Press release DEXIA

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Positive impact in the order of EUR 2.8 billion from the first application of the IFRS 9 accounting standard to Dexia's regulatory capital

The IFRS 9 "Financial Instruments" accounting standard came into force on 1 January 2018, replacing the standard IAS 39. Application of the new rules for the classification and valuation of financial assets under IFRS 9 has major consequences for the Dexia Group. In particular, the assets which were part of the portfolio established by Dexia before its entry into resolution were booked as "available for sale (AFS) " under IAS 39 and valued at fair value, resulting for the Group in the establishment of a highly negative AFS reserve, taken into account in calculating regulatory capital.

The IFRS 9 accounting standard provides for a classification and valuation of assets in relation to the entity's management intention and the nature of the assets concerned. Dexia consequently reclassified a significant proportion of its assets at "amortised cost" under IFRS 9 in line with its status as an entity managed in run-off. This reclassification results in the cancellation of latent gains and losses observed in equity (AFS reserve). Only assets identified as being capable of disposal in coming years have been classified in the category "fair value through equity".

The application of IFRS 9 has a positive total net impact of about EUR 2.8 billion on Group equity as at 1 January 2018. That impact is explained principally by:

- The reclassification of loans and securities:
  - Reclassification of assets available for sale to the category "amortised cost", involving a significant positive impact linked to the cancellation of latent gains and losses observed in equity under IAS 39. The amount of those latent reserves in Group share was EUR -3.5 billion as at 31 December 2017.
  - Reclassification of debt securities and structured loans, principally from "amortised cost" to the category "fair value through profit and loss": the impact of taking the fair valuation of these assets is negative.
  - Reclassification of debt securities and loans held for sale from "amortised cost" (IAS 39) to the category "fair value through equity" (IFRS 9): the expected impact is negative, as credit spreads have generally widened from inception.
- The implementation of a new credit risk provisioning model: Dexia only expects a limited impact from this new mode of provisioning, reflected by an increase of provisions in the order of EUR 200 million.

Dexia retained the possibility of retaining the provisions of the IAS39 standard regarding hedge accounting.

In December 2017, the European Parliament amended the CRR and offered credit institutions the possibility to make use of phase-in provisions, which enable the impact on equity resulting from implementation of the new IFRS 9 provisioning model on solvency ratios to be spread over five years. These are applied to the amount of additional provisions for credit risk as at 1 January 2018 ("static" phase-in). They are also applied to additional amounts of provisions associated with financial assets in bucket 1 and in bucket 2 according to the IFRS 9 approach, constituted during the five-year transition period ("dynamic" phase-in). Dexia informed the supervisory authorities that it would apply this phase-in.

Not taking the phase-in into account, the total impact of implementation of the IFRS 9 standard on Dexia's Total Capital Ratio as at 1 January 2018 is estimated at 500 basis points. To recall, Dexia and Dexia Crédit Local Total Capital ratio amounted to 20.4% and 17.0% respectively as at 31 December 2017, a level higher than the minimum of 12.125% (after taking account of the capital conservation buffer of 1.875%) imposed for the year 2018 by the European Central Bank within the framework of the Supervisory Review and Evaluation Process (SREP)[1].

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[1] *Cf. Press Release issued by Dexia on 5 February 2018, available at www.dexia.com*