

2015

Risk Report  
Pillar 3 of Basel III

DEXIA

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# Introduction

## BASEL FRAMEWORK

Basel III is the response of the Basel Committee on Banking Supervision (BCBS) to the financial crisis, which revealed some deficiencies in the Basel II regulation as to the appropriate measurement of credit risk.

As a result, the Basel Committee undertook a comprehensive set of reform measures, known as the Basel III reform, aimed at strengthening the regulation, supervision and risk management of the banking sector.

In 2013, the European Parliament and Council adopted a set of measures to implement the Basel III reform within the EU legal framework. Taking effect on 1 January 2014, with some provisions to be phased-in between 2014 and 2019, the Capital Requirement Regulation (CRR) and the Capital Requirement Directive IV (CRD IV) form the common regulatory bases for all Member States in implementing Basel III capital requirements. The CRR contains detailed prudential requirements for credit institutions and investment firms while the CRD IV was transposed by Member States within their respective national legal frameworks.

The Basel III capital standards have significantly improved the minimum requirements framework by introducing:

- New capital definition and capital buffers;
- Liquidity and stable funding requirements;
- Governance requirements;
- A leverage ratio to complement the risk-weighted framework and restrict the build-up of excessive leverage;
- Own funds for Credit Valuation Adjustment (CVA) risk;
- Additional disclosure for large exposures.

The general framework defined by Basel II, which is developed around three pillars, was upheld.

## First pillar

The first pillar, related to minimum capital requirements, defines the way banking institutions calculate their regulatory capital requirements in order to cover credit risk, market risk and operational risk. The framework provides different approaches for calculating:

- Credit risk through three different approaches: Standard Approach, Foundation Internal Rating-Based Approach and Advanced Internal Rating-Based Approach;
- Market risk through two approaches: Standard Approach and Internal Model Approach; and
- Operational risk through three approaches: Basic Indicator Approach, Standard Approach and Advanced Measurement Approach.

Regarding credit risk, since 1 January 2008, Dexia has been authorised to use the Advanced Internal Rating-Based Approach (AIRB Approach) for the determination of its regulatory capital requirements under the Basel III Pillar 1 for credit risk and for the calculation of its solvency ratios.

This is applicable to all entities and subsidiaries consolidated within the Dexia Group, which are established in a Member State of the European Union and subject to the Capital Requirement Directive.

Dexia nevertheless decided to maintain a Standard Approach for some portfolios for which this approach is specifically authorised by the Basel III framework, such as small business units and non-material portfolios.

As a result of the disposal of some entities and the drastic decrease of some portfolios, Dexia presented an official request to the National Bank of Belgium (NBB) to switch some portfolios from the Advanced to the Standard Approach. These portfolios have indeed become non-material in terms of exposures and/or number of counterparties. The switch from Advanced to Standard Approach has been implemented as from June 2013 reporting date following the NBB's official acceptance. There have been no changes in the list of portfolios under the Advanced Approach in 2014 and 2015.

In terms of market risk, Dexia calculates its capital requirements on the basis of the Internal Model Approach for general interest rate risk and foreign exchange risk and the Standard Approach for specific interest rate risk.

For operational risk, Dexia applies the Standard Approach. In this regard, an information file was submitted to the supervisor in June 2007. Incident collection and reporting take place on a regular basis and the Risk and Control Self-Assessment (RCSA) process covers the entire bank, including foreign subsidiaries and branches.

## Second pillar

The aim of the Pillar 2 internal processes as recalled by the EBA is “to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. Pillar 2 can be divided into two major components:

- The Internal Capital Adequacy Assessment Process (ICAAP) aimed at establishing sound, effective and complete strategies and processes to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital commensurate to Dexia's risk profile, as well as robust governance and internal control arrangements.
- The Supervisory Review and Evaluation Process (SREP). The purpose of the SREP is to ensure that Dexia has adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of its risks, to which it is or might be exposed, including those revealed by stress testing.

Dexia has developed adapted and proportionate capabilities to address all Pillar 2 requirements under its orderly resolution plan and keeps its supervisors closely informed of all undertaken related developments.

## Third pillar

The third pillar – market discipline – encourages market discipline by developing a set of qualitative and quantitative disclosures which will allow market participants to make a better assessment of capital, risk exposure, risk assessment processes, and hence the capital adequacy of the institution.

*Part of the information requested by the CRR to comply with the disclosure requirements is provided in Dexia and Dexia Crédit Local's annual reports. In such case, a clear reference has been included.*

*Dexia Crédit Local's annual report 2015 is available on:*

*[http://www.dexia-creditlocal.fr/DCL/informations-juridiques-financieres/annual-report/Documents/DCL\\_RA\\_2015\\_EN.pdf](http://www.dexia-creditlocal.fr/DCL/informations-juridiques-financieres/annual-report/Documents/DCL_RA_2015_EN.pdf)*

*Dexia's annual report 2015 is available on:*

*[http://www.dexia.com/EN/journalist/publications/annual\\_reports/Documents/RA\\_2015\\_EN.pdf](http://www.dexia.com/EN/journalist/publications/annual_reports/Documents/RA_2015_EN.pdf)*

*An internal validation process at the level of Dexia guarantees the quality of the information provided.*

*The Pillar 3 report is a joint publication of the Risk Management and Finance support lines. The Management Board is responsible for the final validation of the Pillar 3 disclosure. Statutory Auditors' approval is not required. Information is not disclosed if considered non-material, proprietary or confidential.*

*Dexia Credit Local, as an institution controlled by a EU parent financial holding company, has to comply with the obligations laid down in Part Eight of the CRR in the framework of Pillar 3 disclosure requirements under the Basel III capital framework on the basis of the consolidated situation of the financial holding company. This consolidation is achieved by Dexia, located at Tour Bastion, 5 Place du Champ de Mars, B-1050 Brussels, Belgium.*

*The Pillar 3 report has been published since 2008. The disclosure is organised on an annual basis together with the publication of the annual report.*

*Dexia releases the Risk Report – Pillar 3 of Basel III on Dexia and Dexia Crédit Local's websites: [www.dexia.com](http://www.dexia.com) and [www.dexia-creditlocal.fr](http://www.dexia-creditlocal.fr).*

*The figures in the tables displayed in this report are provided in millions of euros (EUR) unless otherwise stated.*

The requirements of the third pillar are met by this publication.

## Dexia's key figures and risk profile

After significant efforts made on disposing of its main commercial activities, splitting large sections of its activities and then reconstructing operating platforms, in 2015 Dexia actively continued to implement its orderly resolution plan.

As a consequence, Dexia's residual assets are managed in run-off and new transactions are only performed with a view to reducing the risk profile.

The risk profile is illustrated by the following key figures as at 31 December 2015:

- Common Equity Tier 1 ratio stood at 15.9%<sup>(1)</sup>.
- Total risk-weighted assets amounted to EUR 51.4 billion.
- Credit risk
  - Dexia's Exposure at Default (EAD) amounted to EUR 181.8 billion, mostly concentrated on Public Sectors Entities (52%), considering the former activity of the Group, and on the Eurozone (56%) as well as the United States (16%);
  - High quality assets with 88% of the portfolio investment grade; the non-investment grade exposures are predominantly situated in the 'BB' range;
  - Total impairments amounted to EUR 1,026 million, of which EUR 422 million of collective impairments, and EUR 604 million of specific impairments;
  - Credit risk-weighted assets (EUR 48.2 billion) are mostly on Public Sector Entities (24%), Financial Institutions (23%), Corporate & Project Finance (22%), and Sovereigns (20%);
  - Counterparty credit risk on derivatives and repo is included in the figure for credit risk-weighted assets and amounted to EUR 5.1 billion.
- Market risk (including interest rate and FX risk)
  - The end-of-period value at risk amounted to EUR 13.7 million mostly concentrated on interest rate and FX (EUR 10.3 million) and spread (EUR 3.1 million);
  - Market risk-weighted assets amounted to EUR 2.2 billion.
- Operational risk
  - Operational risk-weighted assets amounted to EUR 1 billion.

## Recognition of Dexia's specific and unique situation

Since the introduction of the Single Supervisory Mechanism (SSM), Dexia has been under the direct prudential supervision of the ECB. As such, the implementation of the resolution plan has been the subject of prolonged discussions with the supervisor, especially in the past year.

Considering Dexia's specific and unique situation as a bank in orderly resolution, the public nature of its shareholder structure and the liquidity guarantee put in place by the Belgian, French and Luxembourg governments, and in order to maintain financial stability, an objective of the orderly resolution plan, the ECB decided to apply a tailored, pragmatic and proportionate prudential supervisory approach to Dexia. The resulting proportionate use of supervisory powers notably assumes that Dexia's situation does not deteriorate significantly. A reversal of this approach may have a material adverse effect on the activity (including the credit institution status) of Dexia and consequently, on its financial condition.

For instance, this approach authorises the proportionate use of supervisory powers in view of the constraints of compliance with the liquidity ratios set forth by the CRR<sup>(2)</sup>, including in particular enhanced reporting on the liquidity position. Despite the significant progress made by the Group in terms of reducing its liquidity risk, the financial characteristics of Dexia since its entry into resolution do not allow it to ensure compliance with certain regulatory ratios over the term of the orderly resolution plan approved by the European Commission. These specific circumstances resulting from the orderly resolution plan are reflected in the level of the Liquidity Coverage Ratio (LCR)<sup>(3)</sup> for which there has been a minimum requirement of 60% since 1 October 2015, raised to 70% since 1 January 2016. As at 31 December 2015, the Dexia Group LCR was 54%.

(1) Ratio including the net profit for the year.

(2) Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

(3) LCR measures the coverage of liquidity requirements at 30 days in a stressed environment, by a volume of liquid assets. It replaces Belgian and French regulatory liquidity ratios.

# 1. Risk management objectives and policies

The Risk activity line defines and controls the banks' risk appetite while providing an accurate view on the risks that Dexia faces. It ensures that new emerging risks are identified in good time through best practice watch-list management.

The role of the Risk activity line is to implement the Group's strategy on monitoring and managing risk and to put independent and integrated risk measures in place. The activity line seeks to identify and manage risk. If necessary it proactively alerts the relevant committees and proposes corrective actions where applicable. In particular, the Risk activity line decides on the amount of impairments deemed necessary to cover the risks to which the Group is exposed.

The main missions of the Risk activity line are to:

- Set up risk policies, guidelines, calculation methodologies and limits to constrain risk generated by the bank activities;
- Establish a comprehensive and integrated assessment of risks: integrated risk map with appropriate granularity of risk factors, demonstrating diversification and major sensitivities/vulnerabilities in order to assess the adequacy of capital to Dexia's risk profile;
- Control and monitor credit, market and operational risks;
- Anticipate negative risk evolution so that action can be taken by the bank to mitigate such risk;
- Manage strategic and regulatory projects proactively and evaluate the potential impact of regulatory evolutions;
- Set frameworks to better identify areas increasing operational risk so that dedicated mitigating action plans can be implemented by the relevant activity lines;
- Maintain appropriate data-warehouses and risk systems ensuring timely and accurate regulatory and internal risk reporting;
- Implement best risk management practices in the whole Group and maintain efficient coordination with the risk units of subsidiaries' and branches'.

## 1.1. Risk organisation and governance

In 2014, within the framework of the business plan, the Dexia Group developed the organisation and governance of the Risk activity line, to adapt it to its resolution mandate.

### 1.1.1. Organisation

#### 1.1.1.1 Role of the Risk Committee, the Management Board and the Transaction Committee

The Risk Committee, created within the Dexia Board of Directors and resulting from the split, in March 2015, of the Audit Committee into an Audit Committee and a Risk Committee, is responsible for monitoring aspects relating to risk strategy and level of tolerance of both current and future risk, as defined by the Board of Directors. It assists the Board of Directors in its supervision of the implementation of that strategy.

The Management Board is responsible for implementation of the various policies and directives framing Group strategy, particularly with regard to risk. To facilitate Group operations, a system of delegation of Management Board powers has been put in place. The Management Board delegates its decision-taking powers in relation to operations giving rise to credit risks to a Transaction Committee. This committee includes the heads of the Assets, Funding and Markets, Finance, Risk and Secretariat General, Legal and Compliance activity lines. It can decide to submit larger credit files or those presenting a risk level considered sensitive to the Management Board, which remains the body taking the ultimate decision. For each file presented to the Transaction Committee, an independent analysis is performed, to reveal the main risk indicators, and a qualitative analysis of the transaction. Some of the powers of the Transaction Committee are delegated to the Assets and Risk activity lines, depending on the nature of the portfolios or risks concerned.

The Risk activity line establishes risk policies and submits its recommendations to the Management Board and to the Transaction Committee. It deals with the monitoring and operational management of Group risks under the supervision of those three committees.

The Assets activity line is responsible for managing Group assets over the period of the orderly resolution, whilst preserving and improving their value.

More detailed information on the Risk Committee, the Management Board and the Transaction Committee is provided in the section of Dexia's Annual Report 2015 entitled "Declaration of Corporate Governance".

**1.1.1.2 Organisation of the Risk activity line**

**The Risk Management Executive Committee**

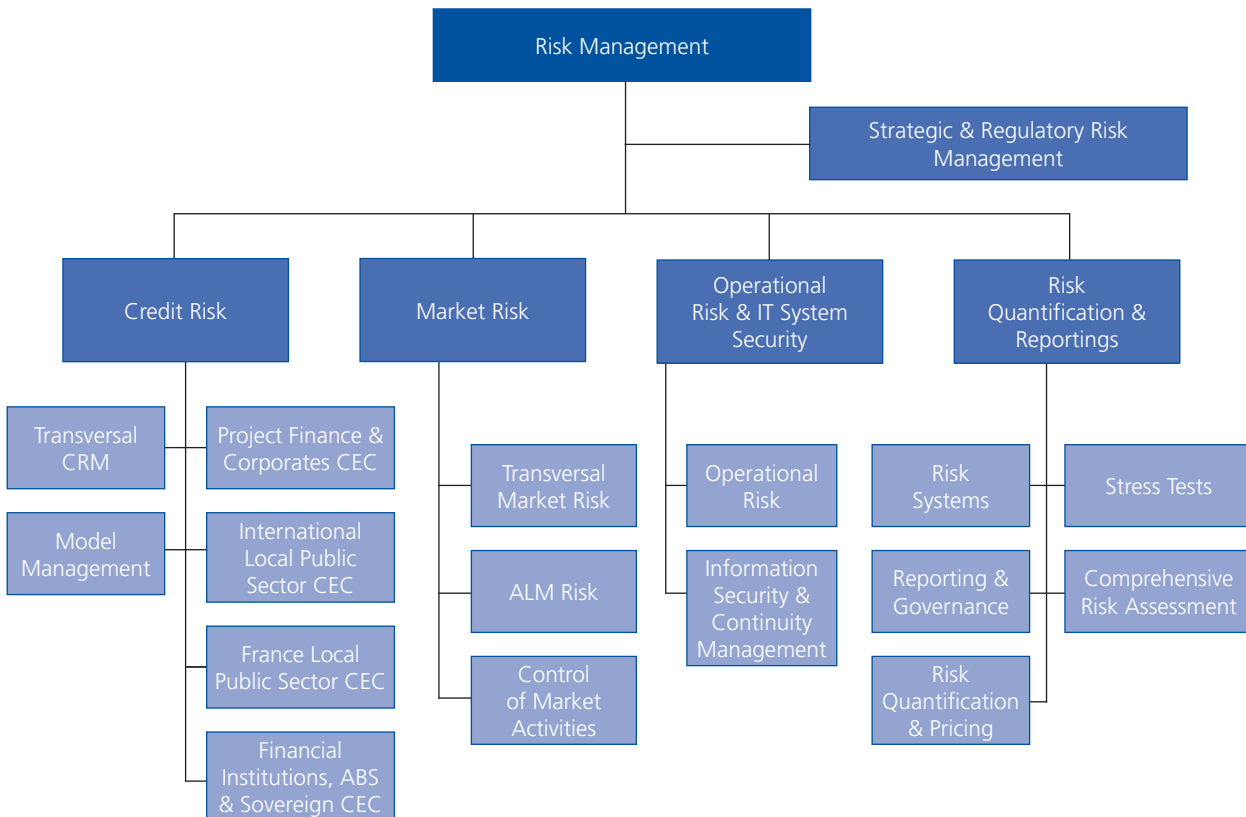
The decision-taking body of the Risk activity line is its Executive Committee.

This committee consists of the Chief Risk Officer and the five heads of:

- the credit risk department,
- the market risk department,
- the operational risk department,
- the strategic risk and regulatory risk department,
- the risk quantification and reporting department, combining all the support functions of the activity line.

It meets on a weekly basis to review risk management strategies and policies as well as the main internal reports prior to their dissemination outside the activity line. In addition, it is responsible for monitoring regulatory issues, validating collective provisioning methodologies and the general organisation of the activity line.

The organisation and operation of the activity line also relies on certain committees, the prerogatives of which are governed by a system for the delegation of powers, defined in relation to the nature of the risks to which the Group is exposed.



**Credit risk**

Credit risk represents the potential loss, materialised by the reduction in value of an asset or by the payment default, that Dexia may suffer as the result of a deterioration of the solvency of a counterparty.

The credit risk department defines the Group's credit risk policy, which encompasses supervision of the processes for rating counterparties, analysing credit files and monitoring exposures within the Group. It also determines the specific and collective impairments presented quarterly within the accounts coordination committee.

Along with the Risk Committee, the Management Board and the Transaction Committee, the following three committees meet on a quarterly basis:

- The **Watch-list Committee** supervises assets considered “sensitive”, placed under watch, and decides on the amount of impairments set aside;
- The **Default Committee** screens and monitors counterparties in default by applying Group internal rules, in compliance with the regulatory framework;
- The **Rating Committee** ensures that internal rating processes are aligned with the established principles and that those processes are consistent across the Group’s various entities.

### Market risk

Market risk represents the Group’s exposure to changes in market parameters, such as interest and exchange rates. Interest rate risk consists of structural interest rate risk and specific interest rate risk associated with a given credit counterparty. The latter arises from fluctuations in the credit spread on specific counterparties within a rating class. The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which the Dexia Group prepares its financial statements.

Market risk policy and management are in the hands of the Management Board and the Risk Management Executive Committee. To facilitate operational management, a system of delegated authority has been put in place within the Group:

- The **Market Risk Committee** is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group’s risk policy and approves hedge transactions by delegation from the Management Board. It meets on a monthly basis.
- The **Valuation and Collateral Monitoring Committee** meets quarterly to analyse indicators relating to collateral management and to monitor the valuation of structured products.

The market risk department is responsible for supervising the market risk under the aegis of the Management Board and specialist risk committees. It identifies, analyses and monitors risks and results (including financial instrument valuations) associated with market activities.

The market risk management department consists of both central and local teams. The central teams define Group-wide methods for calculating and measuring risks and results. They are tasked with measuring, reporting and monitoring the risks and results on a consolidated basis for each of the activities for which they are responsible, on the basis of reports produced by the Product Control department within the Finance activity line. Local teams within each operating entity are tasked with monitoring day-to-day activity. They ensure that Group policies and guidelines are properly applied, and are responsible for assessing and monitoring risk, working directly with the operational teams.

### Transformation risk

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio as well as liquidity risk. Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies. Liquidity risk measures Dexia’s ability to deal with its current and future cash requirements, both on a discounted basis and in the event of a deterioration in the Group’s environment, on the basis of a range of stress scenarios.

Asset and liability management is supervised by the Dexia Management Board, which meets on a quarterly basis to determine the global risk framework, set limits, guarantee the consistency of strategy and delegate operational implementation to local ALM committees. The Management Board approves asset and liability management transactions, and centralises and coordinates the decision-taking process concerning liquidity matters. It is periodically informed of the Group’s liquidity position and its evolution and its cover by short, medium and long-term resources. It ensures that liquidity targets are met and contributes to elaborating strategies for funding and asset deleveraging. In the Group’s subsidiaries and branches, local committees manage specific balance sheet risks within the framework defined by the Group’s Management Board, under the latter’s responsibility.

Within the Risk activity line, a dedicated ALM Risk team is in charge of defining the risk framework within which management may be placed in the hands of the Financial Strategy department within the Finance activity line, of validating the models used to actually manage risk, and of monitoring exposures and checking compliance with Group standards. ALM Risk also defines the stresses to be applied to the various risk factors, validates the risk management approach adopted by the Finance activity line and ensures that it complies with the regulatory framework in force.

### Operational risk and Information systems security

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or systems, or external factors. This definition includes IT, legal and compliance risks.

The Management Board regularly monitors the evolution of the risk profile of the various Group activities and delegates the operational management of risk monitoring to the **Operational Risk Committee**. Meeting quarterly, this committee examines the main risks identified and decides on the corrective actions to be taken. It validates measurement, prevention or improvement proposals in relation to the various elements of the mechanism. The Operational Risk Committee relies on committees dedicated to business continuity and Information systems security, meeting every two months. They examine and decide on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.



Operational risk, business continuity and Information systems security management is coordinated by a central team within the Risk activity line supported by a network of correspondents within all subsidiaries and branches, as well as within the Group's various departments. Within each activity domain, an operational risk correspondent coordinates data collection and assesses risks, supported by the operational risk management function, ensuring good continuity management.

### 1.1.2. Governance

The elements related to the description of governance arrangements pursuant to Article 435 §2 of the regulation (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR") are disclosed in the section entitled "Corporate governance and internal control" of Dexia Crédit Local's registration document 2015, as well as, if needed at the Dexia level, in the "Declaration of corporate governance" published in Dexia 's annual report 2015.

The Management Board presides over Risk Management governance. The Risk activity line puts in place independent and integrated risk measurements and indicators. The governance of the Dexia Group is adapted to its run-off situation and to its risk profile.

## 2. Own funds and capital adequacy

Dexia monitors its solvency using rules established by the Basel Committee on Banking Supervision and the European Directive CRD IV. On the other hand, the Group ensures observance of the capital requirements imposed by the European Central Bank (ECB), within the framework of Pillar 2 of Basel III, following the Supervisory Review and Evaluation Process (SREP).

The year 2015 was marked by the effective implementation of the Single Supervisory Mechanism (SSM), under the aegis of the ECB and the implementation of new regulatory deductions linked to the Additional Valuation Adjustment (AVA).

Within the framework of Pillar 2 of Basel III, following the SREP performed by the ECB, the Common Equity Tier 1 (CET 1) requirement applicable to the Dexia Group is set at 8.625% (phased ratio) on a consolidated basis as at 1 January 2016. It contains a safety buffer, the so-called "capital conservation buffer", set at 0.625% of core capital as from 1 January 2016 and which will be increased by 0.625% per annum to reach 2.5% in 2019. This buffer, identical for all banks in the EU, is intended to absorb losses in a situation of intense economic stress.

Although Dexia's capital position is beyond minimum regulatory requirements, since its entry into resolution in December 2012 the bank has been subject to restrictions imposed by the European Commission within the context of the principle of "burden sharing". In particular, they include a ban on the payment of dividends, certain restrictions in relation to the payment of coupons and the exercise of calls on subordinated debt and hybrid capital issues by Group issuers. Consequently, non-observance of the capital conservation buffer would have no impact on Dexia's conduct in terms of capital distribution.

As at 1 January 2016, the requirement applicable to Dexia Crédit Local, the main operating subsidiary of the Dexia Group, was also 8.625% (including the capital conservation buffer).

### 2.1. Own funds

#### 2.1.1. Accounting and regulatory equity figures

The consolidation scope of the Pillar 3 report is the same as the consolidation scope of the financial statements (as released in Dexia's annual report).

(in EUR million)	31/12/2015		
	Financial statements	Regulatory purposes	Difference
Equity, Group share	4,118	8,350	4,232
<i>of which share capital and related reserves</i>	2,486	2,446	-40
<i>of which consolidated reserves</i>	6,907	6,907	0
<i>of which gains and losses directly recognised in equity</i>	-5,438	-1,166	4,272
<i>of which net result of the period</i>	163	163	0
Minority interests	429	292	-137
<b>TOTAL EQUITY</b>	<b>4,547</b>	<b>8,642</b>	<b>4,095</b>
Prudential filters		-462	
Common Equity Tier 1		8,180	
Additional Tier 1		67	
Tier 2		149	
<b>TOTAL CAPITAL</b>		<b>8,396</b>	

#### 2.1.2. Regulatory capital

Total capital can be broken down as follows:

- Common Equity Tier 1 capital, including in particular:
  - share capital, premiums, retained capital,
  - profits for the year,
  - gains and losses directly recognised in equity (revaluation of financial assets available for sale or reclassified, revaluation of cash flow hedge derivatives and translation adjustments),
  - the eligible amount of non-controlling interests,

– after deduction of intangible assets, goodwill, accrued dividends, own shares, the amount exceeding thresholds provided with regard to deferred tax assets and for holding shares and interests in credit or financial institutions and elements subject to prudential filters (own credit risk, Debit Valuation Adjustment, cash flow hedge reserve, Additional Valuation Adjustment).

