Press release

DEXIA

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Dexia Group consolidated results 2021[1]

Net income of EUR -334 million as at 31 December 2021 against EUR -618 million as at 31 December 2020

- *Recurring result (EUR -133 million) including a positive cost of risk at EUR +117 million, notably linked to the review of the macroeconomic scenario determining expected credit losses*
- *Limited impact of accounting volatility items (EUR +3 million)*
- *Non-recurring items (EUR -203 million) mainly linked to the Group's deleveraging and transformation strategy*

Progress on the Group's resolution

- *For the first time the balance sheet total is below EUR 100 billion, down 14% over the year to EUR 98.7 billion as at 31 December 2021*
- *Nearly EUR 4 billion of assets sold in 2021; around 95% of the target set in the context of the deleveraging plan already achieved by 31 December 2021*
- *Simplification of the Group: transfer of a portfolio of assets and derivatives from Dexia Crediop to Dexia Crédit Local and launch of the process of selling the GIC portfolio in the United States*

Confirmed resilience of the funding model

- *Annual long-term funding programme completed in July*
- *Extension of the funding guarantee by the Belgian and French States effective from 1 January 2022*
- *End of access to European Central Bank funding on 31 December 2021*

Robust "Total Capital" Ratio at 31.6% as at 31 December 2021

Pierre Crevits, Dexia CEO, states that, "*Despite a persistently difficult environment, the Dexia Group again demonstrated its resilience and agility in simplifying and reducing its balance sheet, which fell below EUR 100 billion for the first time. The beginning of 2022 is marked by a particularly complex geopolitical situation. Dexia has no direct exposure to Ukraine and Russia and its funding model, based on the diversification of funding sources and the maintenance of a comfortable liquidity reserve, enables it to face stressed market conditions. I salute the constant commitment of the Group's staff members, which was once again evident this year.*"

Gilles Denoyel, Chairman of the Dexia Board of Directors, says that, "*In 2021, the Board of Directors has pursued its long-term strategic reflection. This reflection continues in 2022 and is the subject of in-depth studies by Dexia. I would like to thank Dexia's management and teams for all the work done in 2021 effectively to pursue the implementation of the Group's orderly resolution, and I am delighted with the strong support of the Belgian and French States, which share a common vision of Dexia's ambition to evolve.*"

[1] *The data provided in the Press Release are not audited.*

Introduction

After a year strongly marked by the Covid-19 pandemic, the improvement of market conditions and the reduction of volatility initiated at the end of 2020, thanks to the historical support of central banks, continued in 2021.

In this more favourable environment, the Dexia Group continued its asset disposal programme at a sustained pace and completed its annual long-term funding programme in July.

Combined with the reduction of portfolios, the rise in interest rates which began at the end of 2021 contributed to the significant reduction of the balance sheet, which fell below EUR 100 billion at the end of December 2021. The sharp reduction in the Group's funding requirement has increased its resilience to potential liquidity stress within the context of the end of access to European Central Bank funding on 31 December 2021.

The Group's net income in 2021 remained negative at EUR -334 million. However, Dexia continues to post robust solvency ratios, above the minimum of 11.25% required for the year 2021 by the Supervisory Review and Evaluation Process (SREP).

The Board of Directors of Dexia SA met on 11 March 2022 and approved the statement of income and balance sheet of Dexia SA for the year 2021. The annual report of the Dexia Group will be published on 30 April 2022 on the website *www.dexia.com*.

1. Significant events and transactions

- *Simplification of the international network in Italy and the United States*
- *Continuation of proactive balance sheet, off-balance sheet and risk management*
- *Extension of the funding guarantee by the Belgian and French States, a key element of the Group's resolution*

A. Progress on the Group’s resolution

Simplification of the international network

Italy

In 2021, Dexia finalised the transfer to Dexia Crédit Local Paris and Dublin of a portfolio of assets with a nominal value of EUR 3.2 billion, composed of loans, bonds and related hedging derivatives. These securities were transferred at their net book value in Dexia Crediop's accounts and not at their market value. The transfer of the portfolio had no tax impact in Italy and France but gave rise to a temporary difference between the tax value and the book value in Ireland, leading to a deferred tax liability of EUR -54 million, which was recognised in the first quarter of 2021 in the Dexia Group's consolidated financial statements.

Dexia also put in place a programme to transfer 25 interest rate swaps executed with Dexia Crediop clients, representing a total outstanding amount of EUR 1.8 billion. During the year, 11 swaps were transferred to Dexia Crédit Local. Transfers will continue in 2022, depending on the consents of the counterparties.

In addition, the Group continued to improve the funding mix of its subsidiary.

United States

Since the successful transformation of Dexia Crédit Local's New York branch in November 2020, the Group's footprint in the United States consists of a representative office and Dexia Holdings Inc. which owns Dexia Financial Products Holdings Inc. and FSA Global Funding Ltd. As at 31 December 2021, the balance sheet of these entities amounted to EUR 2.6 billion. It is mainly composed of securities on the assets side, guaranteed investment contracts (GIC) and intra-group funding on the liabilities side.

The Group has undertaken the restructuring of these entities, in particular with the disposal of the GIC portfolio to an institutional investor in the United States. The effort to obtain the consents of all third parties necessary to transfer this portfolio was initiated in the second half of 2021 and is expected to continue in the first half of 2022.

