Press release

DEXIA

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Dexia Group Consolidated Results H1 2021[1]

Net income of EUR -206 million as at 30 June 2021 against EUR -759 million as at 30 June 2020

- *Recurring result (EUR -115 million) integrating positive cost of risk at EUR +47 million, in particular linked to the review of the macroeconomic scenario determining expected credit losses*
- *Accounting volatility elements slightly positive (EUR +6 million) in a favourable market environment*
- *Non-recurring elements (EUR -97 million) principally associated with the balance sheet reduction and the Group's transformation and benefiting from reversals of provisions for litigation*

Ongoing Group resolution

- *Progress of the asset disposal programme: approximately 85% of the target set for the end of 2022 already achieved by 30 June 2021*
- *Simplification of the Group: transfer of a portfolio of assets and derivatives from Dexia Crediop to Dexia Crédit Local*
- *Balance sheet total of EUR 102.5 billion as at 30 June 2021, down by 10% over the half year, resulting from higher interest rates and portfolio reduction*

Confirmed resilience of the funding model

- *Annual long-term funding programme finalised in July*
- *Ratification of the prolongation of the funding guarantee by the Belgian and French States, a key element of the Group's resolution*

Robust Total Capital ratio at 28.9% as at 30 June 2021

Pierre Crevits, CEO of Dexia, stated: "*Throughout the first half of 2021, against the background of uncertainty linked to a health situation which remains difficult, Dexia has continued to show resilience and agility in adapting its mode of operation. Thus, while ensuring the safety of our teams and operational continuity, we were able to continue simplifying our scope and reducing our balance sheet. I salute the constant commitment of our staff members to the Group, which has made these achievements possible.*"

Gilles Denoyel, Chairman on the Board of Directors of Dexia, said: "*France and Belgium have now ratified the prolongation of the Group's funding guarantee for a further ten years, which had already been validated by the European Commission. On the strength of this essential step, which illustrates the unfailing support of its shareholder States, Dexia can now pursue the roadmap of its orderly resolution by relying on its management and its teams, whose commitment has not wavered over the years.*"

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

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, the Dexia Group 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 Group'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.

The Group continues to post robust solvency ratios, exceeding regulatory requirements

Since the delisting of the Dexia share in December 2019 and in accordance with the legal provisions in force, Dexia no longer publishes a half-yearly financial report. In line with the requirements of the *Autorité des marchés financiers* (AMF) in France, Dexia Crédit Local, the balance sheet of which represents almost the entire scope of Dexia, nevertheless continues to publish a half-yearly financial report, available at *www.dexia.com*.

1. Highlights

- *Ongoing proactive management of the balance sheet, off-balance sheet and risks*
- *Simplification of the international network: focus on Dexia Crediop*
- *Ratification of the extension of the funding guarantee by the Belgian and French States, a key element in the Group's resolution*

A. Implications relating to Covid-19

From the very beginning of the crisis, Dexia 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 Group's 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's activities and financial statements are detailed in Appendix 2 and in the different sections of this Press Release.

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 the Dexia Group 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 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, the Group continued to implement the programme to reduce its derivatives portfolio, including compression exercises to simplify operational management and reduce the nominal amount.

The Group 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 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 Group's solvency, continued.

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

During the first half of 2021, Dexia finalised the transfer to Dexia Crédit Local 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 -54 million was recorded in Dexia 's consolidated financial statements.

Dexia 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, the Group 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 and its subsidiaries

On 7 January 2021, the ACPR informed Dexia 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 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 funding guarantee by the Belgian and French States

Following the approval[2] by the European Commission of the Dexia 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[3][4].

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 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.

This guarantee remuneration structure allows the full implementation of the burden sharing principle which underlies the orderly resolution of Dexia 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's outstanding guaranteed debt amounted to EUR 50 billion.

