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Research Update:

Dexia Group Entities Placed On CreditWatch Negative On Announced De-Banking

July 7, 2023

Overview

- On July 4, 2023, Dexia group initiated a request to abandon its banking and investments service licenses and continue to carry out its run-off with the support of the French and Belgian states.
- In our view, nonbank financial institutions face incremental risk relative to banks because they operate outside a regulated framework.
- We therefore placed our ratings on Dexia Credit Local and Dexia Crediop SpA on CreditWatch with negative implications. The group's government-guaranteed debt is unaffected by the rating action.
- We aim to resolve the CreditWatch placement upon agreement by relevant authorities, resulting in a one-notch downgrade of the rated entities.

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Rating Action

On July 7, 2023, S&P Global Ratings placed its 'BBB/A-2' long- and short-term issuer credit and issue ratings on Dexia Credit Local, Dexia Crediop SpA, and the group's rated issuances (nongovernment-guaranteed debt) on CreditWatch with negative implications. The group's government-guaranteed debt is unaffected by the rating action.

Rationale

The CreditWatch placement follows the announcement that the group initiated a de-banking request. In our view, de-banking would result in a downward revision to Dexia group's anchor due to the typical incremental risks that nonbank financial institutions (NBFIs) face relative to banks. Although the usual anchor for French NBFIs is three notches below the bank anchor, we acknowledge the Dexia group has markedly different characteristics than most other NBFIs. In particular, while Dexia would fall out of the banking prudential regulatory requirements and no longer have access to a central bank, it would remain a government-related entity (GRE) in run-off, benefiting from state-guaranteed funding. It also would not face competition.

A new surveillance framework will determine the governance, qualitative, and quantitative requirements that Dexia would be subject to post de-banking. This framework would replace the current supervision performed by the National Bank of Belgium and Autorité de Contrôle Prudentiel et de Résolution and banking and investment services regulations the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRR/CRD) and Markets in Financial Instruments Directive (MIFID). The loss of the banking license and the new structure would reinforce the importance of Dexia to its shareholders, since both states will now become the ultimate and sole supervising entities to ensure effective governance and a controlled wind-down of the entity. The creation of a surveillance body in lieu of the previous banking supervision reflects the governments' willingness to manage the run-off and minimize losses to taxpayers, in our view.

Dexia will remain vulnerable to confidence-sensitive market funding and dependent on investor appetite for government-guaranteed debt, which is its primary funding source. In our view, the loss of the emergency liquidity assistance would weaken Dexia's group standalone credit profile. However, maintaining the high-quality liquid assets (HQLA) level 1 eligibility for its guaranteed debt is a supporting factor to the funding by its current investors base, in particular when compared with NBFIs. Over the past few years, Dexia's funding plans have focused on further reducing its dependence on the European Central Bank (ECB) via short- and medium-term government-guaranteed market issuances and market repurchase agreement funding. Dexia group has discontinued its recourse to ECB funding since year-end 2017. Under its future framework, we also believe the French and Belgian governments will have more leeway to support Dexia in case of financial stress.

CreditWatch

The CreditWatch with negative implications reflects the planned de-banking, albeit partially mitigated by the surveillance framework to be established by the states and their support, which would result in a one-notch lowering of the issuer credit ratings on rated group entities. We expect to resolve the CreditWatch within the coming months as we receive additional information regarding approvals from relevant authorities.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria , Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Dexia Credit Local		
Dexia Crediop SpA		
Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Stable/A-2
Dexia Credit Local		
Senior Unsecured	**BBB/Watch Neg**	**BBB**
Certificate Of Deposit		
Foreign Currency	BBB/Watch Neg	BBB
Local Currency	BBB/Watch Neg/A-2	BBB
Ratings Affirmed		
Dexia Credit Local		
Junior Subordinated	D	D
Dexia Funding Luxembourg S.A.		
Junior Subordinated	D	D