- Additional Tier 1 including Tier 1 subordinated debt;
- Tier 2 Capital which includes the eligible portion of Tier 2 subordinated debt as well as surplus provisions on the level of expected losses, reduced by the surplus amount of thresholds provided with regard to holding subordinated debt issued by financial institutions.

In accordance with regulatory requirements and applicable transitional provisions:

- Gains and losses directly recognised in equity as revaluation of non-sovereign bonds and shares classified as “available for sale” (AFS) are progressively taken into consideration over a period of five years from 1 January 2014 at 20% per annum cumulatively, i.e. 40% in 2015.

The National Bank of Belgium and the French Autorité de Contrôle Prudentiel et de Résolution have confirmed to Dexia and Dexia Crédit Local the applicability of the exemption provided in Article 467, § 3 of Regulation 575/2013. That exemption allows the AFS reserve on sovereign securities not to be deducted from regulatory capital. In accordance with the provisions of the CRR, this national discretion will be applicable until adoption by the European Commission of a regulation approving the IFRS 9 accounting standard, replacing standard IAS 39. After approval of this regulation, the Dexia Group will have to take the AFS reserve on sovereign securities into account in the calculation of its regulatory capital. As at 31 December 2015, the amount of the AFS reserve on sovereign securities was EUR -1.3 billion. The deduction of this AFS reserve from regulatory capital will be gradually phased in until 2018, in accordance with the timetable for implementation of CRD IV.

- Non-controlling interests are partially eligible for Tier 1 capital; their limited inclusion is the object of transitional provisions;
- Certain adjustments on subordinated and hybrid debt must be taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments.

As at 31 December 2015, the Dexia Group Total Capital reached EUR 8,396 million, against EUR 9,157 million as at 31 December 2014. This reduction is explained in particular by the 40% deduction of the AFS reserve linked to non-sovereign securities, or EUR -1.2 billion, in accordance with the schedule defined in the CRD IV Directive. Furthermore, the AVA had an impact of EUR -136 million on regulatory capital as at 31 December 2015. These elements are partially offset by the net profit for the year. Common Equity Tier 1 Capital followed a similar trend and was at EUR 8,180 million as at 31 December 2015, compared to EUR 8,754 million as at 31 December 2014.

(in EUR million)	Regulatory Capital	
	31/12/2014	31/12/2015
<b>TOTAL CAPITAL</b>	<b>9,157</b>	<b>8,396</b>
<b>Common Equity Tier 1 Capital</b>	<b>8,754</b>	<b>8,180</b>
Core shareholders' equity	9,311	9,517
Gains or losses directly recognised in equity on available-for-sale or reclassified assets	-642	-1,289
Cumulative translation adjustments (group share)	32	123
Actuarial differences on defined benefit plans	-5	0
Non-controlling interests eligible in Tier 1	341	292
Items to be deducted:		
<i>Intangible assets and goodwill</i>	-23	-27
<i>Ownership of Common Equity Tier 1 instruments in financial institutions (&gt;10%)</i>	-2	-5
<i>Own credit risk</i>	-104	-173
<i>DVA</i>	-154	-122
<i>AVA</i>	0	-136
<b>Additional Tier 1 Capital</b>	<b>76</b>	<b>67</b>
Subordinated debt	77	67
Items to be deducted:		
<i>Ownership of Tier 1 instruments in financial institutions (&gt;10%)</i>	-1	0
<b>Tier 2 Capital</b>	<b>327</b>	<b>149</b>
Subordinated debt	69	59
<i>of which additional Tier 1 reclassified</i>	19	29
IRB provision excess (+); IRB provision shortfall 50% (-)	318	257
Items to be deducted:		
<i>Ownership of Tier 2 instruments in financial institutions (&gt;10%)</i>	-59	-168

As at 31 December 2015, the Group's Tier 1 hybrid capital securities represented a nominal total of EUR 96 million, including EUR 67 million eligible as additional Tier 1.

No hybrid debt buyback operations were carried out in 2015. The Group's hybrid Tier 1 capital therefore consists of:

- EUR 56.25 million nominal of perpetual non-cumulative securities issued by Dexia Crédit Local. These securities (FR0010251421) are listed on the Luxembourg Stock Exchange.
- EUR 39.79 million nominal of perpetual non-cumulative securities issued by Dexia Funding Luxembourg, today incorporated with Dexia. These securities (XS0273230572) are listed on the Luxembourg Stock Exchange.

Total outstanding Tier 2 subordinated debt amounted to EUR 483 million as at 31 December 2015 and included EUR 59 million of eligible subordinated debt. Taking account of the additional Tier 1 reclassified, the IRB provision excess and the regulatory deductions, Tier 2 Capital amounted to EUR 149 million.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia is only required to pay coupons on hybrid capital and subordinated debt instruments if there is a contractual obligation to do so. Dexia cannot exercise any discretionary options for the early redemption of these securities.

In addition, as announced by Dexia on 24 January 2014, the European Commission refused to authorise the Group's proposal to repurchase the hybrid capital debt issued by Dexia Funding Luxembourg (XS0273230572), noting that the subordinated creditors must share in the financial burden resulting from the restructuring of financial institutions that have been granted State aid. The European Commission has also informed Dexia that it is authorised to communicate this information to the holders of this instrument and to the holders of financial instruments with identical characteristics. Financial instrument FR0010251421 issued by Dexia Crédit Local has similar characteristics.

The European Commission requested that Dexia communicates that this decision relates to its own situation and does not mean that similar decisions will be taken in respect of such financial instruments issued by other European banks subject to orderly resolution plans under the supervision of the Commission.

## 2.2. Capital requirements by type of risk

The following table shows the risk-weighted assets (RWA) and capital requirements for each type of risk (and exposure class for credit risk) at year-end 2015.

Regarding credit risk, the breakdown by exposure class presented in the following table reflects the presence of Dexia in financing public sector entities and project finance. Details on exposure classes are provided in Appendix 2.

Type of risk	Basel III treatment	Exposure class	31/12/2014		31/12/2015	
			RWA	Capital requirements	RWA	Capital requirements
Credit risk	Advanced	Corporate	4,032	323	5,604	448
		Equities	2	0	1	0
		Financial institutions <sup>(1)</sup>	11,731	938	8,786	703
		Project finance	4,354	348	3,883	311
		Public sector entities	2,761	221	3,143	251
		Securitisation <sup>(2)</sup>	29	2	41	3
		Sovereign	7,998	640	9,489	759
	<b>Total</b>	<b>30,908</b>	<b>2,473</b>	<b>30,947</b>	<b>2,476</b>	
	Standard	Corporate	783	63	642	51
		Equities	1,063	85	1,106	88
		Financial institutions <sup>(1)</sup>	1,384	111	2,123	170
		Monolines	2,014	161	894	72
		Project finance	730	58	683	55
		Public sector entities	8,726	698	8,217	657
		Retail (leasing)	1	0	0	0
		Securitisation <sup>(2)</sup>	113	9	106	8
	Sovereign	232	19	221	18	
<b>Total</b>	<b>15,047</b>	<b>1,204</b>	<b>13,993</b>	<b>1,119</b>		
RBA	Securitisation <sup>(2)</sup>	<b>3,482</b>	<b>279</b>	<b>3,227</b>	<b>258</b>	
	<b>Total</b>	<b>3,482</b>	<b>279</b>	<b>3,227</b>	<b>258</b>	
Market risk	Internal Model	Interest rate & foreign exchange risk	1,415	113	1,445	116
		<b>Total</b>	<b>1,415</b>	<b>113</b>	<b>1,445</b>	<b>116</b>
	Standard	Interest rate risk	1,007	81	487	39
		Foreign exchange risk	519	42	315	25
<b>Total</b>	<b>1,526</b>	<b>122</b>	<b>802</b>	<b>64</b>		
Operational risk	Basic		1,000	80	1,000	80
		<b>TOTAL</b>	<b>53,378</b>	<b>4,270</b>	<b>51,414</b>	<b>4,113</b>

(1) In 2015: o/w RWA related to CVA Capital Charge: EUR 2,555 million in Advanced and EUR 225 million in Standard.

(2) The original counterparty is a securitisation vehicle and the final counterparty is an exposure classified in advanced or standard approach.

At year-end 2015, the risk-weighted assets of the Dexia Group amounted to EUR 51.4 billion. The risk weights per type of risk are detailed in the related chapters (credit, market and operational risks).

## 2.3. Capital adequacy

### 2.3.1. Regulatory solvency ratios

Dexia's Common Equity Tier 1 ratio was 15.9%<sup>(4)</sup> as at 31 December 2015, representing a margin of 791 basis points compared to the minimum regulatory requirement required excluding the capital conservation buffer.

Risk-weighted assets were EUR 51.4 billion including EUR 48.2 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk as at 31 December 2015. As for credit risk, the fall caused by the reduction of the asset portfolio is partially offset by the deterioration of internal ratings, particularly for Italy, as well as by exchange rate fluctuations, in particular the appreciation of the US dollar against the euro. The decline in market risk-weighted assets is due to the decrease in general and specific foreign exchange risk and specific interest rate risk.

(in EUR million)	Risk-weighted assets	
	31/12/2014	31/12/2015
Credit risk-weighted assets	49,437	48,167
Market risk-weighted assets	2,941	2,248
Operational risk-weighted risks	1,000	1,000
<b>TOTAL</b>	<b>53,377</b>	<b>51,414</b>

### 2.3.2. Internal capital adequacy

In 2012 Dexia initiated a review of its internal capital adequacy framework taking into account the orderly resolution context. Under the Single Supervisory Mechanism framework, the Risk & Capital Adequacy (RCA) is Dexia's answer to ECB's Pillar 2 requirements subject of the SREP supervision process.

Following the approval by its Management Board, Dexia informed its home supervisors in 2012 (the French "Autorité de Contrôle Prudentiel et de Résolution" and the National Bank of Belgium) and developed a RCA approach in particular to address the Basel Pillar 2 requirements. A plan has been submitted including a joint estimation of capital and liquidity demand according to this new approach applied as from 2013 closing figures.

The RCA approach builds upon key strengths of regular economic capital approaches, stress testing techniques and risk appetite frameworks. It aims at being fully integrated into the financial planning process, thus demonstrating the capital and liquidity adequacy as required by regulations. The comparisons between, on the one hand, the levels of available capital and liquidity and, on the other hand, those required to withstand crises at multiple severity levels and horizons are also provided. The articulation of the RCA with more specific stress testing exercises is actually aligned with that required by the EBA SREP guideline published in 2014.

This approach enables an integrated assessment of Dexia's intrinsic risk profile by "addressing key risks and embodying quantitative and qualitative analysis based on backward and forward-looking information". In 2015, the assessment based on 31 December 2014 figures for internal capital and liquidity demand of multiple forward-looking scenarios and the related key principles and conclusions were submitted to and approved by Dexia's Audit Committee and Management Board. The RCA approach and results have been internally audited and also submitted for internal validation, the conclusions of which were submitted to the relevant decision-making bodies.

In practical terms, the RCA capacity encompasses three key achievements with dedicated IT tools:

- **An Integrated Risk Map (IRM):** this IRM is Dexia's comprehensive risk taxonomy and cartography inter alia allowing assessments to measure the sensitivities of the financial and prudential statements to each major identified risk factor (default, rating migration, market spread indices, foreign exchange rates, interest rates...). It covers all qualitative and quantitative risks affecting Dexia beyond the risks of Pillar 1. As an illustration, this IRM provides the sensitivity to a decrease of interest rates simultaneously on liquidity reserve, CVA, cash collateral, AFS reserve, hedge accounting, risk-weighted assets, etc. and eventually on available capital, capital ratios and funding sources. This risk map establishes a transparent link between a comprehensive and economic approach to risks and their impact on accounting and prudential measures. For illustration, Common Equity Tier 1 ratios under multiple macro-economic scenarios are estimated.

<sup>(4)</sup> Including the net profit for the year.

– **Multiple scenario analysis:** consistent comparison of risk scenarios and assessment of their impact. Multiple risk scenarios (expert, historical, market forwards and Monte Carlo) are consolidated in a single format for comparison and benchmarking purposes. Their impact in terms of capital and liquidity requirements is assessed and benchmarked towards base case scenarios. The adequacy between available financial and funding resources and the risks facing the bank for a variety of risk scenarios at different severity levels is assessed.

– **Reporting:** an integrated cascade of reporting is devised ranging from the most synthetic ones submitted to the boards, to more detailed reporting for intermediate Finance and Risk committees. These reports are designed to meet regulatory requirements in terms of ICAAP and ILAAP (Internal Capital/Liquidity Assessment Process) and above all to provide insights into key risks and drivers of the volatilities of key accounting and prudential indicators. These reports will eventually be used by the departments in charge of optimising Dexia's run-off.

The ongoing interaction with Dexia's supervisors continued in 2015. An inspection mission began in November 2015 and will continue in 2016 under the current Single Supervisory Mechanism framework and in relation to the SREP (Supervisory Review and Evaluation Process).

The RCA approach will be enhanced and maintained in 2016 as Dexia's holistic and integrated risk framework capability.

### 2.3.3. Stress tests

The objective of the stress test framework is to ensure that the Dexia Group's financial position provides sufficient resilience to withstand the impact of severe economic and financial stress. The nature of the stress tests takes into account the Dexia orderly resolution plan of October 2011, approved by the European Commission on 28 December 2012. Stress test exercises are performed in a transversal and integrated way by the Dexia Group's risk management teams.

In 2015, Dexia performed a series of stress tests (sensitivity analysis, scenario analysis, assessment of potential vulnerabilities) particularly based on severe but plausible macroeconomic scenarios reflecting crisis situations.

Main stress tests performed in 2015

- Specific credit stress tests have been implemented for the main asset classes. In particular, within the framework of Pillar 1 of Basel, credit exposures covered by internal rating systems have been subject to tests of sensitivity, macro and expert scenarios.
- Market stress tests have been conducted by stressing potential events outside the probability framework of VaR measurement techniques and have been broken into single risk factor tests, historical scenarios tests and hypothetical scenarios tests.
- Stress tests related to the structural interest rate risk have been performed to measure the potential impact on Dexia's own funds of a sudden and expected change in interest rates, meeting regulatory expectations.
- Liquidity stress tests have been and will also be regularly performed to estimate the additional liquidity needs under exceptional although plausible scenarios in a certain time horizon.
- In 2015, estimations of credit, market and operational losses and risk exposures have been performed on a long-term horizon for the macro central scenario defined for the Long Term Financial Plan (update of the Resolution plan for the European Commission).
- Regulatory firm-wide stress tests: there has been no 2015 EU-wide stress test exercise, but Dexia Group participated to the 2015 EU-wide Transparency Exercise whose results were published by the EBA on 24 November 2015 providing detailed bank-by-bank data on capital positions, risk exposure amounts and asset quality.

#### 2.3.3.1. Stress tests related to credit risk

In the context of Pillar 1 of Basel III, credit exposures covered by the internal rating based approach (IRBA) are regularly subject to sensitivity tests and scenario analyses based on macro-economic and expert scenarios reflecting crisis situations.

The objective is to estimate the impact of adverse although plausible assumptions of economic recession on the main credit risk parameters: Probability of Default (PD) and Loss Given Default (LGD), and risk measures such as risk-weighted assets, Expected Loss (EL) or direct losses.

A quantitative point in time modelling per credit sector has been developed to link the evolution of the credit risk parameters to the change of the main macro-economic variables (GDP evolution rate, unemployment rate, interest rate, etc.) under stressed rating migration matrices.

This quantitative modelling is completed by an expert approach to take into account the actual vulnerabilities of each credit sector and the inner limits of historical observations between macro-economic variables and risk parameters (PD, LGD). These expert scenarios are designed and discussed during the credit workshops with credit risk experts involved in the different asset classes.

A stress test report is drafted for each credit sector, including data description, principles of methodology, results and conclusions of different sensitivity tests and scenarios, as well as possible management actions to face hypothetical and adverse situations. The results of the stress test exercise are presented to the Risk Management Executive Committee of Dexia. All stress test reports are submitted for validation by the internal methodological validation team in charge of IRBA models.

### 2.3.3.2. Stress tests related to market risk

The market risk stress tests complete the risk management framework by stressing potential exceptional events outside the probability framework of VaR measurement techniques. They are performed on a quarterly basis on the Group scope. The stress tests' results are reported to the Market Risk Committee.

A number of scenarios are regularly assessed covering the main market risk factors: interest rate, foreign exchange rate, volatility, credit spread.

Stress tests performed by Dexia can be broken down into three categories:

- Single risk factor (mono-factorial) stress tests, including some stress tests recommended by the banking supervisors.
- Integrated Historical scenarios stress tests: Equity crash (1987), Monetary crisis (1992), Terrorist attack (2001), Financial crisis scenario (2008) capturing the turmoil triggered by the Lehman default, Sovereign crisis (2012) simulating the crisis propagation of the recent sovereign debt crisis in the Eurozone.
- Integrated hypothetical scenarios stress tests.

### 2.3.3.3. Stress tests related to interest rate risk

Dexia applies the supervisory standard shock as defined by the EBA, assessing the change in economic value by more than 20% on own funds as a result of a sudden and unexpected change in interest rates. This test is achieved by means of a 200 basis point parallel shift of the yield curve. The results of these stress tests are reported to each Assets & Liabilities Committee within the Management Board.

### 2.3.3.4. Stress tests related to liquidity risk

Dexia performs liquidity stress tests to estimate the additional liquidity needs under exceptional although plausible scenarios in a certain time horizon such as:

- Market-wide shocks that affect all banks in the system;
- Idiosyncratic shocks, e.g., due to the financial deterioration of Dexia;
- Combined scenario.

Stress scenarios are applied on balance sheet and off-balance sheet components of the residual gap that is the main liquidity driver. The residual gap is the difference between:

- Dynamic liquidity gap composed of the static liquidity gap profile adjusted or gap assumptions (new transactions, roll of repo, roll of short-term funding, etc.) defined by the Balance Sheet Management (BSM) and Cash and Liquidity Management (CLM) teams;
- Dynamic buffer of reserves composed of the static buffer of eligible reserves adjusted for reserve assumptions defined by BSM and CLM teams.
- Stress tests are mainly performed on wholesale funding, cash collateral and reserves (assets) eligible for pledging to Central Banks, funding deposits and secured funding. The stress encompasses off-balance sheet commitments and downgrade triggers.

## 2.4. Leverage ratio

Basel III's leverage ratio is defined as the "capital measure" (the numerator) divided by the "exposure measure" (the denominator) and is expressed as a percentage. The capital measure is currently defined as Tier 1 capital and the minimum leverage ratio is 3%.

Banks have been required to publish their leverage ratios since 1 January 2015.

The European Commission will submit a report on the impact and effectiveness of the leverage ratio to the European Parliament and the Council by 31 December 2016. If appropriate, the report will be accompanied by a legislative proposal on the introduction of a mandatory measure in 2018. The objective is to assess whether the design and calibration of a minimum Tier 1 leverage ratio of 3% is appropriate over a full credit cycle and for different types of business models.

The leverage ratio is already in production at Dexia level. As at 31 December 2015, the ratio calculated according to the CRR/CRD IV rules as amended by the Delegated Act of October 2014, reached 4.51%.

## 2.5. Significant banking subsidiary: Dexia Crédit Local

Dexia Crédit Local is Dexia Group's sole significant subsidiary following the orderly resolution plan. Dexia Crédit Local exposure amounts are almost the same as those of the Dexia Group.

Dexia Crédit Local's Common Equity Tier 1 ratio was 12.6%<sup>(5)</sup> as at 31 December 2015, representing a margin of 457 basis points compared to the minimum regulatory requirement required excluding the capital conservation buffer.

Risk-weighted assets were EUR 51.1 billion including EUR 47.9 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk as at 31 December 2015. As for credit risk, the fall caused by the reduction of the asset portfolio is partially offset by the deterioration of internal ratings, particularly for Italy, as well as by exchange rate fluctuations, in particular the appreciation of the US dollar against the euro. The decline in market risk-weighted assets is due to the decrease of general and specific foreign exchange risk and specific interest rate risk.

(in EUR million)	Risk-weighted assets	
	31/12/2014	31/12/2015
Credit risk-weighted assets	49,252	47,863
Market risk-weighted assets	2,941	2,248
Operational risk-weighted risks	1,000	1,000
<b>TOTAL</b>	<b>53,193</b>	<b>51,111</b>

(5) Including the net profit for the year.



## 3. Credit risk

### 3.1. Credit risk management

#### Dexia credit risk policy

In order to manage credit risk, Dexia Risk Management has established a general framework of policies and procedures. This framework guides credit risk management in its functions of analysis, decision-making and risk surveillance.

Risk Management contributes to the process of granting credit by delegation to different committees and heads of activity lines, within the limits and delegations put in place by the bank's Management Board and taking part to the Transaction Committee. Within the context of the credit risk surveillance function, the different teams in charge of credit risk, follow the evolution of the credit risk of portfolios by regularly analysing credit files and reviewing ratings. They define and also implement the provisioning policy by qualifying files in default and deciding on specific and collective provisions.

#### Risk measures

As Dexia applies the IRBA advanced approach, the assessment of credit risk relies principally on internal rating systems developed within the context of the Basel reform: in the advanced approach, each counterparty is attributed an internal rating by credit risk analysts relying on dedicated rating tools. This internal rating corresponds to an assessment of the level of the counterparty's risk of default, expressed through an internal rating scale, constituting a key element in the credit granting process. Ratings are revised annually, allowing proactive identification of the sensitive counterparties and risks. Watch-list committees are organised to monitor sensitive exposures on the basis of objective criteria or expert judgment.

In order to control the Group's overall credit risk profile, and to limit the concentration of risks, credit risk limits are defined by counterparty, setting the maximum exposure deemed acceptable. Limits per product can also be decided by the Risk Management teams; they proactively monitors limits, and may reduce them at any time depending on the evolution of associated risks.

### 3.2. Credit risk exposure

In the interests of consistency in its internal and external reporting, the Group has decided to harmonise the metric used to communicate its credit risk exposure and to present the latter as "Exposure at Default" (EAD) and no longer as "Maximum Credit Risk Exposure" (MCRE).

Exposure at Default (EAD) is one of the parameters used to calculate capital requirements under the Regulation (EU) No 575/2013.

It corresponds to the best estimate of credit risk exposure at default and the definition varies depending on the approach adopted in calculating capital requirements. The Dexia Group uses both the standard and the advanced approach to calculating its risk-weighted assets. Thus the regulatory metric has been adapted to allow the treatment of impairments to be homogenised for comparability purposes.

- For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments<sup>(6)</sup>, taking account of accrued interest and the impact of hedge accounting;
- For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to its book value, before impairments;
- For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;
- For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia Group applies the standard method (Article 111 of the Regulation (EU) No 575/2013) to determine credit conversion factors, except for project finance transactions (advanced approach).

<sup>(6)</sup> For exposure under the standard method, a specific EAD is calculated (gross of impairments).

The main differences between the EAD used in this report and the former measure of maximum credit risk exposure (MCRE) are essentially related to:

- Financial assets measured at amortised cost, for which the exposure at default includes the impact of hedge accounting, which was not taken into account in the MCRE;
- Derivatives, for which the exposure at default includes an amount representing future potential exposure (regulatory "add-on") which was not taken into account in the MCRE;
- Off-balance-sheet commitments, for which the exposure at default is calculated taking account of the regulatory CCF compared to 100% of the commitment in the MCRE;
- Impairments which are not deducted from exposure at default although they were deducted in the MCRE.

In addition, as information relating to credit risk only concerns financial instruments generating credit risk exposure, the Dexia Group has decided to exclude from the scope of this report the other assets previously included, mainly accruals and other assets.

### 3.2.1. Exposure by type of product and geographic area

The table below shows the total exposure with a breakdown by type of product and geographic area at year-end 2014 and 2015.

Exposure at year-end 2014 (EAD)					
	Eurozone <sup>(1)</sup>	Rest of Europe <sup>(2)</sup>	US	Rest of the world	Total
Loans and advances	65,026	16,228	2,865	5,322	89,441
Debt securities	41,040	10,383	17,180	11,140	79,743
Repo	3,021	918	2,392	673	7,003
ABS	1,370	258	4,582	68	6,278
Derivatives	4,970	1,546	1,094	386	7,996
Given guarantees	1,883	375	1,303	131	3,692
Retail loans	6	-	-	0	6
<b>TOTAL</b>	<b>117,316</b>	<b>29,708</b>	<b>29,416</b>	<b>17,720</b>	<b>194,160</b>
<b>TOTAL (MCRE)</b>	<b>104,531</b>	<b>24,574</b>	<b>28,689</b>	<b>14,443</b>	<b>172,238</b>

(1) Countries using the euro currency as at year-end.