[2] *https://ec.europa.eu/commission/presscorner/detail/en/mex_19_5875*

[3] *Cf. Dexia Press Release dated 28 May 2021, available at www.dexia.com.*

[4] *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.*

Evolution of the Group's governance

On 29 April 2021, the Board of Directors of Dexia co-opted Marie-Anne Barbat-Layani as a non-executive director of Dexia, replacing Bertrand Dumont. Her definitive appointment was approved by Dexia's Ordinary Shareholders' Meeting on 19 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 Crédit Local.

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 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.

The Group 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 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 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, the Group:

- 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, the Group 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'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 the Group 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 and 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[5], are detailed in the Dexia Crédit Local half-yearly report, available at www.dexia.com. In particular, Dexia Crédit Local expects the transition of its derivatives contracts indexed on

[5] *Phase 2 as from 1 January 2022.*

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.

2. Half-year results H1 2021

- *Recurring elements (EUR -115 million), including a positive cost of risk (EUR +47 million), mainly linked to the review of the macroeconomic scenario determining expected credit losses*
- *Over the year, slightly positive impact of accounting volatility elements (EUR +6 million) in a favourable market environment*
- *Non-recurring elements (EUR -97 million) mainly linked to the deleveraging and transformation strategy of the Group and benefiting from reversals of provisions for litigation*

A – *Presentation of the condensed consolidated financial statements of Dexia as at 30 June 2021*

Going concern

The condensed consolidated financial statements of Dexia 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 this Press Release.

B – Dexia Group consolidated results H1 2021

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

Analytical presentation of the H1 2021 results of the Dexia Group

in EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	***6***	***6***	***-63***	***-51***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-167*	*0*	*-5*	*-172*
Gross operating income	***-161***	***6***	***-68***	***-223***
Cost of credit risk	*47*	*0*	*0*	*47*
Net gains or losses on other assets	*0*	*0*	*0*	*0*
Net result before tax	***-114***	***6***	***-68***	***-176***
Income tax	*-1*	*0*	*-54*	*-55*
Result from discontinued operations, net of tax	*0*	*0*	*25*	*25*
Net income	***-115***	***6***	***-97***	***-206***
Minority interests	*0*	*0*	*0*	*0*
Net income, Group share	***-115***	***6***	***-97***	***-206***

Net income Group share of EUR -206 million as at 30 June 2021 is composed of the following elements:

- EUR -115 million attributable to recurring elements[6],
- EUR +6 million linked to accounting volatility elements[7],
- EUR -97 million generated by non-recurring elements[8].

Recurring elements

Recurring elements			
in EUR million	*H1 2021*	*H1 2020 (1)*	*2020*
Net banking income	***6***	***-2***	***1***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	***-167***	***-194***	***-307***
o/w Expenses excl. operational taxes	*-113*	*-133*	*-243*
o/w Operational taxes	*-53*	*-61*	*-64*
Gross operating income	***-161***	***-196***	***-306***
Cost of credit risk	*47*	*-95*	*-169*
Net result before tax	***-114***	***-291***	***-475***
Income tax	*-1*	*1*	*-1*
Net income	***-115***	***-290***	***-476***
Minority interests	*0*	*-1*	*-1*
Net income, Group share	***-115***	***-289***	***-475***

(1) *Restated figures.*

Net income Group share generated by recurring elements was EUR -115 million as at 30 June 2021, against EUR -289 million at the end of June 2020.

Net banking income essentially reflects the net interest margin, which corresponds to the cost of carrying assets as well as the Group's transformation result. Over the half-year, the net interest margin was slightly up by EUR 8 million compared to 30 June 2020, to EUR +11 million as at 30 June 2021, a result in particular of the decrease of cash collateral over the half-year.

Expenses amounted to EUR -167 million, down EUR 27 million compared to 30 June 2020. This essentially reflects the efforts to control general operating expenses (EUR -19 million), as well as the fall of taxes and regulatory contributions (EUR -8 million), associated with the reduction of the Group's scope.

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

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 at 30 June 2020 compared to EUR +47 million at 30 June 2021. The cost of risk for the first half of 2021 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 2 of this Press Release) 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.

