FitchRatings

Banks
Other Banks
France

Dexia S.A.

Key Rating Drivers

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

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 EUR35 billion of guaranteed debt outstanding at end-September 2024, and we expect guarantee use to remain materially below the EUR75 billion limit applicable since January 2022. The guarantee is granted by Belgium and France under a 53%/47% split.

The Negative Outlook on Dexia's Long-Term Issuer Default Rating (IDR) reflects the Outlooks on France and Belgium's ratings, which affect the two shareholders' ability to provide support.

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.

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 mainly relies on state guarantees for funding.

Low Risk of Senior Bail-In: Fitch views the risk of senior creditor bail-in as low for Dexia. Operating as a non-bank, Dexia is no longer subject to regulatory capital requirements, which we believe could have triggered a bail-in of senior unsecured debt if breached.

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 significant progress in the orderly resolution.

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.

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	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Revises Dexia S.A.'s Outlook to Negative; Affirms IDR at 'BBB+' (October 2024)

Fitch Revises France's Outlook to Negative; Affirms at 'AA-' (October 2024)

Fitch Affirms Belgium at 'AA-'; Outlook Negative (August 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 and France's ability or propensity to provide additional support. We would likely downgrade Dexia's ratings if both sovereigns' ratings were 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 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 was upgraded to 'AA', while Belgium's rating remained in the 'AA' category. However, this is unlikely considering the Negative Outlooks on France and Belgium's sovereign ratings.

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

Short-Term IDR

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 reasonably low.

State-Guaranteed Debt

The 'AA-'/'F1+' ratings of Dexia's guaranteed debt are aligned with Belgium and France's ratings, as long as both ratings are equal. Otherwise, the guaranteed debt ratings would be aligned with that of the lowest-rated guarantor. Each sovereign is responsible for a share of the 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.

Senior Preferred Debt

Dexia's senior preferred debt is rated in line with Dexia's Long-Term IDR.

Derivative Counterparty Rating

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.

Junior Subordinated Debt

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.

Company Summary and Key Qualitative Factors

Business Profile

Orderly Wind-Down Since 2012

Dexia was a specialised public-sector lender operating worldwide. The European Commission approved Dexia Holding's orderly resolution plan in December 2012. It aims to wind down the group in an orderly manner, without threatening financial market stability. The resolution plan included a EUR5.5 billion capital injection by Belgium and France, which resulted in the two countries owning about 53% and 47% of the group's share capital, respectively.

Dexia is no longer commercially active, but its balance sheet will remain fairly large for an extended period. The balance sheet amounted to about EUR60 billion at end-2023, well ahead of its assets disposal schedule, due notably to the rise in interest rates, which limits the amount of cash collateral required to cover the negative mark to market of derivatives contracts.

Operational Simplification Almost Complete

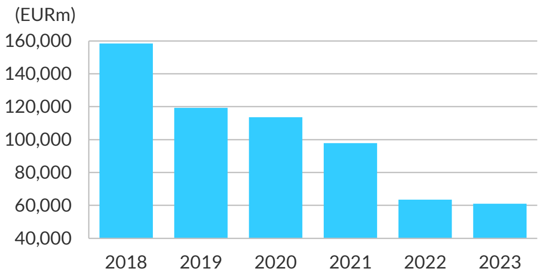
Dexia's operational simplification is drawing to an end, signalling good progress on the orderly resolution plan. In September 2023, Dexia finalised the cross-border merger by absorption of its 100%-owned subsidiary Dexia Crediop, its last significant subsidiary. This merger led Dexia to cease publishing consolidated financial statements. Over the past 12 months, Dexia also announced the sale of five non-regulated leasing entities to BAWAG Group, as well as several outsourcing agreements with Credit Mutuel Arkea (A+/Stable), BlackRock and EY.

Withdrawal of Dexia's Banking Licence

In December 2023, the ECB approved the withdrawal of Dexia's credit institution licence and investment services authorisations. This is part of the ongoing implementation of the orderly resolution plan. Because Dexia's guaranteed debt has remained eligible for the high-quality liquid assets classification, the withdrawal of the banking licence has not affected its ability to access wholesale funding.

