Release issued by Dexia on 24 January 2020, available at www.dexia.com.*

Appendices

Appendix 1 – Going concern

The consolidated financial statements of Dexia as at 31 December 2019 were prepared in line with the accounting rules applicable to a going concern in accordance with IAS 1 § 25 and 26. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. In particular:

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 30 June 2019 and validated by the Board of Directors of Dexia on 19 December 2019 integrates the regulatory developments known to that date, including the final version of the CRD IV Directive. It also takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group. This update does not integrate all of the results of on-site inspections (OSI) by the European Central Bank, in particular the inspections on IT risk, operational risk and outsourced activities, on which the definitive reports have not yet been received by Dexia.
- The ongoing resolution assumes that Dexia retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.
- The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions. Dexia has continuously reduced its funding requirement and extended the maturity of the funding raised, with a view to the prudent management of its liquidity. This enables the Group to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017. As at the end of 2019, Dexia had a liquidity buffer amounting to EUR 19.4 billion, half of which consisted of cash.
- The acceleration of the deleveraging decided during the summer 2019, combined with the sale of DKD, led to a EUR 32 billion decrease of the Group's funding requirement over the year, partially driven by a rapid reduction of the funding requirement in US dollar. The achievement of the funding programme in 2019, in line with the budget, as well as the successful launch of its first 2020 7-year benchmark issue for EUR 1.5 billion is a reflection of the good funding capacity of Dexia which resilience vis-à-vis the risk of liquidity strongly improved in 2019. Finally, the confirmation by the European Commission of the prolongation of the liquidity guarantee provided by the French and Belgian States beyond December 2021 for up to EUR 75 billion provides great comfort for the continuation of the Group's orderly resolution.
- The business plan assumes the maintenance of the banking licences of Dexia Crédit Local and the maintenance of the Dexia Crédit Local rating at the level of Investment Grade.
- When assessing the appropriateness of the going concern, the management has challenged the consistency of the strategic choices made by its shareholders with long-term financial forecasts and, in particular, has assessed whether it would be possible to maintain a banking status up to a certain time horizon, which is a central choice of the State shareholders. The management also factored in the constraints and uncertainties related to its operating model as well as the risk attached to its operational continuity, given its specific nature of a bank in run-off, and took the appropriate actions to mitigate such risks.

Uncertainties remaining with regard to implementation of the business plan over the duration of the Group's resolution led to regular reviews and adjustments to the original plan and, over time, may involve a significant change of the Group's resolution trajectory as initially anticipated. In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.

The Dexia Group is also very sensitive to the evolution of the macroeconomic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavourable evolution of these parameters over time could weigh on the Group's liquidity and its solvency position. It could also impact the valuation of financial assets, liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of the Group's regulatory capital. In particular, considering decisions taken by the Board of Directors in relation to the implementation of two asset sales programmes, for a total amount of approximately EUR 18 billion, Dexia is exposed to the evolution of macroeconomic conditions and market parameters on these assets until their effective disposal.

Finally, the Group is exposed to certain operational risks, specific to the resolution environment in which it operates.

At this stage, these uncertainties do not raise any question as to the nature or the fundamentals of the resolution, which justifies the decision to establish the financial statements in accordance with the "going concern" principles pursuant to IAS 1. Consequently, after having fully factored in its operating model constraints and forward-looking viability, Dexia Management confirms that, as at the end of 2019, the financial statements can be prepared according to the rules applicable to a going concern in accordance with IAS 1 § 25 and 26.

Appendix 2 – Consolidated income statement

Consolidated income statement - ANC format		
EUR million	***2018 IFRS9***	***2019 IFRS9***
Net banking income	***-232***	***-746***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-386*	*-379*
Gross operating income	***-618***	***-1.125***
Cost of credit risk	*128*	*265*
Net gains or losses on other assets	*8*	*0*
Pre-tax income	***-482***	***-860***
Income tax	*-40*	*33*
Result from discontinued operations, net of tax	*23*	*-111*
Net income	***-499***	***-938***
Minority interests	*-26*	*-40*
Net income Group share	***-473***	***-898***

Appendix 3 – Balance sheet key figures (non-audited figures)

Balance sheet key figures		
(in EUR million)	31-12-2018 IFRS 9	31-12-2019 IFRS 9
Total assets	**158.804**	**120.326**
of which		
Cash and central banks	9.269	9.844
Financial assets at fair value through profit or loss	13.421	14.247
Hedging derivatives	1.263	1.378
Financial assets at fair value through other comprehensive income	4.916	2.837
Financial assets at amortised cost - Debt securities	45.502	36.301
Financial assets at amortised cost - Interbank loans and advances	23.665	23.087
Financial assets at amortised cost - Customer loans and advances	35.158	31.785
Accruals and other assets	389	157
Non current assets held for sale (1)	24.375	0
Total liabilities	**150.963**	**120.326**
of which		
Central banks	0	0
Financial liabilities at fair value through profit or loss	11.872	14.780
Hedging derivatives	21.151	19.184
Interbank borrowings and deposits	20.091	11.778
Customer borrowings and deposits	4.873	3.851
Debt securities	67.960	62.728
Liabilities included in disposal groups held for sale (2)	24.055	0
Total equity	**7.841**	**7.362**
of which		
Equity, Group share	7.504	7.302

(1) As at 31 December 2018 this line contains Dexia Kommunalbank Deutschland.