Income tax amounted to EUR -1 million.

Accounting volatility elements

In the first half of 2020, accounting volatility elements had been strongly impacted by the shock linked to the Covid-19 crisis and amounted to EUR -384 million. Driven by the improvement of market conditions, these elements are back in positive territory, reaching EUR +6 million at 30 June 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 at fair value through profit or loss, were nevertheless partly offset by charges related to the valuation of other trading items.

Non-recurring elements

Non-recurring elements			
in EUR million	***H1 2021***	***H1 2020***	***2020***
Net banking income	***-63***	***-169***	***-186***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	***-5***	***-19***	***-27***
o/w Expenses excl. operational taxes	*-5*	*-18*	*-26*
o/w Operational taxes	*-1*	*-1*	*-1*
Gross operating income	***-68***	***-188***	***-213***
Cost of credit risk	*0*	*0*	*0*
Net gains or losses on other assets		*101*	*101*
Net result before tax			
Income tax	*25*	*0*	*0*
Net income	***-97***	***-86***	***-112***
Minority interests	*0*	*0*	*0*
Net income, Group share	***-97***	***-86***	***-112***

Non-recurring elements amounted to EUR -97 million as at 30 June 2021 against EUR -86 million as at 30 June 2020 and consist in particular of:

- losses related to asset disposals under the programme validated in 2019, for an amount of EUR -85 million,
- a net positive impact of provisions for litigation of EUR +18 million, mainly related to reversals of provisions on French structured credits,
- EUR +25 million from the settlement of a dispute involving a former subsidiary of the Group, recorded in the result of discontinued operations,
- a deferred tax charge of EUR -54 million, related to the transfer of Dexia Crediop shares to Dexia Crédit Local Dublin (cf Significant events and transactions section of this press release).

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

A - Balance sheet and solvency

- *Balance sheet down 10% compared to the end of 2020, to EUR 102.5 billion as at 30 June 2021 associated with the increase of interest rates and the dynamic of asset disposals*
- *Robust Total Capital ratio at 28.9% as at 30 June 2021, against 28.5% as at 31 December 2020*

a – Half-yearly balance sheet evolution

As at 30 June 2021, the Group's consolidated balance sheet total amounted to EUR 102.5 billion, compared to EUR 114.4 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, the Dexia Group's Total Capital amounted to EUR 6.7 billion, against EUR 6.9 billion as at 31 December 2020. This decrease is mainly due to the negative net result of the half-year (EUR -206 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 -63 million[9].

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

- 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 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 2 of this Press Release).

Finally, within the context of the Covid-19 crisis, Dexia 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 2 of this Press Release).

As at 30 June 2021, risk-weighted assets amounted to EUR 23.1 billion against EUR 24.2 billion at the end of December 2020, of which EUR 21.2 billion for credit risk, EUR 0.9 billion for market risk and EUR 1 billion for operational risk.

Taking these elements into account, Dexia's Total Capital ratio amounted to 28.9% as at 30 June 2021, against 28.5% at the end of 2020, a level above the minimum required for the year 2021 within the framework of the Supervisory Review and Evaluation Process (SREP) (cf. Significant events and transactions section of this Press Release).

As at 30 June 2021, Dexia Crédit Local's Total Capital ratio was also above the minimum requirement at respectively 25.0%.

B – Evolution of the Dexia Group's liquidity situation

- *Confirmed resilience of the funding model: annual long-term funding programme finalised in July 2021*
- *Funding outstanding down, as a consequence of the reduction of the asset portfolio and the reduction of cash collateral*
- *High level of LCR without recourse to ECB facilities, in line with the strategy validated in 2017*

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 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, the Group's liquidity reserve amounted to EUR 16.6 billion, of which EUR 10.7 billion in cash.

On the same date, the group's Liquidity Coverage Ratio (LCR) was 245% compared to 222% as at 31 December 2020. This ratio is also respected at the level of the subsidiaries, each of which exceeds the minimum requirement of 100%. The group's Net Stable Funding Ratio (NSFR) is 172%, compared to 136% as at 31 December 2020.

