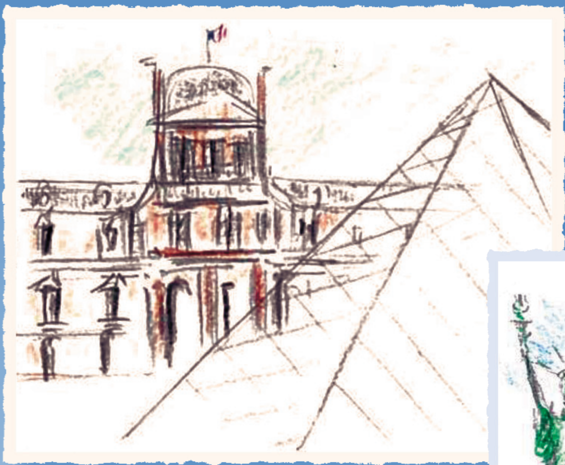
H1 2020

FINANCIAL REPORT





DEXIA CRÉDIT LOCAL DCL

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MANAGEMENT REPORT[1]

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT		
(in EUR million)	H1 2019	H1 2020
Net banking income	**-203**	**-543**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-196	-206
GROSS OPERATING INCOME	-399	-749
Cost of credit risk	23	-95
Net gains or losses on other assets	0	104
NET RESULT BEFORE TAX	-376	-740
Income tax	-5	-2
Result from discontinued operations, net of tax	-117	0
NET INCOME	-498	-742
Minority interests	-25	-1
NET INCOME, GROUP SHARE	-473	-741

BALANCE SHEET KEY FIGURES – ANC FORMAT			
(in EUR million)	30/06/2019	31/12/2019	30/06/2020
TOTAL ASSETS	133,647	119,364	120,252
of which			
Cash and central banks	6,752	9,211	5,738
Financial assets at fair value through profit or loss	15,243	14,247	17,404
Hedging derivatives	1,311	1,378	1,240
Financial assets at fair value through other comprehensive income	2,625	2,837	4,097
Financial assets at amortised cost - Debt securities	45,182	36,012	39,661
Financial assets at amortised cost - Interbank loans and advances	26,577	23,066	23,009
Financial assets at amortised cost - Customer loans and advances	34,636	31,771	28,452
TOTAL LIABILITIES	127,200	113,049	114,927
of which			
Financial liabilities at fair value through profit or loss	14,790	14,779	16,444
Hedging derivatives	21,944	19,184	21,439
Interbank borrowings and deposits	19,900	12,003	12,517
Customer borrowings and deposits	3,004	3,851	2,690
Debt securities	66,519	62,728	61,268
TOTAL EQUITY	6,447	6,315	5,325
of which			
Equity, Group share	6,191	6,311	5,322

(1) The data in this management report are unaudited.

INTRODUCTION

The first-year 2020 was mainly marked by the very severe health and economic shock linked to the Covid-19 pandemic. The lockdown measures imposed by many governments to curb the spread of the virus led to a collapse of global activity and extreme volatility on the financial markets.

The crisis has had repercussions on Dexia Crédit Local's half-year results and solvency, notably through variation in the fair value of assets related to the high volatility on financial markets, a negative impact recorded on hedging inefficiencies and additional value adjustments recognised in regulatory capital under the Prudent Valuation Adjustment (PVA). Dexia Crédit Local also recorded an additional charge in cost of risk, although this remained limited given the good quality of its asset portfolios and its relatively low exposure to credit sectors identified as "sensitive". The impact of these items on regulatory capital was largely offset by the rapid easing measures taken by supervisors.

Furthermore, in line with the strategy implemented since 2017, Dexia Crédit Local has not called on the facilities of central banks and has demonstrated its ability to fund itself in the segment of secured funding and State-guaranteed debt.

1. HIGHLIGHTS

A. Implications relating to Covid-19

From the very beginning of the crisis, Dexia Crédit Local has closely followed the evolution of the situation linked to the spread of Covid-19 throughout the world and particularly in Europe. The Management Board rapidly activated an operational crisis unit to protect its teams. The efficient deployment of the necessary means and the exceptional mobilisation of the teams quickly enabled all staff members to work remotely. The department in charge of monitoring operational risks was fully involved in the coordination of this system, thus ensuring the continuity of all activities within a reinforced security framework.

In addition to the operational aspects, this unprecedented crisis has had multiple repercussions on Dexia Crédit Local's organisation, business and results, which are detailed in "Note 1 to the condensed consolidated financial statements" of this half-year financial report and in the various sections of this management report.

B. Proactive balance sheet and risk management and simplification of the Dexia Crédit Local Group structure

Ongoing asset sales, albeit in more reduced volumes

In contrast to 2019, which saw a sharp acceleration in asset sales under very favourable market conditions, the first half of 2020 was impacted by the crisis caused by the Covid-19 pandemic. This resulted in an increase of credit spreads affecting all asset classes and a sharp contraction of liquidity despite the very ambitious asset purchase programmes implemented by the central banks.

At the end of June 2020, asset portfolios were EUR 5.2 billion lower than at the end of December 2019, including EUR 3.1 billion of disposals and early redemptions.

Asset sales continued in the first quarter and slowed in the second quarter of 2020, increasing the Dexia Crédit Local's exposure to changes in the fair value of assets held for sale.

Those sales were mainly concentrated on public sector assets (EUR 1.3 billion) and project and corporate finance (EUR 1.5 billion). Indeed, despite a difficult market context in the second quarter, Dexia Crédit Local successfully launched the sixth tranche of its loan sale programme to French local authorities. This transaction represents half of the sales in the second quarter of 2020 with 232 loans sold for an outstanding amount of EUR 0.6 billion.

Over the first half-year, the proportion of assets sold denominated in non-euro currencies remained significant, accounting for 58% of total sales, but was down compared with 2019, which saw strong activity in the sale of assets denominated in US dollars as part of the reduction and simplification of Dexia Crédit Local's activities in the United States.

The loss associated with sales and early redemptions amounted to EUR -62 million as at 30 June 2020, excluding the effect of the reclassification mentioned below.

Reclassification of an asset portfolio at fair value

On 19 July 2019, the Dexia Board of Directors approved the implementation of a new asset disposal programme aimed at reducing Dexia Crédit Local's liquidity risk and its exposure to certain targeted counterparties while enabling it to preserve its solvency. This change in management intent resulted in a change in the IFRS economic model applicable to the selected portfolios as at 1 January 2020.

The assets concerned, which had been classified at amortised cost upon first-time application of IFRS 9, were reclassified at fair value through profit or loss or equity, resulting in an impact of EUR -196 million on equity via EUR -104 million on the income statement and EUR -92 million on the OCI reserve, respectively. This reclassification also increases Dexia Crédit Local's sensitivity to changes in the fair value of those assets as long as there is no disposal of them.

In the first half-year 2020, in addition to the impact of the reclassification mentioned above, the combination of the disposal results and the variation in the fair value related to the high volatility on the markets, induced by the Covid-19 pandemic, resulted, for the reclassified assets, in an impact on the income statement of EUR -96 million.

Reduction of the sensitivity of the balance sheet and result to market parameters

For several years, Dexia Crédit Local has pursued an active ALM risk management policy, aimed in particular at reducing the sensitivity of its balance sheet and profitability trajectory to certain market parameters, such as base risks in euros or currencies. Although more complex to execute given the market circumstances, this risk hedging programme has continued in a good dynamic under the guidance of the Asset-Liability Management Committee (ALCO).

Ongoing simplification of the international network

The project to transform the New York branch of Dexia Crédit Local continued in 2020. After having successfully transferred the funding as well as the associated asset and derivative portfolios in 2019, on 30 April 2020, Dexia Crédit Local proceeded to transfer the entire residual balance sheet to its head office in Paris. This included staff costs, tax accounts and the entity's residual equity. The transformation of the branch into a representative office and the withdrawal of the banking licence will be carried out in the second half of 2020.

On 8 September 2020, Dexia Crédit Local finalised the acquisition of the remaining shares of Banco BPM SpA and BPER Banca SpA in Dexia Crediop. Following this transaction, Dexia Crédit Local owns 100% of its Italian subsidiary. At the same time, Dexia Crédit Local decided to examine various strategic options concerning the future of its subsidiary.

C. Move to the standard method for the valuation of credit risk-weighted assets

On 31 March 2020, Dexia Crédit Local moved from the advanced method to the standard method for the valuation of credit risk-weighted assets. This change in methodology, validated by the European Central Bank, allows a simplification of the bank's operational processes within a context of management in run-off.

It resulted in an increase in total credit risk-weighted assets as at 30 June 2020 (cf. "Solvency" section of this management report).

D. Alteration of the terms of supervision of the Dexia Group and evolution of governance

Adaptation of the terms of prudential supervision to the framework of the Group's resolution

The European Central Bank (ECB) proposed a change in the terms of prudential supervision. The framework for the supervision of Significant Institutions (SI), adapted to large banking institutions in activity, was no longer really suitable for a bank in resolution like Dexia and the objectives of proportionality, efficiency and coherence targeted by the supervision were therefore no longer achieved.

Indeed, as of 1 July 2020, Dexia has, as the Group consolidating entity, left the group of significant institutions directly supervised by the ECB via the Joint Supervisory Team (JST) and is now placed, as a "Less Significant Institution" (LSI) within the framework of the single supervisory mechanism, under the supervision of the Autorité de Contrôle Prudentiel et de Résolution (ACPR), as the consolidating supervisor, and the National Bank of Belgium (NBB).

Dexia Crédit Local is supervised by the ACPR and its subsidiary Dexia Crediop by the National Bank of Italy.

Dexia Crédit Local maintains regular relations with the supervisory authorities. In particular, within the context of the Covid-19 crisis, the bank pays particular attention to maintaining a transparent dialogue with its supervisors.

Appointment of Pierre Crevits as CEO of Dexia Crédit Local

On 19 May 2020, Dexia Crédit Local's Annual Shareholders' Meeting approved the appointment of Pierre Crevits as Director. The Board of Directors of Dexia Crédit Local then appointed him as Chief Executive Officer and Chairman of the Management Board. As the governance of Dexia and Dexia Crédit Local is integrated, Pierre Crevits is also Chief Executive Officer and Chairman of the Management Board of Dexia Crédit Local.

E. Confirmation of the ratings of Dexia Crédit Local and the State-guaranteed debt

In June 2020, the three rating agencies (Fitch, Moody's and S&P) confirmed Dexia Crédit Local's ratings, with a stable outlook. The rating of the guaranteed debt issued by Dexia Crédit Local was also confirmed at AA- (Fitch), Aa3 (Moody's) and AA (S&P) (cf. section "Risk management" of this management report for the rating table).

Regular contacts are organised with the rating agencies as part of the annual review of ratings, but also in response to current events within the Group or external events which could have an impact on Dexia Crédit Local.

F. Other significant events

Departure of the United Kingdom from the European Union (Brexit)

The agreement on the exit of the United Kingdom from the European Union, which entered into force on 31 January 2020, provides for a transition period until 31 December 2020, allowing governments to organise these exit arrangements in an orderly manner.

Delays in negotiations increase the degree of uncertainty as to the issue of this process.

Dexia Crédit Local has a liquidity reserve of EUR 18 billion as at 30 June 2020 and has notably reduced its liquidity needs in pounds sterling and extended the duration of its funding in the event of increased market volatility and tighter access to the market for refinancing in that currency.

As at 30 June 2020, Dexia Crédit Local's exposure to the United Kingdom amounted to EUR 22.1 billion. These assets are of very good credit quality, being 98% rated Investment Grade. The portfolio notably includes EUR 10.9 billion of exposures to the local public sector and EUR 7.4 billion of exposures to the project finance and corporate sector, mainly public sector related, including utilities, which are *a priori* not very sensitive to the consequences of the United Kingdom's exit from the European Union. Exposure to the sovereign is negligible. Consequently, no significant negative impact on the quality of Dexia Crédit Local's credit portfolio is anticipated in the short term as a result of Brexit.

Reform of the reference indices (IBOR)

In order to increase the reliability and transparency of short-term reference rates (IBOR), a reform has been undertaken at a global level aimed at replacing these indices with new nearly risk-free rate benchmarks such as ESTR (EUR), SOFR (USD) and SONIA (GBP).

Dexia Crédit Local is exposed to the IBOR indices, mainly in euros, US dollars and pounds sterling, through financial instruments which will be replaced or modified within the context of this reform by replacing the reference interest rate or by inserting replacement clauses known as fall-back clauses.

Dexia Crédit Local instructed a steering committee to monitor the market and the various developments relating to this reform. The objective is to anticipate the consequences of the transition to the new reference rates as well as possible by managing the stock of existing contracts, carrying out legal analyses of the contracts concerned by the reform, and so on.

Concerning Dexia Crédit Local's derivative contracts processed with clearing houses, the transition from EONIA to ESTR (EUR) for cash collateral remuneration took place on 27 July 2020. The move from Federal Funds to SOFR (USD) is scheduled for 19 October 2020 and will impact the valuation of those derivatives. As the change in the fair value of the derivatives is offset by the payment or receipt of cash compensation, this changeover is not expected to have any impact on Dexia Crédit Local's income statement.

2. RESULTS H1 2020

A. Presentation of the condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2020

Going concern

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2020 have been prepared in accordance with the accounting rules applicable to the situation of a going concern. This assumes a number of constitutive assumptions made in the business plan underlying the Dexia Group's resolution, which are developed in "Note 1 to the condensed consolidated financial statements" of this half-year financial report.

B. Dexia Crédit Local consolidated results H1 2020

Net income Group share was EUR -741 million in the first half-year 2020, compared to EUR -473 million at the end of June 2019.

