Press release

DEXIA

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Decision of the European Central Bank specifying the prudential approach and the regulatory requirements applicable to Dexia as of 1 January 2017

On 12 and 15 December 2016, the European Central Bank (ECB) disclosed to Dexia its conclusions of the Supervisory Review and Evaluation Process (SREP). Within this framework, the ECB, among other things, informed Dexia of the regulatory requirements, both qualitative and quantitative, in terms of capital which will apply to Dexia SA and some of its subsidiaries as of 1 January 2017, in accordance with (EU) Regulation No. 1024/2013 of the Council of 15 October 2013.

The Total SREP capital requirement, applicable to Dexia SA in 2017, has been set at 8.625% on a consolidated basis. This level includes a minimum own funds requirement of 8.0% (Pillar 1) and an own funds requirement of 0.625% (P2R – Pillar 2 Requirements). Including the Capital Conservation Buffer, of 1.25% in 2017, this brings the capital requirement to 9.875%.

These requirements are also applicable to Dexia Crédit Local, on a consolidated basis.

As a reminder, as at 30 September 2016, the Common Equity Tier 1 (CET1) ratios of Dexia SA and Dexia Crédit Local amounted respectively to 17.2% and 14.3%. On the basis of the data as at 30 September 2016, the application of requirements in force on 1 January 2017 results in a Common Equity Tier 1 ratio of 12.5% for Dexia SA and 10.0% for Dexia Crédit Local.

In its conclusions, the ECB also informed Dexia that the tailored, pragmatic and proportionate supervisory approach, which had been applied within the framework of the SREP in 2016, would be renewed in 2017. The purpose of this approach was taking into account Dexia's specific and unique situation as a bank in resolution. It was based in particular on the public nature of the Group's shareholders as well as on the existence of the funding guarantee established by the Belgian, French and Luxembourg States in order to preserve financial stability. This approach, which for example allows proportionate use of the supervisory powers in view of the constraints of compliance with the liquidity ratios, assumes that Dexia's situation does not deteriorate significantly.

Finally, the ECB has also asked Dexia SA, with respect to the qualitative requirements, to submit a plan for reclassifying Class B1 preference shares to Class B3 ordinary shares, with effect from 1 January 2018. As a reminder, preference shares were issued as part of the recapitalisation of Dexia SA in December 2012 by the Belgian and French states for EUR 5.5 billion. They benefit from a regulatory status of category 1 core capital instruments (CET1) under a transitional regime which expires on 31 December 2017. At the end of this period, they will become Category 2 capital instruments (Tier 2), whereas the ordinary shares will become CET1 instruments.

In accordance with Dexia SA's articles of association, Class B3 shares do not carry preferential rights. Nevertheless, in the event of a liquidation of Dexia SA and under the assumption it is beneficiary, the liquidation supplement would be attributed in priority to the holders of Class B3 shares, up to an amount of EUR 500 million.

The provisions of Dexia SA's articles of association provide for the possibility of reclassifying current Class B1 preference shares as Class B2 preference shares or as Class B3 ordinary shares, up to the level required for Dexia SA to comply with the applicable regulatory capital requirements. Within the framework of this reclassification, Dexia will ensure to respect the capital requirement set by the ECB as well as the request for burden sharing imposed by the European Commission, which assumes that any possible improvement of the financial situation of Dexia SA will primarily and principally benefit the States, as guarantors and shareholders.

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