MOODY'S RATINGS

CREDIT OPINION

19 December 2024

Update

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RATINGS

Dexia

Domicile	Paris, France
Long Term Rating	Baa3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Dexia

Update of credit analysis

Summary

Dexia's long-term senior unsecured debt rating of Baa3 reflects (1) the company's b2 standalone assessment and (2) a very high probability of support from the Government of France (Aa3 stable) and the Government of Belgium (Aa3 negative), resulting in a five-notch rating uplift from the standalone assessment.

The b2 standalone assessment reflects our view that the orderly resolution of Dexia (previously called Dexia Credit Local) has so far been unfolding smoothly, in particular because of the large support provided by the governments of Belgium and France through the government-guaranteed debt scheme. Nevertheless, our standalone assessment also reflects the fact that Dexia might need additional capital injection from the governments during its prolonged run-off period.

On 1 January 2024, Dexia relinquished its banking and investment services licenses, the withdrawal of which had become necessary in order for the resolution to continue more quickly and flawlessly. The withdrawal of these licenses does not alter the financing guarantees by the two states in Dexia's favour.

Credit strengths

» Funding facilitated by a large State-guaranteed debt programme

» State ownership and government support for both capital and funding, which imply a high probability of further government support in case of need.

Credit challenges

» High concentration risk, despite good average asset quality

» Elevated operational risk throughout the resolution

» Inability to be profitable on a sustained basis

Rating outlook

The issuer outlook on Dexia is stable, reflecting our view that in the absence of any major exogenous shock affecting the company's solvency or funding capacity, its wind-down will likely unfold according to the resolution plan.

Factors that could lead to an upgrade

» An upgrade of Dexia's long-term senior unsecured rating is unlikely, even in the case of better-than-expected performance in the implementation of the orderly run-off plan.

Factors that could lead to a downgrade

- Significant deviations from the run-off plan could trigger a downgrade of Dexia's long-term senior unsecured rating.
- Any evidence from the guarantor States, or from the European Commission that additional government support in case of need would either not be provided or under conditions detrimental to unsecured creditors could also result in a downgrade of Dexia's long-term senior unsecured rating.

Key Indicators

Exhibit 1
Dexia (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total managed assets (EUR Thousands)	60,041,000.0	63,442,000.0	97,786,000.0	113,523,000.0	119,364,000.0	(15.8)[4]
Total managed assets (USD Thousands)	66,324,591.8	67,708,300.0	110,801,899.1	138,901,736.2	133,985,879.0	(16.1)[4]
Net Income / Average Managed Assets (%)	-0.5	0.1	-0.3	-0.6	-0.7	-0.4[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	9.4	9.4	6.0	5.4	5.7	7.2[5]
Problem Loans / Gross Loans (Finance) (%)	1.7	2.0	1.7	1.8	1.7	1.8[5]
Debt Maturities Coverage (%)	54.4	67.9	82.3	43.6	37.5	57.1[5]
Secured Debt / Gross Tangible Assets (%)	4.9	8.1	11.1	9.4	6.3	8.0[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Ratings and company filings

Profile

Dexia (formerly known as Dexia Credit Local) is Dexia Holding's sole operational entity and issuer. It is based in France, where it holds most of its assets. Dexia — historically active in public-sector financing — has been in runoff since year-end 2011. The Belgian and French states own 99.6% of Dexia Holding[1].

The company is subject to an orderly resolution plan since year-end 2011 following the European sovereign debt crisis, which had a major impact on the Dexia group. Given the former bank's size and to prevent any systemic risk, a wind-down process began in October 2011 and was eventually approved by the European Commission (EC) in December 2012. As a result, the group stopped its commercial activity, and has been focusing on fulfilling its contractual obligations and managing its balance sheet in runoff (mainly public sector and sovereign assets). Dexia Holding's total assets amounted to €61 billion at end December-2023, down 5% from year-end 2022 and down 75% from €247 billion at year-end 2014.

