Regulated information – Brussels, Paris, 8 September 2023 – 05:45 pm

Dexia Group consolidated results H1 2023[1]

Decisive new steps in the Group's transformation

- *Submission of an application to the ACPR on 4 July 2023 for the withdrawal of Dexia Crédit Local's banking and investment services authorisations*
- *Preparation for the merger of Dexia Crediop into Dexia Crédit Local, scheduled for 30 September 2023, with retroactive effect for tax and accounting purposes from 1 July 2023*
- *As part of the Group's operational simplification, launch of a programme to repatriate assets from Dexia Crédit Local's Dublin branch to the parent company in Paris*

Negative net income of EUR -159 million as at 30 June 2023

- *Recurring elements (EUR -115 million) marked by taxes and regulatory contributions (EUR -39 million) and the cost of risk (EUR -33 million) linked to the strengthening of the provision on part of the water distribution sector in the United Kingdom.*
- *Accounting volatility elements (EUR -63 million) impacted in particular by the valuation of the derivatives portfolio and the Wise securitisation.*
- *Non-recurring elements (EUR +19 million) mainly related to the Group's balance sheet reduction and transformation strategy and benefiting from a deferred tax gain related to asset transfers between Paris and Dublin*

Balance sheet down 6%, to EUR 60.6 billion as at 30 June 2023 and strong solvency

- *Further reduction in balance sheet due to lower asset portfolios (EUR -1.5 billion) and, to a lesser extent, cash collateral and fair value items (EUR -1.1 billion)*
- *Stabilisation of net cash collateral at EUR 8.3 billion and further reduction in borrowing requirements to EUR 42.9 billion as at 30 June 2023*
- *Robust Total Capital ratio of 40.3% as at 30 June 2023*

Pierre Crevits, Dexia CEO, stated: "*During the first half of 2023, the Dexia Group took decisive steps towards its resolution, with the preparation of the merger by absorption of Dexia Crediop by Dexia Crédit Local and the initiation of a programme to transfer assets from Dexia Crédit Local Dublin to its parent company. At the same time, thanks in particular to the reduction in asset portfolios, I am delighted that our Group is continuing drastically to reduce its footprint, with its funding requirement and balance sheet continuing their downward trend. The Group's solvency ratios remain well above regulatory requirements. These fine achievements would not be possible without the commitment and strong involvement of all our staff members. I would like to thank them most sincerely for the intensity of their efforts during the first half of 2023 and for their steadfastness throughout our resolution.*"

Gilles Denoyel, Chairman of the Dexia Board of Directors, stated: "*The application to withdraw Dexia Crédit Local's credit institution licence and investment services authorisations, filed with the ACPR at the beginning of July, is a major step forward for the Group. Subject to approval by the competent authorities, Dexia will thus be able to continue its orderly resolution within a framework better suited to its specific characteristics. I would like to pay tribute to the hard work of Dexia's management and teams in preparing for this change and to the full support of the States, shareholders and guarantors of the Group, in this process.*"

[1] *The data provided in this press release have not been audited.*

Introduction

During the first half of 2023, Dexia took further decisive steps towards the implementation of the Group resolution. On the one hand, efforts to centralise activities at head office were intensified via two emblematic projects: the preparation of the cross-border merger between Dexia Crédit Local and Dexia Crediop, which will be effective on 30 September, and the launch of a programme to repatriate assets from Dexia Crédit Local Dublin to its parent company. On the other hand, in line with the decision of the Board of Directors on 3 July 2023, Dexia Crédit Local submitted on 4 July 2023 a request to the ACPR to withdraw its banking and investment services authorisations.

As at 30 June 2023, after two consecutive years of sharp falls linked to the rise in interest rates, the level of net collateral posted by the Group to its derivatives counterparties stabilised at EUR 8.3 billion. As a result of the reduction in portfolios, the funding need nevertheless contracted by EUR 1.9 billion during the first half of 2023, to EUR 42.9 billion as at 30 June 2023.

Against this backdrop, the balance sheet total stood at EUR 60.6 billion as at 30 June 2023, down 6% over the half-year.

The net income generated by the Group in the first half of 2023 amounted to EUR -159 million, marked in particular by the rise in the cost of risk linked to the increase of provisioning on part of the water distribution sector in the United Kingdom and by a deferred tax gain following asset transfers between Dexia Crédit Local and its branch in Ireland.

Dexia continues to post robust solvency ratios, above the minimum required for the year 2023 within the framework of the Supervisory Review and Evaluation Process (SREP).

