FitchRatings

Banks
Other Banks
France

Dexia S.A.

Update

Key Rating Drivers

Support-Driven Ratings: Dexia S.A.'s ratings reflect Fitch Ratings' view that there is a high probability of additional support from Belgium (AA-/Negative) and France (AA-/Stable), if required, to complete the orderly wind-down of the bank. Such support is underlined by a Government Support Rating (GSR) of 'bbb+'. Dexia is the main operating entity of Dexia Holding SA/NV, which is about 53% owned by Belgium and 47% by France.

Strong Evidence of Support: Our view is based on Dexia's ownership, large funding guarantees from Belgium and France, and their ability to provide financial support. Dexia had about EUR38 billion of guaranteed debt outstanding at end-2023, and we expect guarantee use to remain below the EUR75 billion limit applicable since January 2022. The guarantee is granted by Belgium and France under a 53%/47% split.

No Retroactive Application of BRRD: Fitch continues to factor in state support for Dexia despite the implementation of the EU's Bank Recovery and Resolution Directive (BRRD). This reflects our view that the BRRD will not be applied retroactively to Dexia, as long as its orderly wind-down progresses consistently with plans agreed with the European Commission.

Withdrawal of Banking Licence: Dexia surrendered its banking licence in January 2024. This is part of the ongoing implementation of the ordered resolution plan validated by the European Commission in December 2012. Fitch believes that this step constitutes important progress in the orderly resolution.

Low Risk of Senior Bail-In: Fitch views the risk of senior creditor bail-in as low for Dexia. Operating as a non-bank further reduces risks of bail-in of senior unsecured debt as Dexia will no longer be subject to capital regulatory requirements, which could be breached and trigger a bail-in of the senior unsecured debt.

Deleveraging Progressing Well: Dexia's balance sheet was about EUR60 billion at end-2023, compared with about EUR362 billion at end-2011, when Dexia was placed in orderly wind-down. Total assets have significantly decreased over the past two years, notably because the amount of cash collateral posted has reduced as interest rates increased. Dexia has materially simplified its legal structure since the start of the orderly resolution, including the absorption of its last substantial subsidiary, Dexia Crediop, in September 2023.

No Viability Rating Assigned: Fitch does not assign a Viability Rating to Dexia because it cannot be meaningfully analysed as a viable entity in its own right and is no longer commercially active. Dexia is in orderly wind-down and relies on state guarantees for funding.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F1
Derivative Counterparty Rating	BBB+(dcr)
Government Support Rating	bbb+

Sovereign Risk (France)	
Long-Term Foreign-Currency IDR	AA–
Long-Term Local-Currency IDR	AA–
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms Dexia Credit Local at 'BBB+'; Outlook Stable (June 2023)

Fitch Affirms France at 'AA-'; Outlook Stable (April 2024)

Fitch Affirms Belgium at 'AA-'; Outlook Negative (February 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Dexia's GSR and Issuer Default Rating (IDR) are sensitive to a weakening in Belgium or France's ability or propensity to provide additional support. We would likely downgrade Dexia's ratings, if both sovereigns' ratings are downgraded to the 'A' category. A material reduction in state ownership or state-guaranteed funding that is not a result of lower funding needs, leading to reduced incentive to provide additional support, would also be rating negative.

A material deviation from Dexia's wind-down plan agreed with the European Commission would lead to a negative rating action. Fitch expects this would likely trigger a fresh state aid review and heighten the likelihood of the authorities requiring more stringent measures, which could include senior creditors sharing some of the burden. However, this is not our central scenario.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the GSR and IDRs would be contingent on the two countries demonstrating even greater support, which we view as unlikely. We could upgrade Dexia's ratings if France's sovereign rating is upgraded by two notches while Belgium's rating remains in the 'AA' category. However, this is unlikely given the recent downgrade of France's rating and the Negative Outlook on Belgium's rating.

We could also upgrade Dexia's Long-Term IDR, if it reduces the complexity and size of its balance sheet to well below the state-guaranteed debt size on a sustained basis, while the need for additional capital injection becomes remote.

Other Debt and Issuer Ratings

Rating Level	Rating
Guaranteed debt	AA-/F1+
Deeply subordinated Tier 1 notes	C
Senior preferred debt	BBB+

Source: Fitch Ratings

Dexia's Short-Term IDR of 'F1' is the higher of the two possible options mapping to a 'BBB+' Long-Term IDR. This is because we view the sovereigns' propensity to support as more certain in the near term than in the long term. We also assess the risk of either of the two sovereigns paying its direct obligations ahead of providing support to Dexia as low, and have not identified other potential impediments to the prompt flow of funds to Dexia.

The 'AA-'/'F1+' ratings of Dexia's guaranteed debt are aligned with Belgium and France's ratings, as long as the ratings of both are equal. Otherwise, the guaranteed debt ratings would be aligned with that of the lowest-rated guarantor. Both sovereigns are responsible for a share of the overall guarantee (several but not joint guarantee) and Fitch rates Dexia's state-guaranteed debt on a "first-dollar-of-loss" basis. The guarantee is unconditional, irrevocable and on first demand.

