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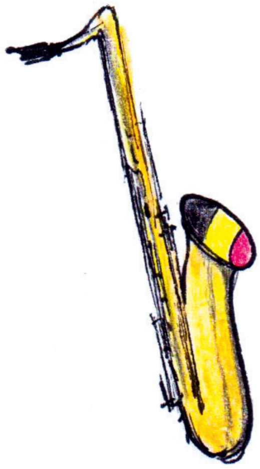

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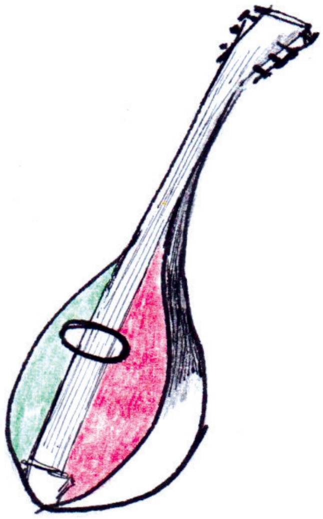
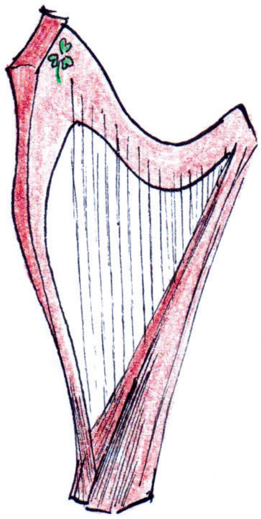


# FINANCIAL REPORT

2021



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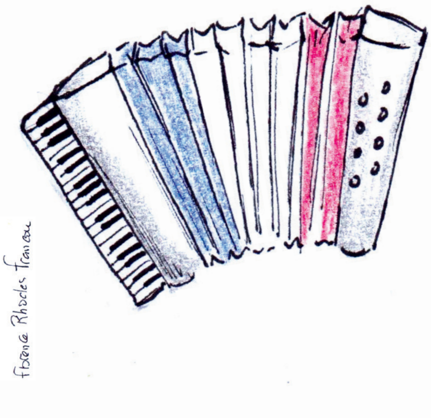
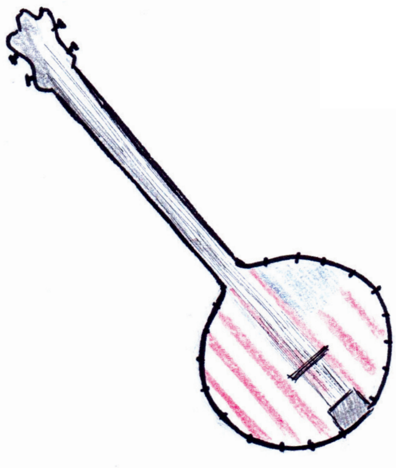


DEXIA CRÉDIT LOCAL DCL



# CONTENTS

# MANAGEMENT REPORT[1]

## FINANCIAL HIGHLIGHTS

| CONSOLIDATED INCOME STATEMENT - ANC FORMAT | | |
|---|---|---|
| *(in EUR million)* | S1 2020[2] | S1 2021 |
| Net banking income | -543 | -38 |
| Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets | -206 | -161 |
| GROSS OPERATING INCOME | -749 | -199 |
| | | |
| Cost of credit risk | -95 | 47 |
| Net gains or losses on other assets | 104 | 0 |
| NET RESULT BEFORE TAX | -740 | -152 |
| | | |
| Income tax | -2 | -52 |
| Result from discontinued operations, net of tax | 0 | 0 |
| NET INCOME | -742 | -204 |
| | | |
| Minority interests | -1 | 0 |
| NET INCOME, GROUP SHARE | -741 | -204 |

(2) Figures as of 30/06/2020 have been revised. Interest on trading derivatives measured at Fair value through profit or loss (excluding economic hedging derivatives which are held for risk management purposes but for which hedge accounting is not applied) are now recorded on the line Net gains or losses on financial instruments at Fair value through profit or loss and no longer in Interest and similar income and Interest and similar expenses. See also not 1.1.2.6 Change in presentation of Dexia Crédit Local's consolidated financial statements.

| BALANCE SHEET KEY FIGURES – ANC FORMAT | | | |
|---|---|---|---|
| *(in EUR million)* | 30/06/2020 | 31/12/2020 | 30/06/2021 |
| TOTAL ASSETS | 120,252 | 113,523 | 101,639 |
| *of which* | | | |
| Cash and central banks | 5,738 | 9,866 | 9,032 |
| Financial assets at fair value through profit or loss | 17,404 | 12,950 | 10,238 |
| Hedging derivatives | 1,240 | 1,263 | 808 |
| Financial assets at fair value through other comprehensive income | 4,097 | 3,369 | 2,798 |
| Financial assets at amortised cost - Debt securities | 39,661 | 37,075 | 35,574 |
| Financial assets at amortised cost - Interbank loans and advances | 23,009 | 21,498 | 18,090 |
| Financial assets at amortised cost - Customer loans and advances | 28,452 | 26,895 | 24,501 |
| | | | |
| TOTAL LIABILITIES | 114,927 | 107,831 | 96,005 |
| *of which* | | | |
| Financial liabilities at fair value through profit or loss | 16,444 | 12,525 | 10,958 |
| Hedging derivatives | 21,439 | 20,548 | 16,976 |
| Interbank borrowings and deposits | 12,517 | 10,050 | 8,146 |
| Customer borrowings and deposits | 2,690 | 6,824 | 7,813 |
| Debt securities | 61,268 | 57,360 | 51,656 |
| | | | |
| TOTAL EQUITY | 5,325 | 5,692 | 5,634 |
| *of which* | | | |
| Equity, Group share | 5,322 | 5,692 | 5,634 |

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

## INTRODUCTION

After a year 2020 strongly marked by the Covid-19 pandemic, the improvement of market conditions and the reduction of volatility which began at the end of 2020 by virtue of the historical support of central banks continued in the first half of 2021.

In this more favourable environment, Dexia Crédit Local continued its asset disposal programme at a sustained pace and finalised its annual long-term funding programme in July.

The rise in interest rates also had an impact on the bank's results: the balance sheet fell by 10% in the first half of the year, mainly due to the reduction of cash collateral and fair value elements. Accounting volatility elements were also slightly positive in the first half.

Dexia Crédit Local continues to post robust solvency ratios, exceeding regulatory requirements.

## 1. HIGHLIGHTS

### A. Implications relating to Covid-19

From the very beginning of the crisis, Dexia Crédit Local has closely followed the evolution of the situation linked to the spread of Covid-19 throughout the world and particularly in Europe. During the first half of 2021, the Management Board maintained the mechanism composed of an operational and a strategic crisis units. Lockdown measures and teleworking were renewed with a scope flexibly adapted to the evolution of the pandemic.

The different repercussions of the pandemic on Dexia Crédit Local's activities and financial statements are detailed in "Appendix 1 to the condensed consolidated financial statements" of this half-yearly report and in the different sections of this management report.

### B. Proactive management of the balance sheet, off-balance sheet and risks

#### Ongoing asset sales at a pace equivalent to that at the end of 2020

After the start of 2020 was severely disrupted by the Covid-19 pandemic, the almost generalised return to normal market conditions from September 2020 allowed Dexia Crédit Local fully to resume its asset disposal activities. These favourable conditions continued in the first half of 2021, in particular thanks to the intervention of central banks.

Thus, at the end of June 2021, asset portfolios were down by EUR 3.1 billion compared to the end of December 2020, as a result of EUR 2.0 billion of disposals and early redemptions and EUR 1 billion of natural depreciation.

Over the year, 60% of the assets sold or repaid were denominated in non-euro currencies (GBP, USD and CAD) and the average life of these assets remains long (nine years), which allowed the Group to reduce its funding risk further.

Disposals and redemptions were mainly concentrated on project and corporate finance (EUR 0.8 billion) and public sector assets (EUR 1.1 billion), notably via disposals or redemptions of loans to French local authorities (207 loans sold or redeemed for an outstanding amount of EUR 0.6 billion) and loans to players in the social housing sector in the UK (EUR 0.4 billion).

Some 20 "complex" operations were simplified in the first half of 2021, for example through the early redemption of revolving loans or the restructuring of loans indexed on structured indices. This contributes to the continued simplification of the commercial portfolio.

Since the implementation of the new asset sale programme in July 2019, the Dexia Crédit Local Group has negotiated sales and early redemptions corresponding to around 85% of the target set for the end of 2022 in terms of nominal reduction.

### Proactive off-balance sheet management

In the first half of 2021, Dexia Crédit Local continued to implement the programme to reduce its derivatives portfolio, including compression exercises to simplify operational management and reduce the nominal amount.

Dexia Crédit Local also unwound 22 interest rate swaps with clients in advance, which also contributes to the objective of simplifying commercial outstanding.

### Reduction of the sensitivity of the balance sheet and result to market parameters

For several years, Dexia Crédit Local has pursued an active ALM risk management policy, aimed in particular at reducing the sensitivity of its balance sheet and profitability trajectory to certain market parameters. This risk hedging programme continued with good momentum in the first half of 2021, under the guidance of the Asset and Liability Management Committee (ALCO).

Thus, during the first half of the year, actions enabling the sensitivity of the net interest margin to the most sensitive market parameters to be reduced in a material way, and therefore the amplitude of a potential stress on the bank's solvency, continued.

## C. Ongoing simplification of the international network: focus on Dexia Crediop

During the first half of 2021, Dexia Crédit Local finalised the transfer to Paris and Dublin of a portfolio of assets with a nominal value of EUR 3.2 billion, composed of loans, bonds and related hedging derivatives. As these securities were transferred at their net book value in Dexia Crediop's financial statements and not at their market value, a deferred tax liability of EUR -51 million was recorded in Dexia Crédit Local's consolidated financial statements.

Dexia Crédit Local also implemented a programme to transfer 25 interest rate swaps executed with Dexia Crediop clients, representing a total outstanding amount of EUR 1.8 billion. These swaps are transferred to Dexia Crédit Local in Paris as and when the consents of the counterparties are obtained.

In addition, Dexia Crédit Local continued to improve the funding mix of its subsidiary.

## D. Prudential capital requirements, ratification of the prolongation of the state funding guarantee and governance developments

### Prudential capital requirements applicable to Dexia Crédit Local

On 7 January 2021, the ACPR informed Dexia Crédit Local that in the absence of significant changes in its risk profile and in order to take into account the exceptional circumstances created by the current health crisis, the total capital requirement of 11.25% on a consolidated basis was maintained in 2021. This level includes a minimum capital requirement of 8% (Pillar 1) and an additional 3.25% capital level (P2R - Pillar 2 requirement) to be covered by at least 56.25% Common Equity Tier 1 and 75% Tier 1 capital.

On 5 February 2021, the ACPR also confirmed to Dexia crédit Local the provisional maintenance of a tolerance which allows Dexia to deduct from its CET1 regulatory capital the economic impact of remedying a breach of the large exposure ratio for a sovereign exposure.

### Ratification of the prolongation of the Dexia Crédit Local funding guarantee by the Belgian and French States

Following the approval[1] by the European Commission of the Dexia Crédit Local funding guarantee for a new period of ten years as from 1 January 2022, the Belgian and French States ratified the legal texts relating to this prolongation, on 29 December 2020 and 27 June 2021 respectively[2][3].

To recall, the funding guarantee retains most of its current features and therefore remains joint, unconditional, irrevocable and on first demand. However, the following changes have been made to the scheme:

- The new guarantee ceiling is EUR 75 billion.
- The Luxembourg State no longer participates in the guarantee mechanism. Its 3% share is 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 remains 5 basis points per year on the guaranteed amounts outstanding, payable monthly. This commission will be increased by a conditional deferred commission, payable in case of liquidation of the Group Dexia and insofar as Dexia Crédit Local no longer has a banking licence. The pricing of this commission will be progressive as from 2022 and will reach an annual rate of 135 basis points on outstanding amounts in 2027.

(1) https://ec.europa.eu/commission/presscorner/detail/en/mex_19_5875
(2) Cf. Dexia Press Release dated 28 May 2021, available at www.dexia.com.
(3) Law 2020-1721 of 29 December 2020, published in the Official Journal on 30 December 2020 and Law of 27 June 2021 on various financial provisions, published in the Belgian Official Gazette on 9 July 2021.

This guarantee remuneration structure allows the full implementation of the burden sharing principle which underlies the orderly resolution of Dexia Group and which requires that any improvement of Dexia's financial situation benefits only the shareholder and guarantor States.

Dexia Crédit Local will continue to refinance under the guarantee scheme currently in force until 31 December 2021 and the debt already issued or to be issued before that date will be covered until its contractual maturity by the guarantee agreement of 24 January 2013. As at 30 June 2021, Dexia Crédit Local's outstanding guaranteed debt amounted to EUR 50 billion.

### Evolution of Dexia Crédit Local's governance

On 29 April 2021, the Board of Directors of Dexia Crédit Local co-opted Marie-Anne Barbat-Layani as a non-executive director of Dexia Crédit Local, replacing Bertrand Dumont. Her definitive appointment was approved by Dexia Crédit Local's Ordinary Shareholders' Meeting on 18 May 2021.

As the governance of Dexia and Dexia Crédit Local is integrated, Marie-Anne Barbat-Layani is also a non-executive director of Dexia.

## E. Other significant events

### Reform of the benchmark indices (IBOR)

In order to increase the reliability and transparency of short-term interest rates (IBOR), a global reform has been initiated to replace these indices with new nearly risk-free rates such as ESTR (EUR), SOFR (USD) and SONIA (GBP).