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 Financial Markets Authority (*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. Significant events and transactions

- *Submission of a request to withdraw Dexia Crédit Local's banking and investment services authorisations: Group's ability to carry out its orderly resolution and to finance itself maintained; implementation of a robust risk management framework and a new surveillance model*
- *Further centralisation of the Group's activities via the merger by absorption of Dexia Crediop by Dexia Crediop Local and the implementation of an asset transfer programme between Dexia Crédit Local and its branch in Ireland*

A. Progress on the Group's resolution

Request to withdraw banking and investment services authorisations

On 4 July 2023, the Dexia Group submitted a request to the ACPR to withdraw the credit institution licence and the investment services authorisations of Dexia Crédit Local as well as the finance company authorisations of Dexia Flobail and Dexia CLF Régions Bail, in order to continue its orderly resolution as a non-bank from the beginning of 2024, provided that the competent authorities authorise it to do so.

As announced by Dexia on 3 July[2], this important step in Dexia's resolution is in line with the plan validated by the European Commission in December 2012. The abandonment of Dexia Crédit Local's status as a credit

[2] *Cf. Dexia Press Release of 3 July 2023, available at www.dexia.com*

institution will lead to a change in the status of its parent company Dexia SA, which will cease to be a financial holding company under Belgian law. Dexia Crédit Local will remain a public limited company under French law.

The decision to operate without banking or investment services authorisation will, in the long term, greatly simplify Dexia's organisation, in particular associated with regulatory production, and generate substantial savings, without affecting the quality of the monitoring of its portfolio or the Group's ability to carry out its resolution. It also preserves Dexia Crédit Local's ability to finance itself via the issue of debt guaranteed by the Belgian and French States, which retains HQLA level 1 qualification[3] and preserves the possibility for Dexia Crédit Local to carry out own-account transactions and to have direct access to clearing houses and the main trading venues, which are essential for the continuation of its orderly resolution.

In this context, particular attention was also paid to maintaining an Investment Grade rating for Dexia Crédit Local (cf. Appendix 8 of this Press Release).

Finally, the Group will maintain a robust risk monitoring and management framework. An independent surveillance committee, set up by the guarantor States and the members of which will have solid expertise in banking supervision, will take over from the banking supervisors, particularly in terms of risk monitoring and the organisation of internal control.

Ongoing operational simplification

Cross-border merger of Dexia Crédit Local and Dexia Crediop

At the end of 2022, as part of the plan to simplify its network of entities, the Dexia Group validated the principle of the cross-border merger between Dexia Crédit Local and Dexia Crediop.

In the first half of 2023, Dexia continued to implement this merger. On 15 February 2023, Dexia Crediop submitted a merger authorisation request to the Bank of Italy, which approved it on 12 May 2023.

The Boards of Directors of Dexia Crédit Local and Dexia Crediop also approved the agreement, which provides for a merger by absorption of Dexia Crediop by Dexia Crédit Local on 30 September 2023, with retroactive accounting and tax effect from 1 July 2023.

Following the merger, Dexia Crédit Local intends to maintain a local presence in Italy by establishing an unregulated branch (*sede secondaria*) in Rome. This branch will carry out exclusively auxiliary and non-regulated activities in support of its head office. It will facilitate communication with counterparties based in Italy, in relation to existing transactions, without conducting regulated activity or providing investment services in Italy.

In parallel with the implementation of the merger between Dexia Crédit Local and Dexia Crediop, Dexia also undertook the securitisation of its loans granted to Italian local authorities in a new special purpose vehicle (SPV), regulated under Article 106 of the Italian Banking Act, which will enable it to continue to manage them after the withdrawal of Dexia Crédit Local's banking licence at the beginning of 2024.

During the first half of 2023, the Dexia Group's loans to Italian local authorities were thus transferred to this SPV, managed by the regulated Italian service provider Zenith and, at the same time, Dexia subscribed to the notes issued by the SPV. As at 30 June 2023, the securitised assets represent a nominal amount of EUR 2.8 billion in Dexia's consolidated balance sheet.

[3] *Confirmation in the ACPT notice 2023, Section 6.1.1.6 relating to the eligibility of shares issued by financial sector operators:* *https://acpr.banque-france.fr/sites/defaut/files/media/2023/07/17/20230711_notice_college.pdf*

Asset transfer

As part of the Group's operational simplification, Dexia Crédit Local has undertaken the repatriation of assets and associated derivatives from its Dublin branch to its Paris head office.

As at 30 June 2023, a portfolio of EUR 3.8 billion in assets had already been transferred, representing around 40% of the Dublin branch's portfolio (nominal value). This transfer was carried out at market value and gave rise to the recognition of a deferred tax gain of EUR +47 million, which was recognised in the first half of 2023 in the Dexia Group's consolidated financial statements (cf. the Dexia Group H1 2023 consolidated results section of this press release).