Over the past 4 years, Dexia simplified its structure by selling and closing most of the remaining branches abroad, amongst numerous measures aimed at reducing its operating costs. A major milestone in the simplification process was the merger by absorption between Dexia and its Italian subsidiary Dexia Crediop, finalized in September 2023.

Since 1 January 2024, Dexia is no longer a bank, following its request of banking license withdrawal. Dexia is now subject to a new risk appetite framework monitored by an ad hoc surveillance committee appointed by the French and Belgian states, which will increase its flexibility to conduct the orderly resolution. While the surveillance committee will have no administrative powers, it will provide both governments with an independent assessment of Dexia's risk management, solvency and liquidity. It will also have a say on the appointment of key senior staff ("fit and proper") and will be entitled to recommend corrective actions as necessary. Also since January 2024, the company stopped producing its accounts under IFRS and reverted to French GAAP, providing further room for asset sales, simplification and cost reduction.

Detailed credit considerations

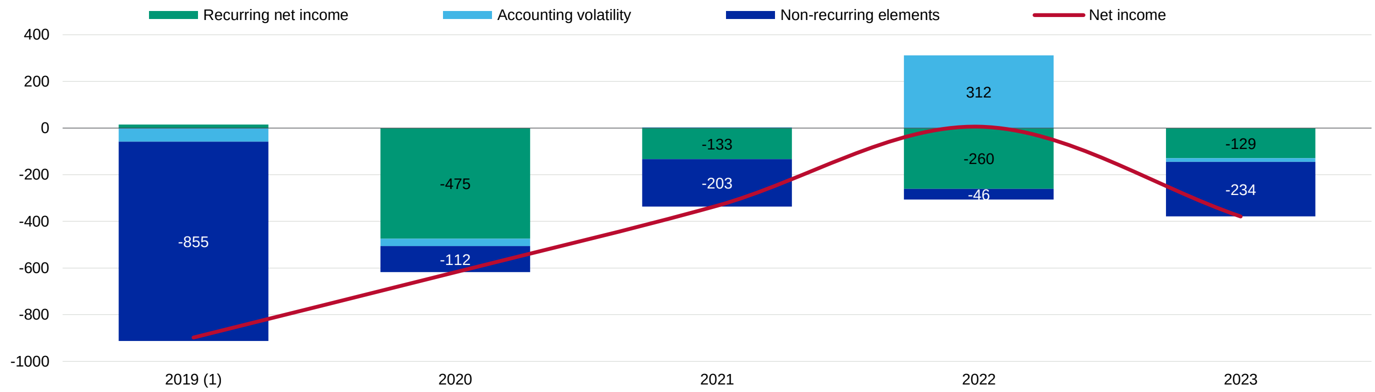
Unless otherwise specified, financials are based on Dexia Holding's and not Dexia's.

Dexia is structurally loss-making

The assigned Profitability score of Caa1 reflects our expectations that Dexia will remain unprofitable. Despite its low cost of funding, Dexia's earnings generation capacity is limited (Exhibit 2). The ongoing disposal of assets reduces its earnings base, while the decrease in operating costs remains slow (Exhibit 3). As a result, the company is structurally loss-making. Even in the absence of significant loan losses, we expect Dexia to continue posting further losses over the coming years.