(2) Including Turkey.

Exposure at year-end 2015 (EAD)					
	Eurozone <sup>(1)</sup>	Rest of Europe <sup>(2)</sup>	US	Rest of the world	Total
Loans and advances	58,484	16,327	2,859	5,461	83,131
Debt securities	34,603	9,940	16,636	12,312	73,491
Repo	3,325	1,335	2,449	641	7,749
ABS	1,117	2,248	4,618	55	8,039
Derivatives	3,947	1,458	1,179	374	6,959
Given guarantees	991	378	1,010	40	2,418
Retail loans	5	-	-	0	5
Others assets	0	0	0	0	0
<b>TOTAL</b>	<b>102,471</b>	<b>31,685</b>	<b>28,753</b>	<b>18,883</b>	<b>181,792</b>
<b>%</b>	<b>56%</b>	<b>17%</b>	<b>16%</b>	<b>10%</b>	

(1) Countries using the euro currency as at year-end.

(2) Including Turkey.

As at 31 December 2015, Dexia's exposure to credit risk was EUR 181.8 billion, compared with EUR 194.2 billion at the end of December 2014, representing a decrease of 6%.

The EUR 12 billion fall, linked to the natural amortisation of the portfolio and to assets sales, is in part offset by an exchange effect resulting from the appreciation of the US dollar, the sterling and the yen against the euro over the year 2015. At a constant exchange rate, the asset portfolio is down by EUR 18 billion over the year.

The exposure is distributed for EUR 85 billion in loans and EUR 82 billion in bonds.

The exposure is mainly concentrated in the Eurozone (56%). Exposure on the other regions remained at the same level compared to December 2014: Rest of Europe (17%), US (16%) and Rest of the world (10%).

### 3.2.2. Exposure by type of product and obligor grade

The following tables show the total exposure and the average exposure with a breakdown by type of product and obligor grade at year-end 2014 and 2015. For reporting purposes, a rating "master scale" has been applied. This scale is structured in grades ranging from AAA to CCC and the modifiers plus, flat and minus.

Exposure at year-end 2014 (EAD)						
	AAA+ to AA-	A+ to BBB-	NIG <sup>(1)</sup>	Default	Unrated	Grand total
Loans and advances	40,909	35,617	11,421	1,045	450	89,441
Debt securities	25,717	44,810	9,012	193	12	79,743
Repo	877	6,126	0	-	0	7,003
ABS	4,795	994	459	0	29	6,278
Derivatives	1,792	5,141	908	122	33	7,996
Given guarantees	1,518	1,655	464	29	26	3,692
Retail loans	0	-	2	4	0	6
<b>TOTAL 2014 (EAD)</b>	<b>75,608</b>	<b>94,342</b>	<b>22,265</b>	<b>1,393</b>	<b>551</b>	<b>194,160</b>
<b>TOTAL 2014 (MCRE)</b>	<b>64,980</b>	<b>83,840</b>	<b>20,885</b>	<b>1,020</b>	<b>1,512</b>	<b>172,238</b>

(1) Non-investment grade.

Exposure at year-end 2015 (EAD)						
	AAA+ to AA-	A+ to BBB-	NIG <sup>(1)</sup>	Default	Unrated	Grand Total
Loans and advances	39,825	31,876	9,668	1,521	241	83,131
Debt securities	19,666	45,484	7,975	335	32	73,491
Repo	1,381	6,368	-	-	-	7,749
ABS	6,814	771	425	-	28	8,039
Derivatives	1,140	4,597	1,073	120	28	6,959
Given guarantees	1,167	910	303	22	16	2,418
Retail loans	0	-	2	3	0	5
Others assets	0	0	0	0	0	0
<b>TOTAL</b>	<b>69,993</b>	<b>90,007</b>	<b>19,446</b>	<b>2,001</b>	<b>345</b>	<b>181,792</b>
<b>%</b>	<b>39%</b>	<b>50%</b>	<b>11%</b>	<b>1%</b>	<b>0%</b>	

(1) Non-investment grade.

As at 31 December 2015, 88% of the exposure was investment grade. Non-investment grade (NIG) files represented 10.7% of the portfolio, 0.2% were unrated and 1.1% were in default.

The geographical split of NIG counterparties shows a predominance of European assets (91.4%), including 73.3% of total NIG in GIIPS countries, mostly Italy, Spain and Portugal. Public sector (59.2%) and project/corporate (21.2%) are the sectors in which the largest amount of NIG counterparties is observed. The majority of the counterparties (94.4%) are in the BB range.

### 3.2.3. Exposure per exposure class and economic sector

The following tables show the total exposure with a breakdown by economic sector and exposure class at year-end 2014 and 2015.

Exposure at year-end 2014 (EAD)									
Economic sector	Corporate	Financial institutions	Monolines	Project finance	Public sector entities	Retail	Securitisation	Sovereign	Total
Industry	4,145	80	-	3,622	3,985	-	-	-	11,833
Construction	289	-	-	7,315	478	-	-	-	8,083
Trade-Tourism	4	-	-	-	47	-	-	-	50
Transportation and storage	965	76	-	930	2,093	-	-	52	4,116
Information and communication	104	-	-	78	27	-	-	-	210
Financial and insurance activities	0	30,660	4,210	-	1,643	-	84	3,357	39,954
Real estate activities	1,219	4	-	3,779	6,828	-	-	-	11,829
Professional, scientific and technical activities	1	0	-	-	64	-	-	-	65
Administrative and support service activities	39	-	-	-	4,723	-	-	-	4,762
Public administration and defense-compulsory social security	0	1	-	-	75,929	-	145	25,013	101,089
Human health and social work activities	30	-	-	-	3,291	-	-	-	3,321
Arts, entertainment and recreation	-	-	-	-	171	-	-	-	171
Other service activities	0	-	-	32	375	-	-	-	406
Education	4	-	-	-	405	-	-	-	409
Other services	-	-	-	-	0	-	-	1,371	1,371
Others	56	257	-	-	59	3	6,049	65	6,490
<b>TOTAL 2014 (EAD)</b>	<b>6,857</b>	<b>31,080</b>	<b>4,210</b>	<b>15,756</b>	<b>100,118</b>	<b>3</b>	<b>6,278</b>	<b>29,858</b>	<b>194,160</b>
<b>TOTAL 2014 (MCRE)</b>	<b>5,538</b>	<b>27,340</b>	<b>3,232</b>	<b>14,761</b>	<b>86,526</b>	<b>1</b>	<b>6,692</b>	<b>28,148</b>	<b>172,238</b>

Exposure at year-end 2015 (EAD)										
Economic sector	Corporate	Financial institutions	Monolines	Project finance	Public sector entities	Retail	Securitisation	Sovereign	Total	
Industry	5,441	90	-	2,975	3,618	0	-	-	12,124	
Construction	194	-	-	6,987	571	-	-	-	7,752	
Trade-Tourism	3	-	-	-	9	-	-	-	12	
Services	Transportation and storage	1,790	85	-	829	1,543	-	-	56	4,303
	Information and communication	0	-	-	50	14	-	-	-	65
	Financial and insurance activities	0	24,539	1,837	0	1,530	-	78	5,087	33,071
	Real estate activities	875	4	-	3,892	6,911	-	-	-	11,682
	Professional, scientific and technical activities	0	0	-	-	47	-	-	-	47
	Administrative and support service activities	23	-	-	-	4,586	-	-	-	4,609
	Public administration and defense-compulsory social security	54	0	-	-	71,817	-	121	23,013	95,005
	Human health and social work activities	32	-	-	-	2,947	-	-	-	2,978
	Arts, entertainment and recreation	-	-	-	-	139	-	-	-	139
	Other service activities	-	-	-	-	272	-	-	-	272
	Education	3	-	-	-	422	-	-	-	425
	Other services	-	-	-	-	0	-	-	1,323	1,323
	Others	48	64	-	-	-	2	7,840	31	7,985
	<b>TOTAL</b>	<b>8,463</b>	<b>24,781</b>	<b>1,837</b>	<b>14,734</b>	<b>94,426</b>	<b>2</b>	<b>8,039</b>	<b>29,511</b>	<b>181,792</b>
<b>%</b>	<b>5%</b>	<b>14%</b>	<b>1%</b>	<b>8%</b>	<b>52%</b>	<b>0%</b>	<b>4%</b>	<b>16%</b>		

The exposure is mainly concentrated on public sector entities and sovereigns (68%).

In 2015, the portfolio of Dexia on public sector entities continued to decrease.

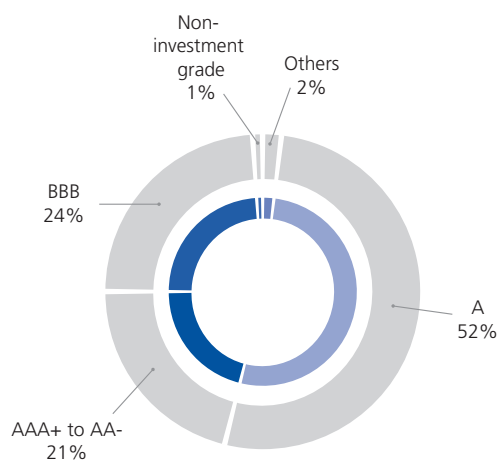
Exposure to financial institutions decreased by 20%, and now represents 14% of the total exposures. This decrease is mainly due to portfolio amortisation.

The "corporate" and "project finance" segments' exposure levels slowly increase from 2014 year-end (3%) due to foreign exchange rates evolution (depreciation of the euro against the US dollar and pound sterling) which offset the natural amortisation of the portfolio and the effect of early repayments and sales.

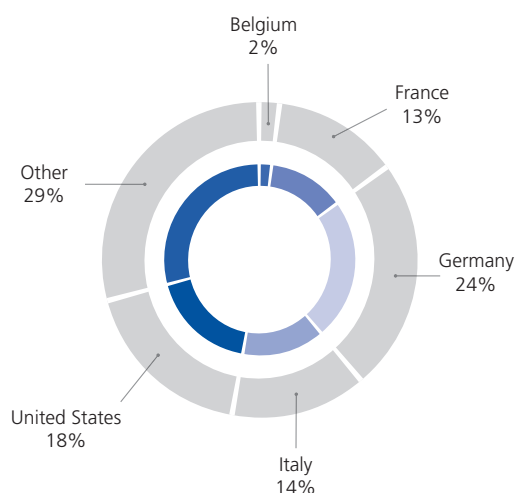
Dexia's exposure to SME is included in the corporate segment and is almost nil.

Exposure in the coloured cells is further detailed in the following diagrams.

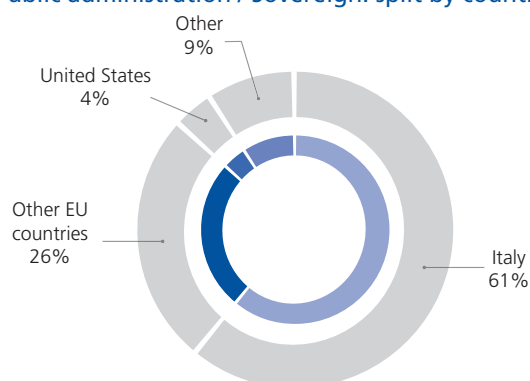
## Financial institutions: split by rating class



## Public administration / Public sector entities: split by country



## Public administration / Sovereign: split by country



## 3.2.4. Fundamentals of Dexia's credit risk in 2015

## 3.2.4.1. Dexia Group commitments on sovereigns

Dexia Group outstanding on sovereigns is focused essentially on Italy and to a lesser extent on the United States, Portugal, France, Poland, Japan and Hungary.

	Sovereigns			
	2014 (MCRE)	2014 (EAD)	2015 (EAD)	%
Italy	13,901	15,572	14,226	48%
United States	2,880	2,923	3,097	10%
Portugal	1,980	2,011	2,061	7%
France	862	632	2,047	7%
Poland	2,145	2,148	1,861	6%
Japan	1,257	1,257	1,456	5%
Hungary	1,006	1,006	893	3%
Greece	-	0	0	-
Others	4,117	4,310	3,871	13%
<b>TOTAL</b>	<b>28,148</b>	<b>29,858</b>	<b>29,511</b>	

Whilst the economic recovery of the developed countries was confirmed in 2015, growth in the emerging countries, affected by the sharp fall of commodity prices and the slowdown of the Chinese economy, was attenuated, provoking a decline in global growth. The year was also marked by severe volatility on the financial markets, particularly due to concern about the ability of Greece to fulfil its financial obligations at the beginning of the year, then those in relation to the economic situation in China during the second half-year, combined with uncertainties as to the timetable for interest rate hikes by the Federal Reserve in the United States.

In Europe, the economic recovery which began at the end of 2014 was sustained by low interest rates and oil prices, as well as by accommodating monetary policies. Despite a clear improvement compared with previous years, economic growth in the euro zone nonetheless remains weak, with a slowdown observed in the third quarter. The low level of inflation, the weakness of exports, considering the economic slowdown in the emerging markets, and geopolitical developments, particularly in the Middle East, contribute to this weakening of the economy. Furthermore, the crisis linked with the uncertainties as to Greek debt in the first half-year highlighted the persistence of the poor political and budgetary integration of Member States. Against this background, the European States continued in their efforts to reduce public deficits over the year. Nevertheless, such efforts became less of a priority, considering the weakness of the recovery and the budget choices made to deal with security threats.

The growth of the US economy remained relatively sustained, supported in particular by household consumption, despite a slowdown observed during the third quarter, amplified by the effect of corporate destocking.

In Japan, the economy remained weak, diminishing the hopes of a recovery of economic activity. This situation is principally explained by the fall in corporate investments, thus illustrating the persisting lack of confidence of Japanese businesses. The Japanese economy nonetheless benefits from the momentum of household consumption.

### 3.2.4.2. Dexia Group commitments on the local public sector

	Local public sector			%
	2014 (MCRE)	2014 (EAD)	2015 (EAD)	
Germany	16,489	20,638	18,599	20%
France	18,069	18,822	17,154	18%
United States	10,580	11,940	12,964	14%
United Kingdom	9,267	12,061	12,427	13%
Italy	11,125	12,801	11,112	12%
Spain	7,929	8,852	7,796	8%
Portugal	1,788	1,965	1,825	2%
Canada	0	1,532	1,644	2%
Greece	72	72	63	0%
Others	11,208	11,433	10,843	11%
<b>TOTAL</b>	<b>86,526</b>	<b>100,118</b>	<b>94,426</b>	

#### France

##### General context

In 2015, budget constraints were increased for local authorities, taking account of the reduction of State subsidies by EUR 3.7 billion. This downward trend should continue in 2016 and 2017. Debt outstanding increased overall by 2.5% to EUR 179 billion.

The quality of the Group portfolio, consisting mainly of outstanding on local authorities and social housing, remains extremely good, with a very limited number of payment incidents observed.

##### Update on structured loans

In 2015, Dexia continued its voluntary action to assist French local authorities, in order to reduce its outstanding on sensitive structured loans. In accordance with the policy implemented since 2013, the Group has offered all of its customers the opportunities to switch definitively to a fixed rate and mutually acceptable solutions have been found with an increasing number of borrowers. Thus, the outstanding on sensitive structured loans was reduced by 20% compared to the end of 2014 and by 50% compared to May 2012, to EUR 973 million as at 31 December 2015.

In addition, following the creation of the local authority and hospital sector support funds in France, the Dexia teams have approached all potential beneficiaries in order to help them start their application.

The notification from the support fund began in September 2015 and will continue until the end of March 2016. Within 3 months from receipt of the notification, customers must communicate their decision to accept or refuse support and then sign an agreement with the bank, ending any proceedings before the courts.

As a consequence, the number of cases in which Dexia Crédit Local is involved has fallen over the year, from 221 at the end of 2014 to 147 at the end of 2015.

*More detailed information on the evolution of litigation associated with Dexia's sensitive structured loans Dexia is provided in the section entitled "Litigation" in Dexia's annual report 2015.*

## Spain

The maturity term of programmes aimed at helping local authorities facing severe liquidity problems, the Autonomous Liquidity Fund (FLA) and the FFPP (aimed at clearing supplier debts) respectively in 2015, led central government to adopt new measures to extend the support it has given to the public sector since 2012. This support now involves two major funds:

- The “regional fund”, which includes the FLA, was extended until 2017, and had a budget of EUR 28 billion in 2015 for the weakest regions. In addition, financial facilities are allocated for debt clearance, in an amount of EUR 12 billion. Finally, a social fund of EUR 1.3 billion enables financial aid to be provided for settling specific debts due from regions to municipalities.
- The “municipal fund”, composed of two programmes: the “economic momentum fund”, intended for the weakest municipalities suffering serious budget difficulties and the “financial reorganisation fund”, intended for the municipalities most deeply in debt. The overall amount of these two programmes is EUR 0.8 billion.

These developments are positive since they increase support from the central State to the regions and the municipalities and broaden their functions, in particular by developing a specific support mechanism for the municipalities facing greatest difficulty. Four municipalities placed on a watch list in 2015, representing total exposure of EUR 56 million, have already received ministerial approval to benefit from this support.

The adherence of these municipalities to the support fund has internal consequences:

- Exit from the watch list or default when all unpaid amounts are regularised;
- The reversal of impairments.

## United States

In 2015, the Group carefully monitored the development of the situation of the Commonwealth of Puerto Rico.

The Commonwealth of Puerto Rico faced severe financial difficulties, limiting its ability to meet its financial commitments. A reform plan was launched to reduce the deficit by one half by 2020. This reform plan will not be enough without contributions from creditors of the Commonwealth and its government sponsored enterprises. On 6 February 2015, the US District Court rejected the Puerto Rico Public Corporation Debt Enforcement and Recovery Act signed in 2014, with the aim of allowing the debt of government sponsored enterprises in Puerto Rico to be restructured. Taking this decision into account, discussions were begun directly with creditors at the beginning of July 2015 by the Governor of Puerto Rico and government sponsored enterprises in the Commonwealth, to restructure their debts. The Commonwealth's financial situation depends on the desire of the Federal State to support the Commonwealth with financial aid and facilities through reforms. Two draft bills of law have been put before Congress aimed at providing ad hoc aid of USD 3 billion, and the possibility of extension of the scope of application of Chapter IX of the American Bankruptcy Act to include Puerto Rico.

The Group's exposure to government sponsored enterprises of the Commonwealth of Puerto Rico amounted to EUR 421 million<sup>(7)</sup> as at 31 December 2015, of which 95% is covered by good quality monolines.

Impairments amounted to EUR 42 million (USD 45 million). They cover outstanding without good quality credit enhancement and the possibility of acceleration of payments in the event of guarantee call, which would generate costs for unwinding hedge instruments.

## Greece

Dexia's exposure to the Greek local public sector represented EUR 63 million at the end of December 2015, spread between the municipalities of Athens and Acharnai. Considering the financial and macroeconomic uncertainties weighing on Greece, impairments were booked on these two exposures during the 2015 financial year, in relation to their level of financial dependency towards the central State.

### 3.2.4.3. Dexia Group commitments on project finance and corporates

	Corporate				Project finance			
	2014 (MCRE)	2014 (EAD)	2015 (EAD)	%	2014 (MCRE)	2014 (EAD)	2015 (EAD)	%
United Kingdom	1,851	3,076	4,511	53%	4,453	4,971	4,623	31%
France	1,909	1,962	1,791	21%	2,663	2,869	2,611	18%
Spain	124	117	93	1%	2,354	2,446	2,279	15%
Italy	918	973	841	10%	482	454	329	2%
United States	213	280	301	4%	574	666	677	5%
Canada	0	0	0	-	0	858	861	6%
Germany	19	8	23	0%	469	449	388	3%
Portugal	74	79	77	1%	133	136	116	1%
Greece	0	0	0	-	73	85	80	1%
Others	430	362	825	10%	3,561	2,823	2,770	19%
<b>TOTAL</b>	<b>5,538</b>	<b>6,857</b>	<b>8,463</b>		<b>14,761</b>	<b>15,756</b>	<b>14,734</b>	

(7) EAD amount corresponding to USD 430 million of gross accounting value as previously disclosed.



The portfolio of project financing and corporate loans stood at EUR 23.2 billion as at 31 December 2015, up 3% on the end of 2014. Over the year 2015, the effects of exchange rate fluctuations and the valuation of bonds held, particularly on large corporates, more than offset the impact of natural portfolio amortisations and early redemptions. This portfolio is composed 64% of project financing<sup>(8)</sup>, the balance being in corporate loans, such as acquisition funding, commercial transactions and corporate bonds. Dexia is following a policy of disengagement towards its counterparties.

As at 31 December 2015, the project finance portfolio amounted to EUR 14.7 billion. It consists 51% of Public-Private Partnerships (PPP), principally in the United Kingdom and France, 12% in energy sector projects, mostly in the field of renewable energies, and 18% in projects presenting a traffic risk (mainly toll roads and airports). 71% of the portfolio is placed in Western Europe, 20% in the United States, Canada and Australia. 70% of the portfolio is rated "investment grade".

The situation concerning certain projects in Spain is monitored carefully. The change to the Spanish regulatory framework on renewable energies adopted on 16 June 2014, providing the revision of electricity purchase tariffs, in fact continues to weigh on a part of the portfolio of renewable projects, principally photovoltaic projects, and in some cases has necessitated debt restructuring. Ten or so projects have been subject to restructuring so far. Negotiations are in progress on other projects. Taking this situation into account, the Group booked specific impairments on the more fragile projects, resulting at the same time in a reduction of the sector provision established in 2014 to cover this risk.

The corporate loan portfolio is approximately EUR 8.5 billion at the end of 2015. It consists 59% of companies in the utilities sector (water, environment, distribution and transmission of energy or gas) and 32% of companies in the infrastructure sector (motorway operators, airports, ports and car parks). 88% of the portfolio is situated in Western Europe, 12% in the United States, Canada and Australia. 94% of the portfolio is rated "investment grade".

The Group exposure to the oil sector, under pressure with falling prices, amounted to EUR 293 million. Exposure, if any, is mostly in the project finance sector, the resilience of which when oil prices fall is deemed satisfactory, and to a lesser extent with leading corporates.

#### 3.2.4.4. Dexia Group commitments on ABS

	ABS/MBS			%
	2014 (MCRE)	2014 (EAD)	2015 (EAD)	
United States	4,569	4,582	4,618	57%
United Kingdom	221	221	2,236	28%
Spain	691	691	588	7%
Italy	170	170	132	2%
Portugal	138	138	98	1%
Greece	11	11	10	0%
Germany	9	9	8	0%
Others	884	457	349	4%
<b>TOTAL</b>	<b>6,692</b>	<b>6,278</b>	<b>8,039</b>	

As at 31 December 2015, Dexia's ABS portfolio amounted to EUR 8 billion, up EUR 1.8 billion on the end of 2014, mainly due to the rise of the US dollar against the euro, despite the natural amortisation of the portfolio and some asset sales during the year.

This portfolio consists of EUR 4.2 billion in US government student loans, which present a rather long amortisation profile and benefiting from the US State guarantee. The balance is principally in residential mortgage backed securities (RMBS) representing an amount of EUR 1 billion, of which EUR 0.4 billion in Spain.

The increase of EUR 2 billion in the United Kingdom is a consequence of adjustments made to the regulatory treatment of the Wise transaction.

*More details on the Wise transaction are provided in the section entitled Securitisation (3.9) of this report.*

The quality of the ABS portfolio remains stable overall, with 94% of the portfolio rated "investment grade" at the end of December 2015, almost all of the tranches in which Dexia invested being senior level.

<sup>(8)</sup> Transactions without recourse to their sponsors the redemption of which is only on the basis of their own cash-flows and strongly secured in favour of the bank, for example via sureties on assets and contracts or a limitation of dividends.

### 3.2.4.5. Dexia Group commitments on financial institutions

	Financial institutions			%
	2014 (MCRE)	2014 (EAD)	2015 (EAD)	
Spain	7,344	7,395	5,623	23%
United States	4,737	5,398	5,260	21%
Germany	4,086	4,632	3,060	12%
France	3,153	4,803	3,014	12%
United Kingdom	1,597	2,225	1,952	8%
Italy	582	692	604	2%
Canada	-	216	212	1%
Portugal	10	14	16	0%
Greece	-	0	0	-
Others	5,832	5,705	5,041	20%
<b>TOTAL</b>	<b>27,340</b>	<b>31,080</b>	<b>24,781</b>	

Dexia's commitments on financial institutions amounted to EUR 24.8 billion as at 31 December 2015. 41.6% of these are bonds and covered bonds. The balance consists of loans to financial institutions, and exposures associated with Repo and derivatives transactions.