Continuing asset sales at a sustained pace

After the start of 2020 was severely disrupted by the Covid-19 pandemic, the almost generalised return to normal market conditions from September 2020 onwards allowed the Dexia Group to pursue the asset disposal programme validated by the Board of Directors in July 2019, at a sustained pace. These favourable market conditions continued in 2021, in particular thanks to the intervention of central banks and the European budgetary support programmes.

Indeed, at the end of December 2021, asset portfolios were EUR 6.2 billion lower than at the end of December 2020, thanks to EUR 2.3 billion of natural amortisation and EUR 3.8 billion of disposals and early redemptions, of which EUR 2.4 billion of loans and EUR 1.4 billion of bonds and.

During the year, 57% of the assets sold or prepaid were denominated in non-euro currencies (pound sterling, US dollar and Canadian dollar), which allowed the Group to reduce its funding risk further, notably in its non-core currencies. The assets sold have an average life of approximately eight years.

Disposals and repayments were mainly concentrated on project and corporate finance (EUR 1 billion) and public sector assets (EUR 1.6 billion), in particular loans to French local authorities (378 loans sold or repaid for an outstanding amount of EUR 0.9 billion) and loans to players in the social housing sector in the United Kingdom (EUR 0.6 billion).

Furthermore, Dexia reduced its concentration risk by selling outstanding loans to the Republic of Italy (EUR 0.4 billion) and to the State of Illinois (EUR 0.3 billion).

In 2021, some 50 “complex” operations were subject to early repayment (revolving credits) or restructuring (credits indexed on structured indices), thus contributing to the further simplification of the commercial portfolio.

Since the implementation of the new asset disposal programme in July 2019, the Dexia Group has achieved 95% of the portfolio volume reduction target set for the end of 2022

Given the strong geopolitical uncertainties in the financial markets, the Board of Directors, meeting in December 2021, decided to extend the window for execution of this programme to the end of 2023.

The severe volatility linked to the conflict in Ukraine is slowing the pace of asset sales. The Group has no direct exposure to Ukraine or Russia. It does however have an indirect exposure to the Croatian subsidiary of a Russian bank, via a deposit of an insignificant amount. Moreover, Dexia has no exposure to the Russian rouble (RUB) or the Ukrainian hryvnia (UAH).

Proactive off-balance sheet management

In 2021, the Group also continued to implement the programme to reduce its derivatives portfolio initiated in 2019, in order to simplify its operational management and to reduce its nominal amount by carrying out compression exercises. In addition, about thirty interest rate swap contracts executed with clients were unwound early, further simplifying commercial outstanding.

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

For several years, Dexia has been pursuing an active ALM risk management policy, aimed in particular at reducing the sensitivity of its balance sheet and its profitability trajectory to certain market parameters. This programme continued in 2021 with good momentum, under the guidance of the Asset and Liability Management Committee (ALCO), and enabled the sensitivity of the net interest margin to the most sensitive market parameters to be reduced materially, and thus the amplitude of potential stress on the Group's solvency.

B. Extension of the state funding guarantee and changes in governance

Extension of the funding guarantee of Dexia by the Belgian and French States

Following the approval[2] by the European Commission of the extension of the Dexia funding guarantee for a further period of ten years as from 1 January 2022, the French and Belgian States adopted the legal texts relating to this extension on 29 December 2020 and 27 June 2021 respectively[3&4].

To recall, the extended funding guarantee (2022 guarantee) retains most of its current features and therefore remains joint, unconditional, irrevocable and on first demand. However, the following changes have been made to the guarantee scheme:

- The new guarantee ceiling is EUR 75 billion, of which EUR 72 billion to cover the Group's debt issues and EUR 3 billion for intraday interbank overdrafts in euros and foreign currencies.
- The Luxembourg State no longer participates in the guarantee mechanism. Its 3% quota is divided between the Belgian and French States in proportion to their current respective shares of 51.41% and 45.59%, i.e. 53% for Belgium and 47% for France.

The remuneration of the 2022 guarantee remains 5 basis points per annum on the guaranteed outstandings, payable monthly. This commission would be increased by a conditional deferred commission, payable at the time of the liquidation of the Group and insofar as Dexia Crédit Local no longer has a banking licence. The pricing of this commission would be progressive as from 2022 and would reach an annual rate of 135 basis points in 2027 on the outstanding amounts issued under the extended guarantee scheme. The method of accounting for this commission is described in Appendix 2 of this Press Release.

This guarantee remuneration structure allows the full implementation of the burden-sharing principle which underlies Dexia’s orderly resolution and which requires that any improvement of Dexia’s financial situation will ony benefit the States which are shareholders and guarantors.

The extended guarantee came into force on 1 January 2022. The 2013 guarantee, although expiring on 31 December 2021, continues to produce its effects for all guaranteed bonds issued by Dexia Crédit Local until 31 December 2021 and this for a maximum maturity period of ten years since their issue date. As at 31 December 2021, Dexia's outstanding guaranteed debt amounted to EUR 48 billion.

Evolution of the Group’s governance

On 29 April 2021, the Board of Directors of Dexia co-opted Marie-Anne Barbat-Layani as a non-executive director of Dexia, replacing Bertrand Dumont. Her definitive appointment was approved by the Ordinary Shareholders' Meeting of Dexia on 19 May 2021.

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[2] *https://ec.europa.eu/commission/presscorner/detail/en/mex_19_5875*
[3] *Cf. Dexia Press Release dated 28 May 2021, available at www.dexia.com.*
[4] *Law 2020-1721 of 29 December 2020 on finance for 2021, published in the Official Journal on 30 December 2020 and Law of 27 June 2021 relating to various financial provisions, published in the Belgian Official Gazette on 9 July 2021.*

On 25 November 2021, Dexia's Board of Directors appointed Pascal Gilliard to succeed Guy Cools as member of the Management Board and head of Dexia's Assets activity line as of 1 December 2021.