Exhibit 2

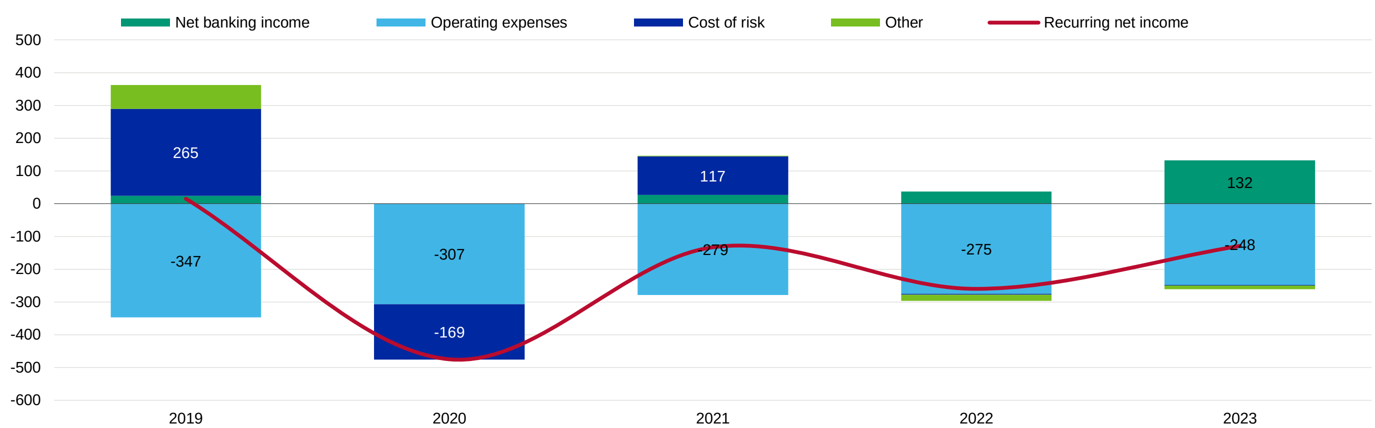
Dexia is structurally loss-making
Breakdown of net income, in € million



(1) Non-recurring elements of 2019 included €403 million loss generated by asset disposals, €314 million negative impact of the reclassification of a portion of assets at amortised cost into the fair value category, and €115 million loss related to the sale of DKD.
Sources: Company reports and Moody's Ratings

Exhibit 3

Dexia is loss-making as a result of decreased revenues which do not absorb operating expenses
Breakdown of recurring net income (in € million)



Sources: Company reports and Moody's Ratings

Dexia's earnings are very sensitive to changes in funding conditions (notably the credit spread of the French sovereign as the cost of its guaranteed debt is strongly correlated with government bonds) because of the very thin margins on its assets. They are also sensitive to changes in interest rates, with higher rates positively affecting net interest margins. The company's net result also depends on the magnitude of loan losses, which in turn depends on the macroeconomic environment. Extreme market volatility could also hurt Dexia's financial results because adverse movements in market parameters (exchange rates and credit spreads) could prompt negative valuation adjustments of assets, liabilities and derivatives. That being said, significant efforts have been made to reduce the results' sensitivity to variation in market parameters by reducing the number of derivative operations and by hedging basis risks.

Since 1 January 2022, Dexia is subject to additional guarantee fees under the prolongated state-guaranteed funding scheme. While the “normal fees”, which are paid monthly to the guarantors under the previous scheme continues to be applied at a low 5 basis points of outstanding debt, the new scheme also includes a deferred fee system which will gradually increase from 5 basis points (in 2022) to 135 basis points (in 2027). The deferred fees will only become payable upon two conditions being met simultaneously, including (1) the liquidation of Dexia and (2) the withdrawal of its banking license. They will therefore not weigh on the company's cash position during its run-off. However, in Dexia's statutory statements under French GAAP[2], the deferred fees will only be recognized as an off-balance-sheet item and therefore have no P&L impact as long as the probability of the simultaneous occurrence of the two conditions is deemed remote.

The company has been able to consistently reduce its operating costs by simplifying its international network and outsourcing some administrative activities. In 2023, Dexia secured partnerships with other banks for outsourcing certain risk management, middle and back-office activities. The de-banking and exit from the IFRS accounting framework will allow Dexia to further reduce its regulatory and reporting costs.

Dexia might require further recapitalisation during its multiyear wind-down process

The assigned Capital Adequacy and Leverage score of B2 is positioned two notches below the initial score to reflect the expected progressive erosion of the capital base as the runoff process unfolds.

Dexia's Tangible Common Equity (TCE)/Tangible Managed Assets ratio stood at 10.5% as of end-December 2023, stable from year-end 2022. Based on its projected financials and in the absence of a major shock triggering substantial credit losses or affecting the company's funding capacity, however, we expect Dexia to maintain broadly stable capital ratios over the coming years.