Commitments on financial institutions were down 20% over the year, principally due to portfolio amortisation.

Dexia's exposure is concentrated 21% in the United States and 68% in Europe, principally in Spain (23%), Germany (12%), France (12%) and the United Kingdom (8%).

This year was marked by unfavourable developments in the situation of Heta Asset Resolution AG during the first half-year.

On 1 March 2015, within the framework of the federal law on the reorganisation and resolution of banks, the Austrian financial market supervisory authority published a decree on the adoption of resolution measures consisting of a temporary moratorium, until 31 May 2016, on a substantial portion of the debt of Heta Asset Resolution AG.

Via its subsidiary Dexia Kommunalbank Deutschland AG (DKD), Dexia has an exposure of EUR 417 million<sup>(9)</sup> to the debt of Heta Asset Resolution AG concerned by the moratorium, guaranteed by the Province of Carinthia.

Following this decision, DKD decided to book an impairment of EUR 197 million, corresponding to 44% of its notional exposure to Heta Asset Resolution AG and the total amount of the interest rate derivatives associated to these assets.

At the same time, DKD and a pool of 10 other creditors launched a legal action objecting to the moratorium. On 15 July 2015, this pool of creditors began a legal action against Heta Asset Resolution AG in the Regional Court in Frankfurt to claim immediate payment of Heta's obligations. These proceedings are ongoing.

On 21 January 2016, the Province of Carinthia presented to the market an offer to repurchase the senior bonds issued by Heta Asset Resolution AG at 75% of par and subordinated bonds at 30% of par. The pool of creditors, including DKD, and other groups of creditors, jointly representing more than one third of the exposures affected by the offer and thus representing a blocking minority, undertook contractually to accept no transaction involving a recovery of debts below par. As a consequence, they did not accept the repurchase offer made by the Province of Carinthia as well as the additional offer made by the Austrian government, shortly before the expiry of the tender period, as it was still not satisfactory to the creditors' pool.

DKD is studying other legal actions to preserve, defend and strengthen its rights against Heta Asset Resolution AG, the Province of Carinthia, Kärntner Landesholding<sup>(10)</sup> or any other party involved in this case.

Outside the exposure to Heta Asset Resolution AG, the credit quality of the portfolio improved overall in 2015, with the effect of the amortisation of exposures to counterparties rated "non-investment grade".

### 3.2.4.6. Dexia Group commitments on monolines

Dexia has indirect exposure to monolines through unconditional and irrevocable financial guarantees that insure the timely payment of principal and interest on certain bonds and loans. Actual claims against monoline insurers only become due if actual defaults occur on the underlying assets.

As at 31 December 2015, the Dexia portfolio included EUR 20.6 million of assets insured by monolines, of which, 68% was insured by monolines rated "investment grade" by two or more external rating agencies. All but two insurers (FGIC and Ambac's Segregated Account) continue to pay all claims on time and in full.

<sup>(9)</sup> EAD amount corresponding to EUR 395 million of nominal exposure as previously disclosed.

<sup>(10)</sup> Kärntner Landesholding is a legal entity sui generis, held by the Province of Carinthia. It is liable as a deficiency guarantor for all present and future liabilities of Heta Asset Resolution AG.

## 3.3. AIRB approaches

### 3.3.1. Competent authority's acceptance of approach

By letter sent on 21 December 2007 by the Belgian supervisory authorities, Dexia was authorised to use the Advanced Internal Rating-Based Approach (AIRB Approach) for the calculation and the reporting of its capital requirements for credit risk starting from 1 January 2008.

This acceptance is applicable to all entities and subsidiaries consolidated within the Dexia Group, which are established in a Member State of the European Union and are subject to the Capital Requirement Directive.

### 3.3.2. Internal rating systems

The internal rating systems developed by Dexia are set up to evaluate the three Basel parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For each counterparty type in the advanced method, a set of two or three models, one for each parameter, has been developed.

The PD models estimate the one-year probability of default. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed and adjusted during the yearly back-testing when applicable. The number of ratings on each scale depends on the characteristics of the underlying portfolio (the number of counterparties, their homogeneity, whether it is a low default portfolio or not) and varies between 6 and 17 non-default classes. In addition each scale has been attributed two default classes (named D1 and D2).

LGD models estimate the ultimate loss incurred on a defaulting counterparty before taking the credit risk mitigants into account. The unsecured LGD depends on different factors such as the product type, the level of subordination or the rating of the counterparty. The granularity of the estimate is a function of the quantity and quality of data available.

CCF models estimate the portion of off-balance-sheet commitments that would be drawn should counterparties go into default. The regulation authorises the use of CCF models only when CCF under the foundation approach is not equal to 100% (as it is for credit substitutes for instance). CCF granularity also depends on data availability. As a consequence of the orderly resolution plan, internal CCF models are used only on project finance assets; on all other asset classes the foundation parameters are applied. Internal estimates of Basel parameters are used within Dexia in addition to the calculation of the regulatory risk weighted exposure amounts. They are used particularly in the decision-making process, credit risk management and monitoring, internal limit determination, provisioning methodology and pricing.

The control mechanisms for Internal Rating Systems (IRS) are organised in 3 levels:

- Credit IRS control is defined, in accordance with the regulatory directives, as an internal and independent containment function to ensure that the IRS are being used properly, that they are operationally effective and that the audit trail in the rating process remains clear;
- The validation team is responsible for the independent review of all models used within Dexia, back testing and stress testing, either market risk models, pricing models, Basel Pillar 1 credit rating models, ALM models, economic capital models;
- Audit is responsible for auditing the general consistency and compliance with the regulation of the IRS. Audit then acts as an additional level of control, included in its audit plan.

Please refer to Appendix 2 for more details regarding internal rating systems.

### 3.3.3. Average PD, LGD and risk weight by exposure class and obligor grade

The following tables show the total EAD (Banking Book), average EAD, average PD, LGD, average risk weights and average expected losses broken down by exposure class and obligor grade at year-end 2014 and 2015.

The counterparties are the final counterparties, i.e. after taking into account the Basel III eligible guarantees (substitution principle). Monoline exposure is essentially an indirect exposure.

Average EAD is the quarterly average figure.

Exposure class	Obligor grade	2014					
		EAD (Banking Book) <sup>(2)</sup>	Average EAD	Average PD	Average LGD	Average RW	Average EL
Corporate	AAA to AA-	11	463	0.03%	35.95%	21.92%	0.01%
	A+ to A-	1,835	1,287	0.07%	42.96%	35.68%	0.03%
	BBB+ to BBB-	3,360	3,078	0.25%	46.31%	73.90%	0.12%
	BB+ to B-	428	405	2.46%	66.54%	184.94%	1.61%
	No external rating	24	48	30.87%	66.20%	420.02%	20.44%
	<b>Total</b>	<b>5,658</b>	<b>5,280</b>	<b>0.49%</b>	<b>46.82%</b>	<b>71.26%</b>	<b>0.29%</b>
Financial institutions	AAA to AA-	4,616	4,298	0.05%	18.50%	18.04%	0.01%
	A+ to A-	14,492	13,910	0.32%	25.07%	25.96%	0.02%
	BBB+ to BBB-	6,649	6,331	4.07%	24.38%	46.73%	0.10%
	BB+ to B-	1,137	2,002	7.72%	14.04%	58.81%	0.62%
	No external rating	9	6	0.07%	2.88%	33.97%	0.00%
	<b>Total</b>	<b>26,904</b>	<b>26,546</b>	<b>1.51%</b>	<b>23.30%</b>	<b>31.13%</b>	<b>0.06%</b>
Project finance	AAA to AA-	21	301	0.04%	19.49%	11.56%	0.01%
	A+ to A-	2,924	2,843	0.07%	12.58%	11.28%	0.01%
	BBB+ to BBB-	7,819	7,410	0.36%	14.93%	28.42%	0.06%
	BB+ to B-	3,166	3,198	1.83%	17.48%	53.45%	0.32%
	Below B-	88	28	30.87%	19.49%	122.01%	5.93%
	<b>Total</b>	<b>14,018</b>	<b>13,780</b>	<b>0.82%</b>	<b>15.05%</b>	<b>31.06%</b>	<b>0.14%</b>
Public sector entities	AAA to AA-	23,678	23,713	0.03%	8.55%	4.40%	0.00%
	A+ to A-	7,673	7,767	0.08%	3.64%	3.48%	0.00%
	BBB+ to BBB-	11,945	12,110	0.36%	2.84%	5.22%	0.01%
	BB+ to B-	9,019	8,644	1.48%	2.90%	8.99%	0.04%
	No external rating	130	152	1.48%	4.00%	12.61%	0.06%
	<b>Total</b>	<b>52,444</b>	<b>52,386</b>	<b>0.36%</b>	<b>5.55%</b>	<b>5.26%</b>	<b>0.01%</b>
Securitisation <sup>(1)</sup>	AAA to AA-	13	14	0.00%	5.00%	0.00%	0.00%
	BBB+ to BBB-	67	69	1.48%	3.00%	9.70%	0.04%
	BB+ to B-	60	68	2.10%	8.75%	36.59%	0.58%
	Below B-	0	0	-	-	-	-
	<b>Total</b>	<b>141</b>	<b>151</b>	<b>1.60%</b>	<b>5.64%</b>	<b>20.27%</b>	<b>0.27%</b>
Sovereign	AAA to AA-	4,523	11,169	0.00%	9.36%	0.00%	0.00%
	A+ to A-	19,471	19,324	0.07%	22.92%	19.64%	0.02%
	BBB+ to BBB-	1,098	1,041	0.42%	39.77%	69.66%	0.16%
	BB+ to B-	3,095	2,594	0.89%	41.91%	110.18%	0.37%
	No external rating	0	1,150	30.87%	25.00%	158.69%	7.72%
	<b>Total</b>	<b>28,187</b>	<b>35,278</b>	<b>0.16%</b>	<b>23.48%</b>	<b>28.38%</b>	<b>0.06%</b>
Equities	A+ to A-	0	0	0.09%	90.00%	96.45%	0.08%
	BBB+ to BBB-	0	1	0.21%	90.00%	134.15%	0.17%
	BB+ to B-	1	1	3.31%	90.00%	195.89%	1.75%
	No external rating	2	2	33.38%	11.11%	42.97%	0.25%
	<b>Total</b>	<b>3</b>	<b>4</b>	<b>21.60%</b>	<b>40.66%</b>	<b>89.87%</b>	<b>0.55%</b>
Default	1,117	1,114	-	-	-	-	
<b>TOTAL</b>	<b>128,472</b>	<b>134,539</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

(1) The securitisation exposures shown in this chart are guaranteed by a non-securitisation counterparty treated by the Advanced Approach. Most of Dexia's securitisation exposure is non-guaranteed and is treated by the Rating Based Approach, as shown in the chart in section 2.2.

(2) Trading exposures are not included in this chart.

Exposure class	Obligor grade	2015					
		EAD (Banking Book) <sup>(2)</sup>	Average EAD	Average PD	Average LGD	Average RW	Average EL
Corporate	AAA to AA-	13	13	0.03%	35.95%	21.92%	0.01%
	A+ to A-	1,538	1,713	0.07%	43.27%	39.92%	0.03%
	BBB+ to BBB-	5,636	5,256	0.24%	47.53%	75.25%	0.12%
	BB+ to B-	307	322	2.43%	66.69%	182.11%	1.59%
	No external rating	21	23	30.87%	66.21%	419.33%	20.44%
	<b>Total</b>	<b>7,515</b>	<b>7,327</b>	<b>0.38%</b>	<b>47.47%</b>	<b>74.57%</b>	<b>0.21%</b>
Financial institutions	AAA to AA-	4,899	4,949	0.06%	17.92%	8.33%	0.01%
	A+ to A-	10,512	10,834	0.52%	22.60%	16.19%	0.01%
	BBB+ to BBB-	5,326	5,853	3.24%	28.51%	40.98%	0.11%
	BB+ to B-	132	335	2.92%	70.44%	235.67%	2.06%
	No external rating	0	3	30.87%	65.39%	363.82%	20.19%
	<b>Total</b>	<b>20,869</b>	<b>21,975</b>	<b>1.12%</b>	<b>23.31%</b>	<b>29.86%</b>	<b>0.05%</b>
Project finance	AAA to AA-	0	10	-	-	-	-
	A+ to A-	2,787	2,851	0.07%	12.96%	11.49%	0.01%
	BBB+ to BBB-	7,129	7,583	0.32%	14.56%	26.88%	0.05%
	BB+ to B-	3,105	3,073	1.83%	17.56%	53.04%	0.33%
	Below B-	0	5	-	-	-	-
	<b>Total</b>	<b>13,021</b>	<b>13,523</b>	<b>0.63%</b>	<b>14.93%</b>	<b>29.82%</b>	<b>0.11%</b>
Public sector entities	AAA to AA-	19,725	20,558	0.03%	8.98%	4.56%	0.00%
	A+ to A-	10,535	9,859	0.08%	7.11%	6.75%	0.01%
	BBB+ to BBB-	10,758	12,729	0.30%	3.72%	6.33%	0.01%
	BB+ to B-	8,128	8,294	1.48%	3.29%	10.32%	0.05%
	No external rating	100	133	1.48%	4.00%	12.53%	0.06%
	<b>Total</b>	<b>49,247</b>	<b>51,572</b>	<b>0.34%</b>	<b>6.48%</b>	<b>6.38%</b>	<b>0.01%</b>
Securitisation <sup>(1)</sup>	AAA to AA-	12	13	0.00%	5.00%	0.00%	0.00%
	BBB+ to BBB-	98	81	0.94%	3.00%	7.65%	0.03%
	BB+ to B-	0	25	-	-	-	-
	Below B-	10	6	13.84%	65.00%	343.64%	5.74%
	<b>Total</b>	<b>120</b>	<b>125</b>	<b>1.90%</b>	<b>8.29%</b>	<b>34.40%</b>	<b>0.49%</b>
Sovereign	AAA to AA-	6,111	8,411	0.00%	9.58%	0.00%	0.00%
	A+ to A-	3,528	3,635	0.06%	15.56%	12.08%	0.01%
	BBB+ to BBB-	15,100	15,786	0.18%	25.84%	36.95%	0.05%
	BB+ to B-	3,157	3,237	0.93%	42.13%	110.36%	0.39%
	No external rating	0	0	30.87%	25.00%	158.69%	7.72%
	<b>Total</b>	<b>27,896</b>	<b>31,069</b>	<b>0.21%</b>	<b>22.82%</b>	<b>34.02%</b>	<b>0.07%</b>
Equities	A+ to A-	0	0	-	-	-	-
	BBB+ to BBB-	0	0	0.42%	90.00%	97.49%	0.19%
	BB+ to B-	0	0	1.15%	90.00%	136.62%	0.52%
	No external rating	2	2	32.79%	11.11%	38.77%	0.20%
	<b>Total</b>	<b>2</b>	<b>3</b>	<b>30.60%</b>	<b>16.48%</b>	<b>43.26%</b>	<b>0.20%</b>
Default		1,058	1,133	-	-	-	-
<b>TOTAL</b>		<b>119,728</b>	<b>126,727</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(1) The securitisation exposures shown in this chart are guaranteed by a non-securitisation counterparty treated by the Advanced Approach. Most of Dexia's securitisation exposure is non-guaranteed and is treated by the Rating Based Approach, as shown in the chart in section 2.2.

(2) Trading exposures are not included in this chart.

The decrease of EAD is mainly explained by sale off, maturity, early repayment as well as fair value changes. These effects are offset by the FX movements.

The majority of Dexia Group exposure in AIRB approach (65% of the EAD) is concentrated on the public sector (i.e. public sector entities and sovereign exposures). A vast majority of average PD levels is below 1% (the average PD is 0.48%), reflecting the exposure on highly rated municipal and public related counterparties.

Average LGD is very heterogeneous by exposure class: public sector entities benefit from very low LGD compared to corporate exposures.

### 3.3.4. Back testing

The purpose of the back-test exercises is to assess the performance of the internal rating system ensuring an appropriate balance between capital and risk. As the formulas to calculate the bank's capital are provided by the Basel Committee on Banking Supervision, the internal back-test relating to Pillar 1 rating systems is based on the back-test of the input parameters PD, LGD and CCF in the Basel III credit risk portfolio model.

The back-test is the evaluation of the predictive power of the rating system and the assessment of its time evolution to detect any reduced performance of the rating system. With this aim three properties are in particular analysed: the model's calibration, its discriminatory power and its stability.

Decreased performance of the rating system decision tool may reduce the bank's profitability and will impact the risk assessments of the defined risk buckets. The performance is tracked by analysing the ability to discriminate between high and low risk and the stability of the data inputs into the rating system.

The back-test procedures include three types of tests.

#### Calibration

Calibration normally denotes the mapping of the Probability of Default (PD) to the rating grades. A rating system is well calibrated if the estimated PD (or LGD or CCF) slightly exceeds the actual default rates (or loss or CCF observed).

#### Discriminatory power

The discriminatory power of rating systems denotes their ex-ante ability to identify borrowers in danger of defaulting. A rating system with maximum discriminatory power would be able precisely to identify in advance all borrowers that subsequently default. In practice, however, such perfect rating systems do not exist. A rating system demonstrates a high discriminatory power if the "good" grades subsequently turn out to contain only a small percentage of defaulters and a large percentage of non-defaulters, with the converse applying to the "poor" grades. For LGD and CCF, the precision of the calibration is assessed.

#### Stability

The stability of the population and its data characteristics: the aim is to make sure that the model applied is in line with the reference data sets and with the model where key risk parameters are estimated, or that the population characteristics do not change significantly over time.

The results of the back-tests are assessed using statistical significance tests on the available short-term and long-term data histories. The outcome of the significance tests indicating an unacceptable decreased performance will drive required action plans. The additional part of the back-test procedure is related to ad hoc analysis (qualitative, benchmarking, expert overruling, model risks...).

## 3.4. Standard approach

### 3.4.1. Introduction

Consecutively to the disposal of some entities and to the sharp decrease of some portfolios, Dexia presented an official request to the home supervisors to move some portfolios from advanced to standard approach. The portfolios involved have become non-material in terms of exposure and number of counterparties.

The switch from advanced to standard approach has been implemented as from June 2013 reporting date, following official acceptance of the proposal by the National Bank of Belgium for the following types of counterparties:

- Insurance companies including monoline insurers;
- Belgian 'other' satellites;
- Belgian Region and Communities expert models and assimilated counterparties;
- Mid-corporate counterparties.

### 3.4.2. Nominated external credit assessment institutions (ECAI)

The standard approach provides risk-weighted asset figures based on external ratings. In order to apply the standard approach for risk-weighted exposure, Dexia uses the external ratings assigned by the following rating agencies: Standard & Poor's, Moody's and Fitch.

Dexia also plans to use any other eligible ECAI as approved from time to time by the National Bank of Belgium (NBB) and as far as Dexia has implemented these ECAI in its methodology and IT systems.

The rating used for the regulatory capital calculation is the lower of the two ratings, if two ratings are available, or the lower of the best two ratings, if three ratings are available. If no external rating is available, the standard approach provides specific risk weights that vary depending on the counterparty type.

Credit rating agencies and credit quality step under the standard approach			
Standard & Poor's	Moody's	Fitch	Regulatory credit quality step
AAA to AA-	Aaa to Aa3	AAA to AA-	1
A+ to A-	A1 to A3	A+ to A-	2
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	3
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	4
B+ to B-	B1 to B3	B+ to B-	5
CCC+ and below	Caa and below	CCC+ and below	6

Risk weights are mainly determined in relation to the credit quality step and the exposure class.

### 3.4.3. Exposure at default and average risk weights

The following table shows the total exposure at default (banking book) and exposure to weighted-average risk weights broken down by exposure class and obligor grade at year-end 2014 and 2015.

Exposure class	Obligor grade	2014		2015	
		EAD (M)	Average RW	EAD (M)	Average RW
Corporate	A+ to A-	81	50%	142	50%
	No external rating	207	58%	82	97%
<i>Total corporate</i>		<i>288</i>	<i>55%</i>	<i>224</i>	<i>67%</i>
Equities	No external rating	743	150%	778	150%
<i>Total equities</i>		<i>743</i>	<i>150%</i>	<i>778</i>	<i>150%</i>
Financial institutions	AAA to AA-	1,291	0%	50	3%
	A+ to A-	450	16%	699	34%
	BBB+ to BBB-	29	81%	88	98%
	BB+ to B-	138	100%	122	69%
	Below B-	0	0%	417	100%
	No external rating <sup>(1)</sup>	1,335	28%	1,600	37%
<i>Total financial institutions</i>		<i>3,244</i>	<i>19%</i>	<i>2,976</i>	<i>44%</i>
Monolines	A+ to A-	3,889	50%	1,837	50%
	BB+ to B-	3	150%	0	-
	No external rating	98	100%	0	-
<i>Total monolines</i>		<i>3,990</i>	<i>51%</i>	<i>1,837</i>	<i>50%</i>
Project finance	AAA to AA-	163	20%	187	20%
	A+ to A-	26	50%	34	50%
	BBB+ to BBB-	22	100%	24	100%
	No external rating	675	100%	590	100%
<i>Total project finance</i>		<i>886</i>	<i>84%</i>	<i>835</i>	<i>80%</i>
Public sector entities	AAA to AA-	34,439	7%	31,823	7%
	A+ to A-	5,224	25%	6,236	21%
	BBB+ to BBB-	1,439	67%	1,342	64%
	BB+ to B-	525	97%	363	133%
	Below B-	0	0%	63	100%
	No external rating <sup>(2)</sup>	5,674	66%	5,015	65%
<i>Total public sector entities</i>		<i>47,301</i>	<i>19%</i>	<i>44,840</i>	<i>18%</i>
Retail	No external rating	3	75%	2	75%
<i>Total retail</i>		<i>3</i>	<i>75%</i>	<i>2</i>	<i>75%</i>
Securitisation	AAA to AA-	4	0%	1	0%
	A+ to A-	13	50%	11	50%
	BB+ to B-	71	150%	67	150%
<i>Total securitisation</i>		<i>88</i>	<i>128%</i>	<i>79</i>	<i>135%</i>
Sovereign	AAA to AA-	1,449	0%	779	0%
	A+ to A-	653	20%	657	20%
	BBB+ to BBB-	-	-	624	0%
<i>Total sovereign</i>		<i>2,102</i>	<i>6%</i>	<i>2,061</i>	<i>6%</i>
Others		3,272	41%	2,918	45%
<i>Total others</i>		<i>3,272</i>	<i>41%</i>	<i>2,918</i>	<i>45%</i>
<b>TOTAL</b>		<b>61,917</b>	<b>-</b>	<b>56,550</b>	<b>-</b>

(1) Exposure mainly on central counterparties (CCP).

(2) Preferential treatment.

If no external rating is available, standard risk weights can be applied based on national discretions or Basel III rules (reference to the sovereign rating depending on the exposure type).

## 3.5. Impairment, past-due and related provisions

### 3.5.1. Concepts and implementation within Dexia

#### 3.5.1.1. Principles of past-due exposure

A past due is defined as payment that has become due but has not been made according to the terms of the agreement. A past due is considered by contract. Even if a counterparty fails to pay only the required interests at due date, the entire loan exposure is considered as past due.

#### 3.5.1.2. Principles of default (Dexia), non-performing exposure and forbearance (EBA)

The concept of default includes counterparties that have (or likely in the future to have) difficulties meeting their commitments or counterparties where return to a normal situation seems difficult.

For counterparties that have or are likely to have financial difficulties, Dexia has identified situations described by the different criteria listed below:

- Non-observance of any of the contractual obligations that are material in terms of risk;
- Any significant difficulties of the debtor, repeated delay of payments (even if those payments are lower than the threshold) < 90 days (or a different delay decided for a specific market segment), repeated exceeding or incorrect use of line of credit without improvement prospect, justifying a specific follow-up;
- Deterioration of the credit, or significant downgrading of the external ratings, or situation which could lead, on a statistical basis, to a non-payment of the obligations;
- Significant devaluation (or the probability of devaluation), due to an increase of the risk on an active market, especially where the credit could be threatened, or there is a disappearance of the market including sale of the credit obligation resulting in a material loss due to credit risk;
- Any case of accelerated payment as defined by law, illegal financial operation, important fraud, misrepresentation, accounting's publishing with reservation of external auditors;
- A cross-default, termination of credits by other banks, "protêt", triggering of an accelerated payment clause, social or tax "past-due";
- Total or partial extinction of risk mitigant considered as essential to the credit;
- Legal action against the debtor likely significantly to damage his solvency;
- The debt being classified as "doubtful";
- Any restructuring, including emergency restructuring, triggered by deterioration of the risk and with a disadvantageous character (reduction of the net present value).

These counterparties receive a credit rating of D1 on a case-by-case analysis.