A Belgian national, Pascal Gilliard has solid experience, acquired in particular at BNP Paribas Fortis where he was Head of Capital Markets for the Europe, Middle East and Africa zone, Head of Risk at Turk Economy Bank and Managing Director of an activity based in Hong Kong.

As the governance of Dexia and Dexia Crédit Local is integrated, Marie-Anne Barbat-Layani is also a non-executive director of Dexia Crédit Local and Pascal Gilliard is also Executive Vice-President and Head of the Assets activity line of Dexia Crédit Local.

C. Other significant events

Reform of the reference indices (IBOR)

In order to reinforce the reliability and transparency of the short-term reference interest rate (IBOR), a reform has been initiated at a global level aiming at replacing these indices by new risk-free reference rates such as ESTR (EUR), SOFR (USD) and SONIA (GBP).

Dexia is exposed to the IBOR indices, mainly in EUR, USD and GBP, through financial instruments which are likely to be modified within the framework of this reform through the replacement of the reference interest rate. Where appropriate, the robustness of the contracts concerned is reinforced by the insertion of replacement clauses (fall-back clauses), setting out the terms and conditions of replacement in the event of the cessation of a reference interest rate.

The Group established a steering committee to monitor the market and the various developments relating to this reform in order to anticipate the consequences of the transition to the new reference rates and to manage the stock of existing contracts. Dexia also carried out legal analyses of the contracts concerned by the reform, analyses of the financial impact of the replacements and the necessary modifications from an operational point of view.

During the year 2021, Dexia principally focused its work on the transition of its contracts indexed on GBP LIBOR, JPY LIBOR, CHF LIBOR and EONIA in view of the cessation of these indices respectively on 1 and 3 January 2022. In particular:

- In June 2021, the Group adhered to the ISDA Protocol, which led to an automatic amendment, from the beginning of 2022, of the master agreements with the bilateral counterparties which had also adhered to the Protocol. In addition, for certain derivative contracts, the Group renegotiated, in advance from 2021, the addition of new replacement clauses directly with the counterparties. For derivatives contracts processed with clearing houses, the replacement of the index for the variable leg of instruments indexed on EONIA and GBP LIBOR took place on 15 October 2021 and 17 December 2021 respectively.
- The Group transitioned its EUR cash collateral arrangements related to derivatives and repo contracts with OTC counterparties to ESTR.
- It completed the process of updating or implementing appropriate replacement arrangements for the great majority of its securities, loans and credit lines and funding contracts affected by the transition phase.

As at 31 December 2021, Dexia had completed almost all the transition of contracts on indices terminating at the end of 2021. The balance relates to contracts for which the terms of transition to the new reference rates were fixed in 2021 and for which the migration will take place during 2022.

During 2022, Dexia will also continue its work with the elaboration of the transition strategy for its instruments indexed on the USD LIBOR, taking into account for the termination of the index which is set for June 2023.

As at 31 December 2021, in application of the amendments to IFRS 9 and IAS 39 on the reform of reference interest rates[5], the transition of Dexia's fair value hedge derivatives contracts indexed on GBP LIBOR generated a total impact of EUR +117 million on Dexia's consolidated statement of income. This impact is generated by the revaluation, based on the SONIA curve, of the fair value of the hedged risk following its redefinition, and corresponds to the reversal of the stock of GBP LIBOR/SONIA accounting inefficiency at the time of transition. By aligning the fair value hedges to the new benchmark, which is the risk-free rate, the volatility arising from the GBP/SONIA LIBOR rate risk has been removed, along with the associated hedge rate accounting ineffectiveness.

By applying the same accounting treatment, Dexia expects that the transition of fair value hedge derivatives contracts indexed on GBP, JPY and CHF LIBOR via the activation of replacement clauses within the framework of the ISDA protocol will generate a positive impact on income in the order of EUR 320 million, which will be recorded in Dexia's consolidated financial statements in 2022.

The impact of the transition of instruments indexed on USD LIBOR on Dexia's consolidated financial statements cannot be estimated at this stage.

2. Annual results 2021

- *Recurring items (EUR -133 million), including a positive cost of risk (EUR +117 million), mainly linked to the review of the macroeconomic scenario determining expected credit losses*
- *Over the year, slightly positive impact of accounting volatility items (EUR +3 million)*
- *Non-recurring items (EUR -203 million) impacted by the Group's deleveraging and transformation strategy*

A – *Presentation of the Dexia consolidated financial statements as at 31 December 2021*

Going concern

The Dexia consolidated financial statements as at 31 December 2021 have been prepared in accordance with the going concern basis of accounting in accordance with IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the resolution of the Dexia Group, developed in Appendix 1 to this Press Release.

B – Dexia Group consolidated annual statements

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

[5] *Phase 2 as from 1 January 2021.*

The net income Group share of EUR -334 million as at 31 December 2021 is composed of the following elements:

- EUR -133 million attributable to recurring elements[6],
- EUR +3 million linked to accounting volatility elements[7],
- EUR -203 million generated by non-recurring elements[8].