Dexia Crédit Local is exposed to the IBOR indices, mainly in euros, US dollars and pounds sterling, through financial instruments which may be replaced or modified within the framework of this reform via the replacement of the benchmark interest rate. Where appropriate, the soundness of the contracts concerned is reinforced by the insertion of fall-back clauses, setting out the terms and conditions of replacement in the event of the cessation of a benchmark interest rate.

Dexia Crédit Local has set up a steering committee to monitor the market and the various developments relating to this reform. The objective is to anticipate as well as possible the consequences of the transition to the new benchmark rates by managing the stock of existing contracts. Dexia Crédit Local also carried out legal analyses of the contracts concerned by the reform, analyses of the financial impact of the replacements and the necessary modifications from an operational point of view.

During the first half of 2021, Dexia Crédit Local continued to prepare for the transition to the new benchmark interest rates, in particular in view of the discontinuation of the GBP LIBOR and EONIA indices scheduled respectively for 31 December 2021 and 3 January 2022. In particular, Dexia Crédit Local:

- adhered to the ISDA Protocol in June 2021, leading to an automatic amendment of master agreements with bilateral counterparties which have also adhered to the Protocol. In addition, Dexia Crédit Local plans to negotiate the addition of new replacement clauses directly with its derivatives counterparties in the event of non-adherence to the ISDA Protocol;
- has begun the transition to ESTR of its EUR cash collateral arrangements linked to derivatives contracts with OTC counterparties;
- actively communicated to its clients to ensure that transition solutions are provided for the loan contracts and credit lines affected by the transition.

For Dexia Crédit Local's derivatives contracts with clearing houses, the transition to replace the index of the variable branch of instruments indexed on EONIA and GBP LIBOR will take place on 15 October and 17 December 2021 respectively, allowing Dexia Crédit Local to complete its work to update the contracts concerned or to implement appropriate fall-back provisions by the end of 2021.

The expected impacts on the financial statements of Dexia Crédit Local, based on the progress of the work as at 30 June 2021 and in application of the amendments to IFRS 9 and IAS 39 on the reform of benchmark interest rates[1], are detailed in "Appendix 1 to the condensed consolidated financial statements" of this half-yearly report. In particular, Dexia Crédit Local expects the transition of its derivatives contracts indexed on GBP LIBOR to generate a total positive impact on income of around EUR 350 million, which will be spread over the years 2021 and 2022. This impact will be generated by the revaluation of the fair value of the hedged risk following its redefinition and will correspond to the reversal of the stock of GBP/SONIA LIBOR accounting inefficiency at the time of the transition.

(1) Phase 2 as from 1 January 2022.

## 2. HALF-YEAR RESULTS H1 2021

### A. Presentation of the condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2021

#### Going concern

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2021 have been prepared in accordance with the accounting rules applicable to the situation of a going concern in accordance with IAS 1 § 25 and 26. This assumes a number of constitutive assumptions made in the business plan underlying the Dexia Group's resolution, which are developed in "Appendix 1 to the condensed consolidated financial statements" of this half-yearly financial report.

### B. Dexia Crédit Local consolidated results H1 2021

#### Income statement for the period

Net income Group share was EUR -204 million in the first half-year 2021, compared to EUR -741 million at the end of June 2020.

Net banking income for the first half-year amounted to EUR -38 million, including:

- The net interest margin was EUR +22 million and includes the cost of carrying assets and the bank's transformation result. It increased slightly, by EUR 6 million compared to 30 June 2020, due in particular to the decrease in cash collateral over the half-year.
- Net commissions were EUR -5 million.
- Net gains or losses on financial instruments at fair value through profit or loss amounted to EUR -73 million. In the first half of 2020, these elements had been significantly impacted by the Covid-19 crisis shock and amounted to EUR -384 million. Driven by better market conditions, they improved in the first half-year 2021. The favourable contribution of the Funding Value Adjustment (FVA),the Credit Value Adjustment (CVA) and the Debt Valuation Adjustment (DVA) as well as the positive change in the value of assets classified in fair value through profit or loss have nevertheless been offset by charges related to the valuation of other trading items.
- Net gains or losses on financial instruments at fair value through equity, in an amount of EUR -26 million, as well as net gains or losses on financial instruments at amortised cost in an amount of EUR +16 million related to asset disposal programmes.

Expenses amounted to EUR -153 million, down EUR 33 million compared to 30 June 2020. This essentially reflects the efforts to control general operating expenses, as well as the fall of taxes and regulatory contributions, associated with the reduction of the Dexia Crédit Local Group's scope.

The main variation in the recurring result compared to 30 June 2020 is the cost of risk. In 2020, the Covid-19 crisis resulted in an increase in expected losses, with a cost of risk of EUR -95 million as at 30 June 2020. The cost of risk for the first half of 2021 amounted to EUR +47 million and is mainly composed of:

- a reversal of collective provisions for a net amount of EUR +24 million, resulting from the update of macro-economic scenarios used for the assessment of expected credit losses under IFRS 9 (cf. "Appendix 1 to the condensed consolidated financial statements" of this half-yearly financial report) as well as from the update of calculation parameters related to the evolution of the portfolio (rating changes, disposals, natural depreciation), partly offset by a charge related to the review of models within the context of back-testing exercises;
- a reversal of specific provisions of EUR +20 million, linked to the total or partial early repayment of exposures, notably in Greece and the United Kingdom.

The tax charge amounted to EUR -52 million and incorporate a deferred tax charge, related to the transfer of securities from Dexia Crediop to Dexia Crédit Local Dublin (cf. section Highlights of this half-yearly financial report).

## 3. EVOLUTION OF DEXIA CRÉDIT LOCAL'S BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION

### A. Balance sheet and solvency

#### Half-yearly balance sheet evolution

As at 30 June 2021, Dexia Crédit Local's consolidated balance sheet total amounted to EUR 101.6 billion, compared to EUR 113.5 billion as at 31 December 2020, i.e. a decrease of EUR 11.9 billion, driven by a favourable environment of rising interest rates and by the dynamics of the reduction of commercial portfolios.

On the assets side and at a constant exchange rate, the decrease of the balance sheet is mainly explained by the improvement of fair value elements and posted cash collateral (EUR -10.1 billion) and to a lesser extent by the reduction of the asset portfolio (EUR -3.1 billion).

On the liabilities side and at a constant exchange rate, the evolution of the balance sheet is mainly reflected by the reduction of the stock of market funding (EUR -6.2 billion) and by the decrease of fair value items and cash collateral received (EUR -6.7 billion).

Over the half-year, the impact of exchange rate variations on the evolution of the balance sheet amounted to EUR +1.4 billion.

## B. Solvency

As at 30 June 2021, Dexia Crédit Local 's Total Capital amounted to EUR 5.7 billion, against EUR 5.9 billion as at 31 December 2020. This decrease is mainly due to the negative net result of the half-year (EUR -204 million).

In the first half of 2021, two significant items are deducted from the regulatory capital, in line with the ECB requirements:

- The theoretical loss amount corresponding to the remediation of non-compliance with the large exposures ratio which, as at 30 June 2021, amounted to EUR -92 million[1].
- The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, which amounted to EUR -68 million.

Furthermore, following the on-site inspection on credit risk carried out in 2018, the ECB issued a number of recommendations. As a consequence, Dexia Crédit Local deducted from its prudential equity an amount of EUR -35 million as a complement for specific provisions.

The additional value adjustments taken into account in the regulatory capital within the framework of the Prudent Valuation Adjustment (PVA) amounted to EUR -182 million as at 30 June 2021, against EUR-190 million as at 31 December 2020. It should be noted that the increase of the diversification factor authorised by the temporary adjustment to the CRR (CRR Quick Fix) validated by the European Parliament in June 2020, which had generated a positive impact of EUR +59 million as at 31 December 2020, has not been renewed in 2021 (cf. "Appendix 1 to the condensed consolidated financial statements" of this half-yearly financial report).

Finally, within the context of the Covid-19 crisis, Dexia Crédit Local made use of the temporary adjustment to the CRR allowing the reintegration in regulatory capital of any new expected credit losses accounted for under IFRS 9 (dynamic phase-in), resulting in a positive impact of EUR +106 million. The temporary neutralisation of fair value changes of some sovereign and public sector assets classified at fair value through equity also had a positive impact of EUR +5 million on the level of regulatory capital (cf. "Appendix 1 to the condensed consolidated financial statements" of this half-yearly financial report).

As at 30 June 2021, risk-weighted assets amounted to EUR 22.6 billion against EUR 23.7 billion at the end of December 2020, of which EUR 21.1 billion for credit risk, EUR 0.9 billion for market risk and EUR 0.6 billion for operational risk.

Taking these elements into account, Dexia Crédi Local's Total Capital ratio amounted to 25.0% as at 30 June 2021, against 24.7% at the end of 2020, a level above the minimum required for the year 2021 within

**PRUDENTIAL EQUITY**

| *(in EUR million)* | 30/06/2020 | 31/12/2020 | 30/06/2021 |
|---|---|---|---|
| Common Equity Tier 1 | 5,327 | 5,807 | 5,605 |
| Total Capital | 5,383 | 5,863 | 5,661 |
| Risk-weighted assets | 26,652 | 23,692 | 22,638 |
| Common Equity Tier 1 ratio | 19.99% | 24.51% | 24.76% |
| Total Capital ratio | 20.20% | 24.75% | 25.01% |

**RISK-WEIGHTED ASSETS**

| *(in EUR million)* | 30/06/2020 | 31/12/2020 | 30/06/2021 |
|---|---|---|---|
| Credit risk | 24,839 | 22,061 | 21,148 |
| Market risk | 1,213 | 1,031 | 890 |
| Operational risk | 600 | 600 | 600 |
| **TOTAL** | **26,652** | **23,692** | **22,638** |

(1) Cf. Dexia Press Releases of 5 February and 26 July 2018, available at *www.dexia.com*.

the framework of the Supervisory Review and Evaluation Process (SREP) (cf. section Hightlights of this Management Report).

## B. Evolution of the Dexia Crédit Local's liquidity situation

After a year 2020 strongly impacted by the Covid-19 pandemic, the stabilisation of the markets continued in the first half of 2021, thanks in particular to the historical support of central banks. In these favourable conditions, Dexia Crédit Local maintained a sustained dynamic in the execution of its funding programme, enabling it in particular to finalise its annual long-term funding programme in July 2021. Five long-term public transactions were launched by Dexia Crédit Local in euros, pounds sterling and US dollars, for a total amount of EUR 5 billion. All of them aroused strong interest from investors.

Overall, outstanding financing fell by EUR 5.6 billion compared to 31 December 2020, to EUR 63.7 billion as at 30 June 2021. The decrease of the funding requirement is the result of the rise in interest rates and is explained by the reduction of the asset portfolio and cash collateral (EUR -3.4 billion), the net amount of which stood at EUR +19.5 billion as at 30 June 2021.

In terms of funding mix, secured funding amounted to EUR 12.2 billion as at 30 June 2021 and State-guaranteed funding represented 78% of outstanding funding, i.e. EUR 50 billion.

In line with the strategy followed since 2017, Dexia Crédit Local did not call on the European Central Bank's refinancing operations, thus confirming its ability to mobilise its reserves on the repo market and to issue State-guaranteed debt.

As at 30 June 2021, Dexia Crédit Local's liquidity reserve amounted to EUR 16.6 billion, of which EUR 10.7 billion in cash.

As at 30 June 2021, Dexia Group's (consolidated) and Dexia Crédit Local's (statutory) Liquidity Coverage Ratio (LCR) were respectively 245% and 250%, which exceeds the minimum requirement of 100%[1].

On the same date the Net Stable Funding Ratio's (NSFR) amounted 172% for the Dexia Group (consolidated) and 160% for Dexia Crédit Local (statutory), also in line with the requirements.

(1) The ACPR confirmed to Dexia Crédit Local at the end of 2019 that the short-term liquidity ratio (LCR) and the net stable funding ratio (NFSR) were no longer expected at the Dexia Crédit Local consolidation level. As a consequence, Dexia no longer produces these ratios at this level of consolidation but continues to calculate them at the consolidated level for the Dexia Group and at the level of the Dexia Crédit Local entity (statutory).

## CREDIT RISK

For the methodological description of the credit risk management framework, please refer to the 2020 annual report.

As from 1 January 2021, Dexia Crédit Local has modified the Exposure at Default (EAD) used for external communication purposes, in order to bring it in line with the EAD used in the COREP reporting. To this end, Dexia Crédit Local will now publish an EAD net of provisions as defined by IFRS 9. The total impact of this change on the EAD amount as at 31 December 2020 was very limited, at EUR 26 million. In order to allow comparison between different periods, a column has been added to the exposure tables published in this half-yearly report.

As at 30 June 2021, Dexia Crédit Local's credit risk exposure amounted to EUR 76 billion, compared to EUR 82 billion at the end of December 2020. This decrease is mainly due to asset sales and natural amortisation of the portfolio.

Exposures are mainly split between loans and bonds, at EUR 34 billion and EUR 36 billion respectively.

Exposures are for the most part concentrated in the EU (86%) and the US (6%).