The banking license withdrawal changed the supervisory framework of the holding as Dexia is no longer subject to the Supervisory Review and Evaluation Process (SREP) capital requirements. Nonetheless, the body tasked with Dexia's surveillance will monitor the solvency of the company and more broadly its creditworthiness and will be expected to report to the board of directors and the two states eventually in case material deficiencies were identified.

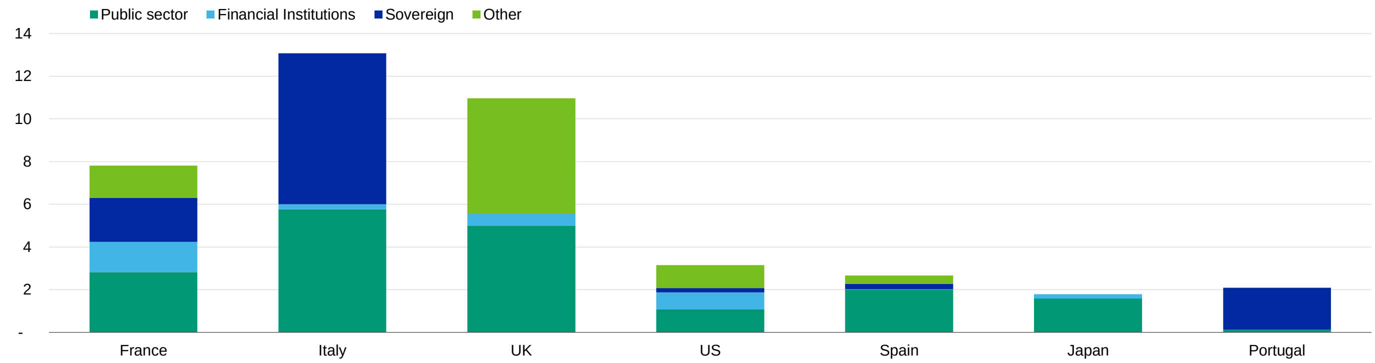
Average asset quality is good but credit concentrations are elevated

The Asset Quality score is adjusted four notches downwards to Baa3 from the initial score of A2 to factor in the high concentration risks and potential losses during the runoff. Since the implementation of the orderly resolution of Dexia and along with the disposal of its viable franchises, the holding has been managing the remaining assets in runoff. These assets mainly comprise long-term exposures to the public sector and sovereigns, the final amortisation of which will extend beyond 2030.

Since 2016, Dexia has also been focusing on actively deleveraging its portfolio, in line with the management's strategy to accelerate the company's downsizing. The loan and bond portfolio decreased by €2.9 billion during 2023 to €30 billion as of year-end 2023. The portfolio's average quality is good (91% of the total credit exposures were investment grade as of year-end 2023, of which 41% were rated A or above). However, single-name concentration is high, implying the risk of a significant impact on the company's capital in case of an impairment on a large exposure — all the more so since Dexia has no capacity to absorb credit losses with its recurring revenue.

Dexia has particularly high concentrations in the Italian and Spanish public sectors (Exhibit 4). As of the end of December 2023, its exposure to the Italian public sector and the Italian sovereign represented 90% and 110%, respectively, of its TCE, and its exposure to the Spanish public sector represented 31% of its TCE.

Exhibit 4
Asset concentration risk is high
Dexia Holding's credit exposures as of end-December 2023, in € billion