The transfers will be finalised during the second half of 2023.

Slowdown of asset disposals in an unfavourable market environment

As in 2022, the high volatility seen on the markets since the outbreak of the conflict in Ukraine continued to slow the pace of asset disposals in the first half of 2023. Nevertheless, the general rise in interest rates observed in Europe and the United Kingdom favoured Dexia's early repayment dynamic.

To recall, by 2022 Dexia had achieved the target volume of disposals set by the Board of Directors in July 2019, at a cost 35% lower than the allocated loss budget. In order to pursue the objective of reducing portfolios, the Group's governing bodies decided to extend this programme into 2023.

As a result, at the end of June 2023, the asset portfolios were EUR 1.5 billion lower than at the end of December 2022, thanks to EUR 1 billion in natural amortisation and EUR 0.5 billion in disposals and early repayments, 70% of which related to loans and 30% to bonds.

In the first half of 2023, 50% of the assets sold or redeemed early were denominated in euros. The assets sold have an average life of around five years.

Most of the assets sold and prepaid relate to project finance and local public sector assets.

More than a hundred transactions were early repaid or restructured, including 'complex' transactions (loans indexed to structured indices, revolving credit), thus contributing to the continued simplification of the commercial portfolio and its management.

B. Evolution of Group governance

On 26 January 2023, Dexia's Board of Directors co-opted Anne Blondy-Touret as a non-executive director to replace Marie-Anne Barbat-Layani, who resigned from the Board of Directors on 24 October 2022, following her appointment as Chairman of the Financial Market Authority. Her definitive appointment was approved by Dexia's Ordinary Shareholders' Meeting on 24 May 2023.

On 10 March 2023, the Board of Directors of Dexia co-opted Ludovic Planté as a non-executive director to replace Claire Vernet-Garnier, who resigned from the Board of Directors on 15 November 2022 following a career change. His definitive appointment was approved by Dexia's Ordinary Shareholders' Meeting on 24 May 2023.

On 26 May 2023, Dexia's Board of Directors appointed Jean Le Naour Chief Operating Officer and member of Dexia's Management Board, as from 1 June 2023, replacing Patrick Renouvin, who is taking his retirement. Jean Le Naour has extensive and diversified experience within the Group, having held many positions of responsibility. In particular, he was a member of the Management Board of Dexia Crédit Local, in charge of Accounting and Management Control, Operations, Information Systems, Purchasing and Logistics. Since 2009, he has also been CEO of Dexia Crediop, the Italian subsidiary of Dexia Crédit Local, a position in which he was replaced on 1 June 2023.

As the governance of Dexia and Dexia Crédit Local is integrated, Anne Blondy-Touret and Ludovic Planté are also non-executive directors of Dexia Crédit Local. Jean Le Naour is also Chief Operating Officer and Deputy Chief Executive Officer of Dexia Crédit Local.

On 24 May 2023, the Ordinary Shareholders' Meeting of Dexia decided to renew the director's mandates of Tamar Joulia-Paris and Giovanni Albanese Guidi, each for a new director's mandate of four years that will expire at the end of the Ordinary Shareholders' Meeting to be held in 2027.

C. Prudential capital requirements applicable to Dexia and its subsidiaries in 2023

On 30 November 2022, the ACPR informed Dexia that the total capital requirement (excluding the capital conservation buffer) of 11.25% on a consolidated basis was maintained in 2023. This level includes a minimum capital requirement of 8% (Pillar 1) and an additional capital level of 3.25% (P2R - Pillar 2 requirement) which must be covered at least 56% by Common Equity Tier 1 capital and 75% by Tier 1 capital.

The Dexia Group is also required to hold a capital conservation buffer of 2.5%, made up entirely of Common Equity Tier 1 capital. Including the impact of the capital conservation buffer, Dexia's overall capital requirement is 13.75% for 2023.

In addition, the High Council for Financial Stability has decided to raise the level of the countercyclical buffer to 0.5% from 7 April 2023 and to 1% from 2 January 2024. The Bank of England requires a countercyclical buffer of 1% for the first two quarters of 2023 and 2% for the last two quarters of 2023. As a result, Dexia's countercyclical buffer requirement is 0.6% as at 30 June 2023 and is estimated at 1.25% for the last two quarters of 2023.

Finally, the ACPR recommends maintaining a level of additional capital (P2G - Pillar 2 guidance) of 1%, which is added to the overall capital requirement and must be made up entirely of Common Equity Tier 1 capital.