Analytical presentation of the results of the Dexia Group					
	2020	2021			
in EUR million	Total	Total	Recurring elements	Accounting volatility elements	Non-recurring elements
Net banking income	*-216*	*-126*	*27*	*3*	*-156*
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-334*	*-298*	*-279*	*0*	*-18*
Gross operating income	**-550**	**-424**	**-252**	**3**	**-174**
Cost of credit risk	*-169*	*117*	*117*	*0*	*0*
Net gains or losses on other assets	*101*	*0*	*0*	*0*	*0*
Net result before tax	***-618***	***-307***	***-136***	***3***	***-174***
Income tax	*-1*	*-52*	*2*	*0*	*-54*
Result from discontinued operations, net of tax	*0*	*25*	*0*	*0*	*25*
Net income	***-619***	**-334**	***-133***	**3**	**-203**
Minority interests	*-1*	*0*	*0*	*0*	*0*
Net income, Group share	***-618***	***-334***	***-133***	***3***	***-203***

[6] Recurring elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.
[7] Accounting volatility items associated with asset and liability fair value adjustments in particular including the impacts of the IFRS 13 accounting standard (CVA, DVA, FVA), the valuation of OTC derivatives, the various impacts relating to financial instruments booked at fair value through profit and loss (in particular non-SPPI assets) and the variation of value of derivatives hedging the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds).
[8] Non-recurring elements, in particular gains and losses on the disposal of holdings and instruments booked at amortised cost or at fair value through equity, costs and gains associated with litigation, cost and indemnities induced by the exit of projects or contracts, restructuring costs or exceptional operational taxes..

Recurring elements

Recurring elements		
in EUR million	***2020***	***2021***
Net banking income	***1***	***27***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	***-307***	***-279***
o/w Expenses excl. operational taxes	*-243*	*-225*
o/w Operational taxes	*-64*	*-54*
Gross operating income	***-306***	***-252***
Cost of credit risk	*-169*	*117*
Net result before tax	***-475***	***-136***
Income tax	*-1*	*2*
Net income	***-476***	***-133***
Minority interests	*-1*	*0*
Net income, Group share	***-475***	***-133***

The net income Group share from recurring items was EUR -133 million as at 31 December 2021, compared to EUR -475 million at the end of December 2020.

The net banking income mainly reflects the net interest margin, which corresponds to the cost of carrying assets as well as the Group's transformation result. The net interest margin increased by EUR 25 million compared to 31 December 2020, to EUR +37 million as at 31 December 2021, mainly due to the decrease of the cash collateral cost over the year.

At EUR -279 million, costs are down by EUR -28 million compared to 31 December 2020. This mainly reflects efforts to control general operating expenses (EUR -17 million), as well as lower taxes and regulatory contributions (EUR -10 million), linked in particular to the reduction of contributions to the Single Resolution Fund and lower supervision costs.

The principal change in the recurring result compared to 31 December 2020 is the cost of risk. In 2020, the Covid-19 crisis had indeed materialised through an increase in expected losses, with the cost of risk amounting to EUR -169 million as at 31 December 2020 against EUR +117 million as at 31 December 2021. The cost of risk for the year is principally composed of:

- a reversal of collective provisions for a net amount of EUR +156 million, resulting from the update of macroeconomic scenarios used for the assessment of expected credit losses under IFRS 9, the move of the exposure on the Central Bank of Tunisia from Stage 2 to Stage 3 following the classification of the counterparty as “unlikely-to-pay”, as well as the update of the calculation parameters and the evolution of the portfolio (rating changes, disposals, natural amortisation),

- an increase in specific provisions of EUR -30 million. The impact of the additional provisioning on Tunisia following the move of the exposure to Stage 3 was partially offset by reversals, in particular related to the total or partial early repayment of certain exposures.

Taxes amounted to EUR +2 million.

Accounting volatility elements

Driven by the positive contribution related to the reform of the benchmarks (IBOR), the accounting volatility elements generated a slightly positive impact of EUR +3 million at the end of December 2021 against EUR -31 million at the end of December 2020. The main components of the result for the year are:

- an unfavourable impact (EUR -151 million) on fair value hedging inefficiencies, linked to the evolution of market parameters, in particular the tightening of spreads on Currency Basis Swaps and on BOR-OIS, partially offset by the increase of interest rates in EUR and GBP,
- EUR +117 million income related to the transition of fair value hedging derivative contracts indexed on GBP LIBOR within the context of the benchmark reform (cf. Significant events and transactions section of this Press Release),
- a positive variation in the value of assets classified at fair value through profit or loss (EUR +19 million),
- a neutral effect of the Funding Value Adjustment (FVA), the Credit Value Adjustment (CVA) and the Debt Valuation Adjustment (DVA).

Non-recurring elements

Non-recurring elements		
in EUR million	***2020***	***2021***
Net banking income	***-186***	***-156***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	***-27***	***-18***
o/w Expenses excl. operational taxes	*-26*	*-17*
o/w Operational taxes	*-1*	*-1*
Gross operating income	***-213***	***-174***
Cost of credit risk	*0*	*0*
Net gains or losses on other assets	*101*	*0*
Net result before tax	***-112***	***-174***
Income tax	*0*	*-54*
Result of discontinued operations, net of tax	*0*	*25*
Net income	***-112***	***-203***
Minority interests	*0*	*0*
Net income, Group share	***-112***	***-203***

Non-recurring items amounted to EUR -203 million as at 31 December 2021 compared to EUR -112 million as at 31 December 2020 and include:

- losses related to asset disposals under the programme validated in 2019, for an amount of EUR -130 million, against EUR -72 million at the end of 2020,
- a net negative impact of litigation provisions of EUR -32 million,
- an impact of EUR -18 million, mainly related to restructuring and transformation costs, within the context of the Group's resolution,
- EUR +25 million from the settlement of a dispute involving a former subsidiary of the Group, recorded in the result of discontinued operations,
- a deferred tax charge of EUR -54 million, related to the transfer of Dexia Crediop shares to Dexia Crédit Local Dublin (cf. Significant events and transactions section of this Press Release).