Net banking income for the first half-year amounted to EUR -543 million, including:

- The net interest margin was EUR -75 million. In addition to the cost of carrying assets and the result of transformation, the net interest margin also, by application of accounting principles, includes the interest associated with trading derivatives and their hedging (EUR -91 million). However, this negative effect is offset by a symmetrical impact recorded in net gains or losses on financial instruments at fair value through profit or loss. Restated for this effect, the net interest margin is slightly lower, mainly due to the persistence of historically low interest rates.
- Net commissions were EUR -5 million.
- Net gains or losses on financial instruments at fair value through profit or loss amounted to EUR -293 million. The variation in market parameters during the period had a strong negative impact on hedging inefficiencies (EUR -196 million), notably due to the evolution of the BOR-OIS and EURIBOR against LIBOR Sterling indices. Furthermore, the crisis led to an increase in credit margins, which resulted in a EUR -125 million variation in the value of assets classified at fair value through profit or loss. The Funding Value Adjustment (FVA) is also strongly negative (EUR -85 million), due to the deterioration of the funding conditions of banking counterparties since the beginning of the Covid-19 crisis. These negative impacts are partly offset by a positive EUR +95 million variation in the valuation of trading derivatives and related hedges. However, this positive effect is offset by a symmetrical impact recorded in the net interest margin.
- Net gains or losses on financial instruments at fair value through equity, in an amount of EUR -58 million, as well as net gains or losses on financial instruments at amortised cost in an amount of EUR -7 million related to asset disposal programmes and, to a lesser extent, liability buy-backs.
- An impact of EUR -104 million related to the reclassification of assets from the "amortised cost" category to the "fair value through profit or loss" category, following the change of intent in the management of the assets in question, which leads to a change in the IFRS business model (cf. "Proactive balance sheet and risk management and simplification of the group structure" section of this Management Report), as part of the change in the business model.

Expenses for the half-year amounted to EUR -206 million, compared to EUR -196 million as at 30 June 2019, and include EUR -62 million of taxes and regulatory contributions, mostly booked in the first quarter in application of IFRIC 21. General operating expenses were in particular impacted by costs related to various projects and the renovation of IT infrastructure.

In the first half-year 2020, the crisis materialised in an increase in the cost of risk which amounted to EUR -95 million. The quarterly evolution is contrasted, with a positive contribution of EUR +14 million in the first quarter of 2020, linked to reversals of provisions on assets sold and a charge of EUR -108 million in the second quarter of 2020, which is mainly composed of:

- EUR -78 million of collective provisions related to the update of the macroeconomic scenarios used for the assessment of expected credit losses under IFRS 9. The assumptions relating to these new scenarios are detailed in "Note 1 to the condensed consolidated financial statements" of this half-year financial report.
- EUR -14 million of collective provisions following the review of sensitive sectors carried out by the Group. Following this review, Dexia Crédit Local has systematically classified as stage 2 all counterparties likely to be weakened by the crisis: airports, corporate real estate, French overseas authorities, oil and gas, tourism/entertainment and student housing financing in the United Kingdom. Furthermore, counterparties rated Non-Investment Grade in the private health sector in France have also been classified in stage 2. Finally, exposures belonging to other sectors, already identified as sensitive before the crisis, have also been included in stage 2 despite their higher rating quality: car parks and port infrastructure, toll motorways, public transport and real estate (cf. "Note 1 to the condensed consolidated financial statements" of this half-year financial report).
- EUR -8 million for specific provisions, in particular following an in-depth analysis of non-performing counterparties aimed at estimating the consequences of the health crisis on their financial situation.

The item net gains or losses on other assets shows an impact of EUR +104 million, linked to the recycling via the income statement of the translation difference carried by the shareholders' equity of Dexia Crédit Local New York, following the transfer of the entity's residual balance sheet to Dexia Crédit Local on 30 April 2020. This translation difference reflects the evolution of the US dollar between 20 June 2020 and the various historical periods in which the equity was built up.

The tax charge amounted to EUR -2 million.

3. EVOLUTION OF THE GROUP'S BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION

A. Balance sheet and solvency

Half-year balance sheet evolution

As at 30 June 2020, the Dexia Crédit Local's consolidated balance sheet total amounted to EUR 120.3 billion, compared with EUR 133.6 billion as at 30 June 2019 and EUR 119.4 billion as at 31 December 2019. The increase in the balance sheet total over the first half of 2020 is mainly explained by the fall in interest rates linked to the Covid-19 crisis, which is reflected in an increase in fair value items and cash collateral and neutralises the impact of asset sales and the natural amortisation of commercial portfolios.

On the assets side, and at constant exchange rates, the reduction of commercial portfolios (EUR -5.2 billion) is fully offset by the increase in fair value items (EUR +4.8 billion) and posted cash collateral (EUR +3 billion).

On the liabilities side, and at constant exchange rates, the strong increase in the fair value of liabilities and derivatives and in the amount of cash collateral received (EUR +5.4 billion) is slightly offset by the reduction in the stock of market funding (EUR -1.8 billion).

Over the half-year, the impact of foreign exchange variations on the balance sheet amounted to EUR -1.5 billion.

Solvency

As at 30 June 2020, Dexia Crédit Local's Total Capital amounted to EUR 5.4 billion, compared to EUR 6.3 billion as at 31 December 2019. It is burdened by the negative net income for the year (EUR -741 million).

The effects of the Covid-19 crisis are having a strong impact on Dexia Crédit Local's solvency. Additional value adjustments taken into account in regulatory capital within the context of the Prudent Valuation Adjustment (PVA) amounted to EUR -264 million as at 30 June 2020, despite a positive impact of EUR +89 million related to the increase in the diversification factor provided for by the temporary adjustment to the CRR (Quick Fix CRR) approved by the European Parliament in June 2020 (cf. "Note 1 to the condensed consolidated financial statements" of this half-year financial report).

Dexia Crédit Local also made use of the temporary adjustment to the CRR to reintegrate into regulatory capital any new expected credit losses recognised under IFRS 9 (dynamic phase-in), resulting in a positive impact of EUR +79 million.

In addition, in line with ECB requirements, two significant items are deducted from regulatory capital:

- The theoretical amount of the loss corresponding to the remediation of the non-compliance with the large exposure ratio which, at 30 June 2020, amounts to EUR -192 million[1],
- The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds amounts to EUR -59 million.

Finally, following its onsite inspection of credit risk in 2018, the ECB issued a number of recommendations. As a result, Dexia Crédit Local deducted from its prudential capital an amount of EUR -53 million as additional specific provisions.

As at 30 June 2020, risk-weighted assets amounted to EUR 26.7 billion, of which EUR 24.8 billion for credit risk, EUR 1.2 billion for market risk and EUR 0.6 billion for operational risk. Credit risk-weighted assets increased by EUR 1.9 billion, the decrease due to the reduction of the asset portfolio being offset by an increase induced by the transition to the standard method for the valuation of these risk-weighted assets (cf. "Highlights" section of this management report). This increase is offset by a EUR 2 billion decrease in market risk-weighted assets due to the reversal of an additional capital charge recorded as at 31 December 2019 at the request of the ECB.

PRUDENTIAL EQUITY

(in EUR million except where indicated)	30/06/2019	31/12/2019	30/06/2020
Common Equity Tier 1	6,410	6,269	5,327
Total Capital	6,544	6,325	5,383
Risk-weighted assets	29,784	26,706	26,652
Common Equity Tier 1 ratio	21.5%	23.5%	20.0%
Total Capital ratio	22.0%	23.7%	20.2%

(1) Cf. Dexia Press Releases of 5 February and 26 July 2018, available at *www.dexia.com*.

RISK-WEIGHTED ASSETS			
(in EUR million)	30/06/2019	31/12/2019	30/06/2020
Credit risk	27,912	22,923	24,839
Market risk	872	3,183	1,213
Operational risk	1,000	600	600
TOTAL	**29,784**	**26,706**	**26,652**

Taking these elements into account, Dexia Crédit Local's Common Equity Tier 1 ratio was 20% as at 30 June 2020, compared to 23.5% at the end of 2019. The Total Capital ratio was 20.2%, compared to 23.7% at the end of 2019, which is above the minimum level of 15.25% required for 2020 by the ECB within the context of the Supervisory Review and Evaluation Process (SREP) and reduced to 11.25% as a result of the temporary easing measures related to the Covid-19 pandemic (cf. "Note 1 to the condensed consolidated financial statements of this half-year financial report). At EUR 2.4 billion, the regulatory excess capital, measured against the 11.25% easing requirement, is stable compared to the end of December 2019.

B. Evolution of the Dexia Crédit Local's liquidity situation

As a consequence of the reduction of the asset portfolio, outstanding loans were down EUR 2.7 billion compared to 31 December 2019, to EUR 71.2 billion as at 30 June 2020, despite a EUR 2.7 billion increase in net cash collateral, due to lower interest rates. Net cash collateral amounted to EUR +24.6 billion as at 30 June 2020.

After a first quarter severely disrupted by the impacts of the pandemic, the markets stabilised from April onwards. At the height of the crisis, refinancing was carried out on the secured funding market, which demonstrated very strong resilience in terms of both volume and price. Guaranteed issuance activity enjoyed good momentum in both the short and long term from the second quarter of 2020 onwards. During the first half-year, Dexia Crédit Local successfully launched various long-term public transactions in euros, US dollars and pounds sterling, enabling it to raise EUR 4 billion, or 90% of the annual long-term funding programme, at a competitive funding cost.

In terms of funding mix, secured funding amounted to EUR 10 billion as at 30 June 2020 and funding guaranteed by the States represented 83% of outstanding funding, i.e. EUR 59 billion.

In line with the strategy followed since 2017, Dexia Crédit Local did not call on the refinancing operations of the European Central Bank, confirming its ability to mobilise its reserves on the repo market and to issue State-guaranteed debt, including in the context of the particularly severe crisis linked to the Covid-19 pandemic.

As at 30 June 2020, Dexia Crédit Local's liquidity reserve amounted to EUR 18 billion, of which EUR 7 billion in the form of cash deposits with central banks.

At the same date, Dexia Crédit Local's Liquidity Coverage Ratio (LCR) stood at 211% compared with 236% as at 31 December 2019. This ratio is also respected at the level of Dexia Crediop. Dexia Crédit Local's Net Stable Funding Ratio (NSFR) amounted to 130.6% compared with 127.9% as at 31 December 2019.

CREDIT RISK

For a methodological description of the credit risk management framework, please refer to the 2019 Annual Report.

As at 30 June 2020, Dexia Crédit Local's credit risk exposure amounted to EUR 83.9 billion, compared to EUR 87 billion at the end of December 2019. This decrease is mainly due to the natural depreciation of the portfolio and asset sales.

Exposure is mainly split between loans and bonds, respectively at EUR 36.7 billion and EUR 41.9 billion.

Exposures are mainly concentrated in the European Union (86%) and the United States (6%).

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2019	30/06/2020
United Kingdom	21,404	22,132
Italy	19,414	19,495
France	17,729	18,699
United States	8,866	4,984
Spain	5,373	4,926
Portugal	4,050	3,833
Japan	3,794	3,265
Other European countries	986	1,966
Central and Eastern Europe	905	962
Canada	1,182	719
Germany	1,058	649
South East Asia	121	191
Switzerland	146	135
Scandinavian Countries	81	97
South and Central America	164	33
Others(1)	1,704	1,778
TOTAL	**86,976**	**83,864**

(1) including supranationals, Australia.

As at 30 June 2020, exposure remains mainly concentrated on the local public sector and sovereigns (72%), given Dexia's historical activity. The local public sector portfolio decreased by 5%, mainly due to asset disposals. The sovereign portfolio is down 4%, mainly due to the decrease in deposits with the Banque de France. In addition, the exposure to financial institutions amounts to EUR 7.3 billion, mainly composed of repos and bonds.

EXPOSURE BY TYPE OF COUNTERPARTY

(in EUR million)	31/12/2019	30/06/2020
Local public sector	37,795	35,912
Central governments	25,157	24,203
Project Finance	9,194	7,820
Financial Institutions	6,859	7,356
Corporate	5,273	6,145
ABS/MBS	1,366	1,271
Monolines	1,333	1,157
TOTAL	**86,976**	**83,864**

The average credit quality of Dexia Crédit Local's portfolio remains high, with 91% of exposures rated Investment Grade as at 30 June 2020.

EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

	31/12/2019	30/06/2020
AAA	16.36%	14.84%
AA	7.77%	8.78%
A	30.22%	25.75%
BBB	37.11%	41.71%
Non Investment Grade	7.55%	7.59%
D	0.78%	0.83%
Not Rated	0.21%	0.49%
TOTAL	**100%**	**100%**

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES (EAD AS AT 30 JUNE 2020)							
(in EUR million)	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
United Kingdom	22,132	10,911	7,383	1,764	1,266	36	772
Italy	19,495	8,551	269	160	0	10,516	0
France	18,699	6,661	1,953	2,309	0	7,454	322
United States	4,984	2,251	1,292	1,039	3	336	63
Spain	4,926	3,218	1,010	291	1	406	0
Portugal	3,833	708	53	13	0	3,059	0
Japan	3,265	2,990	0	275	0	0	0
Germany	649	0	105	541	0	3	0

GROUP SECTOR EXPOSURE PER RATING (EAD AS AT 30 JUNE 2020)								
(in EUR million)	Total	AAA	AA	A	BBB	NIG[(1)]	D	No rating
Local public sector	35,912	3,203	5,063	12,079	10,413	4,843	231	79
Central governments	24,203	9,245	0	1,226	13,614	118	0	0
Project finance	7,820	0	20	1,521	4,580	1,237	462	0
Financial institutions	7,356	0	1,110	4,574	1,617	47	0	9
Corporate	6,145	0	0	1,423	4,696	21	4	0
ABS/MBS	1,271	0	1,173	4	0	95	0	0
Monolines	1,157	0	0	772	63	0	0	322
Individuals, SME and self-employed	0	0	0	0	0	0	0	0
TOTAL	**83,864**	**12,448**	**7,365**	**21,599**	**34,982**	**6,362**	**697**	**410**

(1) Non Investment Grade.