Appendices

Appendix 1 – Going concern

The condensed consolidated financial statements of Dexia 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 retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding. The 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 extension on 29 December 2020 and 27 June 2021 respectively.
- Although managing these risks very proactively, the Dexia 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[10], Dexia 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 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

[10] *Impact on debt reduction in 2022 of the plan validated by the Board of Directors on 19 July 2019.*

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 was able to maintain a liquidity reserve deemed adequate with the restriction of access to ECB funding announced on 21 July 2017[11], 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 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'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 by setting up a crisis unit and deploying teleworking, thus fully ensuring the bank's operational continuity.

As a consequence, after taking all these elements and uncertainties into account, Dexia 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.

Appendix 2 – 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 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.

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[11] On 21 July 2017, the ECB announced the end of access to the Eurosystem for liquidation structures as from 31 December 2021.

Deterioration of credit risk as a consequence of the crisis

(i) 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 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[12] 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 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'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's central scenario) in an increase in expected credit losses of 23%.

Furthermore, Dexia 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 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.

[12] https://www.ecb.europa.eu/pub/projections/html/ecb.projections202006_eurosystemstaff~7628a8cf43.en.html
https://www.ecb.europa.eu/pub/projections/html/ecb.projections202009_ecbstaff~0940bca288.en.html

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).

(ii) Rescheduling of bank loans

Over the course of 2020, the Dexia 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.

By integrating these easing measures, the capital requirement applicable to Dexia 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 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 and its subsidiaries have made use of these temporary provisions when establishing their prudential statements and solvency ratios as at 30 June 2021 (cf. solvency section of this Press Release).

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.

Appendix 3 – Consolidated income statement (non-audited figures)

Consolidated income statement - ANC format			
in EUR million	*H1 2021*	*H1 2020*	*2020*
Net banking income	***-51***	***-555***	***-216***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-172*	*-212*	*-334*
Gross operating income	***-223***	***-767***	***-550***
Cost of credit risk	*47*	*-95*	*-169*
Net gains or losses on other assets	*0*	*101*	*101*
Net result before tax	***-176***	***-761***	***-618***
Income tax	*-55*	*1*	*-1*
Result from discontinued operations, net of tax*	*25*	*0*	*0*
Net income	***-206***	***-760***	***-619***
Minority interests	*0*	*-1*	*-1*
Net income, Group share	***-206***	***-759***	***-618***

Appendix 4 – Simplified balance sheet (non-audited figures)

Balance sheet key figures			
in EUR million	30-06-2020	31-12-2020	30-06-2021
Total assets	**121 172**	**114 427**	**102 540**
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	39 934	37 332	35 816
Financial assets at amortised cost - Interbank loans and advances	23 016	21 507	18 097
Financial assets at amortised cost - Customer loans and advances	29 090	27 532	25 156
Total liabilities	**114 817**	**107 740**	**95 912**
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	12 283	9 831	7 934
Customer borrowings and deposits	2 690	6 824	7 813
Debt securities	61 268	57 360	51 657
Total equity	**6 355**	**6 687**	**6 628**
of which			
Equity, Group share	6 295	6 631	6 572

Appendix 5 – Capital adequacy (non-audited figures)

in EUR million	30-06-20	31-12-20	30-06-21
Common Equity Tier 1	6 365	6 795	6 588
Total Capital	6 461	6 891	6 684
Risk-weighted assets	27 175	24 196	23 134
Common Equity Tier 1 ratio	23,4%	28,1%	28,5%
Total Capital ratio	23,8%	28,5%	28,9%

Appendix 6 – Exposure to credit risk (non-audited figures)

As from 1 January 2021, Dexia has modified the 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 l 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 is 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 Press Release.