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

A – Balance sheet and solvency

- *Balance sheet down by 14% compared to the end of 2020, to EUR 98.7 billion as at 31 December 2021, due to higher interest rates and the dynamics of asset disposals*
- *Robust Total Capital Ratio at 31.6% as at 31 December 2021, compared to 28.5% as at 31 December 2020*

a – Annual balance sheet evolution

As at 31 December 2021, the Group's consolidated balance sheet total amounted to EUR 98.7 billion, compared to EUR 114.4 billion as at 31 December 2020, i.e. a decrease of EUR 15.8 billion, driven by the rise in interest rates and the dynamic reduction of the portfolios.

The asset portfolio now stands at EUR 35.6 billion, composed of EUR 20 billion in bonds and EUR 15.6 billion in loans, mainly denominated in euros. It includes Italian sovereign and European public sector exposures (France, Italy, Spain, Portugal) as well as residual UK, US and Japanese asset portfolios.

On the assets side and at constant exchange rates, the decrease of the balance sheet is explained by the improvement of fair value items and posted cash collateral (EUR -12 billion) and by the reduction of the asset portfolio (EUR -6.2 billion).

On the liabilities side and at constant exchange rate, the evolution of the balance sheet is mainly due to the reduction of the stock of market funding (EUR -8.8 billion) and to the decrease of fair value items and cash collateral received (EUR -8.7 billion).

Over the year, the impact of exchange rate variations on the evolution of the balance sheet was significant and amounted to EUR +2.3 billion, taking into account the depreciation of the euro, notably against the pound sterling and the US dollar.

b - Solvency

As at 31 December 2021, the total capital of the Dexia Group amounted to EUR 6.5 billion, against EUR 6.9 billion as at 31 December 2020. This decrease is mainly due to the negative net result of the year (EUR -334 million).

As at 31 December 2021, two significant items are deducted from regulatory capital, in line with European Central Bank (ECB) requirements:

- the theoretical loss amount corresponding to the remediation of non-compliance with the large exposures ratio which amounts to EUR -51 million[9],
- the amount of irrevocable payment undertakings (IPC) to resolution funds and other guarantee funds, which amounts to EUR -68 million.

Furthermore, following the on-site inspection on credit risk carried out in 2018, the ECB issued a number of recommendations. As a consequence, Dexia deducted from its prudential equity an amount of EUR -35 million as a supplement for specific provisions.

The additional value adjustments taken into account in the regulatory capital within the framework of the Prudent Valuation Adjustment (PVA) amount to EUR -173 million as at 31 December 2021, against EUR -190 million as at 31 December 2020. It should be noted that the increase of the diversification factor authorised by the CRR Quick Fix validated by the European Parliament in June 2020, which had generated a positive impact of EUR +59 million as at 31 December 2020, was not renewed in 2021.

The impact of the 50% mitigation of the effect of the increase in the level of expected credit loss provisions due to the application of IFRS 9 (static phase-in) amounted to +88 million as at 31 December 2021.

Finally, against the background of the Covid-19 crisis, Dexia made use, in 2020 and 2021, of the temporary adjustment to the CRR allowing the reintegration in regulatory capital of any new expected credit losses booked under IFRS 9 (dynamic phase-in). Taking into account the improvement of the situation at the end of 2021, Dexia has not recorded any amount for the dynamic phase-in as at 31 December 2021. The impact was EUR +152 million as at 31 December 2021.

As at 31 December 2021, risk-weighted assets amounted to EUR 20.6 billion against EUR 24.2 billion at the end of December 2020, of which EUR 18.6 billion for credit risk, EUR 985 million for market risk and EUR 1 billion for operational risk. The EUR 3.6 billion decrease in credit risk-weighted assets during the year is mainly attributable to the sustained pace of reduction of the asset portfolio.

Taking these elements into account, Dexia's Total Capital Ratio amounted to 31.6% as at 31 December 2021, against 28.5% at the end of 2020, a level higher than the minimum of 11.25% required for the year 2021 by the Supervisory Review and Evaluation Process (SREP).

As at 31 December 2021, Dexia Crédit Local's Total Capital Ratio was also above the minimum requirements at 27.6%, compared to 24.7% as at 31 December 2020.

On 29 October 2021, the ACPR informed Dexia that the total capital requirement of 11.25% on a consolidated basis was maintained in 2022. This level includes a minimum capital requirement of 8% (Pillar 1) and an additional capital level of 3.25% (P2R - Pillar 2 requirement) to be covered at least by 56.25% by Common Equity Tier 1 and 75% by Tier 1 capital.

The temporary easing measures taken by the ECB in April 2020, involving the relaxation of the capital conservation buffer and additional capital (P2G - Pillar 2 guidance), remain applicable in 2022. The High Council for Financial Stability has also decided to maintain the level of countercyclical buffer at 0% in 2022. The Bank of England has announced an increase in the countercyclical buffer to 1% from 13 December 2022.

Including the impact of the countercyclical buffer on UK exposures, estimated at 0.5%, Dexia's capital requirement will amount to 11.25% in the first three quarters of 2022 and 11.75% in the fourth quarter of 2022.