For counterparties where return to a normal situation seems difficult, Dexia has also identified situations described by the criteria listed below:

- The counterparty is "past due" for more than 90 days on any payment obligation (or a different delay decided for a specific market segment). For authorised overdrafts, the delay starts at the due date of the authorisation and for non-authorised overdrafts, as soon as they appear. Exceptions to this rule are:
  - 180th days of any delay in payment obligation for the French local public sector and assimilated counterparties;
  - Technical past-dues, defined as the consequence of a mistake by the counterparty (or by its accountant, or by its bank) that leads to a delayed payment of the debt;
  - Operational past dues, defined as a failure in the process, or in the internal system of Dexia. Operational past-dues also include the legal risk when the counterparty has the means to afford its payment but refuses to pay it;
  - Immaterial amounts: Dexia's threshold for past-due is a fixed amount established at EUR 500 (from 1 January 2015). The threshold takes into account nominal past-due, past due on interest, penalties and commissions.
- Any case of judicial settlement, unwinding, bankruptcy, composition, Chapters 7, 9 or 11 or any similar legal status;
- Termination of the loan, due to any type of incident;
- The loan being subject to a legal procedure of "recovery".

For these counterparties, a credit rating of D2 is given.

#### Non-performing exposure

To facilitate monitoring and comparison between the different European banks, the European Banking Authority (EBA) harmonised the definition of Non-Performing Exposure (NPE) and Forbearance.

The Dexia Group has identified exposures corresponding to the said EBA definition and published the amount of its non-performing exposure.

According to the EBA, non-performing exposures on balance sheet are those that satisfy at least one of the following criteria (§ 145 ITS):

- Material exposures which are more than 90 days past-due (quantitative criterion);
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past-due (qualitative criterion).



## Forbearance (EBA)

The definition of forbearance groups together facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their commitments (facilities which banks would not otherwise have granted). Forbearance is applied on healthy or safe assets or on non-performing assets. As at 31 December 2015, 97 contracts, corresponding to 48 counterparties, were considered forborne, for an amount of outstanding at EUR 1 billion.

### 3.5.1.3. Impairments

In line with the impairment tests defined by IAS 39, Dexia has defined two types of impairments:

#### Specific impairments

The scope of application of specific impairments is determined by individual impairment tests conducted on the whole portfolio. A specific impairment aims at covering assets in default on an individual basis, following IFRS principles and based on the valuation of the net risk of the counterparty. The necessity of a specific impairment is assessed on every exposure classified "in default". The individual impairment test is the result of the application of the "Quarterly Review and Watch-list" process and of the default process on individual counterparties.

The amount of impairment to be set for the asset is equal to the difference between the net accounting value and the net present value of expected free cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (EIR), or EIR at reclassification date for AFS bonds that have been reclassified as Loans and receivables.

This net present value is determined on a case-by-case basis by the credit expertise centres. The following indicators are taken into account for proposing the level of specific impairment to the Impairment Committee:

- The existence of guarantees and credit risk mitigants attached to the facility;
- The use, for some sectors, of external valuations on which to base its judgment;
- The use, for ABS, of a free cash flow model to estimate recovery rate at the end of the contract;
- Internal estimates, in some other cases, of recovery opportunities (according to objective and subjective factors resulting from its knowledge of the counterparty).

#### Collective impairments

Collective impairment tests are based on objective indicators of impairment on a portfolio basis. These impairments are compliant with IAS 39 allowing banks "to determine impairment losses in a group of financial assets".

Dexia's collective impairment is based on two types of models:

- Statistical approach based impairments corresponding to:
  - The provisioning until maturity of the exposures of a sub-portfolio composed of counterparties presenting objective evidence of deterioration in terms of risk quality without requiring a specific impairment: the statistical provision, based on average parameters (LGD, PD).
  - Additional sector impairments, in order to take account of the current circumstances, by stressing calculation parameters.
- Expert approach based impairments covering risks observed on a segment of counterparties / types of financing / country risk presenting advanced deterioration evidence of risk without requiring the constitution of a specific impairment.

## 3.5.2. Overview of past-due exposure and impairments

A financial asset is past due when the counterparty has failed to make a payment when contractually due. If a counterparty fails to pay the required interest at due date, the entire loan is considered as past-due.

The following tables show the situation of past-due and impaired assets at the end of 2014 and 2015.

	31/12/2014				31/12/2015			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	Less than 90 days	90 days to 180 days	Over 180 days		Less than 90 days	90 days to 180 days	Over 180 days	
Financial assets available for sale (excluding variable income securities)	-	-	-	72	-	-	-	212
Loans and advances (at amortised cost)	183	28	501	1,161	57	4	436	1,320
Other financial instruments	-	-	212	2	-	-	13	2
<b>TOTAL</b>	<b>183</b>	<b>28</b>	<b>712</b>	<b>1,235</b>	<b>57</b>	<b>4</b>	<b>449</b>	<b>1,534</b>

	31/12/2014							
	As at 1 Jan.	Additions	Reversals	Utilisation	Other adjustments <sup>(1)</sup>	As at 31 Dec.	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
<b>Specific impairment</b>	<b>(624)</b>	<b>(135)</b>	<b>366</b>	<b>31</b>	<b>(28)</b>	<b>(391)</b>	<b>1</b>	<b>(249)</b>
Customer loans and advances	(545)	(118)	357	20	(24)	(309)	-	(248)
Available for sale securities	(70)	(17)	-	11	(4)	(80)	-	-
<i>Fixed revenue instruments</i>	(32)	(9)	-	-	(2)	(43)	-	-
<i>Variable revenue instruments</i>	(38)	(8)	-	11	(2)	(38)	-	-
Other accounts and receivables	(9)	-	8	-	(1)	(2)	1	(1)
<b>Collective impairment</b>	<b>(419)</b>	<b>(155)</b>	<b>80</b>	<b>-</b>	<b>(9)</b>	<b>(503)</b>		
Interbank loans and advances	(5)	(11)	2	-	-	(14)		
Customer loans and advances	(414)	(144)	78	-	(9)	(490)		
<b>TOTAL</b>	<b>(1,043)</b>	<b>(290)</b>	<b>446</b>	<b>31</b>	<b>(38)</b>	<b>(894)</b>	<b>1</b>	<b>(249)</b>

(1) Other adjustments include notably the impact of changes in exchange rates and the scope of consolidation during the year.

	31/12/2015							
	As at 1 Jan.	Additions	Reversals	Utilisation	Other adjustments <sup>(1)</sup>	As at 31 Dec.	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
<b>Specific impairment</b>	<b>(391)</b>	<b>(311)</b>	<b>61</b>	<b>55</b>	<b>(18)</b>	<b>(604)</b>	<b>0</b>	<b>(70)</b>
Customer loans and advances	(309)	(198)	61		(12)	(458)		(11)
Available for sale securities	(80)	(113)	0	55	(6)	(144)		(54)
<i>Fixed revenue instruments</i>	(43)	(107)		54	(1)	(98)		(54)
<i>Variable revenue instruments</i>	(38)	(6)		0	(4)	(48)		
Other accounts and receivables	(2)					(2)		(5)
<b>Collective impairment</b>	<b>(503)</b>	<b>(82)</b>	<b>173</b>	<b>0</b>	<b>(10)</b>	<b>(422)</b>		
Interbank loans and advances	(14)	(17)	10		(3)	(24)		
Customer loans and advances	(490)	(65)	163		(6)	(398)		
<b>TOTAL</b>	<b>(894)</b>	<b>(393)</b>	<b>234</b>	<b>55</b>	<b>(28)</b>	<b>(1,026)</b>	<b>0</b>	<b>(70)</b>

(1) Other adjustments notably include the impact of changes in exchange rates and the scope of consolidation during the year.

The year 2015 was marked by an increase of the stock of impaired assets by EUR 299 million, as well as an increase of specific impairments by EUR 213 million. This is explained in particular:

- By the constitution of a specific impairment on Heta Asset Resolution AG;
- By the allocation to provisions of several receivables associated with the renewable energy sector and the automobile sector in Spain;
- By the allocation to provisions of receivables from Greek municipalities.

At the same time, Dexia continued its disposal of impaired assets and benefited from a redemption in the banking sector and a restructuring of impaired outstanding (financing wind and solar farms in the United States and in Spain) and the establishment of a support fund for local public authorities in Spain ("*Fondo de Ordenación*") allowing the reversal of impairments booked on several Spanish municipalities.

In addition to specific impairments, Dexia has collective (statistical and sector) provisions in a total amount of EUR 422 million as at 31 December 2015, against EUR 503 million as at 31 December 2014.

The reduction observed is due mainly to the constitution of new specific impairments, the files then leaving the base for calculating collective provisions. Restructuring in the renewable energy sector in Spain also had a positive impact on the amount of collective provisions. Furthermore, the collective provision for ABS was also down.

These falls are partially offset by an increase in the contribution of the US local public sector and the banking sector in Eastern Europe.

## 3.6. Credit risk mitigation techniques

### 3.6.1. Description of the main types of credit risk mitigants (CRM)

Credit risk mitigants (CRM) are used by a bank to reduce the credit risk associated with an exposure. CRM are one of the “risk” components used to determine the regulatory capital. CRM can be classified into two main categories:

- Funded credit protection, gathered under the generic name “collaterals”;
- Unfunded credit protection, gathered under the generic name “guarantees and credit derivatives”.

#### Funded credit protection: collaterals

From a regulatory point of view, funded credit protection represents a technique for mitigating credit risk whereby the credit risk associated with the bank’s exposure is reduced by the institution’s right – in the event of a default by the counterparty or the occurrence of other predetermined events involving the counterparty – to liquidate certain amounts or assets, to have them transferred, to seize or hold them, or to reduce the amount of the exposure by the difference between this exposure and the amount of a claim that would be held on the bank, or to replace it by the balance of this difference.

Funded credit protection can adopt several sub-forms:

*Financial collateral* (securities portfolio under ratings conditions, cash, gold, precious materials, etc...)

*Netting agreements*: banks have legally enforceable netting arrangements by which they may calculate capital requirements on the basis of net credit exposures subject to specific regulatory conditions. Types of netting are payment netting, novation netting, close-out netting or multilateral netting.

*Physical collaterals*:

- Residential or commercial real estate collateral;
- Receivables (eligible only under advanced approach);
- Other types of physical collaterals...

#### Unfunded credit protection: guarantees and credit derivatives

From a regulatory point of view, unfunded credit protection represents a technique for mitigating credit risk whereby the credit risk associated with the bank is reduced by the commitment of a third party to pay an amount in the event of a default by the borrower or in the event that other predetermined events should occur.

They include for example:

- Guarantees: guarantees refer to personal guarantees, first demand guarantees, support commitments and “tri-party conventions”;
- Credit derivatives. The following types of credit derivatives are eligible for recognition:
  - *Credit default swaps* provide credit protection equivalent to guarantees. “Credit default swap” means a contract according to which one party to the contract undertakes to make a payment to the other party to the contract on the occurrence of a specified event or events relating to the creditworthiness of a third party. The making of such payment does not in itself give rise to a legal entitlement in the protection provider against the third party.
  - *Total return swaps* provide credit protection equivalent to guarantees. “Total return swap” means a contract according to which one party to the contract undertakes to make payments to the other party to the contract of all cash flows arising from a specified asset (or assets) plus any increase in the market value of the asset (or assets) since the last payment date or the commencement date of the contract, whichever is the most recent, and according to which the recipient of these amounts undertakes to pay to the first party an interest rate related flow plus any decrease in the market value of the asset (or assets) since the last payment date or the commencement date, whichever is the most recent.
  - *Credit derivatives treated as cash collateral*. A “Credit-linked note” is a cash-funded debt instrument which is redeemable by the issuer in accordance with the terms of the instrument, or the terms of redemption of which are altered, on the occurrence of a specified event or events related to the creditworthiness of a third party.
- Other credit commitments received from a third-party.

### 3.6.2. Policies and processes

Institutions should use robust procedures and processes to control risks arising from the use of collateral, including in particular strategy, consideration of the underlying credit, valuation, policies and procedures, systems, control of roll-off risks, and management of concentration risk arising from the institution’s use of collateral and its interaction with the institution’s overall credit risk profile.

#### Collateral and guarantees/credit derivatives

Within the Dexia Group, managing the CRMs involves the following tasks:

- Analysis of the eligibility of all CRMs under the standard and advanced approaches. To summarise, only financial collaterals, guarantees, credit derivatives, real estate assets and leased real estate assets are eligible under the standard approach (provided they respect the related requirements). The scope of eligible CRMs is significantly broader under the advanced approach than under the standard approach: in addition to CRMs eligible under the standard approach, receivables and other types of collaterals can also be considered as eligible provided they respect the related requirements;

- Collateral valuation in mark-to-market;
- Description of all CRM characteristics in Dexia risk systems, such as:
  - Financial collateral: valuation frequency and holding period;
  - Guarantee/credit derivative: identification of the guarantor, analysis of the legal mandatory conditions, check whether the credit derivative covers restructuring clauses;
  - Security portfolio: description of each security.
- Periodic review of the descriptive data of its CRM;
- Detailed procedures for collateral eligibility, valuation and management are documented in line with the regulatory standards.

### On and off-balance-sheet netting

Dexia does not make use of on or off-balance-sheet netting for regulatory purposes, except for over-the-counter (OTC) derivative products. The following derivative products are eligible to netting agreements: swap, contracts forward, options, etc. covering the following underlying risks:

- Interest rate contracts;
- Exchange rate or gold contracts;
- Contracts on ownership titles;
- Contracts on precious metals except gold;
- Commodities other than precious metals;
- Credit derivative contracts.

For these products, internal policies document the eligibility criteria and minimum requirements that netting agreements need to fulfil in order to be recognised for regulatory purposes. Eligibility criteria are different for on-balance-sheet netting agreements and off-balance-sheet netting agreements. Adequate documentation should also be put in place. Appropriate internal procedures and minimum requirements have been implemented in the internal risk management process.

### Information about market or credit risk concentrations

Concentration risk is related to a concentration of collateral on one issuer, country, industry or market. As a result, credit deterioration might have a significant impact on the overall value of collateral held by Dexia to mitigate its credit exposure.

### 3.6.3. Basel treatment

For netting agreements (and subject to eligibility conditions), Dexia recognises their impact by applying the netting impact of these agreements on the calculation of its Exposure at Default (EAD) used for calculating its risk-weighted assets.

For guarantees and credit derivatives, Dexia recognises the impact by replacing, under the AIRB approach, the PD, LGD and risk weight formula of the borrower by those of the guarantor (i.e. the exposure is considered to be directly towards the guarantor) if the risk weight of the guarantor is lower than the risk weight of the borrower. The same process of substitution is applying only on the risk weight under the standard approach.

For collateral (both financial and physical), the Dexia methodology relating to eligible CRMs depends on the Basel approach:

- AIRB Approach exposures – two methodologies might be applied:
  - CRMs are incorporated into the calculation of LGD based on internal loss data and calculated by the AIRB approach models (the “so called” preliminary LGD).
  - CRMs are not incorporated into the LGD computed by the model. The impact of each individual CRM is taken into account in the LGD according to each transaction.
- Standard approach exposures: eligible CRMs (after regulatory haircuts) are directly taken into account in the EAD.

### 3.6.4. Exposure covered by credit risk mitigants by exposure class

The chart below shows the amount of exposure per class of original counterparty, for which the guarantee is eligible, i.e. the guaranteed exposure has a lower risk weight than the exposure with the original counterparty (substitution principle).

	Eligible guarantee		
	2014	2015	%
ABS	229	195	1%
Corporate	8,175	4,935	36%
Financial institutions	2,059	1,763	13%
Project finance	307	169	1%
Public sector	6,303	5,520	40%
Retail	1,084	1,042	8%
Sovereign	183	80	
<b>TOTAL</b>	<b>18,340</b>	<b>13,704</b>	

## 3.7. Counterparty credit risk

### 3.7.1. Definition

Dexia enters into derivative contracts primarily to protect cash flows and the fair value of financial assets and liabilities from market fluctuations. Derivative transactions are mainly concluded to reduce risk exposure with regard to interest rate risk and foreign exchange risk.

Even though it is the objective of the bank to enter into risk reducing strategies, only some of the derivative transactions can be classified as hedge accounting. In the event that a strategy applied by the bank does not meet the stringent requirements defined under IAS 39, transactions are classified as derivatives "held for trading" notwithstanding their risk reducing character.

### 3.7.2. Counterparty credit risk – Basel III

Counterparty or replacement risk corresponds to the market value of transactions with counterparties. It represents the current cost of replacing transactions with a positive value should the counterparty default.

#### Calculation of exposure at default within the regulatory framework

The EAD relative to the counterparty's risk is determined by aggregating the positive market values of all transactions (replacement cost) and increasing the sum with a regulatory add-on. This add-on, which is calculated in line with the CRD (Capital Requirement Directive) guidelines, is a fixed percentage according to the type of transaction (complexity), the underlying and the residual maturity, which is applied to the transaction's nominal value. In both cases, the effects of netting agreements and collateral are factored in by applying the netting rules as defined by the mark-to-market method and subtracting guarantees or collateral.

Dexia is engaged in two types of transactions presenting counterparty credit risks:

- Derivatives: counterparties' exposure arises as a result of positive market valuation of derivative contracts. A positive market value represents Dexia's claim on the counterparty. Since market values fluctuate during the term to maturity, the uncertainty of future market conditions is taken into account by means of an 'add-on' to the current market value reflecting potential market movements for the specific contract. The total credit exposure on the counterparty, the credit risk equivalent, is the sum of the market value of the contract and the add-on.
- Repurchase agreements and securities lending or borrowing: given Dexia is cash taker, most repo transactions record a positive transactional haircut (difference between received cash and posted collateral). This difference represents a Dexia risk on the counterparty. Bond prices fluctuate during the term to maturity and with the uncertainty of future markets. This explains why, as for derivatives, add-ons are included to obtain an economic view of counterparty risk.

To reduce the counterparty risk, Dexia OTC derivatives and Dexia repos are in most cases concluded within the framework of a master agreement (i.e. the International Swap and Derivative Association – ISDA or Global Master Repurchase Agreement – GMRA) taking account of the general rules and procedures set out in the Dexia credit risk policies. These framework agreements reduce Dexia's credit exposure through:

- The use of close-out netting agreements where all positive and negative market values (haircut for repos) under the same agreement can be netted on a counterparty level;
- The netting agreement is supplemented with a collateral agreement where the net market value exposure (net positive variation in haircut for repos) is reduced further by the reception of margin calls. Margin calls are regulated by the terms and rules stipulated in the Credit Support Annex (CSA) for derivatives and GMRA negotiated with the counterparty.

Dexia complies with the EMIR regulation and has been admitted by a central counterparty (clearing house) to net the allowed derivative transactions. Dexia also uses general collateral pooling with a central counterparty for funding via repos.

Counterparty credit risk is taken into account in the calculation of credit risk on financial institutions.

#### Credit valuation adjustment

The credit valuation adjustment (CVA) corresponds to the difference between:

- A risk-free valuation; and
- The valuation that takes into account the possibility of a counterparty's default.

When applied to an OTC derivative portfolio, it corresponds to the market value of the counterparty credit risk. It is a fair value adjustment that reflects the expected losses due to counterparty's default.

Banks now consider this derivative fair value component as a standard market practice. The credit and liquidity crisis highlighted the need for a better measurement of this risk arising on derivative portfolios. The widening of credit spreads over past years has emphasised the significance of counterparty credit risk and CVA measurement.

From an accounting standard point of view, and with the release of IFRS 13, in spite of the changes in the fair value definition, calculation of CVA becomes a clear requirement.

As CVA measures the expected losses due to counterparty default, the method for calculating CVA is similar to the Basel regulatory capital loan loss provisioning methodology whereby CVA is equal to expected exposure (called in Basel texts Exposure at Default or EAD) multiplied by the probability of default (PD) and the loss given default (LGD).

### CVA capital charge

Since the implementation of the Basel III framework, Dexia has been subject to a capital charge for potential mark-to-market losses associated with deterioration in the creditworthiness of its counterparties.

Basel III aims at applying to CVA risk an approach equivalent to that used for market risk capital charge measurement (based on Value at Risk): the CVA capital charge corresponds to a Value at Risk (VaR) applied to CVA.

Capital charge is computed in accordance with EBA guidelines.

As at 31 December 2015, Dexia had EUR 5,055 million of risk-weighted assets on counterparty credit risk, of which EUR 2,780 million related to CVA capital charge.

### 3.7.3. Accounting treatment of derivatives

The accounting treatment of Dexia's derivative strategies is described in note 1.1.10. and note 1.1.11. to the consolidated financial statements in Dexia's annual report 2015.

### 3.7.4. Derivative portfolio

Detailed information is provided in note 4.1. to the consolidated financial statements in Dexia's annual report 2015.

## 3.8. Focus on equity exposure

### 3.8.1. Accounting rules

Detailed information is provided in note 1.1. to the consolidated financial statements in Dexia's annual report 2015.

### 3.8.2. Equity exposure

The following tables show the amount of exposure to equities included in the banking book broken down by type of asset and by calculation process at year-end 2014 and 2015.

Type of asset	2014		2015	
	Accounting value	Fair value	Accounting value	Fair value
Financial assets designated at fair value	1	1	1	1
Available-for-sale financial assets	260	260	149	249
<b>TOTAL</b>	<b>261</b>	<b>261</b>	<b>250</b>	<b>250</b>

## 3.9. Focus on securitisation activities

### 3.9.1. Objectives and roles of Dexia<sup>(11)</sup>

Dexia is managing in run-off a portfolio of senior ABS bonds. Dexia also manages a synthetic securitisation (WISE) with public finance and utility assets as underlying.

Dexia has not originated any securitisation transactions since 2011. The same goes for new investments or acting as sponsor for providing liquidity facilities in Dexia securitisation transactions or third parties.

(11) For more detailed information on securitisation concepts, please refer to Appendix 3 – Basics on Securitisation

### 3.9.2. Risk monitoring

The Credit Risk Management department monitors Dexia's ABS positions. The process in place to monitor the changes in the underlying credit or market risk is organised as follows:

- Depending on the level of risk of each position, an annual or semi-annual full review is carried out analysing both the market on which the underlying assets are based (real estate markets for RMBS, corporate markets for CDOs....) but also the underlying performance and credit or market risk features of each individual transaction. Based on this individual analysis (with cash-flow models for the RMBS and CDOs), an internal rating is attributed to each position.
- On a quarterly basis, the most sensitive exposures classified in the "Watch list" or "Quarterly review" lists are reviewed by a dedicated Watch-List Risk Committee, which also decides on impairments.

Analysis of rating migration related to external rating agencies is based on daily monitoring.

As to the inherent liquidity risk in ABS positions:

- The vast majority of the ABS positions are characterised by static pools of assets, limiting the risk of cash-flow mismatches between assets and liabilities.
- Liquidity risk might be partially related to the difference between the interest rate paid by the pool of underlying assets and the rate paid on the notes issued, in case of a mismatch between the assets.

### 3.9.3. Basel III treatment and accounting rules

#### 3.9.3.1. Basel III treatment

Dexia applies the rating-based approach (RBA – advanced approach) to calculate the risk-weighted assets corresponding to securitisation/re-securitisation exposures. This method determines the risk weight percentage applicable as a function of the external rating of the securitisation exposure (or the inferred rating if no external rating is available), their seniority and the granularity of the underlying pool of exposure. When no external or inferred rating is available, the amount of the securitisation position is deducted from capital.

For both securitisation originations and calculating risk-weighted assets in relation to its investments in securitisation positions, Dexia uses the services of the following rating agencies: Standard & Poor's, Moody's and Fitch.

#### 3.9.3.2. Accounting rules

The recognition and de-recognition of financial assets and liabilities relating to securitisation transactions, their valuation and accounting treatment are pursuant to IAS 39 relating to "Financial instrument recognition and measurement".

For consolidation purposes, a securitisation-structured entity is consolidated in accordance with IFRS 10 relating to consolidation as described in Note 1.1.3 to the consolidated financial statements in Dexia's annual report 2015.

### 3.9.4. Securitisation activity as originator

All of Dexia's origination operations, except Wise, were carried out with a view to obtaining long-term funding or establishing a liquidity buffer. The risk was not transferred out of the Group. No new transaction was closed in 2015 (nor in 2014).

Regarding the Wise securitisation, the regulatory treatment has been slightly adjusted last year in order to be more coherent with the European regulatory requirements (following the CRR rules).

Dexia has not securitised any revolving exposure nor liquidity facilities that are shared between investors and Dexia as originator.

The following tables show the outstanding notional amounts of reference obligations in the securitised pool.

Variations between 2014 and 2015 are due to the amortisation of the securitisation portfolios.