Exposure by geographic region			
	31-12-20		30-06-21
in EUR million	EAD IFRS	EAD COREP	EAD COREP
France	20 962	21 041	19 773
United Kingdom	20 648	20 549	18 291
Italy	18 643	18 485	17 816
Spain	4 646	4 602	4 273
United States	4 628	4 626	4 332
Portugal	3 673	3 666	3 430
Japan	3 083	3 073	2 903
Other European countries	2 551	2 538	2 749
Central and Eastern Europe	857	858	662
Germany	657	645	833
Canada	601	592	403
Tunesia	128	113	108
Switzerland	95	95	39
Scandinavian countries	92	92	130
South and Central America	37	37	35
Southeast Asia	6	6	5
Other (1)	1 551	1 866	1 758
Total	**82 858**	**82 884**	**77 540**

(1) including supranationals, Austria.

Exposure by category of counterparty			
	31-12-20		30-06-21
in EUR million	EAD IFRS	EAD COREP	EAD COREP
Local public sector	33 251	33 165	30039
Central governments	28 595	28 421	26784,4
Project finance	6 581	6 321	5963
Financial institutions	6 218	6 184	6099
Corporate	5 584	5 567	5465
Monolines	1 317	1 317	1274
ABS/MBS	1 311	1 240	1243
Individuals, SME and self-employed	0	669	673
Total	**82 857**	**82 884**	**77 540**

Exposure by rating (internal rating system)			
	31-12-20		30-06-21
	EAD IFRS	EAD COREP	EAD COREP
AAA	19,82%	20,0%	0,1992
AA	6,18%	6,2%	0,0557
A	24,19%	24,1%	0,2275
BBB	41,87%	41,5%	0,43
Non Investment Grade	7,27%	7,1%	0,0739
D	0,62%	0,5%	0,0059
Not Rated	0,05%	0,7%	0,0073
Total	**100%**	**100%**	**100%**

Appendix 7 – Group sector exposure as at 31 December 2020 (EAD in final counterparties – non-audited figures)

Group sector exposure to certain countries							
in EUR million	***Total***	*o/w local public sector*	*o/w corporate and project finance*	*o/w financial institutions*	*o/w ABS/MBS*	*o/w sovereign exposures*	*o/w monolines*
France	**19 773**	4 714	1 892	1 608	0	10 984	575
United Kingdom	**18 291**	8 930	6 108	1 499	1 213	0	541
Italy	**17 816**	8 152	83	123	1	9 457	0
United States	**4 332**	1 790	1 099	916	2	367	158
Spain	**4 273**	2 810	836	226	27	374	0
Portugal	**3 430**	543	32	0	0	2 855	0
Japan	**2 903**	2 655	0	248	0	0	0
Tunesia	**108**	0	0	0	0	108	0

Group sectorial exposure per rating								
in EUR million	**Total**	*AAA*	*AA*	*A*	*BBB*	*NIG°*	*D*	*no rating*
Local public sector	**30 039**	1 905	2 984	9 096	11 270	4 581	170	32
Central governments	**26 784**	13 381	0	985	12 310	108	0	0
Financial institutions	**6 099**	0	105	4 548	1 427	2	0	17
Project finance	**5 963**	0	17	754	3 936	973	283	0
Corporate	**5 465**	0	0	1 138	4 268	43	2	14
Monolines	**1 274**	0	0	1 116	0	27	0	0
ABS/MBS	**1 243**	2	1 212	2	158	0	0	0
Individuals, SME and self-employed	**673**	155	0	0	14	0	0	504
Total	**77 540**	**15 443**	**4 318**	**17 639**	**33 383**	**5 734**	**455**	**567**

° Non Investment Grade

Appendix 8 – Asset quality (non-audited figures)

Asset quality		
in EUR million	**31-12-20**	**30-06-21**
Impaired assets(1)	556	503
Specific impairments(2)	134	114
Of which Stage 3	*125*	*110*
POCI	*9*	*4*
Coverage ratio(3)	24,10%	22,6%
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

Appendix 9 – 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+

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