On 5 February 2021, the ACPR also confirmed to Dexia the maintenance, until 30 June 2022, of a tolerance which allows it to deduct from its Common Equity Tier 1 regulatory capital the economic impact of remedying a breach of the large exposure ratio for a sovereign exposure.

[9] *Cf. Dexia Press Releases dated 5 February and 26 July 2018, available at www.dexia.com.*

As Dexia has a significant level of concentration of certain exposures, which could be further accentuated with the decrease of the portfolio, the Group has taken measures to protect its large exposures, in particular via insurers.

B – Evolution of the Dexia Group liquidity situation

- *Confirmed resilience of the funding model: annual long-term refinancing programme completed by July 2021*
- *Outstanding funding down, as a result of the reduction of the asset portfolio and of cash collateral*
- *High LCR level, in line with the strategy validated in 2017*
- *Liquidity reserve of EUR 13 billion at the end of 2021, calibrated for the end of the access to the European Central Bank facilities on 31 December 2021*

After a year 2020 strongly impacted by the Covid-19 pandemic, the stabilisation of the markets continued in 2021, thanks in particular to the support of central banks. In these favourable conditions, Dexia Crédit Local maintained a sustained execution dynamic of its annual long-term funding programme, completed in July 2021. Five public transactions were launched in euros, pounds sterling and US dollars, for a total amount of EUR 5 billion. All attracted strong investor interest.

The strategies of diversifying funding sources, in terms both of instruments and of currencies, and of maintaining a comfortable liquidity cushion, proved to be relevant. In addition, they allowed the Group flexibility in the execution of its refinancing programme and increased its resilience to stressed market conditions.

Overall, the outstanding amount of funding was down by EUR 7.7 billion compared to 31 December 2020, to EUR 61.6 billion as at 31 December 2021. This evolution is due to the reduction of the asset portfolio and cash collateral (EUR -3.9 billion), of which the net amount was EUR +19 billion as at 31 December 2021, following the rise in interest rates.

In terms of funding mix, secured funding amounted to EUR 11.7 billion as at 31 December 2021 and State-guaranteed funding represented 78% of outstanding funding, i.e. EUR 48 billion. The Group's liquidity reserve amounted to EUR 13.1 billion, of which EUR 11.1 billion in cash. The Group has no longer had access to European Central Bank refinancing since 1 January 2022 and this has mechanically reduced the proportion of reserves which can be mobilised in the event of stress. The eligible securities were partly used to raise secured funding and partly deposited on the EUREX and RepoClear platforms to reconstitute liquidity reserves.

At the same date, the Group's Liquidity Coverage Ratio (LCR) stood at 176% compared with 222% at 31 December 2020. This decrease is the result of the Group's efforts to optimise the liquidity reserve. The LCR ratio is also respected at the level of the subsidiaries, each exceeding the minimum requirement of 100%. The group's Net Stable Funding Ratio (NSFR) stands at 163%, compared to 136% at 31 December 2020.

At the beginning of 2022, Dexia is closely monitoring the geopolitical situation in Eastern Europe and its impact on the financial markets. At this stage, Dexia has not observed any deterioration on the short-term guaranteed debt market or on the secured funding market. Moreover, the Group has a liquidity reserve calibrated to enable it to cope with stressed market conditions.

Appendices

Appendix 1 – Going concern

The Dexia consolidated financial statements as at 31 December 2021 have been prepared in accordance with the going concern accounting rules under IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the Group's resolution which was the subject of a decision by the European Commission in December 2012 and reassessed on the basis of the elements available at the date of closing the accounts.

The main assumptions used by management to prepare the consolidated financial statements for the year ended 31 December 2021 and the areas of uncertainty, reinforced in particular by the situation related to the Covid-19 pandemic, are summarised below:

- The business plan assumes the maintenance of the banking licence of Dexia Crédit Local as well as the maintenance of the rating of Dexia Crédit Local at a level equivalent or higher than Investment Grade.
- The continuation of the resolution assumes that Dexia maintains a good funding capacity which relies in particular on the appetite of investors for the debt guaranteed by the Belgian and French States as well as on the Group's ability to raise secured funding. Since 1 January 2022, Dexia Crédit Local's issues have benefited from the 2022 guarantee, which extends the 2013 guarantee, which expired on 31 December 2021 (cf. Significant events and transactions section of this Press Release).
- Although it manages these risks very proactively, the Dexia Group remains extremely sensitive to the evolution of the macroeconomic environment and to market parameters such as exchange rates, interest rates or credit spreads. An unfavourable evolution of these parameters in the long term could weigh on the Group's liquidity and solvency level. It could also have an impact on the valuation of assets, financial liabilities or OTC derivatives, the changes in the fair value of which are recognised in the income statement or through equity and are likely to result in a change in the Group's regulatory capital level.
- Until their effective disposal, Dexia remains exposed to the evolution of the fair value of the assets targeted for sale within the context of the deleveraging programme validated by the Board of Directors in 2019[10]. Nevertheless, the successful execution of this plan has significantly reduced this source of sensitivity, which at 31 December 2021 amounted to EUR 2.2 million per basis point for all assets measured at fair value, of which EUR 1.5 billion per basis point for the assets targeted for sale in the context of the deleveraging programme.
- The Group is also exposed to certain operational risks, specific to the resolution environment in which it operates and which have been reinforced by the teleworking context imposed by the Covid-19 pandemic.
- Finally, residual uncertainties related, for example, to new developments in accounting and prudential rules over the duration of the Group's resolution could lead to a significant change in the initially anticipated resolution trajectory.