Particular attention is paid to the countries listed in the table below due to large amounts of exposure or a situation representing a potential risk. The main developments and highlights for these sectors and countries in the first half-year 2020 are commented on in the following paragraphs.

The uncertainties associated with the Covid-19 pandemic, its scope and duration are likely to lead to a significant deterioration of the credit quality of the counterparties to which Dexia Crédit Local is exposed. Dexia Crédit Local has implemented precise monitoring of the most fragile counterparties in its portfolio, targeting the most exposed counterparties by geographic area and/or sector of activity. The impacts related to the pandemic are detailed below by sector as well as in “Note 1 to the condensed consolidated financial statements” of this half-year financial report.

Dexia Crédit Local’s commitments to sovereigns

Dexia Crédit Local’s commitments to sovereigns are mainly focused on Italy, France and, to a lesser extent, Portugal.

The Covid-19 pandemic has had unprecedented global repercussions. In Europe, it particularly hit Italy, Spain and the United Kingdom. As a result of containment measures, economic activity plummeted, with GDP expected to fall by about 10% for these three countries and rebound by 6%-7% in 2021.

In the face of this historic economic drama, the States, the European Union and the Supervisors have deployed large-scale monetary and fiscal measures. The fall in tax revenues and the measures put in place have resulted in a significant increase in public debt levels. However, central bank support measures are enabling European sovereigns to finance themselves at low rates, making these heavy debt levels more bearable.

The exposure to the Italian sovereign amounted to EUR 10.5 billion as at 30 June 2020. Following the sharp increase in Italy’s public debt level, Dexia Crédit Local has lowered its internal rating from BBB to BBB-, in line with the ratings assigned by Moody’s and more recently by Fitch.

Dexia Crédit Local’s commitments to the local public sector

Considering Dexia Crédit Local’s historical activity as a lender to local authorities, the local public sector represents a significant portion of the group’s outstandings, which are mainly concentrated in Western European countries (United Kingdom, Italy, France, Spain) and North America.

Main points for attention

- France

  The financial situation of local authorities at the end of 2019 was good, in particular with a record level of self-financing and strong borrowing capacity, but the impact of the health crisis will be significant on their budgets in 2020 and 2021.

  As a result of the Covid-19 crisis, local authorities have recorded a loss of revenue due to the fall in tariff revenues (parking, family services, etc.) and their taxation depending on economic activity. In this area, the regions and departments are the most affected given their tax base (taxation based on added value, energy consumption or real estate activity). Municipalities and groupings of municipalities are more heterogeneously impacted by the loss of tariff revenues on the services they provide. An increase of expenditure linked to crisis management and policies implemented should also impact their budgets. However, the impact remains limited and is sustainable at this stage.

  It is to be noted that a greater impact is expected on the overseas authorities, notably due to the significant reduction of their taxation indexed to imported products, without any vision at this stage on the compensation which could be provided by the State.

  The health sector has also been severely impacted, with some activities at a standstill and crisis management for others. However, the sector should benefit from strong support from the State, which would partly offset their losses through revenue maintenance mechanisms based on the year 2019.

  In the medium term, uncertainty surrounds the level of expenditure that the departments could face given their competence in social assistance (increase in social expenditure in the event of increased unemployment).

- Italy

  Dexia Crédit Local's exposure to the Italian public sector amounted to EUR 8.6 billion as at 30 June 2020, of which the bulk is in the regions (50%) and municipalities (35%). Dexia Crédit Local benefits on these exposures from guarantees provided for by law (*delegazione di pagamento or iscrizione in bilancio*).

  Regional governments are at the forefront in the fight against the pandemic, given their health responsibilities, which on average account for more than 80% of their budgets. However, the most affected regions are those in northern Italy (Lombardy, Veneto and Emilia-Romagna), which have healthy credit profiles, low indebtedness and large cash reserves. Overall, Italian regions have balanced health systems with adequate funding from the National Healthcare Fund (NHF). Some additional costs resulting from the pandemic could be absorbed by the regions, but in the event of a prolonged deterioration, the central government would have to intervene by increasing allocations to the NHF. Already the Italian government has allocated EUR 3.5 billion to support the health system in coping with the pandemic.

  With regard to municipalities and provinces, revenue shortfalls are anticipated due to collection lags or reductions in tax bases (registration taxes, income tax, etc.).

- Spain

  The support of the Spanish State to the regions and municipalities continues through the renewal of several financial support funds: EUR 26.2 billion was paid to the regions in 2019, notably through the Liquidity Fund for the Regions (FLA). For 2020, an envelope of EUR 19 billion has already been granted for the first half of the year. In return for this aid, State control over regional or local finances is reinforced.

  Following the Alarma decree, the State has taken control of health services throughout Spain, in coordination with the autonomous regions.

  The liquidity of the regions remains assured by the State (FLA, FF), which has approved an increase in advances on receipts of EUR 2.8 billion for all regions for 2020, in particular EUR 521 million for Catalonia, EUR 223 million for Valencia and EUR 141 million for Castilla-La Mancha. In addition, the State has granted an Extraordinary Social Fund of EUR 30 million to the regions, of which EUR 45.5 million for Catalonia, EUR 30 million for Valencia and EUR 14.6 million for Castilla-La Mancha.

  Catalonia is one of Spain's main regions and an important centre of economic attractiveness for the country. Nevertheless, its financial situation remains tense. It therefore benefits from strong state support. Dexia Crédit Local has an exposure of EUR 1.5 billion on Catalonia and its related entities. No payment incidents were recorded here in the first half-year 2020, or in the other Spanish regions.

  With regard to municipalities and provinces, with the exception of a few clients the maturities of which are covered by the *Fondo de Ordenacion*, most of Dexia Crédit Local's clients are in good financial health, with a surplus cash situation, making it possible, if necessary, to meet the social needs related to the Covid-19 crisis. In addition, in the event of a lack of liquidity, municipalities can also benefit from cash lines from the Provinces (*Diputaciones*), in the form of advances for tax collection.

- United Kingdom

  Delays in the negotiations surrounding the exit of the United Kingdom from the European Union increase the degree of uncertainty as to the issue of the process (cf. "Highlights" section of this half-year financial report).

- United States

  The majority of Dexia Crédit Local's exposure to the local public sector in the United States is to states (47%) and local authorities (18%). As in the US local public market, Dexia Crédit Local's portfolio is of good quality and is generally insured by monolines. The main risks affecting the sector are the medium and long-term risks related to the increase in pension debts (with a more or less significant capacity for reform depending on the legislative framework of each State) and the possible subordination of bond lenders vis-à-vis the beneficiaries of the pension schemes.

  Dexia has a EUR 1.2 billion exposure to the State of Illinois, which is strongly impacted by the Covid-19 crisis and containment measures, with VAT and income tax revenues representing 72% of the State's revenues. In addition, the State has little financial flexibility, due to high unfunded pension liabilities and a sharp increase in unpaid bills. The impact on state finances could nevertheless be reduced in the event of a favourable outcome to the November 2020 referendum on the introduction of progressive income tax.

Dexia Crédit Local's commitments to project finance and corporates

The portfolio of project finance and corporate loans amounted to EUR 14 billion as at 30 June 2020, down 3% compared to the end of December 2019. This portfolio is 56% composed of project finance(1), with the balance consisting of financing for corporates, such as acquisition financing, commercial transactions and corporate bonds.

The portfolio is of good quality: 78% of project finance and 100% of corporate finance are rated Investment Grade.

In terms of geographical distribution, the United Kingdom accounts for approximately 53% of the project finance (PPP) and corporate (utilities) portfolios (cf. the "Highlights" section of this half-year financial report).

The project finance and corporate finance sector is one of the sectors the activity of which has been severely impacted by the Covid-19 pandemic. Given the securities and cash reserves included in project financing, the impacts of the crisis are bearable in the short term. The final impact will depend on the duration of the crisis and the conditions for recovery. After analysing the portfolio, the main sectors impacted in which Dexia Crédit Local has a significant presence are as follows:

- the airport sector (exposure of less than EUR 350 million). The sector is very strongly impacted but, at this stage, Dexia Crédit Local's counterparties seem to be able to cope in the short term with the reduction of their activity. Some of these exposures are also guaranteed by a monoline.
- the transport infrastructure sector carrying a traffic risk (excluding airports) on which Dexia Crédit Local has an exposure of EUR 2 billion, mainly in Europe. These counterparties generally benefit from reserve accounts to cover a half-year maturity, which enables them to bear the very sharp drop in traffic observed during the months of lockdown. The first available data on traffic show a satisfactory recovery following the end of the lockdown period.
- the gas and oil sector, to which Dexia Crédit Local is exposed to an amount of EUR 130 million and the difficulties encountered during the first half-year, namely a sharp fall of energy prices, are only partly due to the health crisis. The quality of Dexia Crédit Local's exposures to this sector remains globally satisfactory, except for one file which has been fully provisioned.

Dexia Crédit Local's commitments to ABS

As at 30 June 2020, Dexia Crédit Local's ABS portfolio amounted to EUR 1.3 billion. 93% of the portfolio is Investment Grade rated (compared to 92% at the end of December 2019).

Dexia Crédit Local's commitments to monolines

Dexia Crédit Local is indirectly exposed to monolines in the form of financial guarantees covering timely payment of the principal and interest payable on credits on certain bonds and loans. Claims against monoline insurers only become payable if real defaults occur in the underlying assets. Dexia Crédit Local's enhanced bonds benefit from increased trading values and, in some cases, a reduction of capital in view of the credit enhancement provided by monolines.

As at 30 June 2020, the amount of Dexia Crédit Local's exposures enhanced by monolines was EUR 8.8 billion, of which 74% of monolines are rated Investment Grade by one or more external rating agencies. With the exception of one counterparty, all monolines continue to honour their original commitments.

(1) Transactions without recourse to their sponsors the repayment of which is made solely on the basis of their own cash flows and which are highly secured in favour of the bank, e.g. by means of securities on assets and contracts or a limitation of dividends.

Dexia Crédit Local's commitments to financial institutions

Dexia Crédit Local's commitments to financial institutions amounted to EUR 7.4 billion as at 30 June 2020.

The abrupt halt in activity in a large number of world economies in the first half-year 2020 led to a decline in lending volumes and a fall in interest income. Some financial institutions were nevertheless able to take advantage of the volatility on the financial markets in their trading revenues. Financial players began to set aside provisions for part of the outstandings granted before the start of the containment measures, due in particular to significant falls in GDP assumptions. With regard to the outstanding amounts granted within the context of the pandemic, specific reporting will be published based on data for the first half-year 2020, enabling a more precise impact to be established.

The supervisors have provided unprecedented support measures to ease regulatory pressures on financial institutions and enable them to continue to support the real economy, including through the provision of credit (cf. "Note 1 to the condensed consolidated financial statements" of this half-year financial report).

At this stage, it is still difficult to determine the precise magnitude of the shock to financial institutions.

Impairments on counterparty risk – Asset quality

The first half-year 2020 was strongly marked by a very sharp increase in collective provisions, which amounted to EUR 244 million, of which EUR 19 million are stage 1 provisions and EUR 225 million are stage 2 provisions, linked to the update of the macroeconomic scenarios used

ASSET QUALITY		
(in EUR million)	31/12/2019	30/06/2020
Impaired assets[1]	614	655
Specific impairments[2]	142	150
Of which		
Stage 3	135	142
POCI	7	8
Coverage ratio[3]	23.1%	23.0%
Collective provisions	166	244
Of which		
Stage 1	5	19
Stage 2	161	225

(1) Outstanding computed according the applicable scope defined under IFRS 9 (FV through OCI + Amortised Cost + Off Balance).
(2) Impairment corresponding to the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI.
(3) Specific impairments-to-Impaired assets ratio.

for the assessment of expected credit losses under IFRS and to the review of sensitive sectors carried out by Dexia Crédit Local (cf. section of the Management Report and "Note 1 to the condensed consolidated financial statements" of this half-year financial report).

Specific provisions amounted to EUR 150 million, up EUR 8 million compared to 31 December 2019. This increase is mainly explained by:

- The review and homogenisation of specific provisioning approaches across the entire portfolio.
- Taking into account the effects of the health crisis on the financial situation of counterparties, in particular the provisioning of a coal-fired power plant in Australia.

As at 30 June 2020, impaired assets increased by EUR 41 million to EUR 655 million.

As a result, the coverage ratio stood at 23% at the end of June 2020, compared to 23.1% as at 31 December 2019.

MARKET RISK

For a methodological description of the market risk management framework, please refer to the Annual Report 2019 - Risk Measurement.

Value at Risk

At the end of June 2020, the total VaR consumption of trading portfolios amounted to EUR 1.7 million compared to EUR 1 million as at the end of 2019.

Sensitivity of the banking portfolio to the evolution of credit spreads

The portfolio classified at fair value through equity consists of securities and loans and is sensitive to credit spreads which have increased sharply following the reclassifications made at 1 January 2020 (cf. "Highlights" section of this Management Report). It amounted to EUR -2.9 million as at 30 June 2020 compared to EUR -2.1 million as at 31 December 2019. In addition, the portfolio classified at fair value through profit or loss due to its "non-SPPI" characteristic, also composed of securities and loans, has a sensitivity to credit spreads of EUR -3 million as at 30 June 2020 compared to EUR -1.7 million as at 31 December 2019.

TRANSFORMATION RISK

Dexia Crédit Local's asset-liability management (ALM) risk policy aims to reduce liquidity risk as much as possible and to limit the exposure of the banking portfolio to interest rate and exchange rate risk.