(in EUR million)	Outstanding commitment	
	31/12/2014	31/12/2015
Traditional securitisations	772	561
Synthetic securitisations (Wise)	1,929	1,852

### 3.9.5. Securitisation activity as investor

#### 3.9.5.1. Dexia portfolios

The following tables show the exposure at default (EAD) of securitisation positions<sup>(12)</sup> retained or purchased in the banking book, broken down by type of securitisation and risk-weight class at year-end 2014 and 2015.

#### 2014

Type of securitisation	[0 - 8%]	8% - 16%]	16% - 106%]	106% - 1250%]	1250%	Grand Total
ABS	3,906	402	0	133	1	4,442
CDO		47	10	33	14	104
MBS	229	449	199	431	119	1,428
Other ABS					13	13
<b>GRAND TOTAL</b>	<b>4,135</b>	<b>898</b>	<b>209</b>	<b>596</b>	<b>148</b>	<b>5,987</b>

#### 2015

Type of securitisation	[0 - 8%]	8% - 16%]	16% - 106%]	106% - 1250%]	1250%	Grand Total
ABS	4,019	346	116	73	1	4,556
CDO	0	65	0			65
MBS	226	411	422	90	165	1,314
Other ABS						
<b>GRAND TOTAL</b>	<b>4,245</b>	<b>823</b>	<b>538</b>	<b>163</b>	<b>167</b>	<b>5,935</b>

Dexia invested almost exclusively in originally AAA externally rated transactions, explaining the current low risk-weighted assets associated to this portfolio.

85% of the portfolio (risk weights below or equal to 16%) is within the A or above rating range as at the end of 2015, and 94% of the portfolio is investment grade (a risk weight of 106% corresponding to a BBB- rating), up from 88% as at year-end 2014.

The following table shows the exposure at default (EAD) of securitisation positions retained or purchased, broken down by seniority.

SENIORITY	2014	2015
SENIOR	5,973	5,886
MEZZANINE	12	0
FIRST LOSS	3	49
<b>TOTAL</b>	<b>5,987</b>	<b>5,935</b>

The bulk of the exposure, as at 31 December 2015, was senior.

#### 3.9.5.2. Gains or losses on sales

The tables below show the recognised gains or losses by type of exposure in 2014 and 2015 arising from the sale of securitisation positions. Securitisation sales for the years 2014 and 2015 resulted in a EUR 17 million gain and a EUR 4 million loss respectively. The loss recorded in 2015 is attributable to a small number of positions (mainly European RMBS) which Dexia eventually managed to sell at favourable conditions or which were tendered by the issuer.

#### Gain or losses in 2014

US student loans	Residential mortgage loans	Commercial mortgage loans	Public sector	Corporate exposures	Other ABS	Total
11	6	-	-	-	-	17

#### Gain or losses in 2015

US student loans	Residential mortgage loans	Commercial mortgage loans	Public sector	Corporate exposures	Other ABS	Total
0	-3.7	-0.2				-4

(12) Guaranteed positions are included (see amounts in sections 3.3.3 and 3.4.3).



## 4. Market risk

To ensure that market risk is monitored effectively, Dexia has developed a framework based on the following components:

- A comprehensive system for market risk measurement, built on historical and probability models;
- A structure of limits and procedures governing risk-taking, consistent with the end-to-end risk measurement and management process.

### 4.1. Market risk measures

#### 4.1.1. Risk measurement

The Dexia Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.

- Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:
  - Directional interest rate risk and foreign exchange risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors.
  - Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach. Historical VaR is a VaR the distribution of which is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.
- Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office.

Stress testing completes the risk management system by exploring a range of events outside the probability framework of VaR measurement techniques. The various assumptions underlying stress test scenarios are regularly revised and updated. The results of consolidated stress tests and the corresponding analysis are presented quarterly to the Market Risk Committee.

#### 4.1.2. Exposure to market risk

##### 4.1.2.1 Value at risk

The table below shows the details of VaR used for market activities, not including the bond portfolio. At the end of December 2015, total VaR consumption stood at EUR 13.7 million, compared with EUR 13.3 million at the end of 2014, a level lower than the global limit of EUR 40 million.

The Dexia trading portfolio is composed of two groups of activity:

- Transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;
- Transactions intended to hedge transformation risks on the balance sheet, and in particular the liquidity gap on currencies, but for which there is no documentation of an accounting hedge relationship under IFRS standards.

The main risk factors of the trading portfolio are:

- Cross currency basis swap risk,
- Basis risk BOR-OIS.

(in EUR million)	2014					2015				
	Interest and FX (Banking and Trading)	Spread (Trading)	Other risks	Total	Limit	Interest and FX (Banking and Trading)	Spread (Trading)	Other risks	Total	Limit
<b>VaR (10 days, 99%)</b>										
Average	6.7	5.3	0.2	12.1	40	9.6	4.6	0.2	14.4	40
End of period	8.3	4.7	0.3	13.3		10.3	3.1	0.2	13.7	
Maximum	8.3	5.8	0.4	13.3		11.6	5.5	0.3	17	
Minimum	5.4	4.7	0	11.0		6.9	3	0.2	12.4	

#### 4.1.2.2 Sensitivity of portfolios classified as “available for sale” to the evolution of credit spreads

The sensitivity of the AFS reserve for available-for-sale portfolios to an increase in credit spreads is closely monitored. At the end of 2015, this sensitivity amounted to EUR -18 million for a one basis point increase in credit spreads. Sensitivity to interest rate fluctuations is extremely limited, as interest rate risk is hedged.

#### 4.1.3. Regulatory internal model and back testing

##### Basel treatment Internal model

Dexia uses an internal Value at Risk (VaR) model for the regulatory capital requirement calculation of general interest rate risk within the trading scope.

The Stressed VaR (SVaR) is calculated on a weekly basis using parameters from the period May 2008 - June 2009. The regulatory capital is calculated as the sum of both a multiple of VaR and a multiple of Stressed VaR. Nevertheless, the National Bank of Belgium requires Dexia to apply a floor of 2.5 times the VaR while calculating the SVaR.

##### Standard approach

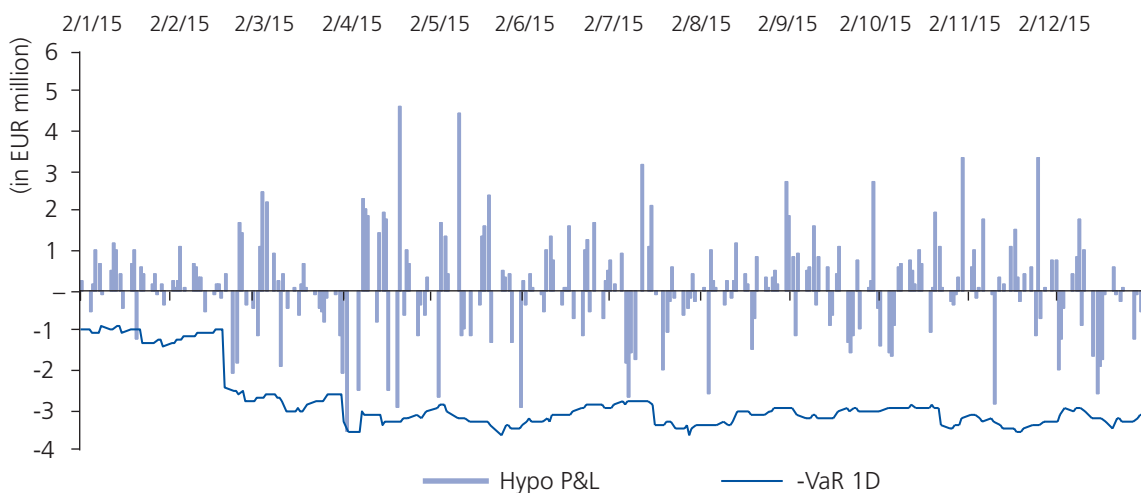
The other market risks (foreign exchange, spread, equity) are treated under the Basel standard approach.

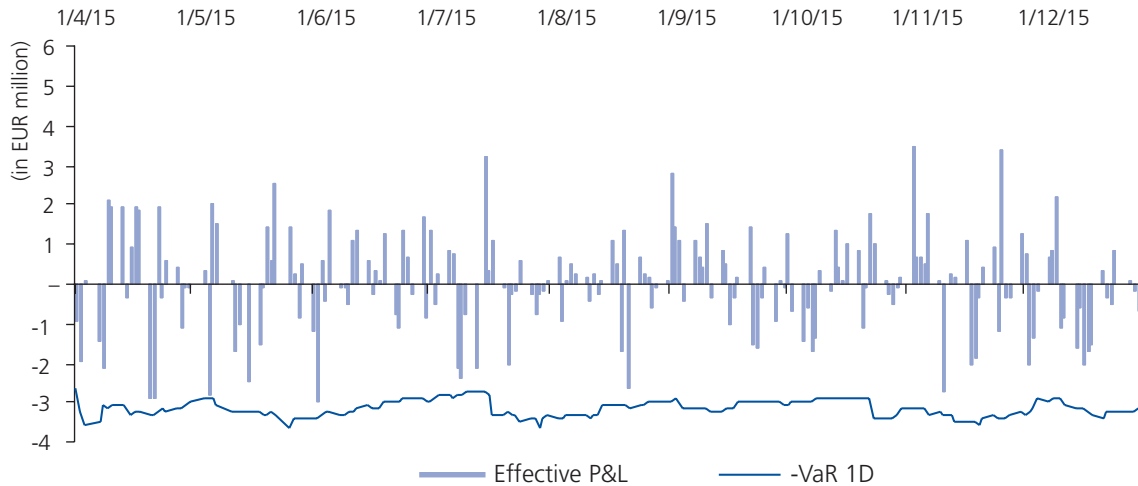
##### Back testing

Back testing is performed on a daily basis on the internal model perimeter. The result of the back testing is the number of losses exceeding their corresponding VaR figures (i.e. “the number of exceptions”). For back testing purposes, the VaR amounts need to be recalculated using a 1-day holding period. For VaR figures calculated under a parametric approach, rescaling is achieved through the application of a square root of 10 conversions. Risk reports are based on end-of-day positions meaning that risk figures refer to the maximum loss at the chosen confidence interval over the holding period of the portfolio that is held at the end of the business day. With a 1-day holding period, this figure is compared with the variation of the income statement of the following business day, restated to exclude accounting elements that are not captured by the Value at Risk such as fees, in order to better challenge the robustness of the Dexia model.

Back testing is performed both on actual and hypothetical changes in the portfolio's value. Hypothetical back tests are run under the scenarios of change in interest rate alone. The back testing process provides the Market Risk Management department with a view of the number of exceptions. This number is taken into account to adjust the multiplier used for calculating the bank's risk capital requirements for market risk under the regulatory internal model. In 2015, Dexia noticed one “downward” exception on its IR perimeter on internal models (compared with zero in 2014).

##### Back testing results for 2015





#### 4.1.4. Validation

Validation is responsible for the overall assessment of the market risk models. The process set up to endorse the validation of models deployed within the Dexia Group is multi-layered, ensuring total compliance with regulations and local regulatory requirements through the work-out of proposals by the Validation department: an approval of these proposals by the Markets VAC and a final endorsement by the Dexia Management Board.

#### 4.1.5. Systems and controls

On a daily basis, the Product Control department, which is part of the Finance activity line, calculates, analyses and reports the risks and results at an entity and a consolidated level. On a monthly basis, the Market Risk Committee (MRC) meets to analyse the risk and results, possibly to adjust market limits, to present procedures, guidelines and policies and to approve or amend new valuation methodologies.

All market activities are backed by specific guidelines describing the objectives, the authorised products, sensitivity, VaR and/or outstanding limits. The systems and controls established within the Dexia Group are described in various procedures to ensure a complete and formal framework established to support all the market risk responsibilities.

As an example, the New Product Approval Procedure (NPAP) describes the approval process for requests to trade new products from the Front Office until the formal approval of each new product by the Executive Operational Market Committee (EOMC). During this formal process, Market Risk analyses and proposes a valuation strategy for each product and presents its validation to the MRC prior to its formal validation by the EOMC.

Dexia has put forward two ratios to conduct a self-assessment of its capacity to deliver correct valuations. The results are discussed in the Valuation & Collateral Committee (VCC) and if necessary, this committee puts in place an action plan to improve the valuation strategies.

## 5. Transformation risk

Dexia's asset and liability management (ALM) policy aims to reduce liquidity risk as far as possible and limit exposure to interest rate and foreign exchange risk.

### 5.1. Management of interest and exchange rate risk

Dexia's balance sheet management policy aims to minimise volatility in the Group's results.

#### 5.1.1. Measurement of interest rate risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% movement on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees, organised within the Management Board, to manage risk. The Dexia Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia's assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR +2.2 million as at 31 December 2015, compared with EUR -14.2 million as at 31 December 2014. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

(in EUR million)	2014	2015
Sensitivity	-14.2	+2.2
Limit	+/-80	+/-80

#### 5.1.2. Measurement of foreign exchange risk

With regard to foreign exchange, the Management Board decides on the policy to hedge foreign exchange risk generated by the existence of assets, liabilities, income and expenditure in currencies. Also subject to regular monitoring:

- The structural risks associated with the funding of holdings in foreign currencies;
- Elements liable to increase the volatility of the solvency ratios of the Group or its subsidiaries and branches.

Structural exchange positions are subject to strict limits below which a systematic hedge policy is applied.

### 5.2. Management of liquidity risk

#### 5.2.1. Dexia's policy on the management of liquidity risk

Dexia's main objective is to manage the liquidity risk in euros and in foreign currencies for the Group, as well as to monitor the cost of funding so as to minimise volatility in the Group's results.

The liquidity management process aims to optimise the coverage of the Group's funding requirements taking into account the constraints to which it is exposed. Funding requirements are assessed prudently, taking existing transactions into account as well as planned on- and off-balance-sheet forecasts.

The Group's liquidity reserves consist of assets eligible for the central bank refinancing facilities to which Dexia has access.

To manage the Group's liquidity situation, the Management Board regularly monitors the conditions for funding transactions on the market segments on which Dexia operates. It also guarantees proper execution of the funding programmes put in place. To that end, a specific and regular mode of information has been introduced:

- Daily and weekly reports are provided to members of the Management Board, the State shareholders and guarantors and the regulatory authorities. This information is also used by all parties involved in managing the Dexia Group's liquidity position – namely the Finance and Risk teams in charge of these topics, and the Funding and Markets activity line;
- The 12-month funding plan is sent monthly to the State shareholders and guarantors, central banks and supervisory authorities;
- Twice-monthly conference calls are held with the European, French and Belgian supervisory authorities and central banks.

## 5.2.2. Liquidity risk measurement

As mentioned on page 5 of this report, the ECB decided to apply a tailored, pragmatic and proportionate prudential supervisory approach to Dexia.

For instance, this approach authorises the proportionate use of supervisory powers in view of the constraints of compliance with the liquidity ratios set forth by the CRR<sup>(13)</sup>. It relies in particular on an enhanced reporting of the liquidity position, including weekly liquidity projections over four weeks and monthly funding plans over twelve months, made on the basis of a central scenario and stress scenarios. Furthermore, Dexia sends monthly LCR projections at twelve months. Finally, close monitoring of the diversity of funding sources and the concentration of cash outflows completes the mechanism for measuring liquidity risk.

Despite the significant progress made by Dexia in terms of reducing its liquidity risk, the financial characteristics of Dexia since its entry into resolution do not allow it to ensure compliance with certain regulatory ratios over the term of the orderly resolution plan approved by the European Commission. These specific circumstances resulting from the orderly resolution plan are reflected in the level of the Liquidity Coverage Ratio (LCR)<sup>(14)</sup> for which there has been a minimum requirement of 60% since 1 October 2015, raised to 70% since 1 January 2016. As at 31 December 2015, the Dexia Group LCR was 54%.

The proportionate use of supervisory powers in particular assumes that Dexia's situation does not deteriorate significantly. A reversal of this approach may have a material adverse effect on the activity (including the credit institution status) of Dexia and, consequently, on its financial condition.

Further information on liquidity is provided in the section "Information on capital and liquidity" in Dexia's annual report 2015.

*(13) Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.*

*(14) LCR measures the coverage of liquidity requirements at 30 days in a stressed environment, by a volume of liquid assets. It replaces Belgian and French regulatory liquidity ratios.*

## 6. Operational risk

Dexia's policy regarding operational risk management consists of regularly identifying and assessing the various risks to check that the predefined level of tolerance for each activity is respected. If predetermined limits are exceeded, the governance in place must ensure that corrective action is quickly taken or that improvements are put in place to bring the situation back within acceptable parameters. This system is supplemented by a prevention policy in particular covering information security, business continuity and, when necessary, the transfer of certain risks via insurance.

### 6.1. Risk measurement and management

Operational risk management has been identified as one of the pillars of Dexia' strategy in the context of its orderly resolution.

This risk is monitored within the framework of the standard approach determined by the Basel regulatory methodology. Under this methodology, information relating to the operational risk must be transferred to the managers in charge of monitoring this risk, and the tasks identified as critical must be monitored.

The operational risk management system relies on the following components.

- **Operational risk database:** the systematic capture and monitoring of operational incidents is one of the most important requirements of the Basel Committee. Fulfilling its regulatory obligations, Dexia has put a system in place to list operational incidents and to gather specific data. The information gathered enables it to improve the quality of its internal control system. Over the last three years, the breakdown of the different categories of incidents resulting in losses within the Basel definition shows almost 100% of losses originating from the category "Execution, Deliveries and Process Management", knowing that overall few major events have been recorded since 2010. The other categories ("External Fraud" and "Failure of Systems or IT Infrastructure") show incidents to be limited in number and in amount of loss. The principal incidents are subject to corrective actions approved by the management bodies.
- **Risk self-assessment and control:** as well as building a history of losses, Dexia's exposure to key risks is determined via an annual risk mapping exercise. All Dexia Group entities conduct risk self-assessment exercises that take into account existing controls, thus providing senior management with an overall view of most areas at risk within the Group's various entities and businesses. The overall mapping is presented each year to the Management Board. Actions to limit risk may be defined where applicable.
- **Definition and monitoring of action plans:** actions are defined in response to major incidents, deficient controls or important risks identified. Regular monitoring is carried out by the operational risk management function. This process allows the internal control system to be constantly improved and risks to be reduced appropriately over time.
- **Scenario analysis and Key Risk Indicators (KRI):** two specific elements of the operational risk management mechanism were developed: scenario analysis relating to internal fraud by the misappropriation of means of payment and the introduction of KRI on the main risks identified in the operational risk mapping.
- **Management of information security and business continuity:** the information security policy and associated instructions, standards and practices are intended to ensure that Dexia's information assets are secure. All activities take place in a secure environment. The various activity lines establish impact analyses for vital activities in the case of disaster or interruption. They define plans for recovery. Business continuity procedures are updated at least once a year. On the basis of regular reports, the Management Board signs off recovery strategies, residual risks and action plans with the aim of delivering continuous improvement.

Dexia applies the Basel standard approach to calculate regulatory capital for operational risk management.

The table below shows the capital requirements for the years 2014 and 2015:

(in EUR million)	2014	2015
Capital requirement	80	80

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## 6.2. Management of operational risk during the resolution period

In 2015, the Dexia Group continued to adjust its structure and its operational processes in line with its orderly resolution plan. This transitional phase is by nature liable to give rise to operational risks, particularly as a result of factors such as the departure of key staff members or process changes when applications need to be replaced or duplicated. The key components of the management system described above continue to be applied during this period. Specifically with regard to self-assessment of risks and controls, Dexia was called upon to assess the risk of discontinuity associated with the factors referred to above.

Finally, Dexia has taken action to prevent psycho-social risks and to provide staff with support in connection with such risks as it continues to implement its orderly resolution plan.

## 7. Remuneration policies and practices

It has been decided since 12 March 2015, in order to take account of the transposition of the European banking directive, known as CRD IV, into Belgian law and French law, to split the Appointments and Remuneration Committee into an Appointments Committee, on the one hand, and a Remuneration Committee, on the other, both with powers relating to Dexia and Dexia Crédit Local.

Dexia's remuneration policy has been established by the Human Resources department in collaboration with the Audit, Risk and Compliance, Legal & Tax departments.

Dexia has adopted one overall remuneration policy for the whole of the Group. This policy has been submitted, after approval by the Board of Directors, to the entities for formal approval by their competent bodies, in accordance with the rules and procedures stated in the company's articles of association.

Dexia modified its remuneration policy in March 2013 in order to take into account the behavioural commitments made by the Belgian and French States to the European Commission regarding remuneration.

In order to guarantee attractive and competitive remuneration, external remuneration consultancies may be used to obtain information about developments in pay on the employment market in the financial sector.

Taking the benchmarking analyses into account, the Remuneration Committee makes proposals to the Board of Directors regarding any adjustments in terms of the remuneration paid to the members of Dexia's Management Board. These adjustments would be justified by market developments, taking account of the company's situation.

### 7.1 Fixed and variable remuneration

The remuneration of staff whose professional activities have a significant impact on the risk profile is made up of a fixed part that may be accompanied by a variable part.

#### 7.1.1. Fixed remuneration

Fixed remuneration may be made up of basic remuneration, determined considering the nature and importance of the responsibilities assumed by each staff member, plus a 'function bonus' or salary supplement that is not affected by performance, paid quarterly.

This supplement was introduced correlatively to the decision by the Board of Directors to reduce variable remuneration based on performance in order to reduce the potential incentive to take excessive risks. In this way the Board, in accordance with the statutory and regulatory provisions in the matter, has increased remuneration not linked to performance, which must represent a significant proportion of the whole of the remuneration.

As from July 2012, the remuneration decided for new members of the Management Board does not include a function bonus and is made up solely of a fixed salary.

#### 7.1.2. Variable remuneration

Members of the Management Board and Group Committee have no contractual right to receive variable remuneration.

The variable remuneration of market professionals is determined based on quantitative and qualitative indicators laid down in the targets for each market operator and subject to an overall performance process, in particular to ensure that they act with care for the appropriate control of risks.



As a rule, the variable part will not exceed 0.3 times the annual fixed remuneration (per employee).

This ratio is reduced to 0 for members of the Management Board.

Given the ratios set out above, the variable remuneration paid to an employee will not be deferred over time, except where there is an exception. Nevertheless, the company reserves the right to apply a retrospective clawback adjustment in certain cases (see below).

### 7.1.3 Retrospective clawback adjustment of variable remuneration

Payment of variable remuneration is based on the premise that, as long as the employee is working within the Group, he or she fully observes the law and the rules that apply to the company, as well as its values.

Variable remuneration may be the subject of retrospective clawback adjustments.

In the event of fraud being observed after the allocation of variable remuneration, and in cases where variable remuneration might have been granted on the basis of intentionally erroneous information, the Board of Directors of Dexia reserves the right to bring civil action with a view to recovering the part of the variable remuneration which might already have been paid, or at least damages to remedy the consequences of these actions.

## 7.2 Link between performance and remuneration

Performance may influence movements in fixed remuneration and the amount of any variable remuneration.

All variable remuneration is influenced by the company's situation and may fluctuate based on the results of the Group, of the entity and the individual performance. In compliance with statutory constraints and obligations, any variable remuneration that may have been granted may therefore be reduced to zero, by decision of the Board of Directors, if the Group's collective results are negative.

The link between the variable remuneration and employee performance is assessed with regard to former targets and results expected in the future, linked to past activity.

When being determined, the directors' targets, set by the Board of Directors, include the risk criteria.

Subsequently, the targets streamed down to lower levels of the organisation will also take account of the risk factors specific to the business line in question.

When monitoring performance, targets that are specifically risk-oriented will be subject to the same monitoring as other performance targets.

Performance is assessed on the basis of quantitative and qualitative, financial and non-financial criteria.

Professional performance is therefore an element taken into account when determining variable remuneration, but is just one element among others.

## 7.3. Quantitative information

The information regarding the remuneration of the Management Board is disclosed in the chapter entitled "Terms of office and remuneration of directors and officers" of Dexia Crédit Local's registration document 2015, as well as in the chapter entitled "Declaration of corporate governance" published in Dexia's annual report 2015.

In addition and based on the remuneration policy, Dexia publishes on its internet site the information regarding the remuneration of all the risk takers.