Including the impact of the countercyclical buffer and the P2G, Dexia's overall capital requirement will be 16% from 1 July 2023.

On 22 December 2022, the ACPR also confirmed to Dexia the maintenance in 2023 of a tolerance which allows it to deduct from its Common Equity Tier 1 regulatory capital the economic impact of remedying a failure to comply with the large exposures ratio for one of its exposures.

2. H1 2023 results

- *Recurring items (EUR -115 million) marked by taxes and regulatory contributions (EUR -39 million) and a negative cost of risk (EUR -33 million) linked to the strengthening of the provision on part of the water distribution sector in the United Kingdom*
- *Accounting volatility items (EUR -63 million) impacted in particular by the valuation of the derivatives portfolio and the Wise securitisation*
- *Non-recurring items (EUR +19 million) mainly related to the Group's balance sheet reduction and transformation strategy and benefiting from a deferred tax gain related to asset transfers between Paris and Dublin*

A – Presentation of Dexia's condensed consolidated financial statements as at 30 June 2023

Going concern

The Dexia condensed consolidated financial statements as at 30 June 2023 have been prepared in accordance with the going concern basis of accounting in accordance with IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the resolution of the Dexia Group, developed in Appendix 1 to this Press Release.

B – Dexia Group H1 2023 consolidated results

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

The net income Group share of EUR -159 million as at 30 June 2023 is composed of the following items:

- EUR -115 million attributable to recurring elements;
- EUR -63 million associated with accounting volatility elements;
- EUR +19 million generated by non-recurring elements.

Analytical presentation of the Dexia Group H1 2023 results

in EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	***59***	***-63***	***-4***	***-8***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-141*	*0*	*-24*	*-165*
Gross operating income	***-82***	**-63**	***-28***	***-173***
Cost of credit risk	*-33*	*0*	*0*	*-33*
Net result before tax	***-115***	***-63***	***-28***	***-206***
Income tax	*0*	*0*	*47*	*47*
Net income	**-115**	**-63**	**19**	**-159**
Minority interests	0	0	0	0
Net income, Group share	**-115**	**-63**	**19**	**-159**

Recurring elements

Recurring elements		
in EUR million	***H1 2023***	***H1 2022***
Net banking income	***59***	***18***
Operating expenses and depreciation, amortisation and impairments of tangible fixed assets and intangible assets	***-141***	***-167***
o/w Expenses excluding operational taxes	*-102*	*-105*
o/w Operational taxes	*-39*	*-62*
Gross operating income	***-82***	***-149***
Cost of credit risk	*-33*	*6*
Net result before tax	***-115***	***-143***
Income tax	*0*	*-12*
Net income	***-115***	***-155***
Minority interests	*0*	*0*
Net income, Group share	***-115***	***-155***

Net income Group share from recurring elements was EUR -115 million as at 30 June 2023, compared with EUR -155 million at the end of June 2022.

Net banking income mainly reflects the net interest margin, which corresponds to the cost of carrying assets and the result of the Group's transformation result. The net interest margin was EUR 38 million higher than as at 30 June 2022, reaching EUR +62 million as at 30 June 2023, due to the rise in interest rates, and in particular the steepening of the curve, which is favourable to carrying portfolios, the sharp contraction in cash collateral and, to a lesser extent, the improvement in funding cost.

At EUR -141 million, costs were EUR 26 million lower than as at 30 June 2022, mainly as a result of the reduction in taxes and regulatory contributions (EUR -23 million) linked to the downward revision of the contribution to the Single Resolution Fund. Excluding operational taxes, expenses were also down slightly (EUR -3 million) compared with 30 June 2022.

The cost of risk amounted to EUR -33 million as at 30 June 2023. A charge to collective provisions, linked to the transition to Stage 2 of part of the water distribution sector in the United Kingdom, was partially offset by a positive impact linked in particular to the update of the base case macroeconomic scenario used to assess expected credit losses under IFRS 9 and to effects induced by the rise in interest rates and the evolution of the portfolio (rating changes, disposals, natural amortisation). Ultimately, this resulted in a net impact of EUR -34 million on the stock of collective provisions for the first half of the year.

Accounting volatility elements

Accounting volatility items amounted to EUR -63 million as at 30 June 2023, compared with EUR +320 million at the end of June 2022, following the strongly positive contribution of the reform of benchmark indices (IBOR). The main items impacting the half-year results were:

- The negative change (EUR -55 million) in the valuation of the derivatives portfolios and the Wise securitisation;
- The tightening of credit spreads on Currency Basis Swaps and the rise in interest rates, leading to a EUR -27 million impact on fair value hedge inefficiencies;

- The positive impact (EUR +18 million) of the Funding Value Adjustment (FVA), the Credit Value Adjustment (CVA) and the Debit Valuation Adjustment (DVA).