Management of interest rate and exchange rate risk

For a methodological description of the interest rate and exchange rate risk management framework, please refer to the 2019 Annual Report.

The sensitivity of long-term ALM amounted to EUR -24.5 million as at 30 June 2020 compared to EUR -27.7 million as at 31 December 2019. It is in line with the ALM strategy, which aims to minimise the volatility of the net interest margin.

Management of liquidity risk

Dexia Crédit Local measures and reports its Liquidity Coverage Ratio (LCR) and that of Dexia Crediop, its main banking subsidiary, to its supervisors on a monthly basis. This ratio aims to measure the coverage of liquidity needs at 30 days in an environment stressed by a volume of liquid assets.

As at 30 June 2020, Dexia Crédit Local's Liquidity Coverage Ratio (LCR) stood at 211% compared with 236% as at 31 December 2019. This ratio is also respected at the level of Dexia Crediop. Dexia Crédit Local's Net Stable Funding Ratio (NSFR) amounted to 130.6% compared with 127.9% as at 31 December 2019.

OPERATIONAL RISK AND IT SYSTEMS SECURITY

Operational risk management is identified as one of the pillars of Dexia Crédit Local's strategy, within the context of its orderly resolution. The operational risk management system is based on the standard approach provided by the Basel regulatory framework.

In the first half-year 2020, for all reported operational incidents, there was no direct financial impact, but non-financial impacts were nevertheless measured, and in particular the loss of man-days in relation to a limited number of IT system connectivity incidents.

Following the finalisation, with Cognizant, of the IT infrastructure renovation project at the end of 2019, the environment has been stabilised and has enabled the rapid deployment of teleworking teams and fully ensured operational continuity as part of the containment measures taken by governments to combat the Covid-19 pandemic. All banking activities were carried out remotely in the second quarter of 2020 (cf. "Note 1 to the condensed consolidated financial statements" of this half-year financial report).

Despite the Covid-19 crisis, in 2020 the Dexia Crédit Local Group will continue to adapt its structure and operational processes to its mandate of orderly resolution. This resolution is by its very nature conducive to the development of operational risks, particularly due to elements such as the departure of key people, possible demotivation of staff or changes in processing procedures within the same department or between different internal or outsourced departments.

In particular, projects to outsource certain activities may represent a source of operational risk during the implementation phases but should make it possible in the medium term to ensure the bank's operational continuity and limit the operational risks associated with systems, processes and people.

In the first half-year 2020, Dexia strengthened the effective control of performance and risk management associated with the outsourcing of its IT and back-office activities to Cognizant. For example, following the completion of the IT infrastructure renovation project, performance indicators were reviewed to integrate IT service management and infrastructure management in a harmonised manner. In addition, an analysis of all the risks related to these activities was carried out in the second quarter of 2020 by Dexia Crédit Local and Cognizant, enabling the annual assessment of gross risks and the factors for reducing these risks to be updated and the net risks to be estimated (corrective action plans, particularly in terms of IT security and continuity, operational and permanent controls).

A report on the monitoring of operational risks associated with strategic projects is thus produced on a quarterly basis and ensures that corrective actions are implemented to reduce the most significant risks.

Finally, at Dexia Crédit Local, psychosocial risks are closely monitored, accompanied by prevention and support actions.

STRESS TESTS

Dexia Crédit Local performs multiple scenario analysis and stress test exercises as part of a transversal approach integrated into the Group's risk management process. Their objective is to identify possible vulnerabilities and simultaneously, in the event of an adverse shock, to estimate additional losses, a possible increase in risk-weighted assets, additional liquidity or capital requirements.

These exercises, which are used for internal steering purposes, also ensure compliance with the relevant regulatory requirements, in particular those relating to stress tests, Pillar 2 and the ICAAP and ILAAP processes defined by the ECB[1].

Indeed, a complete programme of stress tests according to the appropriate regulations is implemented to ensure a coherent articulation between the different types of stress (notably market, credit, liquidity and Pillar 2 stresses). The main stress tests carried out in the first half-year 2020 concern in particular:

- Specific credit stress tests for the main asset classes. Credit exposures by asset class were subject to annual sensitivity tests, macro-economic, historical and expert scenarios. Impacts on the cost of risk, risk-weighted assets and the liquidity reserve are analysed. The results of stress scenarios are contrasted with the results of the Value-at-Risk (VaR) approach to credit risk.
- Market stress tests (highlighting potential events outside the probability of VaR measurement techniques). They have been divided into tests of unique risk factors, tests of historic scenarios, tests of hypothetical scenarios and reverse stress tests.
- Stress tests associated with the structural interest rate risk enabling the potential impact on Dexia Crédit Local equity of a sudden and unexpected fluctuation of interest rates, to be measured, responding to regulatory expectations.
- Liquidity stress tests to estimate additional liquidity requirements in exceptional but plausible scenarios over multiple time horizons.
- Stress tests on operational risk based on internal loss history and scenario analyses.

A series of specific stress tests (sensitivity analysis, scenario analysis), was based on macroeconomic scenarios simulating crisis situations and on expert scenarios. In line with Pillar 2 and capital adequacy requirements, these stress tests are linked to the ICAAP and ILAAP processes. In the specific context of the Covid-19 health crisis, specific scenarios have been applied.

For ICAAP and ILAAP stresses, Dexia Crédit Local regularly carries out a complete review of its vulnerabilities to cover all material risks linked to its management model in stressed macroeconomic and financial conditions. This review, documented by the ICAAP/ILAAP processes, applies to and complements the financial planning process. In addition, reverse stress tests are also conducted. The ICAAP and ILAAP file is subject to an independent review by the internal validation and internal audit departments.

Crisis and other stress simulations for the purposes of ICAAP and ILAAP are carried out several times a year and cover both regulatory and economic aspects. In accordance with regulatory requirements, the annual exercise carried out in April 2020 (based on figures at the end of 2019) has been transmitted to the ECB. These tests are an integral part of the Risk Appetite Framework (RAF) and are incorporated into the definition and review of the overall strategy. The link between risk tolerance, adjustments to the strategic resolution plan and the ICAAP and ILAAP stress tests is ensured by specific capital consumption indicators included in the RAF.

(1) ECB Guide to the Internal Capital Adequacy Assessment Process (ICAAP) and ECB Guide to the Internal Liquidity Adequacy Assessment Process (ILAAP).

RATINGS

RATINGS AS AT 30 JUNE 2020	Long term	Outlook	Short term
DEXIA CRÉDIT LOCAL			
Fitch	BBB+	Stable	F1
Moody's	Baa3	Stable	P-3
Moody's – Counterparty Risk (CR) Assessment	Baa3(cr)		P-3(cr)
Standard & Poor's	BBB	Stable	A-2
DEXIA CRÉDIT LOCAL (GUARANTEED DEBT)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEET

ASSETS *(in EUR million)*	30/06/2019	31/12/2019	30/06/2020
Cash and central banks	6,752	9,211	5,738
Financial assets at fair value through profit or loss	15,243	14,247	17,404
Hedging derivatives	1,311	1,378	1,240
Financial assets at fair value through other comprehensive income	2,625	2,837	4,097
Financial assets at amortised cost - Debt securities	45,182	36,012	39,661
Financial assets at amortised cost - Interbank loans and advances	26,577	23,066	23,009
Financial assets at amortised cost - Customer loans and advances	34,636	31,771	28,452
Fair value revaluation of portfolio hedges	806	576	452
Current tax assets	30	14	13
Deferred tax assets	20	20	20
Accruals and other assets	376	155	106
Tangible fixed assets	53	48	34
Intangible assets	36	29	26
TOTAL ASSETS	**133,647**	**119,364**	**120,252**

LIABILITIES *(in EUR million)*	30/06/2019	31/12/2019	30/06/2020
Financial liabilities at fair value through profit or loss	14,790	14,779	16,444
Hedging derivatives	21,944	19,184	21,439
Interbank borrowings and deposits	19,900	12,003	12,517
Customer borrowings and deposits	3,004	3,851	2,690
Debt securities	66,519	62,728	61,268
Fair value revaluation of portfolio hedges	12	7	6
Current tax liabilities	57	2	1
Deferred tax liabilities	26	32	33
Accruals and other liabilities	748	325	394
Provisions	181	118	116
Subordinated debt	19	20	19
TOTAL LIABILITIES	**127,200**	**113,049**	**114,927**
Equity	6,447	6,315	5,325
Equity, Group share	6,191	6,311	5,322
Capital stock and related reserves	2,465	2,465	2,465
Consolidated reserves	4,785	5,020	4,241
Gains and losses directly recognised in equity	(586)	(390)	(643)
Net result of the period	(473)	(784)	(741)
Minority interests	256	4	3
TOTAL LIABILITIES AND EQUITY	**133,647**	**119,364**	**120,252**

The notes on pages 25 to 44 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in EUR million)	30/06/2019	30/06/2020
Interest income	3,611	2,727
Interest expense	(3,603)	(2,802)
Commission income	6	3
Commission expense	(6)	(8)
Net gains (losses) on financial instruments at fair value through profit or loss	(113)	(293)
Net gains (losses) on financial instruments measured at fair value through other comprehensive income	(77)	(58)
Net gains (losses) arising on derecognition of financial assets measured at amortised cost	(17)	(7)
Net gains (losses) on reclassification of financial assets measured at amortised cost into fair value through profit or loss	0	(104)
Other income	1	2
Other expenses	(5)	(3)
NET BANKING INCOME	**(203)**	**(543)**
Operating expenses	(183)	(186)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(13)	(20)
GROSS OPERATING INCOME	**(399)**	**(749)**
Cost of credit risk	23	(95)
OPERATING INCOME	**(376)**	**(844)**
Net gains (losses) on other assets	0	104
NET RESULT BEFORE TAX	**(376)**	**(740)**
Income tax	(5)	(2)
Result from discontinued operations, net of tax	(117)	0
NET INCOME	**(498)**	**(742)**
Minority interests	(25)	(1)
NET INCOME, GROUP SHARE	**(473)**	**(741)**

The notes on pages 25 to 44 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30/06/2019			30/06/2020		
(in EUR million)	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			(498)			(742)
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	3		3	(103)		(103)
- Changes in fair value of debt instruments at fair value through other comprehensive income	70		70	(50)		(50)
- Revaluation of hedging derivatives	(86)	1	(85)	(105)		(105)
- Other comprehensive income from disposal groups held for sale	238		238			
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
- Actuarial gains and losses on defined benefit plans	(2)		(2)	2		2
- Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss	(1)	(1)	(2)	6	(1)	5
- Transfer within consolidated reserves of own credit risk amounts related to financial liabilities designated at fair value through profit or loss, upon their derecognition	1		1	(5)	1	(4)
- Changes in fair value of equity instruments at fair value through other comprehensive income	(1)		(1)	1		1
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	222	0	222	(254)	0	(254)
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			(276)			(996)
of which, Group share			(253)			(995)
of which, Minority interests			(23)			(1)

The notes on pages 25 to 44 are an integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2020 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in EUR million)	Capital stock and related reserves			Consolidated reserves	Gains and losses directly recognised in equity								Net income, Group share	Equity, Group share	Minority interests			Equity
	Capital stock	Related reserves	Total		Change in fair value of debt instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of equity instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of cash flow hedges, net of taxes	Change in unrealised or deferred gains and losses related to non current assets held for sale	Actuarial gains and losses on defined benefit plans	Change in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
AS AT 31/12/2018	279	2,186	2,465	5,041	(170)	0	(577)	(238)	(3)	47	135	(806)	(256)	6,444	279	1	280	6,724
Movements during the period																		
- Appropriation of net income 2018				(256)									256	0				0
Subtotal of shareholders related movements				(256)									256	0				0
- Translation adjustments											3	3		3				3
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity					32	(1)		3				34		34		(1)	(1)	33
- Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income					38							38		38				38
- Gains and losses of the period of cash flow hedge derivatives, through equity							(68)					(68)		(68)		3	3	(65)
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss							(20)					(20)		(20)				(20)
- Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)										(1)		(1)		(1)				(1)
- Changes in actuarial gains and losses on defined benefit plans									(1)			(1)		(1)		(1)	(1)	(2)
Subtotal of changes in gains and losses directly recognized in equity					70	(1)	(88)	3	(1)	(1)	3	(15)		(15)		1	1	(14)
- Net income for the period													(473)	(473)	(25)		(25)	(498)
- Impact of the sale of Dexia Kommunalbank Deutschland								235				235		235				235
- Other										1								0
AS AT 30/06/2019	279	2,186	2,465	4,785	(100)	(1)	(665)	0	(4)	47	138	(586)	(473)	6,191	254	2	256	6,447
AS AT 31/12/2019	279	2,186	2,465	5,020	(134)	1	(432)	0	(8)	35	148	(390)	(784)	6,311	4	0	4	6,315
Movements during the period																		
- Appropriation of net income 2019				(784)									784	0				0
Subtotal of shareholders related movements				(784)									784	0				0
- Translation adjustments											(103)	(103)		(103)				(103)
- Own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period				5						(5)		(5)		0				0
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity					25	1						26		26				26
- Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income					17							17		17				17
- Reclassification of financial assets at amortised cost into financial assets at fair value through other comprehensive income (change in business model)					(92)							(92)		(92)				(92)
- Gains and losses of the period of cash flow hedge derivatives, through equity							(108)					(108)		(108)				(108)
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss							3					3		3				3
- Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)										6		6		6				6
- Changes in actuarial gains and losses on defined benefit plans									2			2		2				2
Subtotal of changes in gains and losses directly recognized in equity				5	(50)	1	(105)	0	2	1	(103)	(254)		(249)				(249)
- Net income for the period													(741)	(741)	(1)		(1)	(742)
AS AT 30/06/2020	279	2,186	2,465	4,241	(185)	2	(537)	0	(6)	37	45	(643)	(741)	5,322	3	0	3	5,325

The notes on pages 25 to 44 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in EUR million)	30/06/2019	30/06/2020
Cash flow from operating activities		
Net income after income taxes	(498)	(742)
Adjustment for:		
- Depreciation, amortisation and other impairment	16	20
- Impairment losses (reversal impairment losses) on bonds, loans and other assets	(38)	92
- Net (gains) or losses on investments[1]	(10)	(104)
- Net increases (net decreases) in provisions	5	1
- Unrealised (gains) or losses on financial instruments	135	192
- Deferred taxes	2	1
Changes in operating assets and liabilities	(2,698)	(2,397)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(3,086)**	**(2,937)**
Cash flow from investing activities		
Purchase of fixed assets	(9)	(2)
Sale of fixed assets	13	
Sales of unconsolidated equity shares	2	
Sales of subsidiaries and of business units[2]	343	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**349**	**(2)**
Cash flow from financing activities		
Reimbursement of subordinated debts	(106)	
Cash outflow related to lease liabilities	(5)	(7)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(111)**	**(7)**
NET CASH PROVIDED	**(2,848)**	**(2,946)**
Cash and cash equivalents at the beginning of the period	**10,614**	**9,923**
Cash flow from operating activities	(3,086)	(2,937)
Cash flow from investing activities	349	(2)
Cash flow from financing activities	(111)	(7)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	5	70
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**7,771**	**7,047**
Additional information		
Income tax paid	1	0
Dividends received	9	1
Interest received	3,738	2,801
Interest paid	(3,772)	(2,969)

(1) Translation adjustments on New York branch, reclassified in profit or loss.
(2) 30/06/2019: sale of Dexia Kommunalbank Deutschland.