[http://www.dexia.com/EN/shareholder\\_investor/regulated\\_information/Pages/default.aspx](http://www.dexia.com/EN/shareholder_investor/regulated_information/Pages/default.aspx)

# Appendix 1

## Glossary

Concept	Definition
<b>ABS</b> Asset-Backed Security	Securities issued by a vehicle created for the purpose of buying assets from a bank, a company or a state, like trade receivables or inventories, and to provide the seller with cash and the buyer with a financial product characterised by a certain risk profile and a rate of return.
<b>AFS</b> Available For Sale	Non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.
<b>AIRBA</b> Advanced Internal Rating-Based Approach	Institutions using the Advanced IRB approach are allowed to determine borrowers' probabilities of default and to rely on own estimates of loss given default and exposure at default on an exposure-by-exposure basis. These risk measures are converted into risk weights and regulatory capital requirements by means of risk weight formulas specified by the Basel Committee.
<b>ALM</b> Asset and Liability Management	Action, for instance in a financial institution or a corporate, of managing the net risk position between assets and liabilities, particularly with respect to imbalances generated by the evolution of interest rates, currencies and inflation, but also maturity mismatch, liquidity mismatch, market risk and credit risk.
<b>AVC</b> Asset Value Correlation	The AVC parameter is a means by which the framework captures the extent to which defaults across firms will cluster together. A multiplier of 1.25 is applied to the correlation parameter of all exposures to financial institutions meeting defined criteria (see LFI/UFI).
<b>BIS</b> Bank for International Settlements	"Bank for International Settlements" ("BIS") designates the international financial institution which acts as the central bank of the national central banks and of some supranational organisations, such as the European Central Bank (ECB). The BIS receives deposits from, and makes loans to, these entities. The BIS is also a forum to discuss co-ordination of macroeconomic policies in general, with a focus on monetary policies, such as the evolution of interest rates and currency exchange rates. The organisation's prime objective is the overall stability of the world's financial system. In that context, capital adequacy ratios applicable to banks are set up by the Basel Committee which is part of the BIS.
<b>CCF</b> Credit Conversion Factor	The ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment will be determined by the advised limit, unless the unadvised limit is higher.
<b>CMBS</b> Commercial Mortgage-Backed Securities	CMBS are securities where the primary source of payments is a mortgage loan or a pool of mortgage loans secured mostly on commercial real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.
<b>CRD</b> Capital Requirement Directive	The Capital Requirement Directive (CRD) for the financial services industry introduces a supervisory framework in the EU which reflects the Basel III rules on capital measurement and capital standards.
<b>CRM</b> Credit Risk Mitigant	Range of techniques whereby a bank can, partially, protect itself against counterparty default (for example by taking guarantees or collateral, or buying a hedging instrument).
<b>CVA</b> Credit Valuation Adjustment	The Credit Valuation Adjustment (CVA) is one of the components of the fair value (FV) of derivatives. CVA adjusts FV in order to take counterparty risk into account. CVA was implemented by banks 10 years ago and is included in the IFRS 13 accounting framework. The CVA applied to OTC derivatives corresponds to the difference between the risk-free valuation and the valuation that takes into account the possibility of a counterparty default (reflects the expected losses due to a counterparty's default).
<b>CVA</b> capital charge	Under Basel III, banks are subject to a "CVA" capital charge for potential mark-to-market losses associated with a deterioration in the creditworthiness of a counterparty. The CVA capital charge corresponds to a Value at Risk (VaR) applied to CVA.
<b>DVA</b> Debit Valuation Adjustment	The Debit Valuation Adjustment (DVA) is the measure of a bank's possibility of not fulfilling its own obligations based on its probability of default.

Concept	Definition
<b>EAD</b> Exposure at Default	Exposure at Default (EAD) is one of the parameters used to calculate regulatory capital requirement under the Basel III framework. EAD is Dexia best estimate of its credit risk exposure value in case of default of its counterparty. Definition of EAD depends on the approach taken into account by Dexia: both Standard and IRB approaches (Basel III regulation) are used by Dexia.
<b>ECAI</b> External Credit Assessment Institutions	Under the Basel agreement of the Basel Committee on Banking Supervision, banking supervisors can allow banks to use credit ratings from certain approved credit rating agencies when calculating the risk weight of an exposure. Competent authorities will recognise an ECAI as eligible only if they are satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency.
<b>EL</b> Expected Loss	The amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one-year period.
<b>Forbearance</b>	Forborne exposures are restructured contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (in other words, forbearance bears upon counterparties which are in “financial difficulties”). Restructured contracts are transactions renegotiated (modification of the previous terms and conditions) or refinanced (use of debt contracts to ensure the total or partial payment of other debt). Concession refers to either of the following actions: (a) a modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties (“troubled debt”) to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties; (b) a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties. The concept of forbearance applies to all loans and debt securities on balance sheet. “Debt” includes loans, debt securities and revocable and irrevocable loan commitments given, but excludes exposures held for trading.
<b>FX</b> Foreign eXchange	Transaction of international monetary business, as between governments or businesses of different countries.
<b>IAS</b> International Accounting Standards	IAS stands for International Accounting Standards. IAS are used outside the US, predominantly in continental Europe.
<b>ICAAP</b> Internal Capital Adequacy Assessment Process	The main objective of the Pillar 2 requirements is to implement procedures which will be more sensitive to an institution’s individual risk profile. This is to be achieved by introducing Internal Capital Adequacy Assessment Processes (ICAAP).
<b>IFRS</b> International Financial Reporting Standards	International Financial Reporting Standards published by the IASB and adopted by most countries but the USA. They have been designed to ensure globally transparent and comparable accounting and disclosure.
<b>IR</b> Interest Rate	Interest expressed as an annual percentage rate.
<b>IRB approach</b>	Internal Rating-Based approach. Institutions using the IRB approach are allowed to determine borrowers’ probabilities of default. Two IRB approaches exist: the advanced approach (AIRBA) and the foundation approach.
<b>ISDA</b> International Swap and Derivative Association	Trade organisation of participants in the market for over-the-counter derivatives. It has created a standard contract (the ISDA Master Agreement) to enter into derivative transactions.
<b>IT</b> Information Technology	Study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware. IT deals with the use of electronic computers and computer software to convert, store, protect, process, transmit, and securely retrieve information.
<b>L&amp;R</b> Loans & Receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available for sale.
<b>LCR</b> Liquidity Coverage Ratio	A 30-day liquidity coverage ratio set up by the new Capital Requirement Regulation (CRR) designed to ensure short-term resilience to liquidity disruption. The stock of high liquid assets in stressed conditions is compared to the total expected cash inflows minus outflows.

Concept	Definition
<b>Leverage Ratio</b>	The leverage ratio is defined as the “capital measure” (the numerator) divided by the “exposure measure” (the denominator) and is expressed as a percentage. The capital measure is currently defined as Tier 1 capital and the minimum leverage ratio is 3%. The leverage ratio is intended to (i) restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy and (ii) reinforce the risk-based requirements with a simple, non-risk based “backstop” measure.
<b>LFI</b> Large Financial Institution	A Large Financial Institution is a regulated financial institution (defined as an institution that provides financial services to its clients or acts as an intermediary in providing such services) whose total assets, on the level of that individual firm or on the consolidated level of the group, are greater than or equal to EUR 70 billion.
<b>LGD</b> Loss Given Default	The ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default.
<b>Master scale</b>	For reporting purposes, a “master scale” has been set up. This master scale is structured in grades ranging from AAA to CCC and the modifiers plus, flat and minus (except for both extremes of the scale). The two default classes D1 and D2 are also reported. Each rating corresponds to a bucket of PD set up according to the one-year average default rate of rating agencies. This rating is obtained by mapping its probability of default as estimated by the relevant IRS (Internal Rating System) into the master scale bucket. Rating classes provided in the present document stem from the master scale.
<b>MBS</b> Mortgage-Backed Securities	Asset-backed securities or debt obligations representing claims on the cash flows from mortgage loans.
<b>NBB</b> National Bank of Belgium	The National Bank of Belgium is the Belgian Financial Institutions supervisor.
<b>NPE</b> Non-Performing Exposure	Non-performing exposures satisfy at least one of the following criteria: (i) material exposures which are more than 90 days past-due (quantitative criterion); (ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of past-due days (qualitative criterion). The concept of non-performing exposure applies to all debt instruments (loans & advances and debt securities) and off-balance sheet exposures (loan commitments given, financial guarantees given, and other commitments given). This definition does not include equities, derivatives, repos and exposures held for trading.
<b>NSFR</b> Net Stable Funding Ratio	Long-term structural liquidity ratio set up by the new Capital Requirement Regulation (CRR) designed to address liquidity mismatches and to promote the use of stable funding (the amount of available stable funding is compared to the amount of required stable funding).
<b>P/L</b> Profit and Loss	The income statement is a document showing all wealth-creating revenues and wealth-destroying charges. There are two major income statement formats: the by-nature income statement format and the by-function income statement format. Also called profit and loss account (or P&L).
<b>PD</b> Probability of Default	The probability of default of a counterparty over a one-year period.
<b>RCSA</b> Risk & Control Self-Assessment	Annual self-assessment exercise that consists of identifying and evaluating the most significant risk areas in a coherent way across entities and activities. RCSA also includes the identification, challenging and description of key controls and indicators and eventually defines action plans that will allow for an improvement of risk mitigation.
<b>RWA</b> Risk-Weighted Assets	Used in the calculation of risk-based capital ratios. They are the total assets calculated by applying risk-weights to the amount of exposure.
<b>UFI</b> Unregulated Financial Institution	From a regulatory standpoint, unregulated financial institutions are defined as non-regulated financial entities that perform, as their main business, one or more of the activities performed by regulated financial entities. The following entities can be included in the UFI list: unregulated non-equity funds (may include funds involved in credit intermediation and operating with some degree of maturity and/or liquidity transformation) and unregulated structured finance vehicles (securitisation vehicles created for the purpose of warehousing assets and issuing ABS).
<b>VaR</b> Value at Risk	VaR represents an investor’s maximum potential loss on the value of an asset or a portfolio of financial assets and liabilities, based on the investment timeframe and a confidence interval. This potential loss is calculated on the basis of historical data or deduced from normal statistical laws.

# Appendix 2

## Internal rating systems

### 1. Structure of internal rating systems

The internal rating systems developed by Dexia are set up to evaluate the three Basel risk parameters: Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF). For each counterparty type in the advanced method, a set of three models, one for each parameter, has been developed.

The PD models estimate the one-year probability of default. Each model has its own rating scale and each rating on the scale corresponds to a probability of default used for regulatory and reporting purposes. The correspondence between rating and PD for each scale is set during the calibration process, as part of the model development, and is reviewed and adjusted during the yearly back testing when applicable. The number of ratings on each scale depends on the characteristics of the underlying portfolio (the number of counterparties, their homogeneity, whether it is a low default portfolio or not) and varies between 6 and 17 non-default classes. In addition each scale has been attributed two default classes (named D1 and D2).

For reporting purposes, a “master scale” has been set up. This master scale is structured in grades ranging from AAA to CCC and the modifiers plus, flat and minus (except for both extremes of the scale). The two default classes D1 and D2 are also reported. Each rating corresponds to a bucket of PD set up according to the one-year average default rate of rating agencies. This rating is obtained by mapping its probability of default as estimated by the relevant IRS (Internal Rating System) into the master scale bucket. Rating classes provided in the present document stem from the master scale.

LGD models estimate the ultimate loss incurred on a defaulting counterparty before taking the credit risk mitigants into account. The unsecured LGD depends on different factors such as the product type, the level of subordination or the rating of the counterparty. The granularity of the estimate is a function of the quantity and quality of data available.

CCF models estimate the part of off-balance-sheet commitments that would be drawn should a counterparty go into default. The regulation authorises the use of CCF models only when CCF under the foundation approach is not equal to 100% (as it is for credit substitutes for instance). CCF granularity also depends on the availability of data.

The relation between the outcomes of internal rating systems and external agency ratings is at two levels:

- While designing the models: some internal rating systems have been designed and calibrated on the basis of external ratings. This is typically the case when internal default data are scarce;
- While establishing reporting: information on the portfolio is reported using the master scale which is representative for the external agency probability of default.

### 2. Description of the internal rating process

#### General organisation of the internal rating process

The internal rating process is organised in three stages: the model development, the maintenance and the control of the internal rating. The model management division is responsible for the entire process of developing and maintaining a model whereas the control of the internal rating is dispatched through several control functions within the Dexia Group (validation, audit, credit internal rating systems control...).

#### Model development and/or review

The different steps of models development are:

- Defining or reviewing the scope of the counterparties concerned;
- Identifying, updating and gathering the most relevant available data (financial data, data on defaults of the segment concerned, institutional framework);
- Building a database if needed;

- Defining a broad list of financial ratios and qualitative criteria;
- Testing these ratios (repetitive processes between statisticians and analysts);
- Building the score function. A score function is the mathematical function that enables the counterparty (or exposure) PD, LGD or CCF to be determined on the basis of its characteristics. The score functions are established by the modelling team on the basis of statistical analysis and modelling techniques and are challenged by the model management division responsible for ensuring that they will meet end-user requirements; after they are constructed, the score functions are segmented into homogeneous risk classes and ratings respecting optimal discrimination and stable through-the-cycle rating migration behaviour. The risk classes are conservatively calibrated taking into account the data size and macro-economic volatility of risk parameters to limit frequent model revisions on low default portfolios;
- Testing the score function;
- Developing IT tools;
- Validating and implementing the model;
- Adjusting risk policies;
- Documenting the model use and certification process: user guide, documentation for the supervisor, notes describing the building of the model etc.

Nevertheless, some steps in the development process detailed above (such as building the score function, testing the function, etc.) are not applied for some specific models:

- Models based on an expert approach (such as the LGD model used for US municipalities) do not include a score function. They are based on internal experience and qualitative knowledge and not on statistical data (which may not be available due to the very low number of defaults for instance);
- Models based on a derivation approach stem from an existing model and those based on an assimilation approach have specific development processes. Counterparties treated by assimilation inherit the rating of their "master" counterparty. Assimilations and derivations are applied when it is neither financially intuitive nor statistically relevant to develop, adapt or use an existing model. Such cases occur typically for low default portfolios with a low number of observations, limited data availability (both for design and for model use) and for portfolios where strong relations exist between the "master" counterparty and the "assimilated" or "derived" counterparty. These relations can be legally bound or based upon long-term past experience and practice.

## Maintenance of the models

As mentioned above, the model management division is responsible for the entire process linked to the model review, including the maintenance of the model. The main model maintenance steps encompass:

- Centralisation, analysis and storage of default data;
- Coordinating the various quantitative and qualitative analyses required throughout the model life cycle;
- Gathering information and feed-back from the credit analysis and rating teams to update risk analysis techniques, and identify models' weaknesses;
- Conducting developments, reviews and back tests of models;
- Validating business requirements for IT developments (rating tools);
- Updating model documentation and user guides;
- Preparing model certification documents.

## Internal rating process by broad exposure class

### Type of exposure included in each exposure class

Dexia has developed a wide range of models to estimate PD, LGD and CCF of the following types of counterparties.

#### Sovereigns

##### Sovereigns

The scope of the model encompasses sovereign counterparties, defined as central governments, central banks and embassies (which are an offshoot of the central state), and all debtors of which liabilities are guaranteed irrevocably and unconditionally by central governments or central banks.

##### Assimilations to sovereigns

The in-depth analysis of some public sector counterparties (such as public hospitals in France or communities in Germany) shows that they share the same credit risk as the "master" counterparties to which they are assimilated (usually local authorities or sovereigns). They are consequently assimilated to these "master" counterparties and benefit from the same PD and LGD as their "master" counterparties.

#### Project finance (specialised lending)

This model encompasses the project financing activity of Dexia on all segments of activity in which Dexia intervenes (which at present are mainly Energy and Infrastructure). The specialised lending portfolio is a subgroup of the corporate portfolio which has the following characteristics: the economic objective is to finance or acquire an asset; the flows generated by this asset are the sole or practically the sole source of repayment; this financing represents a significant debt in respect of the liabilities of the borrower; the main distinguishing criterion of risk is essentially the variability in flows generated by the financed asset, much more than the borrower's ability to repay.

## Banks

The scope of the model encompasses worldwide bank counterparties, defined as legal entities which have banking activities as their usual profession. Banking activities consist of the receipt of funds from the public, credit operations and putting these funds at customers' disposal, or managing means of payment. Bank status is gained by the delivery of a banking license given by the supervisory authority.

## Corporates

The scope of the model encompasses worldwide corporate counterparties. Dexia defines a corporate as a private company or a listed public owned company with total annual revenues higher than EUR 50 million or belonging to a Group with total annual revenues higher than EUR 50 million which is not a bank, a financial institution, an insurer or a satellite.

## Public sector entities

Public sector entities represent a large part of the Dexia portfolio. Some differences between counterparties have been noticed inside this portfolio, and this explains the number of models.

## West-European local authorities

This model encompasses local authorities in France, Spain, Italy and Portugal. From this model, the models applicable for German Länder and French "Groupements à fiscalité propre" have been inferred.

Dexia defines local authorities as sub-sovereign governmental elected bodies empowered by the legislation of the country in which they are located with specific responsibilities in providing public services and with certain resources and capacity to decide their own practical organisation in terms of administrative procedures, personnel, buildings, equipment, etc.

## US States

The scope of application of the US State model encompasses the 50 States of the United States of America and the Commonwealth of Puerto Rico. The model only rates US State general funds or general obligations. Every US State or local government has a general fund and generally issues general obligation or general fund debt. The general fund of a public entity is the main revenue from direct or indirect taxes and is used for common and general purposes. For instance, a general fund usually backs general obligation bonds, lease or certificate of participation bonds.

## US local governments

The scope of the US local government model encompasses cities, counties and school districts. The internal rating system only rates US local government general funds or general obligations.

## Other counterparties from the US municipal sector (expert models)

The scope of application of these expert models covers only the counterparties related to the special revenue funds, i.e. the following categories for Dexia: special tax, utilities (including water and sewer, gas and electricity), higher education, general airport, toll facilities, mass transportation, housing, healthcare, public facility lease. Every local government or public authority generally has one or more special revenue funds, the financial characteristics of which differ from one sector to another. The special revenue funds of a public entity are usually used for a special purpose and they receive either utility revenues (water, public power, toll...) or special taxes (sales tax, allocation tax, excise tax...).

## Social housing

This model encompasses social housing companies in France and the United Kingdom. The social housing sector encompasses dedicated entities with public, private or non-profit entity status which have a social lessor's mission within the regulated field of social housing activity in France and in the United Kingdom. In particular, this field is strongly regulated by the "Code de la Construction et de l'Habitat" in France and by the Housing Corporation in the United Kingdom.

## Assimilations to public sector entities

The in-depth analysis of some public sector counterparties shows that they share the same credit risk as the "master" counterparties to which they are assimilated (usually local authorities or sovereigns). They are consequently assimilated to these "master" counterparties and benefit from the same PD/LGD as their "master" counterparties.

## Equity and securitisation transactions

No internal models have been developed specifically for equity or securitisation transactions that follow a different regulatory approach under the Basel framework: securitisation risk weighting is based on external and not internal ratings; equities do not require the development of specific models.

## Default definition used in the models

The "default" notion is uniform throughout the entire Dexia Group covering all business segments with some minor exceptions due to special characteristics.

The notion of default has been harmonised from the beginning of the Basel project with the impairment notion used in IFRS. All credits in default and only those flagged as in default give rise to an impairment test (that may or may not eventually lead to a provision). See section 3.5.



The notion of default is not automatically related to that of potential loss (for instance, a loan may present unpaid terms but may be totally collateralised and consequently present a nil expected loss) or to the notion of denunciation (which is decided on the basis of the interest Dexia may have to do so)

## Definition, methods and data for estimating PD, LGD and CCF

### Main principles used for estimating the PD

Types of counterparties	Through the cycle (TTC) models	Default definition	Time series used	Internal/ External data
Sovereigns	Models are forward looking and Through The Cycle (TTC). They are designated to be optimally discriminative over the long term. The TTC aspect of the rating is also addressed in a conservative calibration of the PD	Default at 90 days	> 10 years	External
Banks		Default at 90 days	> 10 years	External and internal
Corporates		Default at 90 days (except for French: 180 days)	Cf. following table	Internal and/or external
		Default at 90 days	> 10 years	External
Specialised lending		Default at 90 days	> 10 years	Internal
Equity	Specific approach: PD/LGD	N/A	N/A	N/A
Securitisation	Rating-based approach	Default if related ABS is classified as impairment 1 (loss probability >50%) or impairment 2 (loss probability =100%)	N/A	N/A

(\*) Western Europe local authorities, US local authorities, French "Groupements à fiscalité propre" and social housing.

### Main principles used for estimating the LGD

Types of counterparties	Main hypotheses	Time series used	Internal/ External data
Sovereigns	Expert score function based upon Fitch country loss risk methodology and internal expert knowledge to discriminate between high and low risk	> 10 years	Internal + External
Banks	Statistical model based on external rating agencies and internal loss data	> 10 years	Internal + External
Corporates	Statistical model based on external rating agencies loss data	> 10 years	External
Local public sector	Cf. next table		
Specialised lending	Statistical model based on internal loss data	> 10 years	Internal
Equity	Specific approach: PD/LGD	N/A	N/A
Securitisation	Rating-based approach	N/A	N/A

### Overview of the local public sector

Types of counterparties	Main hypotheses	Time series used	Internal/ External data
Western Europe local authorities	Statistical model based on the internal existing default cases observed on our portfolio. Final LGD are segmented on both socio-economic criteria and indicator reflecting the financial flexibility	> 10 years	Internal
US municipalities	The Muni US LGD model is an expert model guided by external recovery rate factors and estimates. The final segmentation is based on business sectors	N/A	External
Groupements à fiscalité propre	A mixed analytical - expert model was chosen and constructed based on available observations to determine LGD and quantify potential loss related to a default in this sector	4 years	Internal
Social housing	Expert model based on a global evaluation of security/credit risk mitigant. Segmentation is based on the number of houses and on a performance ratio	9 years	Internal + External

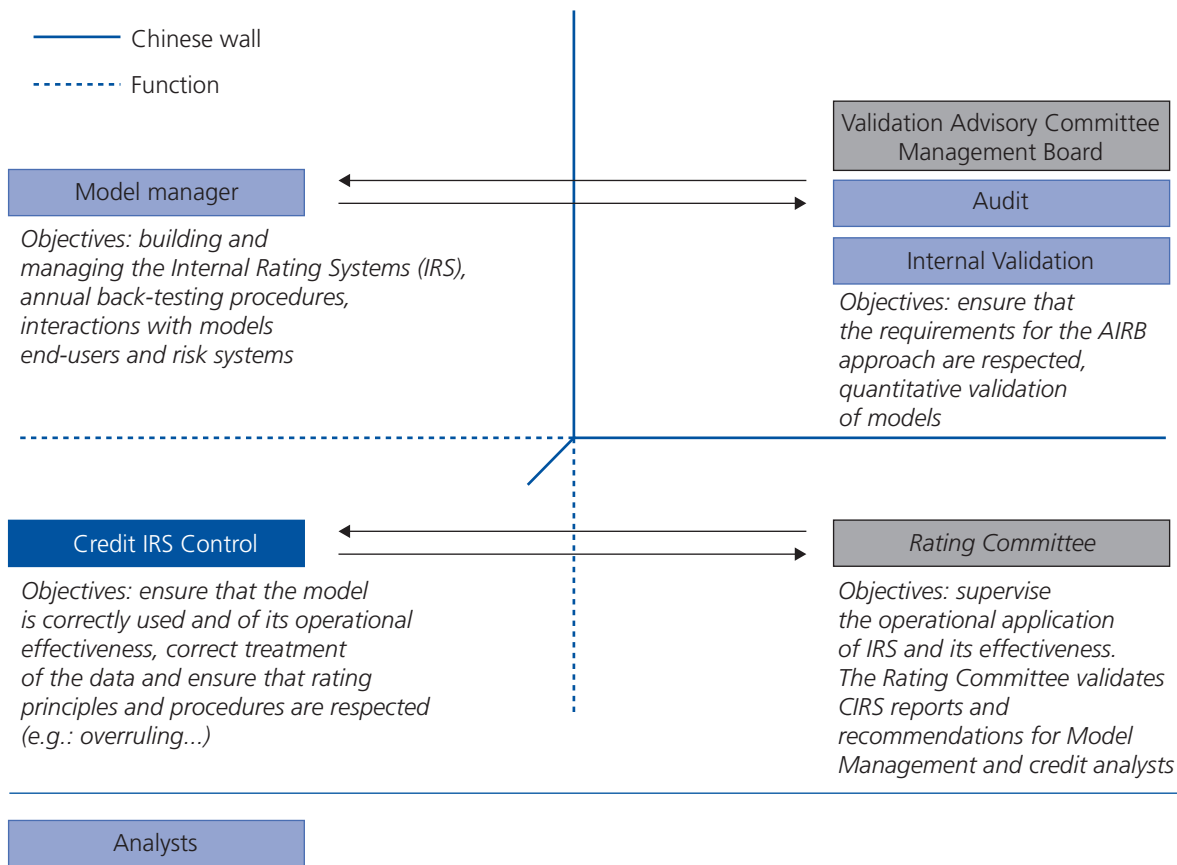
### Main principles used for estimating CCF

At present Dexia does not use CCF models for regulatory purposes except for specialised lending CCF model. Otherwise, the foundation approach is applied.