Non-recurring elements

Non-recurring elements		
(in EUR million)	***H1 2023***	***H1 2022***
Net banking income	***-4***	***-12***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	***-24***	***-15***
Gross operating income	***-28***	***-27***
Cost of credit risk	*0*	*0*
Net result before tax	***-28***	***-27***
Income tax	*47*	*0*
Net income	***19***	***-27***
Minority interests	*0*	*0*
Net income, Group share	***19***	***-27***

Non-recurring elements were positive at EUR +19 million as at 30 June 2023, compared with EUR -27 million as at 30 June 2022. They include in particular:

- Losses on asset disposals of EUR -13 million, compared with EUR -24 million as at 30 June 2022;
- A net positive impact of EUR +8 million linked in particular to the evolution of legal procedures;
- An impact of EUR -24 million, mainly related to restructuring and transformation costs, within the context of the Group's resolution. Dexia is engaged in a major transformation programme including, in particular, work relating to the withdrawal of Dexia Crédit Local's banking licence and the overhaul of the Group's operating model, which entails significant project costs.
- A deferred tax gain of EUR +47 million, mainly associated with the transfer of a portfolio of assets from the Dexia Crédit Local branch in Dublin to the Paris office, at a tax value different to the book value of the assets transferred[4].

[4] *In accordance with IAS 12 "Income Taxes", this temporary difference gives rise to the recognition of deferred tax.*

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

A – Balance sheet and solvency

- *Balance sheet down by 6% compared with the end of 2022, to EUR 60.6 billion as at 30 June 2023, driven by the reduction in the asset portfolio and the continued rise in interest rates*
- *Robust Total Capital ratio of 40.3% as at 30 June 2023, compared with 41%[5] as at December 2022*

a – Half-yearly balance sheet evolution

As at 30 June 2023, the Group's consolidated balance sheet total stood at EUR 60.6 billion, compared with EUR 64.3 billion as at 31 December 2022, a fall of EUR 3.7 billion, driven by the reduction in the asset portfolio and the continued rise in interest rates, mainly in sterling.

The asset portfolio now stands at EUR 31.6 billion, comprising EUR 18.3 billion in bonds and EUR 13.3 billion in loans, mainly denominated in euros. It includes exposure to Italian sovereigns and the European public sector (Spain, Portugal), as well as residual portfolios of UK, US and Japanese assets.

On the assets side, the decrease in the balance sheet is explained, at constant exchange rates, by the reduction in the asset portfolio (EUR -1.5 billion), the decrease in fair value items and cash collateral posted (EUR -1.1 billion) and, to a lesser extent, by the decrease in the cash reserve (EUR -0.6 billion).

On the liabilities side, the change in the balance sheet is mainly reflected, at constant exchange rates, by the fall in fair value items and cash collateral received (EUR -1.7 billion) and by the reduction in the stock of market funding (EUR -2.1 billion).

Over the half-year, the impact of exchange rate fluctuations on changes in the balance sheet amounted to EUR +0.3 billion.

b - Solvency

As at 30 June 2023, the Dexia Group's "Total Capital" amounted to EUR 6.5 billion, against EUR 6.7 billion as at 31 December 2022, down slightly following the loss recorded in the first half of 2023 (EUR -159 million).

In line with the requirements of the European Central Bank (ECB), the amount of irrevocable payment undertakings (IPC) to the Single Resolution Fund and other guarantee funds is deducted from regulatory capital, for an amount of EUR -90 million as at 30 June 2023.

Furthermore, following the on-site inspection relating to credit risk which it carried out in 2018, the ECB issued a number of recommendations. As a result, Dexia deducts from its prudential equity an amount of EUR -27 million as a supplement for specific provisions.

The additional value adjustments taken into account in regulatory capital as part of the Prudent Valuation Adjustment (PVA) are stable at EUR -6 million as at 30 June 2023.

The amount recorded under the Debit Valuation Adjustment (DVA) was also stable, at EUR -22 million as at 30 June 2023.

Lastly, as a result of the end of the transitional provisions aimed at mitigating the impact of the IFRS 9 expected credit loss provision model (static phase-in), no amount has been taken into account in the first half of 2023, compared with a positive impact of EUR +44 million at the end of 2022.

As at 30 June 2023, risk-weighted assets amounted to EUR 16.2 billion compared with EUR 16.3 billion at the end of December 2022, of which EUR 13 billion related to credit risk, EUR 1 billion to market risk and

[5] *The ratio includes the positive net result for the year.*

EUR 2 billion to operational risk. The slight decrease is entirely attributable to credit risk and is mainly linked to the reduction in the asset portfolio.