### EXPOSURE BY GEOGRAPHIC REGION

| | 31/12/2020 | | 30/06/2021 |
|---|---|---|---|
| *(in EUR million)* | EAD IFRS | EAD COREP | EAD COREP |
| France | 20,962 | 20,976 | 19,710 |
| United Kingdom | 20,648 | 20,549 | 18,292 |
| Italy | 18,585 | 18,483 | 17,815 |
| United States | 4,627 | 4,626 | 4,332 |
| Spain | 4,610 | 4,570 | 4,246 |
| Portugal | 3,673 | 3,666 | 3,430 |
| Japan | 3,073 | 3,073 | 2,903 |
| Other European countries | 1,922 | 1,908 | 2,105 |
| Germany | 657 | 645 | 833 |
| Central and Eastern Europe | 857 | 858 | 662 |
| Canada | 601 | 592 | 403 |
| Scandinavian countries | 92 | 92 | 130 |
| Tunisia | 113 | 113 | 108 |
| Switzerland | 95 | 95 | 39 |
| South and Central America | 37 | 37 | 35 |
| Southeast Asia | 6 | 6 | 5 |
| Other[1] | 1,412 | 1,866 | 1,758 |
| TOTAL | 81,972 | 82,156 | 76,806 |

(1) Including supranationals, Australia.

As at 30 June 2021, exposures remained principally concentrated on the local public sector (39%) and sovereigns (34%), given Dexia Crédit Local's historical activity. The local public sector portfolio decreased by 9%, mainly due to asset disposals. The sovereign portfolio was down 6%, mainly due to the decrease in deposits with the Banque de France. In addition, exposure to financial institutions amounted to EUR 6.1 billion, mainly composed of repos and bonds.

### EXPOSURE BY CATEGORY OF COUNTERPARTY

| | 31/12/2020 | | 30/06/2021 |
|---|---|---|---|
| *(in EUR million)* | EAD IFRS | EAD COREP | EAD COREP |
| Local public sector | 33,237 | 33,165 | 30,039 |
| Central governments | 27,900 | 27,797 | 26,143 |
| Financial institutions | 6,227 | 6,193 | 6,114 |
| Project finance | 6,456 | 6,321 | 5,963 |
| Corporate | 5,558 | 5,553 | 5,452 |
| Monolines | 1,317 | 1,317 | 1,274 |
| ABS/MBS | 1,278 | 1,207 | 1,215 |
| Individuals, SME and self-employed | 0 | 604 | 606 |
| TOTAL | 81,972 | 82,156 | 76,806 |

The average credit quality of Dexia Crédit Local's portfolio remains high, with 91% of exposures rated Investment Grade as at 30 June 2021.

### EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

| | 31/12/2020 | | 30/06/2021 |
|---|---|---|---|
| | EAD IFRS | EAD COREP | EAD COREP |
| AAA | 19.3% | 19.3% | 19.2% |
| AA | 6.2% | 6.2% | 5.6% |
| A | 24.4% | 24.3% | 23.0% |
| BBB | 42.1% | 41.9% | 43.5% |
| Non Investment Grade | 7.3% | 7.2% | 7.5% |
| D | 0.6% | 0.5% | 0.6% |
| Not Rated | 0% | 0.7% | 0.7% |
| TOTAL | 100% | 100% | 100% |

Particular attention is paid to the countries and sectors listed in the tables above due to significant exposure amounts or a situation representing a potential risk. The main developments and highlights for these sectors and countries in the first half of 2021 are discussed in the following paragraphs.

| GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES (EAD COREP AS AT 30 JUNE 2021) | | | | | | | |
|---|---|---|---|---|---|---|---|
| *(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 |
| France | 19,710 | 4,714 | 1,891 | 1,608 | 0 | 10,921 | 575 |
| United Kingdom | 18,292 | 8,930 | 6,108 | 1,499 | 1,213 | 0 | 541 |
| Italy | 17,815 | 8,152 | 83 | 123 | 0 | 9,457 | 0 |
| United States | 4,332 | 1,790 | 1,099 | 917 | 2 | 367 | 158 |
| Spain | 4,246 | 2,810 | 836 | 226 | 0 | 374 | 0 |
| Portugal | 3,430 | 543 | 32 | 0 | 0 | 2,854 | 0 |
| Japan | 2,903 | 2,654 | 0 | 248 | 0 | 0 | 0 |
| Tunesia | 108 | 0 | 0 | 0 | 0 | 108 | 0 |

| GROUP SECTORIAL EXPOSURE PER RATING (EAD COREP AS AT 30 JUNE 2021) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(in EUR million)* | Total | AAA | AA | A | BBB | NIG[(1)] | D | No rating |
| Local public sector | 30,039 | 1,905 | 2,984 | 9,096 | 11,270 | 4,581 | 170 | 32 |
| Central governments | 26,143 | 12,739 | 0 | 985 | 12,310 | 108 | 0 | 0 |
| Financial institutions | 6,114 | 0 | 105 | 4,563 | 1,427 | 2 | 0 | 17 |
| Project finance | 5,963 | 0 | 17 | 754 | 3,936 | 973 | 283 | 0 |
| Corporate | 5,452 | 0 | 0 | 1,138 | 4,268 | 43 | 2 | 1 |
| Monolines | 1,274 | 0 | 0 | 1,116 | 158 | 0 | 0 | 0 |
| ABS/MBS | 1,215 | 0 | 1,186 | 2 | 0 | 27 | 0 | 0 |
| Individuals, SME and self-employed | 606 | 91 | 0 | 0 | 14 | 0 | 0 | 500 |
| TOTAL | 76,806 | 14,735 | 4,292 | 17,654 | 33,384 | 5,734 | 455 | 551 |

(1) Non Investment Grade.

The uncertainties linked to the Covid-19 pandemic, its scope and duration are likely to lead to a deterioration of the credit quality of the counterparties to which Dexia Crédit Local is exposed. Dexia Crédit Local has implemented a precise monitoring of the most fragile counterparties in its portfolio, targeting the most exposed counterparties by geographical area and/or by sector of activity.

## Dexia Crédit Local commitments to sovereigns

Dexia Crédit Local Group commitments to sovereigns are concentrated essentially on Italy, France and, to a lesser extent, Portugal.

Following a new wave of Covid-19, the euro area economy contracted slightly by 0.3% in Q1 2021. Subsequently, the acceleration of vaccination and the gradual easing of lockdown measures in Q2 allowed the economy to recover. The rebound in consumption should strengthen the economy in the coming months, with growth expected to reach 4.8% in 2021, while the emergence of variants and the spectre of a 4th wave remain sources of uncertainty.

Against this background, European States, the European Union and the European Central Bank (ECB) have extended the exceptional monetary and fiscal measures deployed in 2020. The level of public debt in most countries is expected to increase again this year despite the expected increase in tax revenues. However, central bank support measures allow European sovereigns to finance themselves at low rates, making their debt burdens more bearable. These low funding costs also allow for rating stability for many sovereigns.

### Italy

The Italian sovereign exposure amounted to EUR 9.5 billion as at 30 June 2021. Dexia Crédit Local confirmed its internal rating at BBB- / Outlook Stable, in line with the ratings assigned by the main rating agencies. Italy's significantly higher public debt is expected to decline only very gradually due to still large budget deficits and rather timid growth in the longer term. However, these challenges are tempered by Italy's strong external position, its large domestic investor base and by the ECB's considerable bond purchases, which reduces the country's debt service burden. In addition, the large grants and conditional loans provided to Italy by the European Union should not only improve debt service, but also increase Italy's potential growth rate. And while political risk is still present, the reform-oriented Draghi administration, with its large parliamentary majority, is a considerable encouragement.

### Tunisia

As at 30 June 2021, Dexia Crédit Local's exposure to Tunisia amounted to EUR 108 million, entirely on the sovereign.

Tunisia's economic recovery is dependent on tourism and has been impacted by the new wave of Covid-19 and political unrest. After demonstrators again took to the streets to demand change, the president sacked the prime minister, suspended parliament and took control of the country. Negotiations with the IMF are now even more uncertain. Tunisia having a large external debt to refinance, the implementation of a new IMF arrangement is crucial to maintain adequate official support and market confidence. In the absence of strong reforms, public creditors may demand a restructuring of private debt as a condition for further support.

## Dexia Crédit Local 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 part of the Group's outstandings, which are principally concentrated in Western Europe (United Kingdom, Italy, France, Spain), Japan and the United States.

### Principal points of attention

- France

  Dexia Crédit Local's exposure to the French local public sector amounted to EUR 4.7 billion as at 30 June 2021.

  As a consequence of the Covid-19 crisis, local authorities are experiencing a loss of revenue linked to the fall in tariff revenues and to their taxation depending on economic activity. The impact suffered by each level of government is heterogeneous. The regions and departments are the most affected. Indeed, their expenditure has increased significantly (social expenditure for the departments and business support for the regions) while their tax revenue is under pressure (taxation based on added value, energy consumption (TCPE) or real estate activity). In the medium term, there is also uncertainty about the level of expenditure which the departments could face, given their competence in the area of social assistance (increased social expenditure in the event of rising unemployment).

  Municipalities and groups of municipalities are also affected by the loss of revenue from the services they provide. An increase in expenditure linked to the management of the crisis and the policies put in place should also impact their budgets. However, the impact remains limited and sustainable at this stage.

  A more significant impact is expected on overseas local authorities due to the reduction of a significant part of their taxation indexed on imported products (Octroi Mer – harbour dues).

  Overall, local authorities have received strong support from the State to limit the impact of the health crisis on their finances. A compensation mechanism for tariff and tax losses was notably put in place to support the municipal block and a mechanism of reimbursable advances was established for the benefit of the departments. Some support measures were extended to 2021.

  The health sector has also been severely impacted, with some activities halted and others in crisis management. However, it benefits from strong support from the State, which should partly compensate for its losses through revenue maintenance mechanisms.

- United Kingdom

  As at 30 June 2021, Dexia Crédit Local had an exposure of EUR 8.9 billion to the British local public sector, mainly local authorities, social housing and utilities (water, gas and electricity transmission and distribution). These exposures are 99% rated Investment Grade and Dexia Crédit Local does not anticipate any major negative impact on their credit quality in the short term following the exit of the UK from the European Union or the Covid-19 pandemic.

- Italy

  Dexia Crédit Local's exposure to the Italian public sector amounted to EUR 8.2 billion as at 30 June 2021, of which the bulk is with regions (59%) and municipalities (36%). Dexia Crédit Local benefits on these exposures from guarantees provided by law (*delegazione di pagamento or iscrizione in bilancio*).

  The situation caused by the epidemiological emergency due to the Covid-19 pandemic required considerable financial support to local authorities, given the loss of revenues (registration taxes, income tax, and so on). These resources were granted by the Italian government mainly through two decrees. Support funds have been set up to help the local public sector to offset all or part of the revenue shortfalls. These are principally:

  - the fund for the exercise of the basic functions of local authorities (EUR 3.5 billion),
  - the fund for the exercise of the health, welfare and education functions of the regions (EUR 4.3 billion),
  - the fund for local public transport (EUR 0.9 billion), and finally
  - the fund for the payment of old bills to suppliers (EUR 12 billion).

  The measures put in place seem to have been effective as the revenues of municipalities, provinces (including metropolitan cities) and regions recorded increases of +4%, +10% and +8% respectively in 2020 compared to 2019 data.

- Spain

  Dexia Crédit Local has a high outstanding amount of EUR 1.3 billion on Catalonia and its related entities. Catalonia is one of the main Spanish regions and an important centre of economic attractiveness for Spain, but its financial situation remains tense. It therefore benefits from strong support from the State. No payment incident on Catalonia or other Spanish regions to which Dexia Crédit Local is exposed had been recorded as at 30 June 2021.

  The Spanish State's support for the regions and municipalities continues to be exercised through the renewal of several financial support funds. Thus, in 2020, EUR 35.8 billion were paid to the regions, notably via the Liquidity Fund for the Regions (FLA). In 2021, an envelope of EUR 12 billion has already been granted for the first six months. In return for this aid, the State's control over regional or local finances is being strengthened. Some regions, including Madrid, Castilla y León, Valencia, the Basque Country and Navarra, have received agreements from the State for short and long-term financing on the markets.

  Public revenues decreased by 5% but performed better than expected by virtue of the measures approved by the government. The central government is bearing most of the cost of the pandemic, mainly through the EUR 42 billion increase in transfers to the autonomous communities and social security.

  In 2020, the autonomous communities received the highest level of state funding in their history and their public revenues increased by 9.4%, allowing them to improve their budget balance. Their deficit therefore fell to EUR 2.3 billion, or 0.21% of GDP.

  As for the cities and provinces in difficulty due to the crisis, they recorded a surplus of EUR 2.9 billion, representing 0.26% of GDP.

- United States

  Most of the local public sector exposure in the United States is to States (66%) and local governments (17.5%). Like the US local public market, Dexia Crédit Local's portfolio is of good quality and is generally insured by monolines.

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

  As at 30 June 2021, Dexia Crédit Local had an exposure of EUR 1 billion on the State of Illinois. The State's financial situation has improved significantly since the beginning of 2021, by virtue of substantial federal aid and better than expected economic performance. This has led to a significant decline in the stock of unpaid bills and an acceleration of repayment of the Municipal Liquidity Facility loan from the FED. These positive developments triggered rating and outlook upgrades by the rating agencies. However, high net pension liabilities will continue to weigh heavily on the government budget in the medium to long term.

## Dexia Crédit Local commitments to project finance and corporates

The project finance and corporate loan portfolio amounted to EUR 11.4 billion as at 30 June 2021. This portfolio contracted on the one hand due to natural amortisation and some early redemptions, and on the other hand as a result of the execution of Dexia Crédit Local's asset disposal programme.

This portfolio is 53% composed of project finance[1], the remainder being corporate finance, such as acquisition finance, trade finance or corporate bonds.

The portfolio is of good quality: 99.7% of project finance and 99.1% of corporate finance are Investment Grade.