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

- Since the Group entered into orderly resolution, Dexia has continuously reduced its funding requirement and extended the maturity of the funding raised, with a view to prudent liquidity management. The acceleration of asset sales decided in the summer of 2019 has in particular allowed a significant reduction in the Group's funding requirement, particularly in US dollars. In particular, in

[10] *Impact on debt reduction in 2022 of the plan validated by the Board of Directors on 19 July 2019.*

2021, the funding requirement was reduced by EUR 7.7 billion to EUR 61.6 billion as at 31 December 2021. Furthermore, during 2021, the Group maintained a sustained execution of its funding programme, enabling it to complete its annual long-term refinancing programme in July. Five long-term public transactions were launched by Dexia Crédit Local in euros, pounds sterling and US dollars, for a total amount of EUR 5 billion. Indeed, Dexia was able to maintain a liquidity reserve deemed adequate with the restriction of access to European Central Bank (ECB) funding effective since 1 January 2022[11]. This liquidity reserve amounted to EUR 13.1 billion, of which EUR 11.1 billion in cash as at 31 December 2021.

- Within the framework of half-yearly reviews, an update of the Group's financial projections was presented to Dexia's Board of Directors on 16 December 2021. It includes a "central" macroeconomic scenario, based on the ECB reference scenario published in June 2021, supplemented by the scenarios published by the national central banks when available. This central scenario takes into account a strong economic recovery after the 2020 shock. However, Dexia considered this scenario to be too favourable as the effect of the 2020 shock on defaults is delayed in time. Therefore, a cautious approach was adopted, taking into account the macroeconomic evolution since the beginning of the crisis and not only from the end of 2020. For example, the GDP growth for the euro area used for 2021 in the point-in-time parameters (-2.5%) is the aggregate of the GDP evolution observed in 2020 (-6.8%) and the GDP projection for 2021 in the ECB scenario (+4.6%).
- Management has also taken into account the constraints and uncertainties of its operating model as well as the risks related to the continuity of operations, inherent to Dexia's specific character as a bank in resolution.

Consequently, after having taken all these elements and uncertainties into account, Dexia's management confirms that as at 31 December 2021, they do not call into question the fundamentals of the orderly resolution of the Group or the assessment of the application of the going concern assumption. Therefore, the consolidated financial statements can be prepared in accordance with the going concern basis under IAS 1 § 25 and 26.

Appendix 2 – Remuneration of the extended funding guarantee as at 1 January 2022

The remuneration of the guarantor States pursuant to the 2022 guarantee comprises a basic remuneration and a conditional deferred commission. This particular remuneration structure allows the full implementation of the burden-sharing principle which underlies the orderly resolution of Dexia and which imposes a requirement that any improvement in the financial situation of Dexia benefits only the States as shareholders and guarantors.

The basic remuneration is 5 basis points per annum on the guaranteed amounts outstanding, payable monthly. This commission would also be increased by a conditional deferred commission, payable in the event that two conditions materialise. These two conditions are cumulative and are set out in the Decision of the European Commission of 27 September 2019, i.e. (i) Dexia Crédit Local and Dexia may become liable to the holders of hybrid Tier 1 securities bearing the ISIN code FR0010251421 and XS0273230572 respectively, which means in practice that Dexia Crédit Local or Dexia may be put into liquidation, and (ii) Dexia Crédit Local no longer has the authorisation as a credit institution provided for in Article L. 511-10 of the Monetary and Financial Code.

The pricing of this commission will be progressive as from 2022 and will reach an annual rate of 135 basis points in 2027 on outstanding amounts issued under the extended guarantee framework. This commission applies to the outstanding guaranteed debt issued by Dexia Crédit Local and is guaranteed by Dexia SA.

[11] *On 21 July 2017 the ECB announced the end of access to the Euro-system for liquidation structures as from 31 December 2021.*

The accounting treatments of these payments to the guarantor States have been the subject of detailed analyses by Dexia.

From an accounting point of view, the treatment is different in the consolidated accounts under IFRS of Dexia and Dexia Crédit Local as well as in the social accounts under French GAAP of Dexia Crédit Local. There is no impact in the Belgian GAAP financial statements of Dexia, as the commission applies to the outstanding guaranteed debt issued by Dexia Crédit Local.

In 2022, the amount recorded in the accounts for the conditional deferred commission will be insignificant, in the order of EUR 5 million. For the coming years, the amount will depend on the amount to be funded, which is influenced by various factors, in particular the evolution of interest rates.

Appendix 3 – Consolidated income statement (data not audited)

Consolidated income statement - ANC format		
in EUR million	***2020***	***2021***
Net banking income	***-216***	***-126***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-334*	-298
Gross operating income	***-550***	***-424***
Cost of credit risk	*-169*	117
Net gains or losses on other assets	*101*	0
Net result before tax	***-618***	***-307***
Income tax	*-1*	-52
Result from discontinued operations, net of tax*	*0*	25
Net income	***-619***	***-334***
Minority interests	*-1*	0
Net income, Group share	***-618***	***-334***

Appendix 4 – Simplified balance sheet (date not audited)