Taking these elements into account, Dexia's Total Capital ratio amounted to 40.3% as at 30 June 2023 against 41%[6] at the end of 2022, a level well above the minimum required for the year 2023 within the framework of the supervisory review and assessment process.

As at 30 June 2023, Dexia Crédit Local's Total Capital ratio was also above the minimum requirements, at 35%, compared with 35.7%[6] as at 31 December 2022.

B – Evolution of the Dexia Group liquidity situation

- *Stabilisation of net cash collateral at EUR 8.3 billion as at 30 June 2023 and further reduction in the funding need*
- *Long-term issue programme for the year finalised in May 2023*
- *Strengthening of the liquidity reserve, to EUR 11.5 billion at the end of June 2023, in a volatile market environment and in order to constitute a contingency liquidity reserve in anticipation of the withdrawal of Dexia Crédit Local's banking licence at the beginning of 2024*

After two consecutive years of sharp falls linked to rising interest rates, the level of net collateral cash posted by the Group to its derivatives counterparties stabilised at EUR 8.3 billion as at 30 June 2023. As a result of the reduction in portfolios, the funding need nevertheless contracted by EUR 1.9 billion during the first half of 2023, to EUR 42.9 billion as at 30 June 2023.

In a cautious approach, taking into account a volatile market context and the announcement that Dexia Crédit Local's banking licence would be withdrawn at the beginning of 2024, the Dexia Group finalised its long-term issue programme for the year in May, with the execution of a GBP 500 million benchmark in April, followed by a EUR 1.5 billion benchmark in May. Both transactions were very well received by the market.

In terms of funding mix, secured funding amounted to EUR 3.9 billion as at 30 June 2023, and State-guaranteed funding accounted for 87% of outstanding funding, or EUR 37.5 billion.

The Group's liquidity reserve increased by EUR 0.7 billion during the half-year, to EUR 11.5 billion as at 30 June 2023, in volatile markets, against a backdrop of crisis in the banking sector, and torn between inflationary fears and anticipation of recession. Within this context, Dexia has also favoured a prudent approach to liquidity management and has set up a contingency liquidity reserve which will replace the Emergency Liquidity Agreement (ELA) of the national banks after the banking licence of Dexia Crédit Local is withdrawn at the beginning of 2024 (cf. the Significant events and transactions section of this press release).

This liquidity reserve is made up of EUR 2.9 billion in cash and EUR 8.6 billion in liquid reserves. The Group no longer has access to refinancing from the European Central Bank, as from 1 January 2022, and this has automatically reduced the proportion of reserves which can be mobilised in the event of stress. Eligible securities were partly used to raise secured funding and partly deposited on the EUREX and RepoClear platforms in order to reconstitute reserves. Dexia Crédit Local also pursued its strategy of transforming part of its cash reserve into securities that can be mobilised via a reverse repos activity, with a view to optimising costs linked to the rise in rates.

As at 30 June 2023, the Group's Liquidity Coverage Ratio (LCR) stood at 228%, compared with 177% as at 31 December 2022. The LCR ratio is also respected at subsidiary level, with each subsidiary exceeding the minimum requirement of 100%. The Group's Net Stable Funding Ratio (NSFR) is 150%, down slightly on 31 December 2022.

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[6] *The ratio includes the positive net result for the year.*

Dexia continues closely to monitor the evolution of the global macroeconomic environment and its repercussions on the financial markets. At this stage, Dexia has not observed any deterioration in the market for short-term guaranteed debt or secured funding. In addition, the Group has a liquidity reserve calibrated to enable it to cope with stressed market conditions.

Appendices

Annexe 1 – Going concern

The Dexia condensed financial statements as at 30 June 2023 have been prepared in accordance with the going concern accounting rules under IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the Group's resolution which was the subject of a decision by the European Commission in December 2012 and reassessed on the basis of the elements available at the date of closing the accounts.

The main assumptions used by management to prepare the condensed financial statements as at 30 June 2023 and the areas of uncertainty are summarised below:

- The continuation of the resolution assumes that Dexia maintains a good funding capacity which relies in particular on the maintenance of the rating of Dexia Crédit Local at a level equivalent to or higher than Investment Grade, the appetite of investors for the debt guaranteed by the Belgian and French States and the Group's ability to raise secured funding. Since 1 January 2022, Dexia Crédit Local's issues have benefited from the 2022 guarantee, which extends the 2013 guarantee, after it expired on 31 December 2021.
- Although it manages these risks very proactively, the Dexia Group remains extremely sensitive to the evolution of the macroeconomic environment and to market parameters such as exchange rates, interest rates or credit spreads. An unfavourable evolution of these parameters in the long term could weigh on the Group's liquidity and solvency level. It could also have an impact on the valuation of assets, financial liabilities or OTC derivatives, the changes in the fair value of which are recognised in the income statement or through equity and are likely to result in a change in the Group's regulatory capital level.
- Finally, residual uncertainties related, for example, to new developments in accounting and prudential rules over the duration of the Group's resolution could lead to a significant change in the initially anticipated resolution trajectory.