In terms of geographical spread, the UK accounts for approximately 54% of the project finance (PPP) and corporate (utility) portfolio. 96% of this exposure is Investment Grade. At this stage, there has been no significant negative impact from Brexit and none is expected in the short term.

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

- the airport sector (exposure of EUR 312 million). The sector is very strongly impacted but Dexia Crédit Local's counterparties seem to be in a position to face the reduction of their activity in the short term. Some of these exposures are guaranteed by a monoline.
- the transport infrastructure sector bearing a traffic risk (excluding airports) on which Dexia Crédit Local has an exposure of EUR 1.8 billion, mainly in Europe. These counterparties generally benefit from reserve accounts allowing them to cover a half-yearly maturity,

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

which permits them to bear the very strong decrease in traffic observed during the months of lockdown. Initial traffic data indicate a satisfactory recovery after lockdown.

- the gas and oil sector, where Dexia Crédit Local has an exposure of EUR 44.6 million, concentrated on the liquefied natural gas sector.

### Dexia Crédit Local commitments to ABS

As at 30 June 2021, Dexia Crédit Local's ABS portfolio amounted to EUR 1.3 billion. 100% of the portfolio is Investment Grade, against 98% at the end of December 2020.

### Dexia Crédit Local 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 loans. Actual claims against the monolines only become payable if actual defaults occur in the underlying assets. Dexia Crédit Local's insured bonds benefit from enhanced trading values and, in some cases, capital relief due to the credit enhancements provided by monolines.

As at 30 June 2021, the amount of Dexia Crédit Local's exposures insured by monolines amounted to EUR 1.2 billion, of which 98% of the exposures are insured by monolines rated Investment Grade by at least one external rating agency. With the exception of one counterparty, all monolines continue to honour their initial commitments.

### Dexia Crédit Local commitments to financial institutions

Dexia Crédit Local commitments to financial institutions amounted to EUR 5.9 billion as at 30 June 2021.

European banks absorbed the first economic shock of the Covid-19 pandemic well. The regulatory reforms put in place following the financial crises of 2008 and 2011 have enabled banks to approach this crisis with much stronger capital positions. Moreover, the unprecedented support measures quickly provided by supervisors, including the loosening of capital buffers, allowed banks to absorb losses and continue lending to the real economy.

The impact of the pandemic is still far from being fully reflected in financial indicators. Uncertainties surrounding credit risk are beginning to dissipate and signs of increased credit risk are becoming apparent. However, banks made significant provisions in 2020 in anticipation of higher default rates.

On the other hand, most of the loans under moratorium have resumed regular payment schedules with less difficulty than expected even though their quality has deteriorated.

### Impairments on counterparty risk – Asset quality

Impaired assets decreased from EUR 556 million as at 31 December 2020 to EUR 503 million as at 30 June 2021. Specific provisions amount to EUR 113 million, down by EUR 20 million compared to 31 December 2020. This decrease is mainly explained by the total or partial early repayment of exposures, notably in Greece and the United Kingdom.

As a result, the coverage ratio stood at 22.5% as at 30 June 2021, compared to 24.0% as at 31 December 2020.

As at 30 June 2021, collective provisions amounted to EUR 296 million, of which EUR 24 million in Stage 1 provisions and EUR 272 million in Stage 2 provisions.

The EUR 23 million decrease in the amount of collective provisions recorded in the first half of 2021 is the result of the favourable impact of the update of the calculation parameters linked to the evolution of the portfolio (rating changes, disposals, natural depreciation) and the update of the macroeconomic scenarios used to determine the Probability of Default (PD) and Loss Given Default (LGD) taken into account for the assessment of expected credit losses under IFRS 9. However, this decrease is partially offset by an increase in provisions due to the review of models within the context of back-testing exercises.

ASSET QUALITY

| *(in EUR million)* | 31/12/2020 | 30/06/2021 |
|---|---|---|
| Impaired assets(1) | 556 | 503 |
| Specific impairments(2) | 133 | 113 |
| *Of which* | | |
| Stage 3 | 123 | 110 |
| POCI | 10 | 3 |
| Coverage ratio(3) | 24.0% | 22.5% |
| Collective provisions | 320 | 296 |
| *Of which* | | |
| Stage 1 | 21 | 24 |
| Stage 2 | 299 | 272 |

(1) Outstanding: computed according the applicable perimeter defined under IFRS 9 (FV through OCI + Amortised Cost + Off Balance).
(2) Impairments: according the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI.
(3) Specific impairments-to-Impaired assets ratio.

## MARKET RISK

For the methodological description of the market risk management framework, please refer to the Annual Report 2020 - Risk Measurement.

### Value at Risk

At the end of June 2021, the total VaR consumption of the trading portfolios amounted to EUR 1 million compared to EUR 1.1 million at the end of 2020.

### Sensitivity of the banking portfolio to the evolution of credit spreads

The portfolio classified at fair value through equity is composed of securities and loans and shows a sensitivity to an increase in credit spreads which has significantly decreased by virtue of the sales made under the Remedial Deleveraging Plan. It amounted to EUR -1.7 million as at 30 June 2021 compared to EUR -2.2 million as at 31 December 2020. In addition, the portfolio classified at fair value through profit or loss, also composed of securities and loans, presented a sensitivity to an increase in credit spreads of EUR -1.4 million as at 30 June 2021 against EUR -2.1 million as at 31 December 2020. Among these assets at fair value through profit or loss, those not meeting the SPPI criterion show a stable sensitivity over the first half of 2021 at EUR -1 million per basis point.

## TRANSFORMATION RISK

Dexia Crédit Local's asset and liability management (ALM) policy aims to reduce liquidity risk as much as possible and to limit the banking book's exposure to interest rate and exchange rate risk.

### Management of interest rate and exchange rate risk

For the methodological description of the interest rate and exchange rate risk management framework, please refer to the 2020 Annual Report.

The sensitivity of the long-term ALM amounted to EUR -48.3 million as at 30 June 2021 compared to EUR -14.3 million as at 31 December 2020.

The evolution is explained by the will to hedge the sensitivity of the net interest margin, by investing in fixed rate exposures, which opens a sensitivity on the economic value. However, this sensitivity remains far from its limits (EUR +/- 130 million).

### Management of liquidity risk

For the methodological description of the liquidity risk management framework, please refer to the Annual Report 2020.

As at 30 June 2021, the Dexia Group (consolidated) and Dexia Crédit Local (statutory) had an LCR ratio of 245% and 250% respectively, well above the minimum requirement of 100%.

At the same date, the net stable funding ratios (NFSR) are also in line with these requirements and amount to 172% for the Dexia Group (consolidated) and 160% for Dexia Crédit Local (statutory)[1].

At the same date, the net stable funding ratios (NFSR) were also in line with these requirements and amounted to 172% for the Dexia Group (consolidated) and 160% 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 provided by the Basel regulatory framework.

In the first half of 2021, out of all the operational incidents reported, no major financial impact was observed. Non-financial impacts were nevertheless measured, in particular the loss of man-days linked to a limited number of incidents of connectivity to the information system.

Following the effective migration of all servers to the new IT platform at Cognizant at the end of 2019, the stabilisation of the IT environment is now validated, as illustrated by the good performance results (KPIs) obtained on IT activities.

(1) The ACPR confirmed to Dexia Crédit Local at the end of 2019 that the short-term liquidity ratio (LCR) and the net stable funding ratio (NFSR) were no longer expected at the Dexia Crédit Local consolidation level. As a consequence, Dexia no longer produces these ratios at this level of consolidation but continues to calculate them at the consolidated level for the Dexia Group and at the level of the Dexia Crédit Local entity (statutory).

Thus, as of March 2020, Dexia Crédit Local staff members were very quickly able to switch to a 100% teleworking situation and ensure the operational continuity of all banking management activities, within the context of the crisis linked to the Covid-19 pandemic. In the first half of 2021, Dexia maintained its crisis management system, while streamlining it as the health situation improved. This system favours teleworking but also provides for face-to-face activities.

In 2021, the Dexia Crédit Local Group continues to adapt its structure and operational processes to its orderly resolution mandate. This resolution is by nature conducive to the development of operational risks, in particular due to elements such as the departure of key persons, a possible demotivation of staff members or the implementation of transformation projects, some of which have an impact on operational continuity and require careful monitoring due to significant execution risks.

The potential impact of the main risks, particularly those relating to IT systems, human resources and outsourcing, is assessed under stress conditions using "expert scenarios" drawn up on an annual basis as part of the ICAAP. In addition, a report is produced quarterly to monitor the risks associated with strategic business continuity projects and to ensure that corrective actions are implemented to reduce the most significant risks.

Finally, psychosocial risks are closely monitored, accompanied by prevention and support measures.

## STRESS TESTS

Dexia Crédit Local carries out multiple scenario analysis and stress test exercises as part of a transversal approach integrated into the Group's risk management process. Their aim is to identify possible vulnerabilities and, in an adverse shock situation, simultaneously 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].

Thus, a complete programme of stress tests in accordance with the relevant regulations is 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 the first half of 2021 include:

- Specific credit stress tests for the main asset classes. Credit exposures by asset class were subject to annual sensitivity, macroeconomic, historical, concentration and expert scenario tests. The impacts on the cost of risk and risk-weighted assets are analysed. The results of the stress scenarios are contrasted with the results of the Value at Risk (VaR) approach to credit risk. Specific analyses of the sensitivity to environmental risks have been performed.
- Market stress tests (highlighting potential events outside the probabilistic framework of VaR measurement techniques). These 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 Risk Appetite Framework (RAF).

A series of specific stress tests (sensitivity analysis, scenario analysis), based on macroeconomic scenarios simulating crisis situations and on expert scenarios. In the specific context of the Covid-19 health crisis, specific scenarios were applied. These stress tests take into account, inter alia, the severe macroeconomic scenario as published by the European Central Bank and the national banks within the context of the pandemic. In connection with the Pillar 2 requirements and the requirements of capital adequacy measures, these stress tests are linked to the ICAAP and ILAAP processes. The EBA 2021 adverse scenario was assessed as a benchmark in the ICAAP.

For ICAAP and ILAAP stresses, at regular intervals Dexia Crédit Local performs a comprehensive review of its vulnerabilities to cover all material risks, related to its business model under stressed macro-economic

(1) In line with the recommendations of the European Banking Authority (EBA) published in July 2018 - Guidelines on the revised common procedures and methodologies for the Supervisory review adequacy assessment process (ICAAP) et ECB Guide to the internal liquidity adequacy assessment process (ILAAP).

and financial conditions. This review is documented by the ICAAP/ILAAP processes and is applied to and complements the financial planning process.

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

Crisis simulations and other stress tests for ICAAP and ILAAP 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 2021 (based on end-2020 figures) has been transmitted to the Joint Team (NBB and ACPR). These tests are an integral part of the RAF and are incorporated into the definition and review of the overall strategy. The link between the risk tolerance, the adaptations of the strategic resolution plan and the ICAAP and ILAAP stress tests is ensured by specific indicators of capital consumption of the RAF.

## RATINGS

RATINGS AS AT 30 JUNE 2021

| | 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+ |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

| **ASSETS** *(in EUR million)* | 30/06/2020 | 31/12/2020 | 30/06/2021 |
|---|---|---|---|
| Cash and central banks | 5,738 | 9,866 | 9,032 |
| Financial assets at fair value through profit or loss | 17,404 | 12,950 | 10,238 |
| Hedging derivatives | 1,240 | 1,263 | 808 |
| Financial assets at fair value through other comprehensive income | 4,097 | 3,369 | 2,798 |
| Financial assets at amortised cost - Debt securities | 39,661 | 37,075 | 35,574 |
| Financial assets at amortised cost - Interbank loans and advances | 23,009 | 21,498 | 18,090 |
| Financial assets at amortised cost - Customer loans and advances | 28,452 | 26,895 | 24,501 |
| Fair value revaluation of portfolio hedges | 452 | 426 | 326 |
| Current tax assets | 13 | 31 | 30 |
| Deferred tax assets | 20 | 0 | 0 |
| Accruals and other assets | 106 | 98 | 205 |
| Tangible fixed assets | 34 | 31 | 23 |
| Intangible assets | 26 | 21 | 14 |
| **TOTAL ASSETS** | **120,252** | **113,523** | **101,639** |

| **LIABILITIES** *(in EUR million)* | 30/06/2020 | 31/12/2020 | 30/06/2021 |
|---|---|---|---|
| Financial liabilities at fair value through profit or loss | 16,444 | 12,525 | 10,958 |
| Hedging derivatives | 21,439 | 20,548 | 16,976 |
| Interbank borrowings and deposits | 12,517 | 10,050 | 8,146 |
| Customer borrowings and deposits | 2,690 | 6,824 | 7,813 |
| Debt securities | 61,268 | 57,360 | 51,656 |
| Fair value revaluation of portfolio hedges | 6 | 5 | 1 |
| Current tax liabilities | 1 | 1 | 1 |
| Deferred tax liabilities | 33 | 30 | 81 |
| Accruals and other liabilities | 394 | 360 | 286 |
| Provisions | 116 | 109 | 67 |
| Subordinated debt | 19 | 19 | 20 |
| **TOTAL LIABILITIES** | **114,927** | **107,831** | **96,005** |
| | | | |
| **Equity** | **5,325** | **5,692** | **5,634** |
| Equity, Group share | 5,322 | 5,692 | 5,634 |
| Capital stock and related reserves | 2,465 | 2,465 | 2,465 |
| Consolidated reserves | 4,241 | 4,244 | 3,688 |
| Gains and losses directly recognised in equity | (643) | (460) | (315) |
| Net result of the period | (741) | (557) | (204) |
| Minority interests | 3 | 0 | 0 |
| **TOTAL LIABILITIES AND EQUITY** | **120,252** | **113,523** | **101,639** |