Source: Company reports

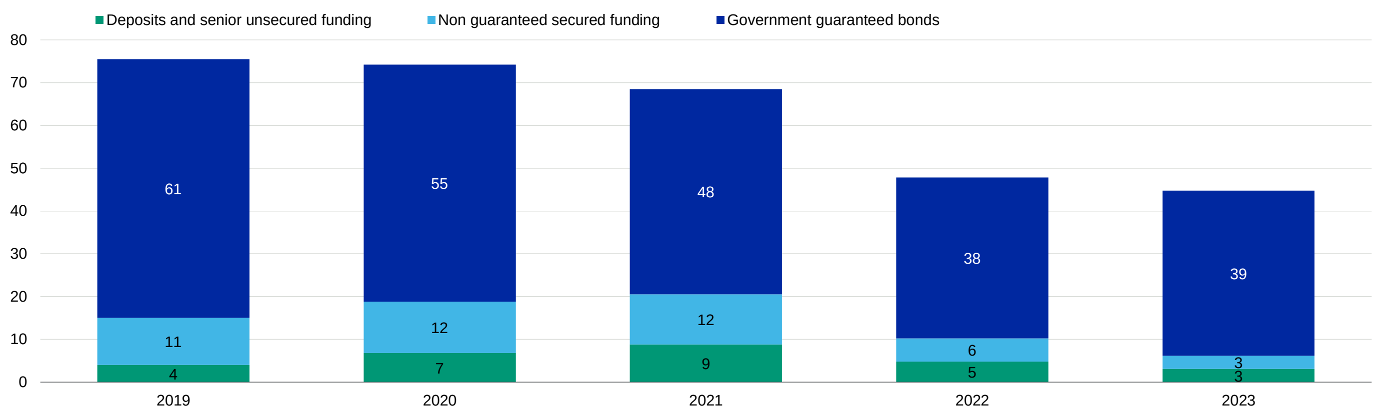
Impaired assets amounted to €433 million (representing around 1.4% of Dexia Holding's loan and bond portfolio and 6.8% of TCE) as of the end of December 2023, 14% down from €503 million as of year-end 2022.

Funding during the runoff period will rely on state-guaranteed debt and secured funding

The assigned Cash Flow and Liquidity score of B1 reflects Dexia's limited financial flexibility. Dexia funds the wind-down of its assets through state-guaranteed debt and secured funding. The company relies on a prolonged guarantee scheme running until 31 December 2032, provided by the governments of Belgium and France in the proportions of 53% and 47% with a ceiling of €75 billion. This guarantee scheme provides the bank with reasonable room to absorb potential strain that may result from an increase in collateral posting needs on hedging derivatives or higher haircuts imposed in repurchase agreement transactions.

Dexia's funding needs have continued to decrease with the accelerated wind-down of the asset portfolio since 2019. As of December 2023, the outstanding balance of guaranteed debt amounted to €39 billion, up from €38 billion as of December 2022. Guaranteed debt currently represents close to 90% of Dexia Holding's funding sources (Exhibit 5).

Exhibit 5
Guaranteed debt represents the bulk of Dexia's funding
Breakdown of Dexia Holding's liabilities, in € billion



Source: Company reports

Depending on market conditions and investors' appetite for government-guaranteed bonds (GGBs), there remains a risk that Dexia's access to the market nevertheless proves more difficult than expected and results in higher funding costs. In worst cases, this could compel it to rely on alternative measures, including resorting to its on-balance sheet contingency liquidity buffer. The state-guaranteed debt issued by Dexia continues to benefit from a 0% risk-weight for the calculation of risk-weighted assets and qualifies as a level 1 asset in the calculation of the liquidity coverage ratio, which will support financial institutions' appetite for GGBs and help keep the average cost of state-guaranteed debt low. This mitigates the fact that Dexia is still operating with relatively high funding gaps.

Besides guaranteed debt, the company is still using secured funding as a cost-effective way to finance its assets. Total secured funding amounted to around €3.1 billion at the end of December 2023 or 7% of total funding. As of the end of December 2023, the group's liquidity reserve amounted to €13.4 billion, of which €3.8 billion were in cash.

Operating environment
We assign an Aa2 score to Dexia's Operating Environment, based on Dexia's Industry Risk score. The Macro-Level Indicator score does not have any weight in the scorecard as per the dynamic weighting for deriving the Operating Environment. The Operating Environment score has no effect on Dexia's financial profile and results in a B1 Adjusted Financial Profile.

Macro-level indicator
We use Dexia's credit risk exposure to determine the geographical split when assigning the Macro-Level Indicator scores. The exposures are concentrated on the company's former core markets in Western and Southern Europe.