The notes on pages 25 to 44 are an integral part of these condensed consolidated financial statements.

NOTE I. ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CHANGES IN SCOPE OF CONSOLIDATION – SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF INCOME – OTHER SIGNIFICANT EVENTS OF THE PERIOD – POST-BALANCE-SHEET EVENTS

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors. Its registered office is located at Tour CBX La Défense 2 – 1, Passerelle des Reflets, 92913 La Défense.

These condensed consolidated financial statements were approved by the Board of Directors on 9 September 2020.

Accounting policies

The principal accounting policies adopted in the preparation of these condensed consolidated financial statements are set out below. The common used abbreviations below are:

- IASB: International Accounting Standards Board
- IFRS IC: IFRS Interpretations Committee (ex IFRIC)
- IFRS: International Financial Reporting Standards

1.Basis of accounting

Dexia Crédit Local's condensed consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Commission up to 30 June 2020 and applicable as from 1 January 2020.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation as those used in the preparation of the 2019 annual financial statements, except for the elements stated in the section 2. "Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group".

In particular, interim financial statements have been prepared and presented in accordance with IAS 34 "Interim Financial Reporting" which provides for condensed set of financial statements and measurements for interim reporting purposes made on a financial year-to-date basis.

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2020 were prepared in line with the accounting rules applicable to a going concern in accordance with the accounting standards IAS 1 § 25 and 26. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012, and reassessed on the basis of the elements available on the date on which the consolidated financial statements were approved.

In particular, the assumptions and estimates made by management have changed compared to the 2019 annual closing, in order to take into account the strong uncertainties regarding the intensity and duration of the economic crisis generated by the Covid-19 pandemic. The latter have reinforced the use of judgment and estimates for the preparation of the condensed consolidated financial statements as at 30 June 2020.

The principal assumptions and areas of uncertainty are summarised below:

- The business plan assumes the maintenance of the banking licence of Dexia Crédit Local and the maintenance of the Dexia Crédit Local rating at a level equivalent to or higher than the level of Investment Grade.
- The ongoing resolution assumes that Dexia and Dexia Crédit Local retain a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on Dexia Crédit Local's capacity to raise secured funding.
- The latest update of the business plan takes account of a revision of the funding plan relying on the last market conditions observable on the date on which the consolidated financial statements were approved. Since the Dexia Group's entry into orderly resolution, Dexia Crédit Local has continuously reduced its funding requirement and extended the maturity of the funding raised, with a view to the prudent management of its liquidity. The acceleration of asset sales decided during the summer of 2019 notably enabled a EUR 13.7 billion decrease in Dexia Crédit Local's financing requirements compared to the end of June 2019, supported by the rapid reduction in the US dollar funding requirement.

- Dexia Crédit Local was able to maintain a high liquidity reserve which, as at 30 June 2020, amounted to EUR 18 billion, of which EUR 7 billion in the form of cash. Considered adequate with the restriction of access to funding from the ECB announced on 21 July 2017[1], this liquidity reserve enabled Dexia Crédit Local to cope with the strong tensions which arose within the unprecedented context of the health and economic crisis linked to Covid-19. In particular, Dexia Crédit Local demonstrated its ability to mobilise significant liquidity reserves on the secured debt market, which remained active, without recourse to ECB facilities. To date, 90% of the secured long-term funding programme has been executed on the bond market under conditions in line with the 2020 annual budget. Finally, the confirmation by the European Commission of the extension of the liquidity guarantee granted by the Belgian and French States beyond 31 December 2021, for a maximum amount of EUR 75 billion, is an essential element of support for the continuation of Dexia Crédit Local's orderly resolution.
- The macroeconomic hypotheses underlying the business plan are revised as part of the half-year reviews of the overall plan. An update of the financial projections was made on the basis of the latest market data available and presented to the Board of Directors of Dexia on 29 July 2020. In particular, it integrated a new macro-economic scenario involving a slower economic recovery, a more pronounced deterioration of the economy and a prolonged period of very low interest rates, resulting in an increase in Dexia Crédit Local's cost of risk and funding requirements and a continued erosion of its transformation result. It also takes into account the non-renewal, as at 1 January 2019, of the specific approach granted by the ECB to the supervision of the Dexia Group and the results of its on-site inspection (OSI) on operational risk and outsourced activities.
- When assessing the appropriateness of the going concern, the management has challenged the consistency of the strategic choices made by its shareholders on the basis of these long-term financial forecasts. The management also factored in the constraints and uncertainties related to its operating model as well as the risks associated with its operational continuity, given its specific nature of a bank in run-off and increased by the context of teleworking imposed by the Covid-19 pandemic. Dexia Crédit Local took the appropriate actions to mitigate such risks.

Uncertainties remaining with regard to implementation of the business plan over the duration of the Dexia Group's resolution may involve a significant change of the Group's resolution trajectory as initially anticipated. In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.

Although it manages these risks very proactively, Dexia Crédit Local is also very sensitive to changes in the macroeconomic environment and market parameters such as exchange rates, interest rates or credit spreads. An unfavourable evolution of these parameters over time could have an adverse impact on Dexia Crédit Local's liquidity and solvency levels. It could also have an impact on the valuation of financial assets, liabilities or OTC derivatives, the changes of which at fair value are recognised in the income statement or through shareholders' equity and could lead to a change in Dexia Crédit Local's regulatory capital. In particular, in view of the decisions taken by the Dexia's Board of Directors concerning the implementation of a plan to sell assets for a total of approximately EUR 13 billion[2], Dexia Crédit Local is exposed to the evolution of fair value of these assets until their effective disposal.

Finally, Dexia Crédit Local is exposed to certain operational risks, specific to the resolution environment in which it operates.

At this stage, these uncertainties do not raise any question as to the nature or the fundamentals of the resolution, which justifies the decision to establish the condensed consolidated financial statements in accordance with the "going concern" principles pursuant to IAS 1.

Moreover, Dexia Crédit Local is closely monitoring the evolution of the situation related to the spread of Covid-19 throughout the world and particularly in Europe. On the date on which Dexia Crédit Local's half-year condensed consolidated financial statements were approved, the severity of the pandemic has had major consequences on the financial markets. The impact on the cost of risk remains contained at the end of June 2020. Nevertheless, the crisis could have a severe and lasting impact on economic growth and could, over time, lead to a more significant deterioration of the quality of assets considered "sensitive" held by Dexia Crédit Local, which is still difficult to assess at this stage.

Dexia Crédit Local rapidly implemented the necessary measures to ensure the safety of its teams and operational continuity within a context of containment of the Group's staff members and subcontractors. Its liquidity reserves enable it to face possible new market tensions and the measures to relax solvency ratios announced by the supervisors have kept its excess capital unchanged compared to the end of 2019.

As a consequence, after taking into account all these elements developed in the paragraph "Impacts relating to Covid-19" in the note "Other significants events of the period", Dexia Crédit Local's management confirms that as at 30 June 2020, the condensed consolidated financial statements can be prepared on a going concern basis in

(1) On 21 July 2017, the ECB announced the end of access to the Eurosystem for liquidation structures as from 31 December 2021.
(2) Impact of the reduction of debt in 2022 in the plan validated by the Dexia's Board of Directors on 19 July 2019.

accordance with IAS 1 § 25 and 26. The analysis of the effects of the Covid-19 crisis carried out by Dexia Crédit Local's management has not led it to call into question the assessment of the going concern assumption.

The condensed consolidated financial statements are presented in millions of euro (EUR) unless otherwise stated.

In preparing the condensed consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes that it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.

Judgements are made principally in the following areas:

- classification of financial instruments into the appropriate category Amortised Cost, Fair Value Through Other Comprehensive Income, Fair value Through Profit and Loss and Fair Value Option for measurement purposes based on the assessment of the Dexia Crédit Local's business model for managing financial instruments and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (IFRS 9);
- financial instruments not quoted in an active market are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume traded, market liquidity, bid offer spread etc;
- the use of valuation models when determining the fair value for financial instruments measured at fair value;
- determination on whether Dexia Crédit Local controls the investee, including structured entities (IFRS 10);
- identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5);
- identification of the conditions allowing the application of hedge accounting;
- existence of a present obligation with probable outflows in the context of litigations;
- impairment determination based on expected credit loss (ECL) approach: determination of criteria for significant increase in credit risk, choice of appropriate models and assumptions for the measurement of ECL (IFRS 9);
- Assessment of the reasonable certainty of exercising or not exercising any extension or early termination options of a lease.

Estimates are principally made in the following areas:

- determination of expected credit losses (ECL) to be recognized for impairment of financial assets under IFRS 9: establishment of the number and relative weightings of forward-looking scenarios and determination of the forward looking information relevant to each scenario, determination of Probability of Default (PD) and Loss Given Default (LGD);
- determination of fair value less costs to sell for non-current assets and disposal groups held for sale;
- measurement of hedge effectiveness in hedging relationships;
- determination of the market value correction to adjust for market value and model uncertainty;
- determination of the useful life and the residual value of property, plant and equipment, and intangible assets;
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets;
- determination of the value of right-of-use assets and lease liabilities of lease contract and in particular determination of the lease period;
- determination of the uncertainty over income tax treatments and other provisions for liabilities and charges.

COVID-19 crisis

The current context of sanitary crisis related to Covid-19 is characterized by significant uncertainties about the duration and the magnitude of the economic effects of the pandemic. These uncertainties have led Dexia Crédit Local to make assumptions and estimates and to exercise a greater degree of judgment in the preparation of its condensed consolidated financial statements as of 30 June 2020. These are mainly related to the measurement of expected credit losses of financial assets and the assessment of the criterion of significant increase in credit risk under IFRS 9.

The main effects of the Covid-19 crisis as well as the assumptions and estimates updated to take into account the impacts of the COVID-19 pandemic and used in the preparation of the condensed consolidated financial statements of Dexia Crédit Local as of 30 June 2020 are presented in note I. "Other significant events of the year - Covid-19 crisis".

IBOR benchmark rates reform

Following the weaknesses of IBOR interbank rates revealed by the financial crisis, a reform has been launched at international level following the recommendation of the Financial Stability Board in order to strengthen the reliability of benchmark methodologies and to replace current benchmark rates by new risk-free rates. Financial instruments based on the current benchmark rates will have to be amended in order to reflect the new rates. At this stage, uncertainties still remain as to the timetable and exact replacement conditions of the indexes.

Within the European Union, the regulation EU 2016/1011 of 8 June 2016 (known as "the Benchmarks Regulation" or "BMR") applicable as from 1 January 2018 introduces a common legal framework regarding the provision of benchmarks. As part of the implementation of this regulation, the administrators of EONIA, EURIBOR and LIBOR were required to review and, if necessary, to modify the methodologies used for these indexes in order to make them compliant to the new BMR provisions.

In the euro zone, EONIA will be replaced by €STR as from 1 January 2022. EONIA is maintained during the transition period and since 2 October 2019 it is based on €STR (EONIA = €STR + 8.5 bps). Regarding EURIBOR, a new so-called "hybrid" methodology was recognized as BMR compliant as from July 2019 and this rate was added to the benchmark register of the European Securities and Markets Authority (ESMA).

Regarding LIBOR, the new SOFR and SONIA indexes, intended to replace the LIBOR USD and LIBOR GBP indexes respectively, are published as from 2018 but the publication of the latter will continue at least until the end of 2021. Greater uncertainties remain as regards transactions using the LIBOR index.

Regarding LIBOR, the new SOFR and SONIA risk-free rates which comply with the BMR regulations have been published since 2018. Indexes based on these risk-free rates are intended to replace the current LIBOR USD and LIBOR GBP indexes respectively, the publication of which will also continue at least until the end of 2021. Greater uncertainties remain for transactions using the LIBOR index.