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

## CONSOLIDATED STATEMENT OF INCOME

| *(in EUR million)* | 30/06/2020[1] | 30/06/2021 |
|---|---|---|
| Interest income | 1,525 | 1,201 |
| Interest expense | (1,509) | (1,179) |
| Commission income | 3 | 3 |
| Commission expense | (8) | (8) |
| Net gains (losses) on financial instruments at fair value through profit or loss | (384) | (73) |
| Net gains (losses) on financial instruments measured at fair value through other comprehensive income | (58) | (26) |
| Net gains (losses) arising on derecognition of financial assets measured at amortised cost | (7) | 16 |
| Net gains (losses) on reclassification of financial assets measured at amortised cost into fair value through profit or loss | (104) | 0 |
| Other income | 2 | 46 |
| Other expenses | (3) | (18) |
| **NET BANKING INCOME** | **(543)** | **(38)** |
| Operating expenses | (186) | (153) |
| Depreciation, amortisation and impairment of tangible fixed assets and intangible assets | (20) | (8) |
| **GROSS OPERATING INCOME** | **(749)** | **(199)** |
| Cost of credit risk | (95) | 47 |
| **OPERATING INCOME** | **(844)** | **(152)** |
| Net gains ( losses) on other assets | 104 | 0 |
| **NET RESULT BEFORE TAX** | **(740)** | **(152)** |
| Income tax | (2) | (52) |
| **NET INCOME** | **(742)** | **(204)** |
| Minority interests | (1) | 0 |
| **NET INCOME, GROUP SHARE** | **(741)** | **(204)** |

(1) Figures as of 30/06/2020 have been revised. Interest on trading derivatives measured at Fair value through profit or loss (excluding economic hedging derivatives which are held for risk management purposes but for which hedge accounting is not applied) are now recorded on the line Net gains or losses on financial instruments at Fair value through profit or loss and no longer in Interest income and Interest expense. See also note 1.3 Changes in presentation of condensed consolidated financial statements of Dexia Crédit Local and note VII. Impact of the reclassification of interest income and interest expenses on derivatives held for trading measured at fair value through profit or loss.

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 30/06/2020 | | | 30/06/2021 | | |
|---|---|---|---|---|---|---|
| *(in EUR million)* | Before-tax amount | Tax (expense) benefit | Net-of-tax amount | Before-tax amount | Tax (expense) benefit | Net-of-tax amount |
| NET INCOME | | | (742) | | | (204) |
| **Elements reclassified or likely to be subsequently reclassified in net income** | | | | | | |
| - Cumulative translation adjustments | (103) | | (103) | | | |
| - Changes in fair value of debt instruments at fair value through other comprehensive income | (50) | | (50) | 48 | | 48 |
| - Revaluation of hedging derivatives | (105) | | (105) | 98 | | 98 |
| **Elements that will never be reclassified or likely to be subsequently reclassified in net income** | | | | | | |
| - Actuarial gains and losses on defined benefit plans | 2 | | 2 | 2 | | 2 |
| - Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss | 6 | (1) | 5 | (3) | 1 | (2) |
| - Transfer within consolidated reserves of own credit risk amounts related to financial liabilities designated at fair value through profit or loss, upon their derecognition | (5) | 1 | (4) | | | |
| - Changes in fair value of equity instruments at fair value through other comprehensive income | 1 | | 1 | (2) | | (2) |
| TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY | (254) | 0 | (254) | 143 | 1 | 145 |
| NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY | | | (996) | | | (59) |
| of which, Group share | | | (995) | | | (59) |
| of which, Minority interests | | | (1) | | | |

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

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2021 –

## 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 | Minority interests | | | 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 | Translation adjustments | Total | | | Capital and reserves | Gains and losses directly recognised in equity | Total | |
| AS AT 31/12/2019 | 279 | 2,186 | 2,465 | 5,020 | (134) | 1 | (432) | (8) | 35 | 148 | (390) | (784) | 6,311 | 4 | 0 | 4 | 6,315 |
| *Movements during the period* | | | | | | | | | | | | | | | | | |
| - Appropriation of net income 2019 | | | | (784) | | | | | | | | 784 | 0 | | | 0 | 0 |
| **Subtotal of shareholders related movements** | | | | (784) | | | | | | | | 784 | 0 | | | 0 | 0 |
| - Translation adjustments | | | | | | | | | | (103) | (103) | | (103) | | | 0 | (103) |
| - Own credit risk reclassified upon derecognition from accumulated other comprehensive income to reserves for the period | | | | 5 | | | | | (5) | | (5) | | 0 | | | 0 | 0 |
| - Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity | | | | | 25 | 1 | | | | | 26 | | 26 | | | | 26 |
| - Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income | | | | | 17 | | | | | | 17 | | 17 | | | 0 | 17 |
| - Reclassification of financial assets at amortised cost into financial assets at fair value through other comprehensive income (change in business model) | | | | | (92) | | | | | | (92) | | (92) | | | 0 | (92) |
| - Gains and losses of the period of cash flow hedge derivatives, through equity | | | | | | | (108) | | | | (108) | | (108) | | | 0 | (108) |
| - Gains and losses on cash flow hedge derivatives reclassified in profit or loss | | | | | | | 3 | | | | 3 | | 3 | | | 0 | 3 |
| - Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR) | | | | | | | | | 6 | | 6 | | 6 | | | 0 | 6 |
| - Changes in actuarial gains and losses on defined benefit plans | | | | | | | | 2 | | | 2 | | 2 | | | 0 | 2 |
| **Subtotal of changes in gains and losses directly recognised in equity** | | | | 5 | (50) | 1 | (105) | 2 | 1 | (103) | (254) | | (249) | | | 0 | (249) |
| Net income for the period | | | | | | | | | | | | (741) | (741) | (1) | | (1) | (742) |
| AS AT 30/06/2020 | 279 | 2,186 | 2,465 | 4,241 | (185) | 2 | (537) | (6) | 37 | 45 | (643) | (741) | 5,322 | 3 | 0 | 3 | 5,325 |
| AS AT 31/12/2020 | 279 | 2,186 | 2,465 | 4,244 | (141) | 1 | (385) | (5) | 33 | 38 | (460) | (557) | 5,692 | 0 | 0 | 0 | 5,692 |
| *Movements during the period* | | | | | | | | | | | | | | | | | |
| - Appropriation of net income 2020 | | | | (557) | | | | | | | | 557 | 0 | | | 0 | 0 |
| **Subtotal of shareholders related movements** | | | | (557) | | | | | | | | 557 | 0 | | | 0 | 0 |
| - Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity | | | | | 24 | | | | | | 24 | | 24 | | | | 24 |
| - Equity instruments at fair value through other comprehensive income : transfer of the cumulative gain or loss within equity | | | | 2 | | (2) | | | | | (2) | | 0 | | | 0 | 0 |
| - Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income | | | | | 25 | | | | | | 25 | | 25 | | | 0 | 25 |
| - Gains and losses of the period of cash flow hedge derivatives, through equity | | | | | | | (3) | | | | (3) | | (3) | | | 0 | (3) |
| - Gains and losses on cash flow hedge derivatives reclassified in profit or loss | | | | | | | 101 | | | | 101 | | 101 | | | 0 | 101 |
| - Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR) | | | | | | | | | (2) | | (2) | | (2) | | | 0 | (2) |
| - Changes in actuarial gains and losses on defined benefit plans | | | | | | | | 2 | | | 2 | | 2 | | | 0 | 2 |
| **Subtotal of changes in gains and losses directly recognised in equity** | | | | 2 | 49 | (2) | 98 | 2 | (2) | 0 | 144 | | 146 | | | 0 | 146 |
| - Net income for the period | | | | | | | | | | | | (204) | (204) | | | 0 | (204) |
| AS AT 30/06/2021 | 279 | 2,186 | 2,465 | 3,688 | (93) | 0 | (287) | (3) | 31 | 38 | (316) | (204) | 5,634 | 0 | 0 | 0 | 5,634 |

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

## CONSOLIDATED CASH FLOW STATEMENT

| *(in EUR million)* | 30/06/2020 | 30/06/2021 |
|---|---|---|
| Cash flow from operating activities | | |
| Net income after income taxes | (742) | (204) |
| *Adjustment for:* | | |
| - Depreciation, amortisation and other impairment | 20 | 8 |
| - Impairment losses (reversal impairment losses) on bonds, loans and other assets | 92 | (47) |
| - Net (gains) or losses on investments[(1)] | (104) | 0 |
| - Net increases (net decreases) in provisions | 1 | (42) |
| - Unrealised (gains) or losses on financial instruments | 192 | 90 |
| - Deferred taxes | 1 | 51 |
| Changes in operating assets and liabilities | (2,397) | 684 |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | **(2,937)** | **540** |
| | | |
| Cash flow from investing activities | | |
| Purchase of fixed assets | (2) | (8) |
| Sales of unconsolidated equity shares | | 6 |
| **NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES** | **(2)** | **(2)** |
| | | |
| Cash flow from financing activities | | |
| Cash outflow related to lease liabilities | (7) | (4) |
| **NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES** | **(7)** | **(4)** |
| | | |
| **NET CASH PROVIDED** | **(2,946)** | **534** |
| | | |
| **Cash and cash equivalents at the beginning of the period** | **9,923** | **10,519** |
| Cash flow from operating activities | (2,937) | 540 |
| Cash flow from investing activities | (2) | (2) |
| Cash flow from financing activities | (7) | (4) |
| Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents | 70 | 4 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **7,047** | **11,057** |
| | | |
| Additional information | | |
| Income tax paid | 0 | 0 |
| Dividends received | 1 | 0 |
| Interest received | 2,801 | 2,403 |
| Interest paid | (2,969) | (2,390) |

(1) Translation adjustments on New York branch, reclassified in profit or loss

The notes on pages XX to XX 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 approved by the Board of Directors on 7 September 2021.

### Accounting policies

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

The common 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 2021 and applicable as from 1 January 2021.

The interim condensed consolidated financial statements as at 30 June 2021 have been prepared in accordance with the same accounting policies and methods of computation as those used in the preparation of the 2020 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 condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2021 were prepared in line with the accounting rules applicable to a going concern in accordance with the accounting standards 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, and reassessed on the basis of the elements available on the date on which the financial statements were approved.

The main assumptions retained by the management for the preparation of the condensed consolidated financial statements as at 30 June 2021 and areas of uncertainty, reinforced in particular by the situation related to the Covid-19 pandemic, are summarised below:

- The business plan assumes the maintenance of the banking licence of Dexia Crédit Local and the maintenance of the Dexia Crédit Local rating at a level equivalent to or higher than the level of Investment Grade.
- The ongoing resolution assumes that Dexia and Dexia Crédit Local retain 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 European Commission's confirmation of the prolongation of the liquidity guarantee granted by the Belgian and French States beyond 31 December 2021, for a maximum amount of EUR 75 billion, is an essential element of support for the continuation of the Group's orderly resolution. The French and Belgian States ratified the legal texts relating to this prolongation on 29 December 2020 and 27 June 2021 respectively.
- Although managing these risks very proactively, the Dexia Crédit Local Group is also very sensitive to changes in the macroeconomic environment and market parameters such as exchange rates, interest rates or credit spreads. An unfavourable evolution of these parameters over time could have an adverse impact on the Group's liquidity and solvency levels. It could also have an impact on the valuation of financial assets, liabilities or OTC derivatives, the changes in the fair value of which are recognised in the income statement or through shareholders' equity and could lead to a change in the Group's regulatory capital.

- In particular, considering the decisions taken by the Board of Directors in 2019, relating to the implementation of an asset disposal plan for a total of approximately EUR 13 billion[1], Dexia Crédit Local is exposed to the evolution of the fair value of these assets until their effective disposal.
- Furthermore the Group is also exposed to certain operational risks, specific to the resolution environment in which it operates and which have been increased by the teleworking environment imposed by the Covid-19 pandemic.
- Finally, residual uncertainties related, for example, to new changes in accounting and prudential rules over the duration of the Group's resolution could lead to a significant change in the resolution path initially anticipated.

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

- Since the Group's entry into orderly resolution, Dexia Crédit Local has continuously reduced its funding requirements and extended the maturity of the funding raised, with a view to prudent management of its liquidity. The acceleration of asset sales decided during the summer of 2019 has notably enabled a EUR 5.6 billion reduction in the Group's funding requirements compared to the end of December 2020, supported by the rapid reduction in the US dollar funding requirement.
- In addition, during the first half of 2021, the Group maintained a sustained execution dynamic of its funding programme, enabling it to finalise its annual long-term refinancing programme in July 2021. Five long-term public transactions were launched by Dexia Crédit Local in euros, pounds sterling and US dollars, for a total amount of EUR 5 billion. Thus, Dexia Crédit Local was able to maintain a liquidity reserve deemed adequate with the restriction of access to ECB funding announced on 21 July 2017[2], the latter amounted to EUR 16.6 billion, of which EUR 10.7 billion was in cash as at 30 June 2021.
- Within the context of the half-yearly reviews of the Group's financial trajectory, and in the specific context of the Covid-19 pandemic, an update of the financial projections was presented to the Board of Directors of Dexia on 29 April 2021. In particular, it includes a "central" macroeconomic scenario, based on the ECB's reference scenario published in December 2020. This central scenario takes into account a strong economic recovery after the shock of 2020, among others following the roll-out of the vaccination campaigns. However, Dexia Crédit Local considered this scenario too favourable as the effect of the 2020 shock on defaults is time-lagged with respect to the specific context of the Covid-19 pandemic and the implementation of health and economic support measures. Therefore, a conservative approach has been adopted, taking into account the macroeconomic evolution since the beginning of the crisis and not only from the end of 2020.
- Management has also taken into account the constraints and uncertainties of its operating model as well as the going concern risks inherent to Dexia Crédit Local's specific character as a bank in resolution. Within the specific context of the Covid-19 pandemic, management has taken appropriate measures to mitigate this risk, in particular through the setting-up of a crisis unit and the widespread deployment of teleworking for all staff members, thus fully ensuring the bank's operational continuity.