The decrease of the size of the funding guarantee is consistent with the decline in Dexia's balance sheet. The 5bp guarantee fee is increased by a conditional deferred commission that will progressively rise to 135bp by 2027, payable at the time of the liquidation of the group.

Dexia's senior preferred debt is rated in line with Dexia's Long-Term IDR. The 'BBB+(dcr)' Derivative Counterparty Rating is at the same level as Dexia's Long-Term IDR as the IDR is based on sovereign support and because derivative counterparties in France have no preferential status over other preferred senior obligations in a resolution.

Dexia's deeply subordinated Tier 1 notes' (FR0010251421) 'C' rating reflects the continued ban imposed by the European Commission on contractually non-mandatory coupon payments on these notes, and their poor recovery prospects. The securities are subordinated to the conditional deferred fee accrued from 2022.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited – Unqualified (emphasis of matter)	Audited - Unqualified
Summary income statement					
Net interest and dividend income	140	128	60	61	40
Net fees and commissions	-4	-4	-11	-10	-10
Other operating income	-50	-46	322	-127	-204
Total operating income	85	78	371	-76	-174
Operating costs	421	384	286	276	318
Pre-impairment operating profit	-335	-306	85	-352	-492
Loan and other impairment charges	2	2	3	-130	170
Operating profit	-337	-308	82	-222	-662
Other non-operating items (net)	-55	-50	n.a.	n.a.	104
Tax	-51	-47	23	55	n.a.
Net income	-341	-311	59	-277	-558
Other comprehensive income	3	3	99	209	-70
Fitch comprehensive income	-337	-308	158	-68	-628
Summary balance sheet					
Assets					
Gross loans	12,175	11,113	17,242	24,043	26,913
- of which impaired	271	247	302	335	405
Loan loss allowances	118	108	145	183	231
Net loans	12,057	11,005	17,097	23,860	26,682
Interbank	2,385	2,177	6,881	17,306	20,776
Derivatives	3,324	3,034	3,890	8,241	11,100
Other securities and earning assets	36,417	33,239	33,242	38,454	44,918
Total earning assets	54,183	49,455	61,110	87,861	103,476
Cash and due from banks	n.a.	n.a.	2,024	9,753	9,866
Other assets	11,598	10,586	308	172	181
Total assets	65,781	60,041	63,442	97,786	113,523
Liabilities					
Customer deposits	335	306	619	558	518
Interbank and other short-term funding	4,161	3,798	7,858	15,552	18,717
Other long-term funding	41,800	38,153	36,605	49,602	55,897
Trading liabilities and derivatives	12,115	11,058	12,019	26,019	32,201
Total funding and derivatives	58,412	53,315	57,101	91,731	107,333
Other liabilities	1,317	1,202	521	427	498
Preference shares and hybrid capital	61	56	56	56	56
Total equity	5,991	5,468	5,764	5,572	5,636
Total liabilities and equity	65,781	60,041	63,442	97,786	113,523
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Dexia

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-1.9	0.5	-1.1	-2.8
Net interest income/average earning assets	0.2	0.1	0.1	0.0
Non-interest expense/gross revenue	492.3	77.1	-363.2	-182.8
Net income/average equity	-5.5	1.0	-4.9	-9.8
Asset quality				
Impaired loans ratio	2.2	1.8	1.4	1.5
Growth in gross loans	-35.6	-28.3	-10.7	-15.9
Loan loss allowances/impaired loans	43.7	48.0	54.6	57.0
Loan impairment charges/average gross loans	-0.1	-0.1	-0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	34.5	35.3	27.3	24.5
Tangible common equity/tangible assets	9.1	9.1	5.7	5.0
Net impaired loans/common equity Tier 1 capital	2.5	2.7	2.8	3.0
Funding and liquidity				
Gross loans/customer deposits	3,631.7	2,785.5	4,308.8	5,195.6
Liquidity coverage ratio	302.0	152.0	152.0	199.0
Customer deposits/total non-equity funding	0.7	1.4	0.9	0.7
Net stable funding ratio	135.0	154.0	151.5	127.0

Source: Fitch Ratings, Fitch Solutions, Dexia

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	bbb+
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Positive
Ownership	Positive

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

High Probability of Support

Fitch considers that there is a high probability that additional support would be provided to Dexia by Belgium and France, if required, to complete the orderly wind-down of the company. Both sovereigns are the main shareholders of Dexia's parent Dexia Holding.

Our view on support is based on the ownership of Dexia, the large funding guarantees provided by Belgium and France of up to EUR75 billion, and both sovereigns' ability to provide financial support. The extension of the new guarantee from 2022 for 10 years did not change our view on support.

At end-June 2023, Dexia's assets represented a significant portion of the 2022 GDP (close to 10%) of Belgium, where the holding company is incorporated. Dexia's balance sheet represented less than 3% of France's 2022 GDP.

Fitch continues to factor in state support for Dexia, despite the implementation of the BRRD. This reflects our view that the BRRD will not be applied retroactively to Dexia, as long as its orderly wind-down progresses consistently with plans agreed with the European Commission.

Environmental, Social and Governance Considerations

FitchRatings **Dexia S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Dexia S.A. has 5 ESG potential rating drivers

- Dexia S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

SOLICITATION & PARTICIPATION STATUS

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.