Dexia Crédit Local holds financial instruments indexed to the benchmark rates targeted by the reform and is mainly exposed to indexes in EUR, Dollar US and Sterling. Derivative instruments held by Dexia Crédit Local will be impacted by changes to agreements with OTC counterparties and clearing houses. For derivative contracts with clearing houses, the transition to €STR for the remuneration of cash collateral and the discount curve has occurred on 27 July 2020 and the transition to SOFR is scheduled for 19 October 2020, so impacting the valuation of these derivatives. As the change in the fair value of derivatives is offset by a payment or receipt of a cash compensation, this change should not have an impact on Dexia Crédit Local's income statement. For derivative contracts under ISDA's (International Swaps and Derivatives Association) Master Agreement, ISDA is currently reviewing its standardised contracts in the light of the IBOR reform. Once it has completed this review, Dexia Crédit Local plans to negotiate with its counterparties the inclusion of new so-called "fallback" clauses to its derivative contracts.

A project structure has been set up within Dexia Crédit Local since the second half of 2018 in order to ensure the transition to the new benchmark rates. This project involves all of Dexia Crédit Local's business lines and functions. It aims to anticipate the impacts of the reform from a legal, commercial, financial, accounting and operational viewpoint and to implement the transition process to the new indexes while reducing the risks linked to this transition and respecting the deadlines defined by the regulators. Project progress reports are regularly presented to the Management Committee as well as to the Board of Directors.

This reform could have impacts on the accounting treatment and measurement of financial assets and liabilities using these benchmarks as well as on the accounting treatment of the related hedging derivatives. The IASB has launched a research project on this topic with the aim to limit the potential accounting impacts of the reform. Amendments to IFRS 9, IAS 39, IFRS 7 "Interest rate benchmark reform" published by IASB in September 2019 and adopted by the European Union in January 2020 address issues related to hedge accounting in the period of uncertainty preceding the entry into force of these new rates. The IASB proposal aims at maintaining the existing hedging relationships and assumes that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered. These amendments introduce reliefs mainly regarding the respect of the highly probable requirement for the cash flows hedged, the respect of the "separately identifiable" requirement for the risk hedged, the prospective and retrospective effectiveness testing. In order to ensure the continuity of its hedging relationships, Dexia Crédit Local has early applied the provisions of these amendments since 31 December 2019.

As at 30 June 2020, Dexia Crédit Local's hedging relationships remain indexed to the current IBOR references rates, which are mainly EONIA, EURIBOR and LIBOR rates. For these hedging relationships, the hedged and hedging instruments will be gradually amended to incorporate the new rates (replacement of the interest rate benchmark, insertion of replacement clauses known as «fallback» clauses). Dexia Crédit Local will apply the reliefs introduced by the amendments as long as the uncertainties regarding the timing and the amount of cash flows of the hedged and hedging instruments (i.e. until the effective amendment of clauses of the affected financial instruments) are not resolved.

In April 2020, the IASB published an exposure draft on the second phase of the project "Interest Rate Benchmark Reform - Phase 2" on accounting issues after the entry into force of the new benchmark rates. This new amendment to IFRS 9 and IAS 39 which is expected for 2020 will deal in particular with the derecognition and modification of financial assets and liabilities indexed to the benchmark rates targeted by the reform and with hedge accounting issues. Dexia Crédit Local will continue to monitor developments in this area. As at 30 June 2020, Dexia Crédit Local's financial contracts have not been modified.

In this context, Dexia Crédit Local considers that the IBOR reform does not affect as of 30 June 2020 its existing hedging relationships documented under IAS 39.

Brexit

In the context of the negotiated exit agreement and the planned transition period until 31 December 2020, Dexia Crédit Local follows the progress of the discussions and their possible consequences, and they are, when appropriate, taken into account in assumptions and estimates used in preparing its consolidated financial statements. Dexia Crédit Local considers that the possibility of the transfer of its derivatives clearing activities to the European Union zone is no longer a short term risk.

2. Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group

2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2020

- **Amendments to IFRS 3** "Business Combinations" which clarify the application of IFRS 3 in order to facilitate the distinction between the acquisition of a business and the acquisition of a group of assets whose accounting treatment is different. These amendments have no impact on Dexia Crédit Local's financial statements.
- **Amendments to IAS 1 and IAS 8** "Definition of Material" which aim to clarify the definition of "material" in order to facilitate the exercise of judgment when preparing the financial statements. These amendments have no impact on Dexia Crédit Local's financial statements.
- **Amendments to References to the Conceptual Framework in IFRS Standards.** These amendments have no impact on Dexia Crédit Local's financial statements.
- **IFRS IC decision of 26 November 2019 related to IFRS 16** regarding the determination of the enforceable period to be used for the accounting of leases. The analysis of the potential impacts of this decision on Dexia Crédit Local's financial statements is in progress. This analysis will take into account the ANC's (Autorité des Normes Comptables, Authority for Accounting Standards) conclusions of 3 July 2020 relating to commercial leases in France. Dexia Crédit Local does not expect this decision to have a material impact on its financial statements.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2020

None

2.3. New IFRS standards, IFRIC interpretations and amendments issued during the current year but not yet endorsed by the European Commission

- **Amendment to IFRS 16** "Covid-19-Related Rent Concessions" (issued by IASB in May 2020) aims to make it easier for lessees to account for Covid-19-related rent concessions such as rent holidays and temporary rent reductions. This amendment is applicable as from 1 June 2020 and has no impact on Dexia Crédit Local's financial statements as Dexia Crédit Local has not benefited from any rent relief in the context of the Covid-19 crisis in the first half of 2020.
- **Amendment to IAS 1** "Classification of Liabilities as Current or Non-current (issued by IASB in January 2020 and amended in July 2020). This amendment will be applicable as from 1 January 2023 and its impact on Dexia Crédit Local's financial statements is being analysed.
- **"Annual Improvements – 2018-2020 cycle"** (issued by IASB in May 2020) which are a series of amendments to existing IFRS and will be applicable as from 1 January 2022. Dexia Crédit Local does not expect these amendments to have a material impact on its financial statements as they are only minor adjustments to certain IFRS standards.
- **Amendment to IAS 37** "Onerous Contracts – Cost of Fulfilling a Contract", amendment to IAS 16 "Proceeds Before Intended Use", amendment to IFRS 3 "Reference to the Conceptual Framework" (issued by IASB in May 2020). These limited scope amendments will be applicable as from 1 January 2022 and their impact on Dexia Credit Local's financial statements is being analysed.

2.4. New standard IFRS 17 "Insurance Contracts"

This standard issued by IASB in May 2017 in replacement of the current IFRS 4 "Insurance Contracts" standard, will be effective as from 1 January 2023. In June 2020, the IASB issued amendments to IFRS 17 postponing its first time application date to 1 January 2023. In parallel, an amendment to IFRS 4 was also published in order to extend the temporary exemption from the application of IFRS 9 until the date of entry into force of IFRS 17. This new standard will have no impact on Dexia Crédit Local's financial statements as Dexia Crédit Local has no insurance contracts within the scope of the standard.

2.5. New definition of default

As stated by the European Banking Authority (EBA) guidelines, the new default definition (defined by article 178 of Regulation (EU) n° 575/2013) will enter into force as from 1 January 2021. The Regulation (EU) 2018/1845 of the European Central Bank (ECB), applicable by 31 December 2020 at the latest, complete these regulatory measures for the past-dues materiality threshold. These new regulations will strengthen consistency and harmonize practices of the European credit institutions for the identification of defaulted exposures.

Dexia Crédit Local applies a unique definition of default for its whole portfolio and apply this new regulation for the identification of defaulted positions from mid-2020. To be noted that Dexia Crédit Local follows-up on a quarterly basis as from 2019 the default qualification under the new definition of default along with the former definition. The performed impact assessment demonstrates a limited impact on credit risk parameters and models.

3.Changes in presentation of condensed consolidated financial statements of Dexia Crédit Local

The condensed consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. As at 30 June 2020, they are compliant with ANC Recommendation 2017-02 issued on 2 June 2017 “on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards” which cancels and replaces the Recommendation 2013-04 issued on 7 November 2013.

CHANGES IN SCOPE OF CONSOLIDATION

30 June 2019

Following the signing of a sale and purchase agreement on 14 December 2018, Dexia and Helaba announce the sale of Dexia Kommunalbank Deutschland (DKD) on 1st May 2019, Dexia’s German banking subsidiary to Helaba, for a total consideration of EUR 352 million. All regulatory approvals have been obtained.

Dexia Kommunalbank Deutschland was presented as discontinued operation in the consolidated financial statements since last quarter 2018.

This transaction accounts for a reduction of about EUR 24 billion of the balance sheet and for an increase of other comprehensive income of EUR 235 million. According to the standard IFRS 5, the net result from the sale of EUR -117 million was recorded in *Result from discontinued operations, net of tax*. It includes the capital loss resulting from the sale and the net result of DKD as at 30 June 2019 (EUR -9.2 million). Dexia Crédit Local has also terminated, with effect as of the closing date of the sale, the Letters of Support it had issued to DKD.

30 June 2020

Nil.

SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF INCOME

Net income group share amounts to EUR -741 million as at 30 June 2020 against EUR -473 million as at 30 June 2020.

Net banking income is negative, at EUR -543 million (EUR -203 million as at 30 June 2019).

As in 2019, in addition to the carrying costs of assets, this amount includes in particular impacts associated with the valuation of derivatives, as well as disposal gains or losses and provisions for legal risk.

It also includes in 2020 a charge of EUR -104 million due to the fair value measurement, as of January 1, 2020 of a EUR 3.4 billion financial assets portfolio which is reclassified from Amortised cost to Fair value through profit or loss. This reclassification follows a change in business model decided by the Board of Directors on July 19, 2020, the assets of this portfolio being held for sale and no longer carried until their maturity. This charge is recognised in *Net gains (losses) on reclassification of financial assets measured at amortised cost into fair value through profit or loss*.

Net gains and losses on financial instruments at fair value through profit or loss amounts to EUR -293 million (EUR -113 million in 2019). As at 30 June 2020, a charge of EUR -85 million (EUR -4 million in 2019) was booked for the FVA due to the deterioration of the funding conditions of banking counterparties since the beginning of the Covid-19 crisis.

The variation in market parameters during the half-year period also had a negative impact on hedge accounting inefficiency of EUR -193 million (EUR -132 million in 2019), notably due to the evolution of the BOR-OIS and EURIBOR against LIBOR Sterling indices. Furthermore, the crisis led to an increase in credit margins, which resulted in a EUR -125 million variation in the value of assets classified at fair value through profit or loss (EUR -13 million in 2019). These negative impacts are partly offset by a positive EUR +95 million variation in the valuation of trading derivatives and related hedges. However, this positive effect is offset by a symmetrical impact recorded in the net interest margin.

Net gains and losses on financial instruments measured at fair value through other comprehensive income and *Net gains and losses rising on derecognition of financial assets measured at amortised cost* amount respectively to EUR -58 million (EUR -77 million in 2019) and EUR -7 million (EUR 17 million in 2019) following the disposals in line with the proactive strategy of reducing the balance sheet. So, in 2020, the Dexia Credit Local group sold EUR 484 million French public sector loans with a loss of EUR 16 million.

Costs amounted to EUR -206 million (EUR -196 million in 2019). Taxes and regulatory contributions presented an amount of EUR -61 million, as in 2019. General operating expenses are still impacted by transformation costs, notably related to the renewal of the IT infrastructure.

Cost of credit risk amounts to EUR -95 million (EUR +23 million in 2019) which is explained by the impacts of Covid-19 crisis for an amount of EUR -92 million. The review of macroeconomic scenario based on the Eurozone projections published by ECB on 4 June 2020 and the update of risk assessment by sensitive sector result in a strengthening of collective provisions of respectively EUR -78 million and EUR -14 million.

Net gains or losses on other assets shows an impact of EUR +104 million, linked to the recycling via the income statement of the translation difference carried by the shareholders' equity of the New York branch, following the transfer of the entity's residual balance sheet to Dexia Crédit Local in the framework of the closing of the Branch in the second half-year.

OTHER SIGNIFICANT EVENTS OF THE PERIOD

Impacts relating to Covid-19

The first half-year 2020 was strongly marked by the Covid-19 pandemic crisis which caused an unprecedented health and economic shock and led States and central banks to take exceptional measures to stop the spread of the virus and to support the economy. Although the economic consequences of the crisis are still very uncertain in the medium term, it has led Dexia Crédit Local to implement various precautionary measures within the specific context of an orderly resolution in which it is involved.

Protection of teams and operational continuity

From the very beginning of the crisis, Dexia Crédit Local has closely monitored the evolution of the situation related to the spread of Covid-19. The Management Board quickly activated an operational and a strategic crisis unit to protect its teams, and implemented all the necessary measures to enable them to work remotely.

Meeting on a daily basis, the operational crisis unit has ensured the operational continuity of the company as well as the management of all the human impacts related to this situation. By virtue of the involvement of all those concerned and the very strong mobilisation of teams, the switch to teleworking was quickly made for all staff members, enabling all the bank's activities to be maintained.

All the work carried out on IT systems, particularly the ambitious project to renovate the IT infrastructure, has enabled the rapid deployment of teleworking teams and fully ensured operational continuity.

In addition, a customised training offer was deployed. In particular, this has enabled the Group to address topics such as work-life balance, stress management, project management and remote management.

Deterioration of credit risk as a consequence of the crisis

Review of the macroeconomic scenarios and sensitive sectors

Within this historical context of a pandemic, the assumptions made and estimates established for the preparation of the condensed consolidated financial statements as at 30 June 2020 have changed compared to those used for the 2019 financial year-end. In particular, Dexia Crédit Local has reviewed the macroeconomic scenarios included in the point-in-time and forward-looking measures of the probability of default and loss given default models used for the assessment of expected credit losses under IFRS 9.