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

- Since the Group entered into orderly resolution, Dexia has continuously reduced its funding requirement and diversified its funding sources, from the point of view of the prudent management of its liquidity. The increase in interest rates, which began in 2021, has led to a sharp reduction in the net cash collateral posted by the Group. Combined with the reduction of portfolios, this resulted in a significant decrease of EUR 42.9 billion in the Group's funding requirement as at 30 June 2023. In this context, Dexia Crédit Local successfully launched two benchmarks of respectively GBP 500 million in April 2023 and EUR 1.5 billion in May 2023, enabling it to finalise its annual long-term refinancing programme from the 1st half of 2023. In addition, Dexia maintains a liquidity reserve which is deemed adequate in view of the restriction on access to financing by the European Central Bank (ECB), effective since 1 January 2022. This liquidity reserve amounted to EUR 11.5 billion as at 30 June 2023, of which EUR 2.9 billion in the form of cash.
- Within the framework of the preparation of the condensed financial statements as at 30 June 2023, Dexia reviewed the macroeconomic scenarios used for the assessment of expected credit losses under IFRS 9 and retained a base case macroeconomic scenario, based on the most recent European Central Bank (ECB) projections published in June 2023, supplemented by scenarios published by national central banks when available. After a limited economic slowdown at the start of the year, the ECB's central scenario is for growth to pick up over the following quarters, driven by lower energy prices, stronger foreign demand and the easing of bottlenecks in supply chains, enabling companies

to continue to manage their order books. Uncertainty, linked in particular to the recent tensions in the banking sector, continues to diminish.

- Management has also taken into account all of these constraints and uncertainties associated with its operating model as well as the risks related to the continuity of operations, inherent to Dexia's specific character as a bank in resolution.

Consequently, after having taken all these elements and uncertainties into account, Dexia's management confirms that, as at 30 June 2023, they do not call into question the fundamentals of the orderly resolution of the Group or the assessment of the application of the going concern assumption. As a consequence, the condensed financial statements can be prepared in accordance with the going concern accounting rules under IAS 1 § 25 and 26.

Appendix 2 – Consolidated income statement (unaudited data)

Consolidated income statement – ANC format		
in EUR million	**H1 2023**	**H1 2022**
Net banking income	**-8**	**326**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-165	-182
Gross operating income	**-173**	**144**
Cost of credit risk	-33	6
Net result before tax	**-206**	**150**
Income tax	47	-12
Net result	**-159**	**138**
Minority interests	0	0
Net income, Group share	**-159**	**138**

Appendix 3 – Balance sheet key figures (unaudited data)

Main aggregates of the balance sheet – ANC format		
in EUR million	**31-12-2022**	**30-06-2023**
Total assets	**64,288**	**60,593**
of which		
Cash and central banks	2,024	1,183
Financial assets at fair value through profit or loss	3,497	3,048
Hedging derivatives	1,759	1,472
Financial assets at fair value through other comprehensive income	1,581	1,353
Financial assets at amortised cost – debt securities	26,961	26,586
Financial assets at amortised cost – interbank loans and advances	6,887	6,646
Financial assets at amortised cost – customer loans and advances	21,370	20,057
Total liabilities	**57,580**	**54,059**
of which		
Financial liabilities at fair value through profit or loss	4,126	3,469
Hedging derivatives	8,352	7,938
Interbank borrowings and deposits	2,960	1,919
Customer borrowings and securities	4,765	3,633
Debts securities	36,690	36,438
Total equity	**6,708**	**6,534**
of which		
Equity, Group share	6,652	6,478

Appendix 4 – Capital adequacy (unaudited data)

in EUR million	**31-12-2022**	**30-06-2023**
Common Equity Tier 1	6,605	6,422
Total Capital	6,701	6,518
Risk-weighted assets	16,338	16,161
Common Equity Tier 1	40.4%[7]	39.7%
Total Capital Ratio	41.0 %[7]	40.3%