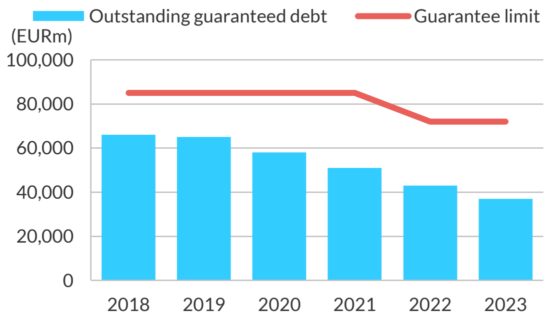
Steadily Declining Balance Sheet

Total assets; end of period



Source: Fitch Ratings, Dexia

Commensurate State-Guarantee Use



Source: Fitch Ratings, Dexia

Risk Profile

Exposure to European Countries and Public Entities

Dexia is incorporated in France. It has some concentration risks in southern European countries, which represented about 40% of total exposure at end-2023, while exposure to countries outside Europe was less than 15% of the total. At end-2023, about 70% of Dexia's portfolio was exposed to the public sector or to central governments.

Adapted Risk Framework

Dexia operating as a non-bank reduces the risks of bail-in of senior unsecured debt, as it is no longer subject to capital requirements. Dexia has nonetheless replaced the prudential banking supervision framework with an appropriate ad-hoc risk management and monitoring framework in order to ensure the sustainability of its orderly resolution. The company has adopted revised key risk indicators to monitor its solvency and liquidity risks.

Financial Profile

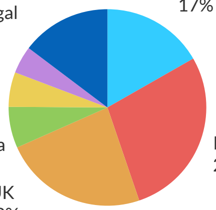
Asset Quality

Mainly Exposed to Low Risk Public-Sector Assets

Dexia's credit risk is generally contained, but a pocket of risks remains in the form of exposure to higher-risk European countries, such as Italy (end-2023: EUR13.1 billion) and Portugal (EUR2.1 billion), which are mainly to local authorities and the Italian (BBB/Positive) and Portuguese (A-/Positive) sovereigns. The exposure to Spain (EUR2.7 billion) is dominated by the public sector, with a limited direct exposure to the sovereign (A-/Stable).

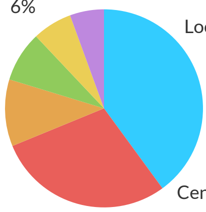
About 23% of Dexia's total exposure is to the UK (AA-/Stable), nearly half of which is to the public sector. At end-2023, about 90% of Dexia's credit risk exposure was rated in the 'BBB' category or above, based on Dexia's internal ratings. Speculative-grade exposure (EUR4.3 billion) accounted for about 80% of Dexia's equity.

Credit Exposure by Geography
EUR47bn at end-2023



Source: Fitch Ratings, Dexia

Credit Exposure by Counterparty
EUR47bn at end-2023



Source: Fitch Ratings, Dexia

Earnings and Profitability

Structurally Low Profitability

Dexia is structurally loss-making as revenues are declining faster than costs. The significant amount of collateral posted on swaps needs to be funded and inflates interest expenses, but it has sharply decreased since mid-2022 (end-2023: EUR9 billion) due to rising rates, which reduced funding costs. Dexia's large hedging derivatives book has generated accounting volatility and reduced profitability over recent years. Together with an increase in loan impairment charges, due to provisions on the water distribution sector in the UK, this led to an operating loss of EUR308 million in 2023. Dexia manages costs tightly, as it adapts them to the decreasing portfolio. The company has already outsourced its IT management and back office, and is in the process of outsourcing other functions.

Capitalisation and Leverage

Satisfactory Capitalisation

Dexia's risk-weighted capital ratios are sound, including the common equity Tier 1 (end-2023: 34.5%) and total capital (34.8%) ratios, and provide an ample buffer to absorb potential losses. While Dexia is no longer required to comply with regulatory capital requirements, our view of Dexia's solvency remains unchanged, as the company has nonetheless defined a new risk framework and now uses its leverage ratio to monitor its solvency.

Funding and Liquidity

Reliance on State-Guaranteed Funding

State-guaranteed debt is Dexia's main funding source (about 90% of total funding at end-2023). Non-guaranteed secured funding is mainly through repos. It had a liquidity buffer of about EUR13 billion at end-2023, including close to EUR4 billion of central bank deposits.

Dexia's liquidity is supported by higher interest rates, as they result in the decrease of cash collateral requirements, which lowers its funding needs. Conversely, Dexia is negatively exposed to a decrease in interest rates, but we believe that this scenario would result in a manageable increase of the funding requirement.

Dexia no longer has to comply with regulatory liquidity ratios, but it has adopted revised key risk indicators (survival horizon and medium-term liquidity ratio) to monitor its liquidity.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (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-/ Negative
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-2023, Dexia's assets represented a significant portion of Belgium's 2023 GDP (about 10%), where the holding company is incorporated, and less than 2% of France's 2023 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 in line with plans agreed with the European Commission.

Environmental, Social and Governance Considerations

FitchRatings **Dexia S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
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.	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

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

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 reflect 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.

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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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/topics/esg/products#esg-relevance-scores

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

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.