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The European Commission approves the prolongation of Dexia's senior debt State guarantee

Today¹ the European Commission confirmed its approval of the prolongation by Belgium and France of Dexia's senior debt State guarantee beyond 31 December 2021.

Validated by the European Commission in December 2012, the Dexia Group's ordered resolution process is based in particular on a funding guarantee granted jointly and not severally by the Belgian, French and Luxembourg governments. The maximum principal amount of this guarantee is EUR 85 billion. It covers funding raised from qualified, institutional or professional investors covered by the guarantee agreement before 31 December 2021 and having a maximum maturity date of ten years. As at 1 July 2019, Dexia's total outstanding guaranteed debt amounted to EUR 64 billion².

In order to anticipate the expiry of the current guarantee, the Belgian and French States gave notice, to the European Commission, of a plan to extend this guarantee for a further period of 10 years from 1 January 2022. This extension has today been approved.

The extended funding guarantee will retain most of its current features and will therefore remain joint, unconditional, irrevocable and on first demand. However, the following changes have been made to the scheme:

- The new guarantee ceiling will be EUR 75 billion;
- The Luxembourg State will no longer participate in the guarantee scheme. Its 3% share will be distributed between the Belgian and French States in proportion to their current shares of 51.41% and 45.59% respectively, resulting in a proportion of 53% for Belgium and 47% for France;
- The remuneration for the guarantee will remain at 5 basis points per annum on the guaranteed amounts outstanding, payable monthly. This fee may be increased by a conditional deferred fee, which will be payable on the Group's liquidation and provided that Dexia Crédit Local no longer holds a banking licence. The tariff structure for this fee will be progressive from 2022, and reach an annual rate of 135 basis points on outstanding in 2027.

The conditional deferred fee is subordinate to the rights of preferential unsecured or subordinated creditors at a "Tier 2" or higher level of Dexia Crédit Local. However, it takes precedence over hybrid "Tier 1" securities of Dexia Crédit Local (ISIN FR0010251421) and Dexia SA/NV (ISIN XS0273230572).

¹ https://ec.europa.eu/commission/presscorner/detail/en/mex_19_5875.

² Details of Dexia's outstanding debt are available on the National Bank of Belgium web site (<http://www.nbb.be/doc/dq/warandia/index.htm>)

Thus, as announced previously³, the deferred part of the fee which Dexia Crédit Local will have to pay to the Belgian and French States on its liquidation, as remuneration for the guarantee, will be at a level such that it should absorb the net liquidation proceeds of Dexia Crédit Local. Consequently, neither the holders of hybrid subordinated “Tier 1” debt of Dexia Crédit Local (ISIN FR0010251421) and Dexia SA (ISIN XS0273230572) nor the States, as holders of profit shares issued by Dexia SA, nor the shareholders of Dexia SA (States and other shareholders) should receive any proceeds following the liquidation of Dexia, such proceeds being paid to the Belgian and French States as conditional deferred commission. This guarantee remuneration structure makes it possible fully to implement the principle of burden sharing which underpins Dexia's orderly resolution and requires that any improvement in Dexia's financial situation only benefits the State shareholders and guarantors.

Furthermore, to the extent that Dexia anticipates negative net liquidation proceeds from Dexia Crédit Local after payment to the States of the deferred part of the guarantee fee, the carrying amount of Dexia Crédit Local's interest in the consolidated financial statements of Dexia SA, amounting to EUR 2.25 billion as at 31 December 2018, should be set at zero. This impact will be reflected in statutory financial statements of Dexia SA as at 31 December 2019.

Belgium and France will have to ratify Dexia's senior debt State guarantee in accordance with the procedures applicable in each State.

Dexia Crédit Local will continue to refinance itself under the guarantee scheme currently in force until 31 December 2021 and the debt already issued or to be issued before that date will be covered until its contractual maturity by the guarantee agreement of 24 January 2013.

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³ *Dexia Press Release dated 26 February 2019, available at www.dexia.com.*