Balance sheet key figures		
in EUR million	31-12-2020	31-12-2021
Total assets	**114 427**	**98.650**
of which		
Cash and central banks	9 866	9.753
Financial assets at fair value through profit or loss	12 950	9.280
Hedging derivatives	1 263	662
Financial assets at fair value through other comprehensive income	3 369	1.902
Financial assets at amortised cost - Debt securities	37 332	34.767
Financial assets at amortised cost - Interbank loans and advances	21 507	17.308
Financial assets at amortised cost - Customer loans and advances	27 532	24.506
Total liabilities	**107 740**	**92.083**
of which		
Financial liabilities at fair value through profit or loss	12 525	10.116
Hedging derivatives	20 548	16.714
Interbank borrowings and deposits	9 831	6.451
Customer borrowings and deposits	6 824	8.819
Debt securities	57 360	49.406
Total equity	**6 687**	**6.567**
of which		
Equity, Group share	6 631	6.511

Appendix 5 – Capital dequacy (data not audited)

in EUR million	31-12-20	31-12-21
Common Equity Tier 1	6 795	6.410
Total Capital	6 891	6.506
Risk-weighted assets	24 196	20.580
Common Equity Tier 1 ratio	28,1%	31,1%
Total Capital ratio	28,5%	31,6%

Appendix 6 – Credit risk exposure (data not audited)

As from 1 January 2021, Dexia has changed the EAD used for external communication purposes to be consistent with the EAD used in COREP reporting. To this end, Dexia now publishes an EAD net of provisions as defined by IFRS 9. The total impact of this change on the EAD amount as at 31 December 2020 is very limited, at EUR 26 million. In order to allow comparison between different periods, a column has been added to the exposure tables published in this Press Release.

Exposure by geographic region			
	31-12-20		31-12-21
in EUR million	EAD IFRS	EAD COREP	EAD COREP
France	20.962	21.041	19.594
United Kingdom	20.648	20.549	18.116
Italy	18.643	18.485	16.335
Spain	4.646	4.602	3.890
United States	4.628	4.626	3.697
Portugal	3.673	3.666	3.381
Japan	3.083	3.073	2.873
Other European countries	2.551	2.538	2.396
Germany	657	645	743
Central and Eastern Europe	857	858	643
Canada	601	592	378
Scandinavian countries	92	92	63
South and Central America	37	37	43
Switzerland	95	95	31
Southeast Asia	6	6	5
Other [(1)]	1.679	1.979	1.628
Total	**82.858**	**82.884**	**73.816**

(1) including supranationals, Austria.

As at 31 December 2021, Dexia had no direct exposure to Ukraine or Russia. The Group has an indirect exposure via the Croatian subsidiary of a Russian bank, the amount of which is not significant.

Exposure by category of counterparty			
	31-12-20		31-12-21
in EUR million	EAD IFRS	EAD COREP	EAD COREP
Local public sector	33.251	33.165	28.128
Central governments	28.595	28.421	26.458
Project finance	6.581	6.321	5.921
Corporate	5.585	5.567	5.827
Financial institutions	6.218	6.184	4.491
Monolines	1.317	1.317	1.254
ABS/MBS	1.311	1.240	1.182
Individuals, SME and self-employed	0	669	555
Total	**82.858**	**82.884**	**73.816**

Exposure by rating (internal rating system)			
	31-12-20		31-12-21
	EAD IFRS	EAD COREP	EAD COREP
AAA	19,82%	20,0%	21,2%
AA	6,18%	6,2%	4,9%
A	24,19%	24,1%	19,7%
BBB	41,87%	41,5%	45,6%
Non Investment Grade	7,27%	7,1%	7,2%
D	0,62%	0,5%	0,6%
Not Rated	0,05%	0,7%	0,6%
Total	**100%**	**100%**	**100%**

Appendix 7 – Sector exposure of the Group (EAD on end counterparties – data not audited)

Group sector exposure to certain countries								
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*	*o/w other (incl individuals, SME and self-employed)*
France	19.594	4.118	1.969	1.488	0	11.475	363	181
United Kingdom	18.116	8.989	6.563	542	1.158	0	863	0
Italy	16.335	7.439	62	126	0	8.693	0	15
Spain	3.890	2.683	644	182	22	360	0	0
United States	3.697	1.326	1.144	922	2	274	28	2
Portugal	3.381	520	33	0	0	2.827	0	0
Japan	2.873	2.630	0	244	0	0	0	0

Group sectorial exposure per rating								
in EUR million	**Total**	*AAA*	*AA*	*A*	*BBB*	*NIG°*	*D*	*no rating*
Local public sector	28.128	1.612	2.308	7.489	12.169	4.349	157	44
Central governments	26.458	13.918	0	960	11.530	0	51	0
Project finance	5.921	0	0	695	4.084	893	248	0
Corporate	5.827	0	0	726	5.049	37	2	14
Financial institutions	4.491	0	189	3.458	810	25	0	10
Monolines	1.254	0	0	1.226	28	0	0	0
ABS/MBS	1.182	0	1.152	2	0	28	0	0
Individuals, SME and self-employed	555	156	0	0	11	0	0	387
Total	73.816	15.686	3.649	14.557	33.681	5.331	458	455

Appendix 8 – Asset quality (data not audited)

Asset quality			
in EUR million		**31-12-20**	**31-12-21**
Impaired assets(1)		556	577
Specific impairments(2)		134	164
Of which	*Stage 3*	*125*	*157*
	POCI	*9*	*6*
Coverage ratio(3)		24,1%	28,5%
Collective provisions		320	164
Of which	*Stage 1*	*21*	*9*
	Stage 2	*299*	*155*

(1) Outstanding : computed according the applicable perimeter defined under IFRS 9 (FV through OCI + Amortised Cost + Off Balance)

(2) Impairments : according the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI

(3) Specific impairments-to-Impaired assets ratio

Appendix 9 – Ratings

Ratings as at 31 December 2021			
	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+

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