Thus, for the preparation of the half-year condensed consolidated financial statements, Dexia Crédit Local has adopted a "central" macroeconomic scenario based on the projections published by the ECB [(1)] and by the FED[(2)] in June 2020. It is based on the assumption that there will be some resurgence of infections over the next few quarters, requiring partial containment measures until a medical solution is available, in mid-2021. The macroeconomic scenario for the euro zone thus forecasts a decline in real gross domestic product (GDP) in 2020 of 8.7%, followed by a rebound of 5.2% in 2021 and 3.3% in 2022. Outside the euro zone, world GDP is expected to fall by 4% in 2020, followed by a 6% rebound in 2021 to reach 3.9% in 2022.

(1) https://www.ecb.europa.eu/pub/projections/html/ecb.projections202006_eurosystemstaff~7628a8cf43.en.html
(2) https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200610.pdf).

The uncertainties surrounding this central scenario are taken into account in the level of collective provisions by also considering the optimistic and severe scenarios published by the ECB. These scenarios are detailed on the ECB's website.

In addition to these automatic classifications in stage 2, linked to the review of macroeconomic scenarios and the significant increase in credit risk (SICR), Dexia Crédit Local has also carried out a review of sensitive sectors, recognising new sensitive sectors and expanding existing sensitive sectors. All counterparties likely to be weakened by the crisis were systematically classified in stage 2. This relates in particular to airports, corporate real estate, French overseas authorities, the oil, gas and tourism/entertainment sectors and the financing of student housing in the United Kingdom (cf. Results section of the Management Report in this half-year financial report). Dexia Crédit Local has also carried out an in-depth analysis of non-performing counterparties in order to estimate the consequences of the health crisis on their financial situation.

All of these elements are reflected by an increase in the Dexia Crédit Local's cost of risk, which amounted to EUR -95 million at the end of June 2020 (cf. Results section of the Management Report in this half-year financial report).

Rescheduling of bank loans and granting of guaranteed loans

In the first half-year 2020, the Dexia Group has been led to offer certain clients the rescheduling of bank loans and granted deferred payment on maturities totalling approximately EUR 36 million.

In France, maturities of EUR 9 million, representing an outstanding amount of EUR 222 million, were rescheduled during the first half of 2020 and the terms and conditions involved deferring the repayment of loans granted by an average of six months.

In Italy, the measures implemented to combat the Covid-19 pandemic led to a significant reduction in local authority revenues. Various agreements, intended to extend the capital due in 2020, have been signed by the Ministry of Economy and Finance, Cassa Depositi e Prestiti and certain Italian banks. Dexia Crediop did not adhere to these agreements and wished to favour a bilateral relationship on a case-by-case basis with its borrowers. Within this context, during the first half of 2020, maturities of EUR 27 million, representing a total outstanding amount of EUR 197 million, benefited from a deferral of capital maturities of the year 2020, with an increase in the average term of one year.

In application of the provisions of IFRS 9, the impact of the moratoria, which is not material, has been recorded in the income statement under "Net gains arising on derecognition of financial assets measured at amortised cost".

In addition to the rescheduling of bank loans, the States have also adopted a series of measures to support the economy, including the granting of loans guaranteed by the States. Given its status as an entity in resolution, Dexia Crédit Local is not authorised to grant new financing and therefore has not granted any guaranteed loans.

Impact on the financial markets and measures of exceptional magnitude taken by central banks

The severity of the pandemic has had a major impact on the financial markets, prompting central banks to take unprecedented measures to support market liquidity by lowering key interest rates, conducting massive asset buyback programmes, or setting up various refinancing facilities.

In March 2020, the ECB launched a EUR 750 billion Pandemic Emergency Purchase Programme (PEPP), which was increased to EUR 1,350 billion in June.

Furthermore, the ECB also launched a third targeted longer-term refinancing operation (TLTRO III) with more flexible terms and conditions.

Finally, as of March 2020, the ECB has exceptionally and temporarily authorised banks to carry out their activity with ratio levels which may be below the LCR liquidity ratio.

Funding risk

Despite market tensions, Dexia Crédit Local, which had a liquidity reserve of nearly EUR 20 billion at the end of December 2019, did not experience any refinancing problems at the height of the crisis. The resilience of the secured funding market enabled Dexia Crédit Local to meet its funding requirements, in very attractive volumes and prices, while the market for government-guaranteed debt was not very active. Following the reopening of the guaranteed debt market from the end of April, Dexia Crédit Local resumed its long-term refinancing programme, enabling it to execute 90% of its annual programme as at 30 June 2020. In line with the strategy pursued since 2017, Dexia Crédit Local did not make use of the ECB's refinancing facilities.

Furthermore, the various indicators measuring liquidity did not deteriorate, with Dexia Crédit Local's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) standing at 211% and 130.6 % respectively at the end of June 2020 (cf. Liquidity section of the Management Report in this half-year financial report).

Market risk

The crisis is also reflected by a fall and very high volatility in the value of financial assets, all market segments combined, a continued fall in interest rates, with 10-year euro rates once again entering negative territory, an appreciation of the euro and marked movements in interest rate and currency bases. These various elements impacted accounting volatility in the first half of 2020 (cf. Results section of the Management Report in this half-year financial report).

Furthermore, within this context, the asset disposal activity continued in the first quarter, and then slowed in the second quarter 2020. The reclassification of the assets covered by the asset disposal plan, approved by Dexia's Board of Directors on 19 July 2019, led to an increase in the sensitivity of the Dexia Crédit Local's income and equity to changes in credit spreads, which resulted in significant changes in the fair value of the assets concerned during the first half-year 2020 (cf. Highlights section of the Management Report in this half-year financial report).

Finally, the fall of interest rates resulted in an increase in fair value items on the balance sheet and in the net collateral cash posted by Dexia Crédit Local to its derivative counterparties (cf. Balance Sheet section of the Management Report in this half-year financial report).

Temporary measures to ease banks' regulatory capital requirements

Within the framework of the fight against the crisis caused by the Covid-19 epidemic, on 12 March 2020 the ECB announced measures to ease capital requirements under the SREP. These measures resulted in the relaxation of the capital conservation buffer and additional capital (P2G - Pillar 2 guidance). In conjunction with the ECB's announcement, some national authorities such as France and the United Kingdom also reset the countercyclical buffer to zero.

By integrating these easing measures, the capital requirement applicable to Dexia Crédit Local amounts to 11.25% on a consolidated basis, compared to 15.25% initially communicated for the year 2020.

Furthermore, on 18 June 2020 the European Parliament validated a series of temporary adjustments to the Capital Requirements Regulation (CRR Quick-Fix)), allowing banks to mitigate the impact of the Covid-19 pandemic on their regulatory capital. Thus, the transitional provisions allow the reintegration into regulatory capital of potential new expected credit losses recognised in 2020 and 2021 under IFRS 9.

A temporary increase of the diversification factor from 50% to 66% applicable within the context of the prudent valuation (Prudent Valuation Adjustment - PVA) was also authorised, making it possible to limit the amount of the additional value adjustment to be taken into account in the calculation of prudential capital.

Finally, risk-weighted assets (RWA) for sovereign exposures of European Union member states were temporarily reduced to 0% for exposures denominated and financed in the national currency of another member state.

Dexia Crédit Local made use of these temporary provisions when preparing its prudential statements and solvency ratios as at 30 June 2020 (cf. Solvency section of the Management Report in this half-year financial report).

It should be noted that the temporary neutralisation, at a regulatory capital level, of the changes in fair value of certain sovereign and public sector assets classified at fair value through equity and the temporary reduction of 25% of risk-weighted assets (RWA) of certain infrastructure exposures will be applied by Dexia Crédit Local respectively in the 3rd and 4th quarter of 2020.

Financial results and prudential reporting

The impact of the crisis caused by the Covid-19 pandemic has had consequences on Dexia Crédit Local's half-year condensed consolidated financial statements, which are commented in detail in the Management Report of this half-year financial report.

Furthermore, Dexia Crédit Local was not significantly impacted with regard to:

- Deferred tax assets, as these are considered non-recoverable within the framework of the Dexia Group's orderly resolution.
- Tangible fixed assets: Dexia Crédit Local is a tenant of its buildings and the lease agreements have a residual term of less than ten years. In addition, the Dexia Crédit Local Group did not benefit from any rent relief following the crisis.
- Intangible fixed assets: these are very limited given the framework of the Dexia Group resolution.
- Discontinuation of hedging relationships, as they are almost perfectly matched. In the absence of new specific credit provisions and the impact of the moratoria, there was no breach of hedging relationships related to Covid-19.

The ECB has granted banks additional time in which to implement corrective actions to the non-critical recommendations from previous inspections and may also, at the request of each bank, grant additional time for the submission of certain regulatory reports to facilitate business continuity. To date, Dexia Crédit Local has not made use of this flexibility and has fully respected the timetable set for the submission of the various reports.

The EBA has also decided to postpone the 2020 stress test exercise for all banks until 2021.

On the date on which the half-year condensed consolidated financial statements were approved, Dexia Crédit Local has taken into account these various elements and concluded that they do not call into question its assessment of the going concern (cf. note on Going Concern).

POST - BALANCE - SHEET EVENTS

Nil.

RECLASSIFICATION OF FINANCIAL ASSETS AT AMORTISED COST TO FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND TO FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME

In a context of evolution of regulations and supervisors' requirements, including the end of access to Eurosystem funding for entities under resolution as of 1 January 2022 as well as the non-renewal of Dexia's specific prudential approach by the European Central Bank, on 19 July 2019 the Board of Directors validated the implementation of a asset disposal programme known as the Remedial Deleveraging Plan (RDP).

This plan encompasses a nominal amount of assets of EUR 9.9 billion. In particular, it targets sales which will enable Dexia to reduce its exposure to foreign currency liquidity risk over time while preserving its solvency.

As at 31 December 2019, EUR 3.6 billion of assets, of which EUR 1.8 billion of bonds and EUR 1.8 billion of loans, have already been sold under this plan.

For the assets not sold at that date, the change of management intent constitutes a change of business model which, in application of IFRS 9, results in the reclassification on the first day of the reporting period following the decision, i.e. 1 January 2020, from *Amortised cost* to:

- *Fair value through profit or loss*: an asset portfolio of EUR 3,366 million (EUR 2,936 million in customer loans and EUR 430 million in securities) for which the sale decision is made.
  The fair value measurement of these assets on January 1 results in the recognition of an expense of EUR 104 million in *Net Gains (losses) on reclassification of financial assets measured at amortised cost into fair value through profit or loss*, including a negative effect of EUR 104 million linked to the qualification, on January 1, as economic hedging of derivatives designated as portfolio hedges of part of the reclassified loans.
- *Fair value through other comprehensive income*: a portfolio of EUR 3,009 million of assets (EUR 2,633 million in customer loans and EUR 376 million of securities) which Dexia has chosen to no longer manage according to the business model which aims at collecting contractual cash flows over the life of the assets.

The fair value measurement of these assets on January 1 has a negative effect of EUR 92 million on the change in fair value of debt instruments measured at fair value through other comprehensive income, including a negative effect of EUR 109 million linked to the qualification, on January 1, as economic hedging of derivatives designated as portfolio hedges of part of the reclassified loans.

	Nominal	Amount coming from the reclassification recognised in:	
(in EUR million)	Reclassification as of January 1, 2020	Income statement	Change in fair value of debt instruments measured at fair value through other comprehensive income
From Debt securities at amortised cost to Financial assets at fair value through profit or loss	430	(16)	
From Debt securities at amortised cost to Financial assets at fair value through other comprehensive income	376		(35)
From customer loans and advances to Financial assets at fair value through profit or loss	2,936	(88)	
From customer loans and advances to Financial assets at fair value through other comprehensive income	2,633		(57)
TOTAL	**6,375**	**(104)**	**(92)**

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal programme as required under the resolution plan, Dexia and Dexia Crédit Local are focused on managing its residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors. In line with the Group's profile and strategy, Dexia Crédit Local's performance is shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

NOTE III. EXCHANGE RATES

EXCHANGE RATES

		Closing rate			Average rate	
		30/06/2019	31/12/2019	30/06/2020	30/06/2019	30/06/2020
US dollar	USD	1.1386	1.1227	1.1223	1.1311	1.104375

NOTE IV. FAIR VALUE

Some amounts may not add up due to rounding differences.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia Crédit Local's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorised into one of three fair value hierarchy levels. The following definitions used by Dexia Crédit Local for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

According to Dexia Crédit Local's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

Valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets measured at fair value through other comprehensive income and valuations for disclosures) can be summarised as follows:

1. Financial instruments measured at fair value (held for trading, non-trading instruments mandatorily measured at fair value through profit or loss, fair value option, measured at fair value through other comprehensive income, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. Market Risk department regularly monitors the quality of valuations:

- the valuations of derivatives are compared with those provided by a number of counterparties and analysed monthly during an ad hoc committee;
- transaction execution levels are used to ensure the quality of the valuation approaches;
- the valuation approaches are regularly reviewed and are subject to validation by the Validation team.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia Crédit Local incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower levels committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia Crédit Local general principles for the valuation ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Market Risk department based on the information provided by the Front Office and are validated by the Validation team. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. An inventory of the products is regularly produced, with their main features, their materiality and their model status.

For bonds and loans for which no active market exists, Dexia Crédit Local maximises the use of market data.

Dexia Crédit Local uses a discount cash-flow model, based on a credit spread. The credit spread is estimated from market data which are directly available from external contributors (for example Bloomberg, Markit) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (for example from the same economic sector, rating, currency).

Concerning the valuation of derivatives, Dexia Crédit Local adjusts the market value to take into account credit risks (Credit Valuation Adjustment (CVA) / Debit Valuation Adjustment (DVA)) and funding costs (Funding Valuation Adjustment (FVA)).

A CVA reflects the counterparty's risk of default and a DVA reflects Dexia Crédit Local's own credit risk.