As a consequence, after taking all these elements and uncertainties into account, Dexia Crédit Local management confirms that as at 30 June 2021, they do not call into question the fundamentals of the Group's orderly resolution and do not lead to the assessment of the application of the going concern agreement being called into question. Consequently, the condensed consolidated financial statements can be prepared on a going concern basis in accordance with 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 2021

- **Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16** "Interest Rate Benchmark Reform – Phase 2". These amendments published by the IASB in August 2020 in the context of the interest rate benchmark reform supplement those published in 2019 on the Phase 1. They address accounting issues arising from the replacement of the IBOR benchmarks and the entry into force of the alternative benchmarks, such as:
  - derecognition and modification of financial assets and liabilities indexed to the benchmarks in the scope of the reform and
  - hedge accounting.

Moreover, the amendments require additional disclosures on all financial assets and liabilities concerned by the rate reform (see note VI), on the new risks arising from this reform and on the management of the transition to alternative reference rates (see note I.4 Use of estimates and judgments - IBOR benchmark rates reform).

(1) Impact on debt reduction in 2022 of the plan validated by the Board of Directors on 19 July 2019.
(2) On 21 July 2017, the ECB announced the end of access to the Eurosystem for liquidation structures as from 31 December 2021.

*Derecognition and modification of financial assets and liabilities*

The amendment allows not to derecognize or adjust the carrying amount of a financial asset or liability at amortized cost or of an asset at fair value through OCI to take into account changes in the basis for determining the contractual cash flows, but rather to update the effective interest rate to reflect the change in the alternative reference rate in the future interest income or expense. These new provisions, which allow to generate no gain or loss in the net income, are applicable if and only if the modification of the current rates is required by the rate reform and is carried out so as to maintain an economic equivalence between the old cash flows and the new ones. The changes that are considered to be economically equivalent are for example:

- the replacement of a benchmark interest rate with an alternative rate (or by changing its calculation method) with the addition of a fixed spread to compensate for the difference between the existing rate and the alternative rate;
- the modification of the calculation of the amount of interest due to the use of a new rate (rate reset terms, number of days between coupon payment dates, etc.);
- the addition of a fallback clause to the contractual terms to allow the implementation of the above changes.

*Hedge accounting*

The amendment allows hedge accounting not to be discontinued solely because of the changes required by the reform, if the hedge meets other hedge accounting criteria and if the documentation is amended to reflect changes in the hedged elements (including the description of the hedged portion of cash flows or fair value), the hedging instruments, the hedged risk, and/or the method of measuring effectiveness on transition to the new reference rates. For fair value and cash flow hedges, the applicable accounting rules are maintained for the recognition of gains or losses resulting from the revaluation of the hedged component and of the hedging instrument taking into account the changes described above.

For fair value hedges of a risk component, an alternative benchmark interest rate may be used under condition that it is reasonably expected that it will be separately identifiable within 24 months following its replacement.

In addition, the new provisions address issues related to portfolio hedges and to OCI reserve for cash flow hedges (CFH).

*Impacts on Dexia Crédit Local's financial statements*

In 2021, Dexia Crédit Local continue its efforts to ensure the transition to the new benchmark interest rates and particularly in the context of the discontinuation of the LIBOR GBP and EONIA indices scheduled respectively for 31 December 2021 and 3 January 2022. Thus, Dexia Crédit Local plans to complete by the end of 2021 the update of its contracts indexed to these indices or the implementation of appropriate fallback provisions.

Based on the progress of its work at 30 June 2021 and considering the application from 1 January 2021 of the amendments to IFRS 9 and IAS 39 on interest rate benchmark reform - phase 2, Dexia Crédit Local expects that the transition of its contracts to SONIA and €STR indices replacing respectively LIBOR GBP and EONIA will generate the following impacts:

- Regarding the modification of financial assets and liabilities contracts, the new provisions of the amendments to IFRS 9 should allow limiting the impacts on the financial situation of Dexia Crédit Local since the expected modifications of existing rates are required by the reform of benchmark rates and will be carried out on an economically equivalent basis. During the first half of 2021, Dexia Credit Local has realized no transition to the new benchmark interest rates for its contracts related to non-derivative financial assets and liabilities.
- Regarding its fair value hedge relationships, mainly against LIBOR GBP risk, the derivative contracts concerned should be progressively amended in order to incorporate the new SONIA index. According to the transition terms adopted by the markets, this replacement on the floating leg of the derivatives should be done by adding a fixed spread to compensate for the basis difference between the current LIBOR GBP rate and the alternative SONIA rate and should not generate any impact on the fair value of derivatives. The redefinition of the hedged risk (against SONIA) and of the new hedged portion will be documented concomitantly with the change related to derivatives. Given the accounting rules applicable to fair value hedges for the recognition of gains or losses resulting from the revaluation of the hedged component and of the hedging instrument taking into account the changes described above, Dexia Credit Local expects the transition of its LIBOR GBP indexed derivative contracts to generate a total positive impact in P&L of around EUR 350 million. This impact will correspond to the reversal of the stock of LIBOR GBP / SONIA inefficiency at the time of the transition and will be generated by the revaluation of the fair value of the hedged risk

following its redefinition. This impact will be broken down between 2021 and 2022 reporting periods depending on the progress and on the strategy of the transition of Dexia Crédit Local (replacement of the index via bilateral negotiations with counterparties or via the activation of a replacement clause ("fallback") scheduled for 2022 within ISDA contract framework).

During the first half of 2021, Dexia Credit Local has made no modification to its hedging derivative contracts as part of the interest rate benchmark reform.

### 2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2021

- **"Annual Improvements – 2018-2020 cycle"** which are a series of amendments to existing IFRS and will be applicable as from 1 January 2022. Dexia Crédit Local does not expect these amendments to have a material impact on its financial statements as they are only minor adjustments to certain IFRS standards.
- **Amendment to IAS 37** "Onerous Contracts – Cost of Fulfilling a Contract", **amendment to IAS 16** "Proceeds Before Intended Use", **amendment to IFRS 3** "Reference to the Conceptual Framework". These limited scope amendments will be applicable as from 1 January 2022 and their impact on Dexia Credit Local's financial statements is being analysed.

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

- **Amendment to IFRS 16** "Covid-19-Related Rent Concessions beyond 30 June 2021" (issued by IASB in March 2021) aims to make it easier for lessees to account for Covid-19-related rent concessions such as rent holidays and temporary rent reductions. This amendment is applicable as from 1 April 2021 and has no impact on Dexia Crédit Local's financial statements as Dexia Crédit Local has not benefited from any rent relief in the context of the Covid-19 crisis as of 30 June 2021.
- **Amendment to IAS 1 and IFRS 2 Practice Statement** "Disclosure of Accounting policies" (issued by IASB in February 2021). This amendment will be applicable as from 1 January 2023 and its impact on Dexia Crédit Local's disclosures to financial statements is being analysed.
- **Amendment to IAS 8** "Definition of Accounting Estimates" (issued by IASB in February 2021). This amendment, which aims to facilitate the distinction between accounting methods and accounting estimates, will be applicable from 1 January 2023 and its impact is currently being analysed.
- **Amendment to IAS 12** "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (issued by IASB in May 2021). This amendment will be applicable as from 1 January 2023 and its impact on Dexia Crédit Local's financial statements is being analysed.
- **IFRS IC decision related to IAS 19 standard** "Employee benefits" issued in April 2021 about the periods of service to which an entity attributes benefit for a particular defined benefit plan. Dexia Crédit Local plans to finalize the impact assessment of this decision on its financial statements by 31 December 2021 and does not expect a material impact.

### 2.4. New standard IFRS 17 "Insurance Contracts"

This standard issued by IASB in May 2017 in replacement of the current IFRS 4 "Insurance Contracts" standard, will be effective as from 1 January 2023. In June 2020, the IASB issued amendments to IFRS 17 postponing its first time application date to 1 January 2023. In parallel, an amendment to IFRS 4 was also published in order to extend the temporary exemption from the application of IFRS 9 until the date of entry into force of IFRS 17. This new standard will have no impact on Dexia Crédit Local's financial statements as Dexia Crédit Local has no insurance contracts within the scope of the standard.

### 2.5. New definition of default

As stated by the European Banking Authority (EBA) guidelines, the new default definition (defined by article 178 of Regulation (EU) n° 575/2013) will enter into force as from 1 January 2021. The Regulation (EU) 2018/1845 of the European Central Bank (ECB), applicable from 31 December 2020, complete these regulatory measures for the past-dues materiality threshold. These new regulations reinforces the consistency and harmonize practices of the European credit institutions for the identification of defaulted exposures.

Dexia Crédit Local applies a unique definition of default for its whole portfolio and apply this new regulation for the identification of defaulted positions from mid-2020. To be noted that Dexia Crédit Local follows-up on a quarterly basis as from 2019 the default qualification under the new definition of default along with the former definition.

## 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 (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. As at 30 June 2021, they are compliant with ANC Recommendation 2017-02 issued on 2 June 2017 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards".

As from 31 December 2020 and in order to give readers of the financial statements a more accurate picture of the impacts related to its economic operations, Dexia Crédit Local presents interest income and expenses on trading derivatives measured at Fair value through profit or loss (except for derivatives held for risk management purposes ("economic" hedges) in the line "Net gains (losses) on financial instruments at fair value through profit and loss" of the income statement and no longer under "Interest income" and "Interest expense". The classification of interests in the cash flow statement remains unchanged.

## 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 judgement. 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 recognized 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;
- 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).

### Covid-19 crisis

The current context of the public health crisis related to Covid-19 is characterized by significant uncertainties about the duration and the magnitude of the economic effects of the pandemic. These uncertainties have led Dexia Crédit Local to make assumptions and estimates and to exercise a greater degree of judgment in the preparation of its condensed consolidated financial statements as of 30 June 2021. These are mainly related to the measurement of expected credit losses of financial assets and the assessment of the criterion of significant increase in credit risk under IFRS 9.

The main effects of the Covid-19 crisis, as well as the assumptions and estimates updated to take into account the impacts of the Covid-19 pandemic and used in the preparation of the Dexia Crédit Local's consolidated financial statements as of 30 June 2021 are presented in note I. "Other significant events of the period – Impacts relating to Covid-19".

### IBOR benchmark rates 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 current benchmark rates by new risk-free rates. Financial instruments based on the current benchmark rates will have to be amended in order to reflect the new rates. At this stage, uncertainties still remain as to the timetable and exact replacement conditions of the indexes.

In the euro zone, EONIA will be replaced by €STR as from 3 January 2022. EONIA is maintained during the transition period and since 2 October 2019 it is based on €STR (EONIA = €STR + 8.5 bps). Regarding EURIBOR, a new so-called "hybrid" methodology was recognized as BMR compliant as from July 2019 and this rate was added to the benchmark register of the European Securities and Markets Authority (ESMA).

Regarding LIBOR, the new SOFR and SONIA risk-free rates which comply with the BMR regulations have been published since 2018. Indexes based on these risk-free rates are intended to replace the current LIBOR USD and LIBOR GBP indexes respectively, the publication of which will continue until 30 June 2023 for most of LIBOR USD tenors and until 31 December 2021 for LIBOR GBP. Greater uncertainties remain for transactions using the LIBOR index and, in particular, for instruments such as cross-currency swaps, CMS and "tough legacy" management.

Dexia Crédit Local holds financial instruments indexed to the benchmark rates in the scope of the reform and is mainly exposed to indices in EUR, Dollar US and Sterling. Derivative instruments held by Dexia Crédit Local will be impacted by changes in agreements and transactions with OTC counterparties and clearing houses. For derivative contracts with clearing houses, the transition to €STR and SOFR for the remuneration of cash collateral and the discounting curve occurred in 2020. The transition of derivative contracts to replace the index of the floating leg of instruments indexed to EONIA and LIBOR GBP is scheduled on 15 October 2021 and 17 December 2021 respectively. For derivative contracts under ISDA's (International Swaps and Derivatives Association) Master Agreement, ISDA issued an IBOR Fallbacks Supplement on 23 October 2020 amending the 2006 ISDA definitions to incorporate robust fallbacks for derivatives in order to deal with the discontinuation of benchmark rates. At the same time, the ISDA published a Protocol that facilitates the application of these fallbacks to ongoing non-cleared transactions. The Supplement and the Protocol became effective as from 25 January 2021. Dexia Crédit Local adhered to the ISDA Protocol in June 2021 that led to an automatic amendment of its master agreements with bilateral counterparties that have adhered to the protocol. Dexia Crédit Local also plans to negotiate directly with its counterparties the inclusion of new fallback clauses in the event of non-adherence to the ISDA protocol by one of the parties to its derivative contracts. For its OTC derivative contracts and given the discontinuation of EONIA index on 3 January 2022, Dexia Crédit Local has started the transition of its cash collateral agreements to €STR and plans to terminate it by the end of 2021.

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 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, organization and execution of the transition of legacy deals;
- 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.