Industry risk
Dexia's Aa Industry Risk score reflects the orderly resolution which stopped any commercial activity and led the company to focus on fulfilling its contractual obligations and managing its balance sheet in runoff.

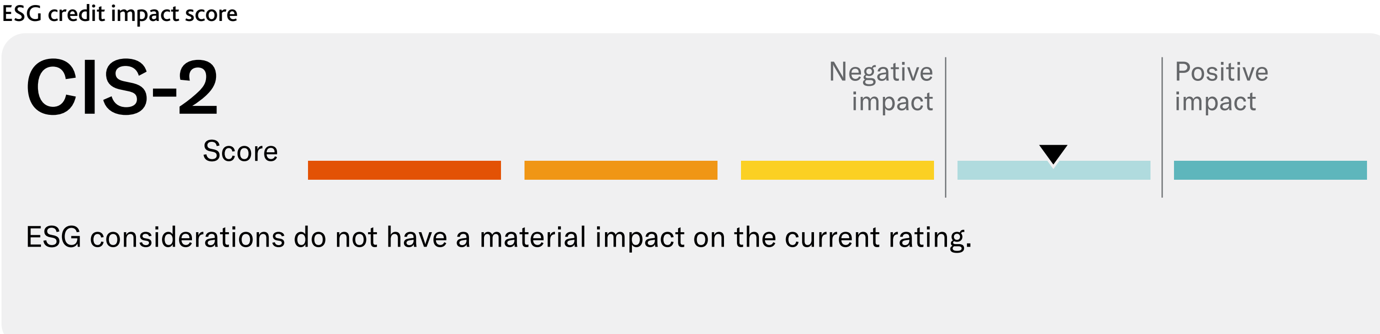
Business profile and financial policy
We maintain a one-notch negative adjustment for Opacity and Complexity to reflect the uncertainties and lack of visibility associated with the implementation of a long-term wind-down of a large balance sheet composed of long-dated and illiquid assets.

Overall, the scorecard-calculated standalone assessment range for Dexia is b1 - b3. The company's b2 assigned standalone assessment is at the midpoint of the range, consistent with the stable outlook.

ESG considerations

Dexia's ESG credit impact score is CIS-2

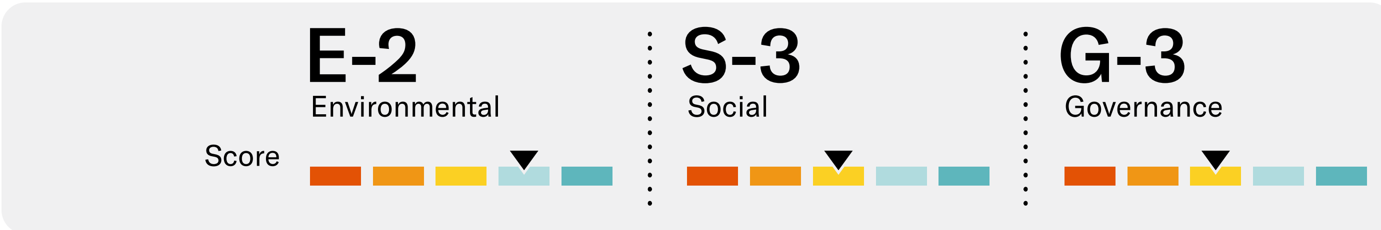
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Dexia's **CIS-2** indicates that ESG considerations have no material impact on the current rating, which reflects the mitigating rating effect of support from the French and Belgium governments over Dexia's ESG risk profile. Nonetheless, Dexia faces moderate governance risks stemming from its state ownership and the operational complexities involved with its run-off. Environmental and social factors have a limited credit impact on the rating to date.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental
Dexia's exposure to environmental risks is low. Given its former role as lender to the French public sector, Dexia's exposure to environmental risks is closely linked to that of the French sovereign, which is low across all categories.