[7] *The ratio includes the positive net result for the year.*

Appendix 5 – Credit risk exposure (unaudited data) expressed in EAD

Exposure by geographic zone

in EUR million	31-12-2022	30-06-2023
Italy	13,406	13,214
United Kingdom	11,114	11,153
France	9,553	8,317
United States and Canada	3,486	3,019
Spain	3,006	2,867
Belgium	2,287	2,310
Portugal	2,378	2,221
Japan	2,157	2,095
Australia	1,016	994
Germany	766	730
Central and Eastern Europe	423	401
Other countries	889	906
Total	**50,484**	**48,229**

Exposure by category of counterparty

in EUR million	31-12-2022	30-06-2023
Local public sector	20,696	19,423
Sovereigns	15,656	14,688
Financial institutions	4,277	4,498
Project finance	4,207	4,011
Corporates	3,043	2,987
Monolines	1,142	1,132
ABS/MBS	1,052	1,081
Other	410	408
Total	**50,484**	**48,229**

Exposure by rating (internal rating system)

	31-12-2022	30-06-2023
AAA	14.4%	13.7%
AA	6.1%	5.3%
A	21.5%	22.1%
BBB	48.5%	49.7%
Non-Investment Grade	8.6%	8.1%
D	0.6%	0.6%
No rating	0.5%	0.6%
Total	**100%**	**100%**

Appendix 6 – Group sector exposure (EAD on final counterparties – unaudited data)

Group sector exposure to certain countries								
in EUR million	**Total**	*o/w local public sector*	*o/w project finance and corporates*	*o/w financial institutions*	*o/w ABS/MBS*	*ow sovereigns*	*o/w monolines*	*o/w others*
Italy	13,214	5,814	27	117	0	7,090	0	166
United Kingdom	11,153	4,874	3,520	887	1,070	0	801	0
France	8,317	2,938	1,060	1,154	0	2,725	290	151
United States and Canada	3,019	1,167	1,053	564	0	192	42	0
Spain	2,867	2,159	402	36	11	258	0	0
Portugal	2,221	365	25	0	0	1,831	0	0
Belgium	2,310	0	12	135	0	2,152	0	13
Japan	2,095	1,880	0	215	0	0	0	0
Australia	994	190	805	0	0	0	0	0

Group sector exposure by rating								
in EUR million	**Total**	*AAA*	*AA*	*A*	*BBB*	*NIG**	*D*	*No rating*
Local public sector	19,423	1,396	1,359	4,978	8,379	3,210	98	4
Sovereigns	14,688	5,071	0	659	8,921	0	38	0
Financial institutions	4,498	0	146	3,533	799	3	0	16
Project finance	4,011	0	0	282	2,967	622	140	0
Corporates	2,987	0	0	54	2,904	15	0	12
Monolines	1,132	0	0	1,132	0	0	0	0
ABS/MBS	1,081	0	1,047	0	0	34	0	0
Other	408	125	0	8	13	0	0	261
Total	48,229	6,592	2,553	10,647	23,983	3,884	276	293

** Non-investment grade.*

Appendix 7 – Asset quality (unaudited data)

Asset quality				
in EUR million			**31-12-2022**	**30-06-2023**
Impaired assets [1]			503	486
Specific impairments [2]			167	168
	o/w	*Stage 3*	*160*	*152*
		POCI	*7*	*15*
Coverage ratio [3]			33.2%	34.5%
Collective provisions			164	170
	o/w	*Stage 1*	*14*	*6*
		Stage 2	*122*	*164*

(1) Outstanding computed according to the applicable perimeter defined under IFRS 9 (FV through OCI + amortised cost + Off balance).
(2) Impairments according to the portfolio taken into account for the calculation of the outstanding.
(3) Specific impairments to impaired assets ratio.

Appendix 8 – Ratings

Ratings as at 8 September 2023			
	Long-term	**Perspective**	**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	Watch Neg	A-2
Dexia Crédit Local (guaranteed debt)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+

On 3 July 2023, the Dexia Group announced the filing of an application with the ACPR to surrender Dexia Crédit's credit institution licence and investment services authorisations, in order to pursue its orderly resolution as a non-bank from the beginning of 2024, provided that the competent authorities authorise it to do so. Following this announcement, S&P placed Dexia Crédit Local's BBB/A-2 long-term and short-term ratings on Negative Credit Watch. According to S&P, this decision reflects the planned debanking, albeit partially mitigated by the surveillance framework to be established by the States and their support, which would result in a one-notch lowering of the issuer credit ratings on rated group entities. S&P expects to resolve the Credit Watch within the coming months, upon approval of the debanking from relevant authorities.

Moody's has affirmed Dexia Crédit Local's long-term and short-term ratings at Baa3 stable/P-3.

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