This reform could have 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. The IASB has launched the research project on this topic with the aim to limit the potential accounting impacts of the reform. Amendments to IFRS 9, IAS 39, IFRS 7 "Interest rate benchmark reform" published by IASB in September 2019 and adopted by the European Union in January

2020 address issues related to hedge accounting in the period of uncertainty preceding the entry into force of these new rates. The IASB proposal aims at maintaining the existing hedging relationships and assumes that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered. These amendments introduce 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. In order to ensure the continuity of its hedging relationships, Dexia Crédit Local has early applied the provisions of these amendments since 31 December 2019.

As at 30 June 2021, most of Dexia Crédit Local's hedging relationships remain indexed to the current IBOR references rates, which are mainly EONIA, EURIBOR and LIBOR rates. For these hedging relationships, hedged and hedging instruments will be gradually amended to incorporate the new rates (replacement of the interest rate benchmark, insertion of replacement clauses known as "fallback" clauses). Dexia Crédit Local will apply the reliefs introduced by the amendments as long as the uncertainties regarding the timing and the amount of cash flows (index, margin adjustment or compensation) of the hedged and hedging instruments (i.e. until the effective amendment of clauses of the affected financial instruments) are not resolved.

As from 1 January 2021, Dexia Crédit Local applies the 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 new amendments deal in particular with the derecognition and modification of financial assets and liabilities indexed to the rate references concerned by the reform and with hedge accounting issues (see 2.1).

#### Brexit

In the context of the exit of the United Kingdom from the European Union as from 1 January 2021 and the signature of the trade and cooperation agreement in December 2020, Dexia Crédit Local continues to follow the progress of the negotiations in the area of financial services. The consequences of Brexit have been integrated in assumptions and estimates used in preparing the consolidated financial statements.

## CHANGES IN SCOPE OF CONSOLIDATION

### 30 june 2020

Nil

### 30 june 2021

Nil

## SIGNIFICANT ITEMS INCLUDED IN THE INCOME STATEMENT

Net income, group share for the first half year 2021 amounts to EUR -204 million, compared to EUR -741 million for half year 2020.

Net banking income is negative at EUR -38 million (EUR -543 million in 2020). The amount includes the income and funding of assets, the impact due to fair value measurement of derivatives, the results from disposals of assets and the changes in provisions for legal risks.

The early repayment of a notional amount of EUR 280 million of loans on the UK social housing sector leads to a loss of EUR -40 million split in two lines:

- *Net gains (losses) arising on derecognition of financial assets measured at amortised cost* for an amount of EUR +39 million coming from the early repayment indemnities, net of hedge of those assets,
- *Net gains (losses) on financial instruments at fair value through profit or loss* for an amount of EUR -79 million, coming from the recycling into result of cash flow hedge reserves due to the unwinding of swaps that hedged the financing of those loans.

*Gains or losses on financial instruments at fair value through profit or loss* amount to EUR -73 million (EUR -384 million in 2020) and includes a favorable evolution of the *Funding Value Adjustment* (FVA), *Credit Value Adjustment* (CVA) and *Debit Valuation Adjustment* (DVA) for a net amount of EUR +42 million (EUR -101 million in 2020).

The changes in market conditions in the first half year 2021 had a limited impact of EUR -13 million (EUR -193 million in 2020) on the fair value hedges inefficiency.

*Net gains or losses from financial instruments at fair value through equity* amount to EUR -26 million (EUR -58 million in 2020) following the disposals made as part of the deleveraging plan validated in the past. Thus, in 2021, the Dexia Crédit Local Group notably sold EUR 178 million of loans to the French local public sector with a loss of EUR 21 million, and EUR 79 million of bonds with a loss of EUR 4 million.

*Net other results*, at EUR +28 million (EUR -2 million in 2020) mainly result from the net provision for litigations and also include a net favorable impact of EUR +20 million due to the signature of a transactional protocol with a counterparty.

Costs amount to EUR -161 million (EUR -206 million in 2020). Taxes and regulatory contributions amount to EUR -52 million and decrease compared to 2020 (EUR -62 million). General operating expenses decrease comes mainly from the simplification of the international network, notably from the closing of the branch in New York. They however remain influenced by significant transformation costs.

*Cost of credit risk* amounts to EUR +47 million and can be explained on the one hand by the review of the macroeconomic scenario based on the projections published by the ECB or by the national regulators when available and on the other hand by the reversal of provisions on assets due to early repayments.

*Net gains or losses on other assets* is at zero, whereas it amounted to EUR 104 million in 2020 following the recycling into profit or loss of the translation adjustment carried by the equity of the New York branch.

*Income tax* amounts to EUR -52 million (EUR -2 million in 2020). It includes a deferred tax charge of EUR -51 million resulting from the transfer of a bond portfolio of EUR 2.7 billion from Dexia Crediop to the Dublin branch of DCL. As required by IAS12 "Income taxes", this temporary difference between tax and accounting value of transferred assets leads to the recognition of a deferred tax liability.

## OTHER SIGNIFICANT ITEMS OF THE HALF YEAR - IMPACTS RELATING TO COVID-19

The year 2020 was strongly marked by the Covid-19 pandemic crisis, which caused an unprecedented health and economic shock and led governments and central banks to take exceptional measures to stop the spread of the virus and support the economy. Although the economic consequences of the crisis are still very uncertain in the medium term, it led the Group to implement various prudent measures, in the specific context of its own orderly resolution.

### Protection of teams and operational continuity

From the very beginning of the crisis, Dexia Crédit Local has closely followed the evolution of the situation linked to the spread of Covid-19. In 2021, the Group's Management Board maintained the mechanism composed of an operational and a strategic crisis units in order to adapt the deployment of teams on site or remotely according to the evolution of the pandemic. This close monitoring and the agile adaptation of the organisation made it possible to protect the teams while ensuring full operational continuity.

In March 2021, the Group signed a new agreement with the social partners concerning the organisation of work, allowing each employee to telework up to three days a week.

### Deterioration of credit risk as a consequence of the crisis

#### Review of the macroeconomic scenarios and sensitive sectors

Within the historical context of the pandemic, the assumptions and estimates used for the preparation of the condensed consolidated financial statements as at 30 June 2021 have changed compared to those used for the 2020 annual closing. In particular, the Dexia Crédit Local Group 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 under IFRS 9.

Thus, for the preparation of the condensed consolidated financial statements as at 30 June 2021, the Group has retained a "central" macroeconomic scenario based on the projections published by the ECB[1] in December 2020 or by national regulators when available (Belgium, France, Germany, Spain, Greece, Italy, Ireland, the Netherlands, Portugal, the United Kingdom, the United States and Tunisia).

The central scenario takes into account a strong economic recovery after the 2020 shock, inter alia following the roll-out of vaccination campaigns. However, Dexia Crédit Local considered this scenario too favourable as the effect of the 2020 shock on defaults is time-lagged with respect to the specific context of the Covid-19 pandemic and the application of sanitary and economic support measures. Therefore, a cautious approach has been adopted, taking into account the macroeconomic evolution since the beginning of the crisis and not only from the end of 2020. For example, the GDP growth of the euro area used for the year 2021 in the point-in-time parameters (-3.7%) is the aggregated evolution of the GDP evolution observed over 2020 (-7.3%) and the GDP projection for 2021 in the ECB scenario (3.9%). The GDP developments for 2022 and 2023 for the euro area are those of the ECB (+4.2% and +2.1% respectively).

The IFRS 9 approach also provides for account to be taken of the macroeconomic uncertainty surrounding the central scenario (cf. accounting valuation rules). In this approach, a difference of two standard deviations has been taken into account on macroeconomic indicators for a projection horizon of three years. This difference is calibrated by comparing the macroeconomic projections of past years with the macroeconomic evolutions actually observed. The resulting expected credit losses are thus obtained by weighting the central scenario with an improved scenario and an adverse scenario, within this range of uncertainty. For Dexia Crédit Local's credit portfolio, since expected losses are globally more sensitive to the adverse scenario than to the improved scenario, the taking into account of the uncertainties surrounding the central scenario results globally in a net increase in provisions, compared to the central scenario alone.

In addition to the baseline scenario, the ECB published an optimistic and a severe scenario within the context of the pandemic. These scenarios, detailed on the ECB website, provide additional information on macroeconomic uncertainty. As a sensitivity analysis, the severe scenario foresees, over three years, a reduced GDP growth around 4%, while the unemployment rate is 2% higher. This results (considering that the ECB's severe scenario becomes Dexia Crédit Local's central scenario) in an increase in expected credit losses of 23%.

Furthermore, Dexia Crédit Local pays particular attention to sensitive economic sectors, notably those sectors strongly impacted by the health crisis as identified in 2020. All counterparties likely to be weakened by the crisis are systematically classified in Stage 2 if they are not classified in Stage 3. This concerns in particular airports, corporate real estate, French overseas and mountain communities, the oil, gas and tourism-entertainment sectors and the financing of student accommodation in the United Kingdom. Together, these sensitive sectors represent an exposure of EUR 12.7 billion out of a total of EUR 76.8 billion.

Dexia Crédit Local also carries out an in-depth analysis of non-performing counterparties on a quarterly basis, in order to assess the consequences of the health crisis on their financial situation. At this stage, there is no significant increase in default events.

The favourable impact of the updated macroeconomic scenarios, combined with the natural evolution of the portfolio, resulted in a positive cost of risk for the first half of the year, at EUR +47 million (cf. results section of this Press Release).

### Rescheduling of bank loans

Over the course of 2020, the Dexia Crédit Local Group was led, at the request of certain clients, to propose the rescheduling of bank loans and thus granted payment deferrals on maturities totalling approximately EUR 44.6 million, of which EUR 8.1 million in France and EUR 36.5 million in Italy.

In the first half of 2021, only three new rescheduling requests were made in France for a total amount of EUR 1.8 million. In Italy, two new applications from local authorities were submitted in the first half of 2021 for an amount of EUR 18 million, corresponding to an outstanding amount of EUR 300 million. Both restructurings will be implemented in the second half of 2021.

## Temporary easing of regulatory capital requirements for banks

As part of the fight against the Covid-19 crisis, on 12 March 2020 the ECB announced a series of measures to relax the SREP capital requirements. These measures include the relaxation of the capital conservation buffer and the Pillar 2 guidance (P2G). In conjunction with the ECB's announcement, some national authorities such as France and the UK have also reset the countercyclical buffer.

(1) https://www.ecb.europa.eu/pub/projections/html/ecb.projections202006_eurosystemstaff~7628a8cf43.en.html and https://www.ecb.europa.eu/pub/projections/html/ecb.projections202009_ecbstaff~0940bca288.en.html

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

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

Furthermore, on 18 June 2020, the European Parliament validated a series of temporary adjustments to the Capital Requirements Regulation (CRR), allowing banks to mitigate the impacts of the Covid-19 pandemic on their regulatory capital. The transitional provisions allow any new expected credit losses recognised in 2020 and 2021 under IFRS 9 to be added back to regulatory capital.

A temporary neutralisation, at the level of regulatory capital, of changes in the fair value of certain sovereign and public sector assets classified at fair value through equity is also allowed.

Finally, the risk-weighted assets (RWA) of EU Member States' sovereign exposures have been temporarily reduced to 0% for exposures denominated and funded in another Member State's national currency. The RWA of infrastructure exposures have been temporarily reduced by 25%.

Dexia Crédit Local and its entities have made use of these temporary provisions when establishing their prudential statements and solvency ratios as at 30 June 2021.

It should be noted that the temporary increase of the diversification factor from 50% to 66% applicable within the framework of the Prudent Valuation Adjustment (PVA), allowing the limitation of the amount of additional value adjustment to be taken into account in the calculation of prudential equity, no longer applies in 2021.

## POST - BALANCE - SHEET EVENTS

Nil.

## NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal programme at the beginning of 2014 as required under the resolution plan, Dexia and Dexia Crédit Local are 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 | |
|---|---|---|---|---|---|
| | 30/06/2020 | 31/12/2020 | 30/06/2021 | 30/06/2020 | 30/06/2021 |
| Dollar US | 1.1223 | 1.2278 | 1.1871 | 1.1044 | 1.2026 |

## NOTE IV. FAIR VALUE

*Some amounts may not add up due to roundings off*

### 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 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 principals valuation 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. 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).

Concerning the valuation of derivatives, Dexia Crédit Local adjusts the market value 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 daily 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 an overnight rate (OIS) discounting curve for all derivatives, regardless if they are collateralised or not.

A Funding Valuation Adjustment (FVA) takes into account the funding costs associated to 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.

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

| | 31/12/2020 | | |
|---|---|---|---|
| *(in EUR million)* | Carrying amount | Fair value | Unrecognised fair value adjustment |
| Cash and central banks | 9,866 | 9,866 | 0 |
| Debt securities at amortised cost | 37,075 | 32,223 | (4,852) |
| Interbank loans and advances, at amortised cost | 21,498 | 21,691 | 193 |
| Customer loans and advances, at amortised cost | 26,895 | 21,795 | (5,100) |
| Interbank borrowings and deposits | 10,050 | 10,228 | 178 |
| Customer borrowings and deposits | 6,824 | 6,793 | (31) |
| Debt securities | 57,360 | 57,998 | 638 |
| Subordinated debt | 19 | 19 | 0 |

FAIR VALUE OF FINANCIAL INSTRUMENTS

| | 30/06/2021 | | |
|---|---|---|---|
| *(in EUR million)* | Carrying amount | Fair value | Unrecognised fair value adjustment |
| Cash and central banks | 9,032 | 9,032 | 0 |
| Debt securities at amortised cost | 35,574 | 31,303 | (4,270) |
| Interbank loans and advances, at amortised cost | 18,090 | 18,023 | (67) |
| Customer loans and advances, at amortised cost | 24,501 | 21,080 | (3,421) |
| Interbank borrowings and deposits | 8,146 | 8,060 | (86) |
| Customer borrowings and deposits | 7,813 | 7,779 | (34) |
| Debt securities | 51,656 | 52,362 | 706 |
| Subordinated debt | 20 | 9 | (11) |

## 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 for financial instruments at fair value. The non-recurring fair value measurement is not significant for Dexia Crédit Local.

**FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)**

| | 31/12/2020 | | | |
|---|---|---|---|---|
| *(in EUR million)* | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at fair value through profit or loss** | | **8,960** | **3,990** | **12,950** |
| Financial assets held for trading | | 7,353 | 2,058 | 9,411 |
| *- Derivatives* | | *7,353* | *2,058* | *9,411* |
| Financial assets mandatorily at fair value through profit or loss | | 1,607 | 1,932 | 3,539 |
| *- Debt securities* | | *257* | *135* | *392* |
| *- Loans and advances* | | *1,350* | *1,789* | *3,139* |
| *- Equity instruments* | | | *7* | *7* |
| **Hedging derivatives** | | **1,149** | **114** | **1,263** |
| **Financial assets at fair value through other comprehensive income** | **108** | **2,352** | **909** | **3,369** |
| *- Debt securities* | *104* | *937* | *23* | *1,064* |
| *- Loans and advances* | | *1,389* | *881* | *2,270* |
| *- Equity instruments designated at fair value through other comprehensive income* | *4* | *27* | *4* | *35* |
| TOTAL | 108 | 12,461 | 5,013 | 17,582 |

**FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)**

| | 31/12/2020 | | | |
|---|---|---|---|---|
| *(in EUR million)* | Level 1 | Level 2 | Level 3 | Total |
| **Financial liabilities at fair value through profit or loss** | | **9,783** | **2,742** | **12,525** |
| *- Financial liabilities designated at fair value* | | *877* | | *877* |
| *- Trading derivatives* | | *8,905* | *2,742* | *11,648* |
| **Hedging derivatives** | | **9,444** | **11,103** | **20,548** |
| TOTAL | | 19,227 | 13,845 | 33,073 |

**FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)**

| | 30/06/2021 | | | |
|---|---|---|---|---|
| *(in EUR million)* | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at fair value through profit or loss** | | **7,389** | **2,849** | **10,238** |
| Financial assets held for trading | | 6,209 | 1,632 | 7,840 |
| *- Derivatives* | | *6,209* | *1,632* | *7,840* |
| Financial assets mandatorily at fair value through profit or loss | | 1,181 | 1,217 | 2,398 |
| *- Debt securities* | | *235* | *2* | *237* |
| *- Loans and advances* | | *946* | *1,211* | *2,157* |
| *- Equity instruments* | | | *5* | *5* |
| **Hedging derivatives** | | **694** | **114** | **808** |
| **Financial assets at fair value through other comprehensive income** | **147** | **1,839** | **812** | **2,798** |
| *- Debt securities* | *147* | *743* | | *891* |
| *- Loans and advances* | | *1,069* | *807* | *1,876* |
| *- Equity instruments designated at fair value through other comprehensive income* | | *27* | *5* | *31* |
| **TOTAL** | **147** | **9,922** | **3,774** | **13,844** |

**FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)**

| | 30/06/2021 | | | |
|---|---|---|---|---|
| *(in EUR million)* | Level 1 | Level 2 | Level 3 | Total |
| **Financial liabilities at fair value through profit or loss** | | **8,798** | **2,160** | **10,958** |
| *- Financial liabilities designated at fair value* | | *866* | | *866* |
| *- Trading derivatives* | | *7,932* | *2,160* | *10,092* |
| **Hedging derivatives** | | **6,985** | **9,991** | **16,976** |
| **TOTAL** | | **15,784** | **12,150** | **27,934** |

## 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

| | 30/06/2020 | | 30/06/2021 | |
|---|---|---|---|---|
| *(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* | *67* | *114* | *0* | *0* |
| **TOTAL FINANCIAL ASSETS** | **67** | **114** | **0** | **0** |
| **TOTAL FINANCIAL LIABILITIES** | **0** | **0** | **0** | **0** |

## LEVEL 3 RECONCILIATION

| | 30/06/2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in EUR million)* | Opening balance | Total gains/ losses in P&L | Unrealised or deferred gains/losses | 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 | 1,185 | (67) | | | (25) | 8 | (22) | 1,583 | 2,661 |
| *- Debt securities* | *232* | *(25)* | | | *(1)* | | *(22)* | | *184* |
| *- Loans and advances* | *936* | *(43)* | | | *(24)* | *8* | | *1,582* | *2,459* |
| *- Equity instruments* | *17* | *1* | | | | | | | *18* |
| Trading derivatives | 1,874 | 230 | | | | 129 | | (45) | 2,189 |
| Hedging derivatives | 144 | (14) | | | | | | (1) | 129 |
| Financial assets at fair value through other comprehensive income | 838 | 20 | (25) | (123) | (215) | | (497) | 939 | 936 |
| *- Debt securities* | *546* | *39* | | *(123)* | *(1)* | | *(451)* | *27* | *37* |
| *- Loans and advances* | *287* | *(20)* | *(25)* | | *(214)* | | *(45)* | *911* | *895* |
| *- Equity instruments* | *5* | | | *0* | | | | | *4* |
| **TOTAL FINANCIAL ASSETS** | **4,041** | **169** | **(25)** | **(123)** | **(240)** | **137** | **(519)** | **2,476** | **5,915** |
| Trading derivatives | 2,235 | 622 | | | | 70 | | (64) | 2,863 |
| Hedging derivatives | 9,732 | 2,604 | 6 | | | | | (573) | 11,769 |
| **TOTAL FINANCIAL LIABILITIES** | **11,967** | **3,227** | **6** | | | **70** | | **(638)** | **14,632** |

(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 -69 million in result and to EUR -1 million recognised in Gains and losses directly recognised in Equity. On the liabilities side, they amount to EUR -630 million recognised in result and to EUR -7 million recognised in Gains and losses directly recognised in Equity. They also include the transfer of assets from amortised cost to Fair Value Through P&L and to Fair Value through Other Comprehensive Income in the context of the Remedial Deleveraging Plan.

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.

| | 30/06/2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in EUR million)* | Opening balance | Total gains/ losses in P&L | Unrealised or deferred gains/losses | 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 | 1,932 | (52) | | (67) | (637) | | (3) | 45 | 1,217 |
| *- Debt securities* | *135* | *(30)* | | *(65)* | *(35)* | | *(3)* | | *2* |
| *- Loans and advances* | *1,789* | *(22)* | | *(3)* | *(598)* | | | *45* | *1,211* |
| *- Equity instruments* | *7* | | | | *(3)* | | | | *5* |
| Trading derivatives | 2,058 | (379) | | | | | (90) | 42 | 1,632 |
| Hedging derivatives | 114 | | | | | | | | 114 |
| Financial assets at fair value through other comprehensive income | 909 | (2) | 12 | | (103) | | (23) | 18 | 812 |
| *- Debt securities* | *23* | | | | | | *(23)* | | *0* |
| *- Loans and advances* | *881* | *(2)* | *12* | | *(103)* | | | *18* | *807* |
| *- Equity instruments* | *5* | | | | | | | | *5* |
| **TOTAL FINANCIAL ASSETS** | **5,013** | **(433)** | **12** | **(67)** | **(740)** | **0** | **(116)** | **106** | **3,774** |
| Trading derivatives | 2,742 | (456) | | | | 2 | (98) | (31) | 2,160 |
| Hedging derivatives | 11,103 | (850) | (9) | | | | (3) | (251) | 9,991 |
| **TOTAL FINANCIAL LIABILITIES** | **13,846** | **(1,306)** | **(9)** | | | **2** | **(101)** | **(282)** | **12,150** |

(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 +105 million in result and to EUR +1 million recognised in Gains and losses directly recognised in Equity. On the liabilities side, they amount to EUR -295 million recognised in result and to EUR +13 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 at 30th June 2021. 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 table hereunder summarises 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.

| 30/06/2020 | | | | | |
|---|---|---|---|---|---|
| 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 | | (2.9) | 2.9 |
| Loans | Credit spread | 280 bps | 0 bps | (749.4) | 240.2 |
| CDS | Credit spread | + / - one standard deviation | | (18.3) | 12.5 |
| Derivatives | Interest Rate | + / - one standard deviation | | (12.5) | 12.5 |
| | Spread of CBS | + / - one standard deviation | | (5.0) | 5.0 |
| | Inflation | + / - one standard deviation | | (0.4) | 0.4 |
| TOTAL | | | | **(788.5)** | **273.4** |

| 30/06/2021 | | | | | |
|---|---|---|---|---|---|
| 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 | | (0.5) | 0.5 |
| Loans | Credit spread | 580 bps | 50bps | (285.7) | 124.3 |
| CDS | Credit spread | + / - one standard deviation | | (16.1) | 11.5 |
| Derivatives | Interest Rate | + / - one standard deviation | | (8.2) | 8.2 |
| | Spread of CBS | + / - one standard deviation | | (3.1) | 3.1 |
| | Inflation | + / - one standard deviation | | (0.2) | 0.2 |
| TOTAL | | | | **(313.8)** | **147.8** |

The unobservable input in the valuation of bonds and credit default swaps (CDS) 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 bonds' fair value is estimated to range from EUR -0.5 million (reflecting a deterioration in the above-mentioned inputs) to EUR +0.5 million (reflecting an improvement in the above-mentioned inputs), while the sensitivity of the CDS' fair value is estimated range from EUR -16.1 million EUR in the adverse scenario to EUR +11.5 million in the favorable scenario.

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 -285.7 million for the worst case scenario and to EUR + 124.3 million for the best case scenario.

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 range between EUR –11.5 million for the worst case scenario and EUR +11.5 million for the best case scenario.

## NOTE V. RELATED PARTY TRANSACTIONS

We refer to the note 4.4. Related party transactions of the Dexia Crédit Local's annual report 2020.

## NOTE VI. OUTSTANDING AMOUNTS OF FINANCIAL INSTRUMENTS IMPACTED BY REFORM OF THE REFERENCE INDICES

| *(in EUR million)* | Financial assets (excluding derivatives) impacted by the reform | Financial liabilities (excluding derivatives) impacted by the reform | Derivatives impacted by the reform |
|---|---|---|---|
| | Remaining capital | | Notional amount |
| EURIBOR | 9,208 | 25,984 | 141,187 |
| EONIA | 2,496 | 345 | 25,175 |
| LIBOR USD | 1,670 | 9,781 | 40,342 |
| LIBOR GBP | 272 | 6,858 | 24,564 |
| LIBOR autres | 173 | | 1,128 |
| **TOTAL** | **13,819** | **42,968** | **232,395** |

## NOTE VII. IMPACT OF THE RECLASSIFICATION OF INTEREST INCOME AND INTEREST EXPENSES ON DERIVATIVES HELD FOR TRADING MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

In order to give readers of the financial statements a more faithful picture of the impacts related to Dexia Crédit Local's economic operations, Dexia Crédit Local has changed the presentation in the statement of income of interest income and expense on trading derivatives measured at fair value through profit or loss. Trading derivatives held for risk management purposes ("economic" hedges) are not affected by this change. According to this new presentation choice, Dexia Crédit Local has reclassified the interest income and expense relating to these instruments from the publication lines "Interest income" and "Interest expense" to the line "Net gains and losses on financial instruments at fair value through profit or loss". The impact of this reclassification is presented in the table below.

| | 30/06/2020 | | | 30/06/2021 | | |
|---|---|---|---|---|---|---|
| *(in EUR million)* | Before change in presentation | After change in presentation | Net impact of change in presentation | Before change in presentation | After change in presentation | Net impact of change in presentation |
| Interest income | 2,727 | 1,525 | (1,202) | 2,146 | 1,201 | (945) |
| Interest expenses | (2,802) | (1,509) | 1,293 | (2,129) | (1,179) | 950 |
| Net gains (losses) on financial instruments at fair value through profit of loss | (293) | (384) | (91) | (69) | (73) | (4) |

## 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, 20 September 2021

Pierre Crevits
Chief Executive Officer

# STATUTORY AUDITORS' REPORT ON THE HALF-YEAR CONSOLIDATED FINANCIAL INFORMATION

## PERIOD FROM JANUARY 1ST 2021 TO JUNE 30TH 2021

*This is a free translation into English of the statutory auditors' review report on the half-year 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-year 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 of Dexia Crédit Local,

In compliance with the assignment entrusted to us by your Annual General 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-year consolidated financial statements of Dexia Crédit Local, for the period from January 1st 2021 to June 30th 2021 ;
- the verification of the information presented in the half-year management report.

Due to the global crisis related to the Covid-19 pandemic, the (condensed) half-yearly consolidated financial statements of this period have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our procedures.

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-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our opinion, we draw your attention to :

- the note I.1 to the 2021 condensed half-year consolidated financial statements which indicate that these financial statements have been prepared on a going concern basis, in accordance with IAS1.
- The note VII to the 2021 condensed half-year consolidated financial statements which describe the change in the presentation in the income statement of interest incomes and expenses on trading derivatives measured at fair value through profit or loss.

### Specific verification

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

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

Paris la Défense, September 16$^{th}$ 2021

The statutory auditors
*French original signed by*

| Deloitte & Associés | Mazars |
| --- | --- |
| Jean-Vincent Coustel | Virginie Chauvin |
| | Laurence Karagulian |

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Dexia Crédit Local’s Financial Report H1 2021 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.