Appendix 4 – Regulatory equity (non-audited figures)

(in EUR million)	31-12-18 IFRS 9	31-12-19 IFRS 9
Common Equity Tier 1	8.119	7.308
Total Capital	8.278	7.404
Risk-weighted assets	30.365	27.263
Common Equity Tier 1 ratio	26,7%	26,8%
Total Capital ratio	27,3%	27,2%

Appendix 5 – Credit risk exposure (EAD) (non-audited figures)

Exposure by geographic region

(in EUR million)	31-12-18 Total	31-12-18 o/w discontinued operations (DKD)	31-12-18 o/w continuing operations	31-12-19 Total
United Kingdom	21.114	53	21.061	21.404
Italy	21.883	837	21.046	19.478
France	22.271	54	22.216	17.730
United States	15.017	152	14.865	8.881
Spain	7.421	28	7.393	5.418
Portugal	4.422	235	4.187	4.050
Japan	5.469	0	5.469	3.804
Other European countries	2.176	1.431	745	1.628
Canada	1.882	0	1.882	1.182
Germany	16.714	14.805	1.909	1.058
Central and Eastern Europe	1.915	1.014	900	905
South and Central America	345	0	345	164
Switzerland	353	0	353	146
Southeast Asia	202	0	202	121
Scandinavian countries	218	20	198	81
Other (1)	2.241	267	1.974	1.857
Total	**123.643**	**18.896**	**104.747**	**87.907**

(1) including supranationals, Australia

Exposure by category of counterparty

(in EUR million)	31-12-18 Total	31-12-18 o/w discontinued operations (DKD)	31-12-18 o/w continuing operations	31-12-19 Total
Local public sector	65.804	16.651	49.153	37.809
Central governments	27.081	1.666	25.416	25.871
Project finance	10.299	14	10.286	9.329
Financial institutions	10.406	557	9.849	6.852
Corporate	5.733	0	5.732	5.286
ABS/MBS	2.831	9	2.822	1.410
Monolines	1.488	0	1.488	1.349
Individuals, SME and self-employed	1	0	1	1
Total	**123.643**	**18.896**	**104.747**	**87.907**

Exposure by rating (internal rating system)

	31-12-18 Total	31-12-18 o/w discontinued operations (DKD)	31-12-18 o/w continuing operations	31-12-19 Total
AAA	19,11%	23,04%	18,40%	16,91%
AA	16,96%	66,33%	8,05%	7,73%
A	25,24%	3,33%	29,19%	29,96%
BBB	29,44%	6,62%	33,56%	36,90%
Non Investment Grade	7,85%	0,66%	9,15%	7,49%
D	1,13%	0,00%	1,33%	0,77%
Not Rated	0,27%	0,02%	0,32%	0,22%
Total	**100%**	**100%**	**100%**	**100%**

Appendix 6 – Group sector exposure to certain countries (EAD) (non-audited figures)

Group sector exposure to certain countries							
(in EUR million)	***Total***	*o/w local public sector*	*o/w corporate and project finance*	*o/w financial institutions*	*o/w ABS/MBS*	*o/w sovereign exposures*	*o/w monolines*
United Kingdom	**21.404**	10.315	7.458	1.362	1.360	64	846
Italy	**19.478**	8.612	277	114	3	10.472	0
France	**17.730**	7.290	2.541	1.490	0	6.408	0
United States	**8.881**	2.740	838	1.125	3	3.672	503
Spain	**5.418**	3.584	1.169	246	42	377	0
Portugal	**4.050**	1.006	59	11	0	2.974	0
Japan	**3.804**	3.248	0	535	0	21	0
Germany	**1.058**	0	109	945	0	4	0

Appendix 7 – Asset quality (non-audited figures)

Asset quality			
(in EUR million)		**31-12-2018 (1) IFRS 9**	**31-12-19 IFRS 9**
Impaired assets(2)		1.273	615
Specific impairments(3)		305	143
Of which	*Stage 3*	299	136
	POCI	6	7
Coverage ratio(4)		23,96%	23,25%
Collective provisions		345	166
Of which	*Stage 1*	*5*	*5*
	Stage 2	*340*	*161*

(1) Excluding Dexia Kommunalbank Deutschland
(2) Outstanding : computed according the applicable perimeter defined under IFRS 9 (FV through OCI + Amortised Cost + Off Balance)

(3) Impairments : according the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI
(4) Specific impairments-to-Impaired assets ratio

Appendix 8 – Ratings

Ratings as at 31 December 2019			
	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	Stable	A-2
Dexia Crédit Local (guaranteed debt)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+

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