Social
Dexia faces moderate social risks primarily related to customer relations and associated regulatory and litigation risks, requiring high compliance standards. The group's exposure to social risks, namely to customer relations and demographic and societal trends, is below industry average given its current status as a run-off entity.

Governance
Dexia's governance risks are moderate. Dual government ownership by the French and Belgian states involves some complexity in the completion of Dexia's run-off. Nonetheless, governance risks are mitigated by the alignment of creditors and shareholders' interests insofar as a large share of the group's funding benefits from the guarantee of the states.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations
We incorporate five notches of uplift due to government support to arrive at Dexia's Baa3 senior unsecured debt rating. The five notches of uplift from the assigned standalone assessment are a result of applying our joint default analysis (JDA) assuming a very high probability of support from the governments of France and Belgium. Government support assumption is low for junior debts, resulting in no rating uplift.

The current exposures of these governments to Dexia via their equity investments and guarantees on funding are such that both have a strong interest in preventing the company's default. In case of default both States would directly be liable for maturing debts under the terms of their guarantee and because a liquidation process would likely entail greater losses for them than under an orderly wind down.

The rating on preferred stocks of C(hyb) incorporates an additional notching of six notches below the assigned standalone assessment, reflecting the fact that coupon payments and early redemption have been suspended on these securities, in accordance with the EC's decision in 2012.

About Moody's Finance Companies Scorecard
Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8
Ratings Factors

Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	-0.51%	Caa1	Caa1	Expected trend	
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	25%	9.41%	Ba2	B2	Expected trend	
Asset Quality						
Problem Loans / Gross Loans (%)	10%	1.80%	Baa3	Baa3	Pro-forma adjustments	
Net Charge-Offs / Average Gross Loans (%)	10%	0.00%	Aaa	Baa3	Expected trend	
Weighted Average Asset Risk Score			**A2**	**Baa3**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	54.44%	B1	Baa1	Near-to-medium term maturities	
FFO / Total Debt (%)	15%	-0.66%	Ca	Caa3	Expected trend	
Secured Debt / Gross Tangible Assets (%)	20%	4.95%	Aa2	B1	Other adjustments	
Weighted Average Cash Flow and Liquidity Score			**Ba1**	**B1**		
Financial Profile Score	**100%**		**Ba1**	**B1**		
Operating Environment						
Home Country	Factor Weights	Sub-factor Score	Score			
Macro Level Indicator	0%		Aa3			
Economic Strength	25%	a1				
Institutions and Governance Strength	50%	aa3				
Susceptibility to Event Risk	25%	baa				
Industry Risk	100%		Aa			
Home Country Operating Environment Score			Aa2			
	Factor Weights			Score	Comment	
Operating Environment Score	**0%**			**Aa2**		
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				**B1**		
Financial Profile Weight	100%					
Operating Environment Weight	0%					
Business Profile and Financial Policy				Adjustment	Comment	
Business Diversification, Concentration and Franchise Positioning				0		
Opacity and Complexity				-1		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**B2**		
					Comment	
Sovereign or parent constraint				**Aa3**		
Standalone Assessment Scorecard-indicated Range				b1 - b3		
Assigned Standalone Assessment				b2		

Source: Moody's Ratings

Instrument class

Exhibit 9

Ratings Factors JDA

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
Counterparty Risk Rating	b2	0	5		Baa3
Senior Unsecured (Operating Company)	b2	0	5		Baa3
Non-cumulative bank preference shares	b2	0	0	-6	C

Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
DEXIA	
Outlook	Stable
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured -Dom Curr	Baa3
Pref. Stock Non-cumulative -Dom Curr	C (hyb)
Bkd Commercial Paper	P-1
PARENT: DEXIA HOLDING	
Pref. Stock Non-cumulative -Dom Curr	C (hyb)

Source: Moody's Ratings

Endnotes

1 Belgium and France hold 52.8% and 46.8% of Dexia Holding, respectively

2 Under Dexia's IFRS accounting rules, the deferred charge accrued in the consolidated income statement and negatively impacted its accounting equity (€18.7 million have been accrued as of end December 2023).

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