When determining the CVA / DVA, Dexia Crédit Local considers two different markets:

- The market of collateralised derivatives, where there is a daily exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a margin period of risk.
- The market of uncollateralised derivatives, where there is a risk on the fair value of the derivative at the balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Based on the assumptions that market participants would consider when determining the fair value, Dexia Crédit Local uses an overnight rate (OIS) discounting curve for all derivatives, regardless if they are collateralised or not.

A Funding Valuation Adjustment (FVA) takes into account the funding costs associated to its uncollateralised derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives.

The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralised derivatives at rates different from overnight rates.

Dexia Crédit Local will continue to improve its models in the next periods following market practice.

2. Financial instruments measured at amortised cost (valuations in disclosures on fair value)

These instruments are valued using the same approach as described above for instruments recognised at fair value on the balance sheet.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables compare fair value with carrying amount of financial instruments not measured at fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/2019		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	9,211	9,211	0
Debt securities at amortised cost	36,012	31,902	(4,110)
Interbank loans and advances, at amortised cost	23,066	22,988	(78)
Customer loans and advances, at amortised cost	31,771	28,408	(3,363)
Interbank borrowings and deposits	12,003	12,013	11
Customer borrowings and deposits	3,851	3,852	2
Debt securities	62,728	63,335	609
Subordinated debt	20	20	0

FAIR VALUE OF FINANCIAL INSTRUMENTS

	30/06/2020		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	5,738	5,738	0
Debt securities at amortised cost	39,661	32,453	(7,207)
Interbank loans and advances, at amortised cost	23,009	23,036	27
Customer loans and advances, at amortised cost	28,452	22,641	(5,811)
Interbank borrowings and deposits	12,517	12,678	161
Customer borrowings and deposits	2,690	2,690	0
Debt securities	61,268	61,861	593
Subordinated debt	19	19	0

ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide an analysis of assets and liabilities that are measured subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The fair value measurement is recurring. The non-recurring fair value measurement is not significant for Dexia Crédit Local.

FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/2019			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	**124**	**11,063**	**3,059**	**14,247**
Financial assets held for trading	0	9,306	1,874	11,181
- Derivatives	*0*	*9,306*	*1,874*	*11,181*
Financial assets mandatorily at fair value through profit or loss	124	1,757	1,185	3,066
- Debt securities	*93*	*415*	*232*	*740*
- Loans and advances	*0*	*1,328*	*936*	*2,264*
- Equity instruments	*31*	*14*	*17*	*62*
Hedging derivatives	**0**	**1,235**	**144**	**1,378**
Financial assets at fair value through other comprehensive income	**420**	**1,579**	**838**	**2,837**
- Debt securities	*412*	*690*	*546*	*1,648*
- Loand and advances	*0*	*863*	*287*	*1,150*
- Equity instruments designated at fair value through other comprehensive income	*8*	*27*	*5*	*39*
TOTAL	545	13,877	4,041	18,462

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/2019			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**0**	**12,544**	**2,235**	**14,779**
- Financial liabilities designated at fair value	*0*	*1,145*	*0*	*1,145*
- Trading derivatives	*0*	*11,399*	*2,235*	*13,634*
Hedging derivatives	**0**	**9,452**	**9,732**	**19,184**
TOTAL	0	21,996	11,967	33,963

FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)				
	30/06/2020			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	**0**	**12,554**	**4,850**	**17,404**
Financial assets held for trading	0	10,632	2,189	12,821
- Derivatives	*0*	*10,632*	*2,189*	*12,821*
Financial assets mandatorily at fair value through profit or loss	0	1,922	2,661	4,583
- Debt securities	*0*	*346*	*184*	*530*
- Loans and advances	*0*	*1,576*	*2,459*	*4,034*
- Equity instruments	*0*	*0*	*18*	*18*
Hedging derivatives	**0**	**1,112**	**129**	**1,240**
Financial assets at fair value through other comprehensive income	**298**	**2,863**	**936**	**4,097**
- Debt securities	*292*	*938*	*37*	*1,267*
- Loand and advances		*1,896*	*895*	*2,790*
- Equity instruments designated at fair value through other comprehensive income	*7*	*29*	*4*	*40*
TOTAL	298	16,528	5,915	22,741

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)				
	30/06/2020			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	**0**	**13,581**	**2,863**	**16,444**
- Financial liabilities designated at fair value	*0*	*1,019*	*0*	*1,019*
- Trading derivatives	*0*	*12,562*	*2,863*	*15,425*
Hedging derivatives	**0**	**9,671**	**11,769**	**21,439**
TOTAL	0	23,252	14,632	37,884

TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

The tables hereunder present the amounts of financial instruments at fair value, for which fair value measurement is recurring, still in the books at the end of the period and for which the methodology of valuation has been changed between level 1 and level 2.

	30/06/2019		30/06/2020	
(in EUR million)	From level 1 to level 2	From level 2 to level 1	From level 1 to level 2	From level 2 to level 1
Financial assets at fair value through other comprehensive income – Debt securities		56	67	114
TOTAL FINANCIAL ASSETS		56	67	114

ANALYSIS OF THE EVOLUTION OF LEVEL 3

	30/06/2019								
(in EUR million)	Opening balance	Total gains/losses in P&L	Unrealised or deferred gains/losses	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Consolidation scope (2)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss	462	(41)		(4)	530				947
- Debt securities	*194*	*(14)*							*180*
- Loans and advances	*236*	*(15)*		*(3)*	*530*				*748*
- Equity instruments	*32*	*(12)*		*(1)*					*19*
Trading derivatives	3,772	437				(23)	(17)		4,170
Hedging derivatives	301	24	(1)			(36)			288
Financial assets at fair value through other comprehensive income	75		(1)		4	(5)			74
- Debt securities	*62*								*62*
- Loans and advances	*9*		*(1)*		*4*	*(5)*			*7*
- Equity instruments	*5*								*5*
Financial assets at fair value included in non current assets held for sale	428							(428)	0
TOTAL FINANCIAL ASSETS	**5,039**	**420**	**(2)**	**(4)**	**534**	**(63)**	**(17)**	**(428)**	**5,480**
Trading derivatives	4,431	1,180			1	(22)	(13)		5,578
Hedging derivatives	10,564	824	92		326		(9)		11,797
Financial liabilities at fair value included in disposal groups held for sale	795							(795)	0
TOTAL FINANCIAL LIABILITIES	**15,790**	**2,004**	**92**		**327**	**(22)**	**(21)**	**(795)**	**17,375**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -16 million in result. On the liabilities side, they amount to EUR -21 million recognised in result.
(2) Disposal of Dexia Kommunalbank Deutschland.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

	30/06/2020								
(in EUR million)	Opening balance	Total gains/losses in P&L	Unrealised or deferred gains/losses	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss	1,185	(67)			(25)	8	(22)	1,583	2,661
- *Debt securities*	*232*	*(25)*			*(1)*		*(22)*		*184*
- *Loans and advances*	*936*	*(43)*			*(24)*	*8*		*1,582*	*2,459*
- *Equity instruments*	*17*	*1*							*18*
Trading derivatives	1,874	230				129		(45)	2,189
Hedging derivatives	144	(14)						(1)	129
Financial assets at fair value through other comprehensive income	838	20	(25)	(123)	(215)		(497)	939	936
- *Debt securities*	*546*	*39*		*(123)*	*(1)*		*(451)*	*27*	*37*
- *Loans and advances*	*287*	*(20)*	*(25)*		*(214)*		*(45)*	*911*	*895*
- *Equity instruments*	*5*			*0*					*4*
TOTAL FINANCIAL ASSETS	**4,041**	**169**	**(25)**	**(123)**	**(240)**	**137**	**(519)**	**2,476**	**5,915**
Trading derivatives	2,235	622				70		(64)	2,863
Hedging derivatives	9,732	2,604	6					(573)	11,769
TOTAL FINANCIAL LIABILITIES	**11,967**	**3,227**	**6**			**70**		**(638)**	**14,632**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -69 million in result and to EUR -1 million recognised in Gains and losses directly recognised in Equity. On the liabilities side, they amount to EUR -630 million recognised in result and EUR -7 million recognised in Gains and losses directly recognised in Equity. They also include the transfer of assets from Amortised cost to Fair value through profit or loss and to Fair value through other comprehensive income in the context of the Remedial Deleveraging Plan.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

SENSITIVITY OF THE FAIR VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

Dexia Crédit Local measures the fair value of the level 3 financial instruments using some unobservable inputs. As this unobservable character injects a certain degree of uncertainty into the valuation, an analysis of the fair value sensitivity of Level 3 instruments to alternative assumptions was performed as at 30th June 2020. The sensitivity analysis has been conducted using reasonably possible inputs or applying assumptions in line with the valuation adjustment policies for the financial instruments in question.

The table hereunder summarises the financial assets and liabilities classified as Level 3 for which alternative assumptions in one or more unobservable inputs would lead to a significant variation in fair value.

30/06/2019					
		Alternative assumptions		Impacts on fair value measurement	
Financial instruments	Non observables inputs	Worst case	Best case	Worst case (in EUR million)	Best case (in EUR million)
Bonds	Credit spread	+ / - one standard deviation		(1.4)	1.4
Loans	Credit spread	365 bps	80 bps	(67.2)	35.1
CDS	Credit spread	+ / - one standard deviation		(14.4)	13.8
Derivatives	Interest Rate	+ / - one standard deviation		(23.1)	23.1
	Spread of CBS	+ / - one standard deviation		(13.3)	13.3
	Inflation	+ / - one standard deviation		(3.2)	3.2
TOTAL				**(122.6)**	**90.0**

30/06/2020					
		Alternative assumptions		Impacts on fair value measurement	
Financial instruments	Non observables inputs	Worst case	Best case	Worst case (in EUR million)	Best case (in EUR million)
Bonds	Credit spread	+ / - one standard deviation		(2.9)	2.9
Loans	Credit spread	280 bps	0 bps	(749.4)	240.2
CDS	Credit spread	+ / - one standard deviation		(18.3)	12.5
Derivatives	Interest Rate	+ / - one standard deviation		(12.5)	12.5
	Spread of CBS	+ / - one standard deviation		(5.0)	5.0
	Inflation	+ / - one standard deviation		(0.4)	0.4
TOTAL				**(788.5)**	**273.4**

The unobservable input in the valuation of bonds and credit derivatives (CDS) classified in level 3 is the credit spread. The alternative assumptions used to measure the fair value sensitivity of those financial instruments are based on the dispersion of the spreads used for their valorisation, and consist of applying a shock of +/- one standard deviation to the credit spreads. The sensitivity of the bonds' fair value is estimated to range from EUR -2.9 million (reflecting a deterioration in the above-mentioned inputs) to EUR +2.9 million (reflecting an improvement in the above-mentioned inputs), while the sensitivity of the CDS' fair value is estimated to range from EUR -18.3 million in the adverse scenario to EUR +12.5 million in the favorable scenario.

For the loans classified in level 3, the alternative assumptions consist in using the minimum and maximum spreads observed when valuating similar assets by Dexia Crédit Local. The impact of those alternative assumptions is estimated at EUR -749.4 million for the worst case scenario and at EUR + 240.2 million for the best case scenario.

For level 3 derivatives, the unobservable market inputs are mainly the interest rate, the inflation and the currency basis spreads (CBS). The alternative assumptions used by Dexia Crédit Local are based on the dispersion of available market data by risk factor and pillar. The sensitivity of each derivative is then determined for a variation of +/- one standard deviation in these inputs. The total impact on the fair value is estimated to range between EUR -17.9 million for the worst case scenario and EUR +17.9 million for the best case scenario.

NOTE V. RELATED-PARTY TRANSACTIONS

We refer to the note 4.4. Related-party transactions of the Dexia Crédit Local’s annual report 2019.

CERTIFICATE FROM THE RESPONSIBLE PERSON

I the undersigned, Pierre Crevits, Chief Executive Officer of Dexia Crédit Local,

hereby declare that, to the best of my knowledge, the condensed consolidated financial statements for the past half year have been prepared in accordance with all applicable accounting standards and provide a true and fair view of the assets, financial position and earnings of all the companies included in the consolidation, and that the interim business report presents an accurate account of all significant events that have taken place during the first six months of the year and their impact on the financial statements, and of all the main risks and uncertainties concerning the remaining six months of the financial year.

The half-year financial information presented in this report is covered by an audit report prepared by the statutory auditors. Based on their review, nothing has come to the statutory auditors' attention that causes them to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

La Défense, 10 September 2020

Pierre Crevits
Chief Executive Officer

DEXIA CRÉDIT LOCAL STATUTORY AUDITORS' REPORT ON THE HALF-YEAR CONSOLIDATED FINANCIAL INFORMATION

PERIOD FROM JANUARY 1ST 2020 TO JUNE 30TH 2020

This is a free translation into English of the statutory auditors' review report on the half-year financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-year management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L.451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Dexia Crédit Local, for the period from January 1st 2020 to June 30th 2020 ;
- the verification of the information presented in the half-year management report.
- These condensed half-year consolidated financial statements were prepared under the responsibility of the Board of Directors on September 9th 2020 on the basis of the information available at that date in the evolving context of the crisis related to Covid-19 and of difficulties in assessing its impact and future prospects. Our role is to express a conclusion on these financial statements based on our review.

Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our opinion, we draw your attention to the note I.1 to the 2020 condensed half-year consolidated financial statements which indicate that these financial statements have been prepared on a going concern basis, in accordance with IAS1.

Specific verification

We have also verified the information presented in the half-year management report on the condensed half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Paris la Défense and Courbevoie, September 11th 2020

The Statutory Auditors

Deloitte & Associés	Mazars
Jean-Vincent Coustel	Virginie Chauvin

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Dexia Crédit Local's Financial Report H1 2020 has been published
by the Communication department.
This report is also available in French. In case of discrepancy between the English and the
French versions, the text of the French version shall prevail.