### 3. Control mechanisms for rating systems

The Basel Committee on Banking Supervision regulation requires internal control of the internal rating systems and processes. The following graph provides an overview of the different control functions.



The control mechanisms for internal rating systems (IRS) are organised in 3 levels:

- Credit Internal Rating systems Control (CIRS) is responsible for the monitoring of the models' use and environment review, pertaining to the second level controls of IRS (model scope, model input quality, overruling, audit trail);
- Market and Credit Validation are responsible for the overall assessment of the IRS (model set-up, model reviews, back testing and stress testing);
- Audit is responsible for auditing the general consistency and compliance with the regulation of the IRS, operational validation being carried out by the CIRS department.

CIRS is integrated in the Risk Governance and Reporting department. Chinese walls between Model manager and Validation, Model manager and Rating Committee (RC) and CIRS and Audit ensure the control system independence.

#### Credit internal risk systems control

##### Purpose

Credit internal rating systems control is defined, in accordance with the regulatory directives, as an internal and independent control unit aimed at ensuring that the IRS are used properly and in an operationally effective manner and that an audit trail of the rating process is maintained.

In practice, the controls and the organisation are established to meet a number of requirements:

- Ensuring that the assumptions on which the models are founded are respected;
- Ensuring the reactivity of IRS supervision procedures and the maintenance of the audit trail in the rating process;
- Facilitating the IRS containment procedures. When malfunctions or anomalies in the use of or in the results produced by the model are evidenced, swift and effective remedial action should follow. To this end, controls should not only concentrate on anomalies but also help explaining their cause. Moreover, a regular and constructive relationship with the back-testing functions is put in place.

Global and specific key controls are applied for the monitoring of the models' use and environment review. Global controls are applied without distinction of the model reviewed and the specific ones (i.e. dependent of the model) reflect the monitoring of existing issues related to the model in question. These controls encompass the review of:

- The rating scope exhaustiveness;
- The quality of the audit trail;
- The quality of model inputs and their accuracy/relevance;
- Human overruling of the models;
- The correct application of rating guidelines and procedures (mother support/BE, country ceilings, re-rating, piercing of Local Currency Country Ceiling (LCCC) & Foreign Currency Country Ceiling (FCCC), country/mother company downgrade impacts, rating inheritances on counterparties etc.)

## Scope

The scope of the quality control process covers:

- All advanced rating models;
- All entities within Dexia;
- All geographical locations.

## Process: parties involved

### Key stakeholders and functions

The organisation follows that of the Credit Risk teams: the principle is that IRS that are specific to an entity are used and controlled with the help of local correspondents while "transversal" IRS are treated at Dexia Group level. Annual visits are carried out to ensure the coordination and steering of the global quality control process.

### Rating Committee

The key role of the Rating Committee is to monitor the appropriate use of internal rating systems within the Group as a whole and to ensure that these IRS are effective. For these reasons, the Rating Committee:

- Validates overrides above tolerance threshold, proposed by analysts;
- Reviews CIRS reports on the use and performance of IRS;
- Monitors the homogeneous application within the Group of the rating and derogation principles;
- Validates operational establishment of the models once they are validated by the Validation Advisory Committee (VAC).

In case of disagreement between the Credit IRS Control and the CEC or Model Management departments (over a recommendation or a rating reviewed), the Committee has a veto right and the possibility to escalate to the Risk Management Executive Committee and/or to the Internal Control Committee.

### Processes and guarantee of independence

Fully aware of the importance of preserving the neutrality of the control process, a Chinese wall has been set between the development departments, model management, sales functions, analysis functions and the CIRS function.

These walls ensure a high credibility of the final control outcomes. This way any potential conflict of interest is fully avoided, as the CIRS control function:

- Is independent from the credit analysis function (model users);
- Submits their proposals to the Rating Committee;
- Informs the Validation function on any subject concerning IRS or modes of applying the IRS within the Group.

## Model validation

Dexia monitors its solvency using rules and ratios established by the Basel Committee on Banking Supervision and the European Capital Requirements Directive. The application of this approach requires a validation process to ensure that the internal models are conceptually sound while adequately capturing all material risks.

Formally a model is defined as a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates:

- Models based on observations of historical data and some statistical assumptions. This kind of model is fully statistics-driven.
- Models based on some assumptions of behaviour of agents in the market. These models try to use a system of equations to simulate the market and thus to calculate the risks.
- Models that share the characteristics of the two previous categories.

### Model validation department

All the models used within Dexia, either market risk models, pricing models, Basel Pillar 1 credit rating models, ALM models and economic capital models have to be validated by an independent entity.

The Validation department ensures that the models used within the Bank:

- Provide reliable outcomes in line with the objectives assigned by the management;
- Are correctly implemented and adequately used;
- Meet the regulatory requirements.

The main objectives of the Validation department are:

- To define the procedures, methodology and requirements of model validation;

- To identify all models waiting for validation;
- On this basis to elaborate a validation schedule, taking account of a firewall between Validation and Modelling;
- To exercise the validation work on the models, using appropriate information sources, reviewing the consistency of control processes, performing sufficient testing (including stressed scenarios), evaluating the documentation and model risks;
- To assess input relevance and reliability (frequency and availability of data, consistency with corroborative data information, transparency of data, timeliness, maturity and liquidity);
- To bring and defend their works before the Validation Advisory Committee (VAC) in order to obtain an approval;
- To Inform the Management Board and the Audit Committee frequently of the model validation status.

### Validation approval process

The process set up to endorse the validation of models deployed within Dexia Group is multi-layered, ensuring total compliance with regulations and local regulation requirements through the work-out of proposals by the Validation department, an approval of these proposals by the VAC. The validation approval process is formalised in a set of policies. The output of the validation is formalised in a validation report also including an executive summary, strengths and weaknesses and a list of recommendations. These reports are presented to the VAC and are sent to the supervisors upon request. The Management Board has ultimate authority at Dexia Group level on all risk related decisions. In terms of sequence, all elements presented in Management Board are previously discussed within the VAC. The Management Board can either confirm or modify the initial VAC decision.

### The Validation Advisory Committee

As mentioned above, in order to develop an efficient and transparent validation process, the Validation Advisory Committee (VAC) has been set up. The VAC is responsible for:

- Establishing and following up the overall validation framework including procedures and subcommittees terms of reference;
- Defining priorities in the validation of the various risk models;
- Reviewing each validation step of the guidelines and model life cycle validations;
- Preparing proposals for decisional committees to facilitate the decision-making process;
- Following-up the recommendations issued.

Sub Validation Advisory Committees have been processing the Validation outcomes:

- The Markets VAC covering market risk and pricing models;
- The Credit VAC covering credit rating models;
- Transversal VAC covering operational risk models as well as transversal Pillar II models (such as economic capital and ALM models).

The VAC is composed by the head of department of the stakeholders in the model development process and by the head of department of the users. Audit and Compliance also attend the VAC. In terms of decision making, The VAC endorses the validation status proposed by the model validation team. An escalation procedure via the Management Board and information to the Audit Committee has been put in place.

### Validation scope

The global scope of the generic validation process within Dexia Group applies to:

- All models requested by supervisors (e.g. Basel & IFRS) or for business purposes;
- All risks deployed in the company, such as credit, market, operational and ALM related risk...;
- All Dexia Group entities (cross-entity dimensions);
- All geographical locations (cross-border dimensions).

The validation scope includes a review of conceptual framework or mathematical monetisation or theoretical approach related to calculations:

- Model validation is not limited to back testing, but also includes tests demonstrating that assumptions made within the internal model are appropriate and do not underestimate risks;
- Testing for model validation uses additional assessments including for example testing carried out over long time periods (improving the power of back testing) or using hypothetical changes in portfolio value that would occur were end-of-day positions remain unchanged;
- Validation covers tests of assumptions ensuring that the model testing captures concentration risk in an undiversified portfolio;
- Assessment of potential linkages to counterparty credit risk.

## Audit

According to Article 191 of the CRR, "Internal audit or another comparable independent auditing unit shall review at least annually the institution's rating systems and its operations, including the operations of the credit function and the estimation of PDs, LGDs, ELs and conversion factors. Areas at review shall include adherence to all applicable requirements".

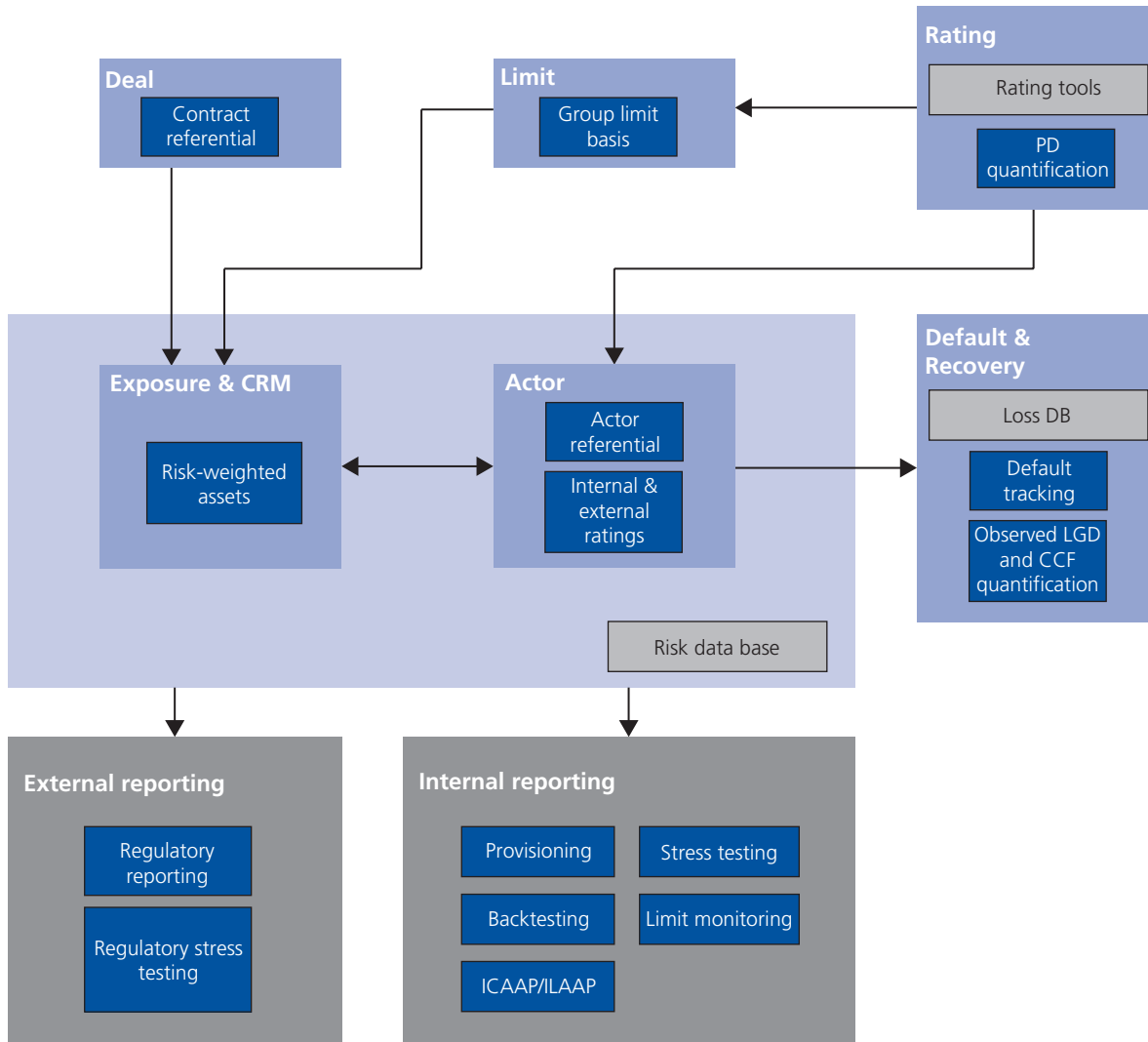
At Dexia the CIRS Control department performs this annual verification. Internal Audit operates as an additional control layer and verifies on an annual basis that the overall credit model processes are operated in accordance with the applicable regulation and internal guidelines and procedures.

## 4. Credit risk IT system

Dexia's credit risk IT system is centralised with all Group exposure and counterparties for all Dexia entities.

Since March 2014, the credit risk IT system has been adapted to Basel III requirements.

The following chart provides a global view of the functional architecture of the credit risk IT system within Dexia Group



The core of the credit risk IT system is built around the actor and exposure information. Both concepts are united in the central risk data base system which gathers information on all Dexia credit counterparties (identified by a unique internal identification number) and their corresponding exposures and credit risk mitigants.

The actor universe consists of referential information and rating information:

- Type of counterparty (bank, corporate, local authority, and so on);
- Descriptive data;
- External ratings from rating agencies (S&P, Moody's and Fitch);
- The internal rating before and after the Sovereign ceiling impact;
- The internal rating system;
- Available internal credit analyses;
- Relations between different counterparties such as capital or commercial ties.

The individual rating analysis is made within different rating tools, either individually or in batch, by the credit risk expertise centres. This internal rating data together with the external ratings are collected and linked in the actor data base.

The second component of the central risk data base is the exposure and CRM universe. A precise view on the exposure with significant amounts valuations (nominal, outstanding, mark-to-market, accrued interests, and so on) are joined with the credit risk mitigants (collateral and guarantees) to provide an integrated risk view on the positions taken by the Group.

Complementing the central risk database, other databases are maintained for risk management purposes, mainly:

- the limit database, comprising the current limits on credit counterparties that are defined based on rating information;
- the default database, used to collect the default and recovery information in order to calibrate and back test the Dexia internal rating systems.

Dexia's centralised IT system is linked to a reporting infrastructure allowing credit risk reports to be produced on the basis of the information gathered at different levels. All these IT and reporting systems support the general risk monitoring for both internal and external purposes as there are:

- External reporting
  - Regulatory reporting
  - Pillar 3
  - Regulatory stress testing
- Internal reporting
  - Cost of risk calculations and provisioning
  - Reporting in relation to the risk appetite framework, the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Assessment Process)
  - AIRB model back testing
  - Stress testing
  - Limit monitoring

### **Process used to transfer the issuers and issue credit assessments into items not included in the trading book**

Issuers and issue credit assessments into items not included in the trading book are automatically collected by Dexia credit risk IT systems and then attributed to the relevant issuers or issues on the basis of a unique identification number for issuers (Dexia internal "ID" numbers) and for issues (ISIN codes).

# Appendix 3

## Basics on securitisation

Securitisation is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations and selling said debt as bonds to various investors. The principal and interest on the debt, underlying the security, is paid to the various investors on a regular basis. Securities backed by mortgage receivables are called mortgage-backed securities, while those backed by other types of receivables are called asset-backed securities. A variant is the collateralised debt obligation, which uses the same structuring technology as an ABS but includes a wider and more diverse range of assets.

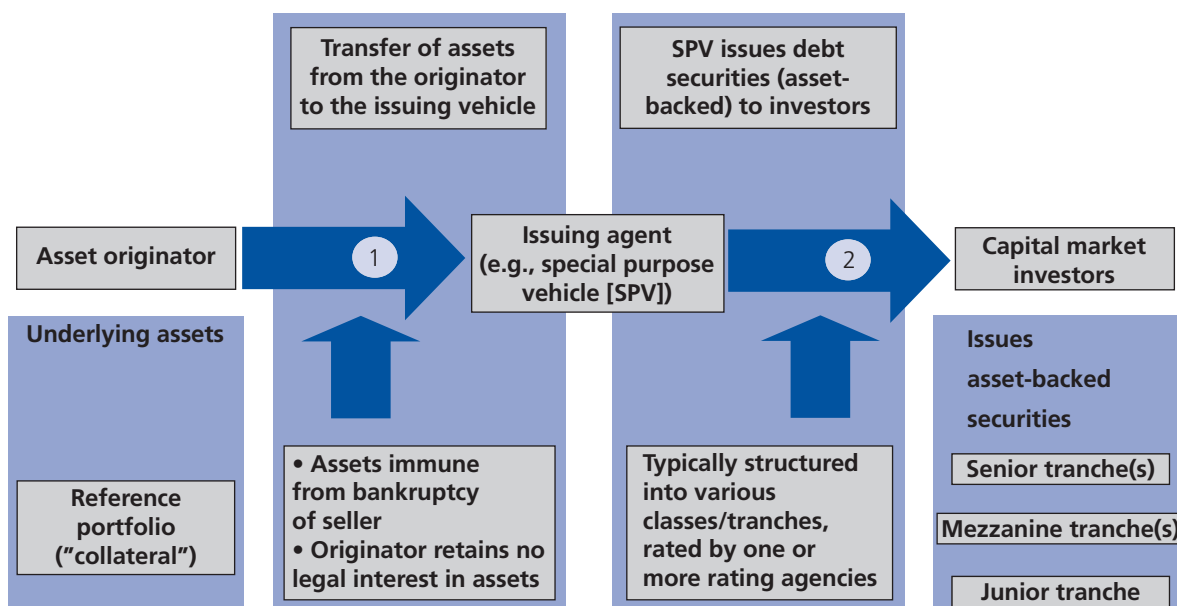
The originator initially owns the assets engaged in the deal. This is typically a company looking to seek financing or to raise capital.

A suitably large portfolio of assets is “pooled” and transferred to a “special purpose vehicle” or “SPV” (the issuer), a company or trust formed for the specific purpose of purchasing or funding the assets. Once the assets are transferred to the issuer, there is normally no recourse to the originator. The issuer is “bankruptcy remote,” meaning that the assets of the issuer are legally separated from the creditors of the originator. Additionally, the governing documents of the issuer will restrict its activities only to those necessary to complete the issuance of securities.

### Tranching

Securities issued are often split into tranches, or categorised into varying degrees of subordination. Each tranche has a different level of credit protection or risk exposure to another: there is generally a senior (“A”) class of securities and one or more junior subordinated (“B”, “C”, etc.) classes that function as protective layers for the “A” class. The senior classes have first claim on the cash or proceeds that the SPV receives, and the more junior classes generally only start receiving repayment after the more senior classes have been repaid. Because of the cascading effect between classes, this arrangement is often referred to as a cash flow waterfall. In the event that the underlying asset pool becomes insufficient to make payments on the securities (e.g. when loans default within a portfolio of loan receivables), the loss is absorbed first by the subordinated tranches, and the upper-level tranches remain unaffected until the losses exceed the entire amount of the subordinated tranches. The most junior class is often called the equity class and is the most exposed to re-payment or default risk.

The table below describes the way a securitisation process is performed:



## Credit enhancement

Tranching in a securitisation deal will create some securities which are “credit enhanced,” meaning the credit quality is increased above that of the originator’s unsecured debt or underlying asset pool. This increases the likelihood that the investors will receive cash flows to which they are entitled, and thus causes the securities to have a higher credit rating than the originator. Some securitisations use external credit enhancement provided by third parties, such as monolines or parental guarantees. Credit enhancements affect credit risk by providing more or less protection to promised cash flows for a security. Additional protection can help a security achieve a higher rating, lower protection can help create new securities with differently desired risks, and these differential protections can help place a security on more attractive terms.

## Servicing

Most collateral requires the performance of ongoing servicing activities. With credit card receivables, monthly bills must be sent out to credit card holders; payments must be deposited, and account balances must be updated. Similar servicing must be performed with auto loans, mortgages, accounts receivable, etc. Usually, the originator is already performing the servicing at the time of a securitisation, and it continues to do so after the assets have been securitised. It receives a small, ongoing servicing fee for doing so. Whoever actually performs servicing is called the servicing agent.

# Appendix 4

## Dexia originations

### Traditional securitisations of Dexia as originator

Dexia Crediop and Dexia Crédit Local have securitisation vehicles:

- One for Dexia Crediop (Tevere Finance);
- One for DCL (Triplus).

#### **Tevere Finance Series 2009 I, Series 2009 II and Series 2010 III (Type of underlying assets: public sector and other)**

On 27 February 2009, Dexia Crediop issued two securitisations (Tevere Finance series I & II) with the intention of providing funding with the use of senior ABS (previously re-purchased) in repo transaction with the European Central Bank (the underlying assets are not ECB eligible).

The Tevere Finance series I was closed during the last quarter of 2010 and all the underlying bonds were transferred part to Dexia Kommunalbank Deutschland and part to the Dexia Crediop portfolios.

The underlying assets of Tevere Finance series II are loans granted to an Italian financial institution. Two classes of notes were issued: Class A (original size: EUR 253.9 million) and Class B (original size: EUR 1 million). Class A is rated BBB- (S&P) while class B is unrated. As at 31 December 2015 the outstanding commitments amounted to EUR 141.4 million and EUR 1 million respectively for class A and class B.

During the first quarter of 2010 Dexia Crediop issued a further Series of Tevere Finance i.e. Tevere Finance series III, the underlying assets of which are corporate loans. Like in the previous Series, two classes of notes have been issued: Class A (senior Tranche for an initial amount of EUR 472.7 million) and Class B (junior/subordinated tranche for an initial amount of EUR 2.6 million). As at 31 December 2015 the outstanding commitments amounted to EUR 6,652 for class A, which is expected to be fully repaid in Q1 2016, and EUR 2.6 million for class B. Both classes are unrated.

#### **Triplus - 2010 Repackage Transaction (Type of underlying assets: Japanese public sector loans)**

On 27 January 2010, DCL Tokyo securitised JPY 70.2 billion of Japanese municipal loans with the intention of providing funding with the placement of senior tranches (JPY 65.5 billion) to Investors.

DCL Paris retained the equity tranche (class B note).

DCL Tokyo entrusted a pool of its municipal loan receivables to the trustee ("First Trust"), and the trustee issued the Class A Beneficial Interests (Classes A1 through A4) and the Class B Beneficial Interests.

Entrustment of the receivables is perfected against relevant obligors and third parties by obtaining the obligors' approval in writing with a certified date pursuant to the rules under Article 467 of the Civil Law.

Then DCL Tokyo entrusted the Class B beneficial interests (the principal amount is approximately JPY 4.7 billion) to the trustee (the "Second Trust"), and the trustee issued the beneficial interest. The Second Trust used the proceeds from the asset-backed loans, Loans A1 through A4, with the limited recourse assets of the respective Class A1 through A4 beneficial interests, to purchase each of the Class A beneficial interests. These notes are rated "Aa2" by Moody's.



Each of the beneficial interests is secured by way of transfer (“joto tampo”). The entrustment and the transfer were perfected against relevant obligors and third parties by obtaining the approval of the trustee of the First Trust in writing with a certified date pursuant to the rules under Article 94 of Japan’s Trust Law. The proceeds from the dividends and the redemption of the principal of the Class A1 through A4 beneficial interests are being used for the payment of interest and principal of Loans A1 through A4, respectively.

The transaction was arranged by Mitsubishi UFJ Securities Co., Ltd. The final maturity (corresponding to the maturity of the Class B note) is 20 May 2039.

As at 31 December 2015, the outstanding amount is JPY 55.96 billion (EUR 416 million) and is composed as follows:

Class B note: JPY 4.7 billion (EUR 36 million) – non-rated note retained by DCL Paris;

Class A1 note: fully redeemed – note placed on the market;

Class A2 note: JPY 29.7 billion (EUR 226.8 million) – note placed on the market;

Class A3 note: JPY 5.7 billion (EUR 43.6 million) – note placed on the market;

Class A4 note: JPY 12.3 billion (EUR 94 million) – note placed on the market.

Amortisations are allocated to each note one by one: A1, then A2, etc. This explains why only A1 notes are fully redeemed, and why only the A2 notes have amortised during 2015.

## Synthetic securitisations of Dexia as originator

### **WISE securitisation (type of underlying assets: corporate and other)**

WISE is a partially funded synthetic securitisation pursuant to which Dexia Crédit Local Dublin Branch bought credit protection on a portfolio of GBP 1.5 billion wrapped bonds related to PPP/PFI or regulated utilities in the water, electricity or gas sectors. The transaction was closed on 21 December 2006. As at 31 December 2015 the outstanding nominal decreased to GBP 1,385 million.

Dexia is transferring the credit risk related to the wrapped infrastructure portfolio to external parties by means of two credit default swaps: a non-funded super senior credit default swap with an OECD Bank and a junior credit default swap with WISE 2006-1 Plc, a special purpose company registered in Ireland. WISE 2006-1 has issued 3 tranches of credit-linked notes (CLNs) to transfer the risk to the market, ranging from AAA/Aaa to AA-/Aa3 (S&P and Moody’s respectively) at inception. As at 31 December 2015 the rating of the Class A notes was BB+/B1, the rating of Class B notes was B+/Caa1 and the rating of the Class C notes was CCC/Caa3 (S&P and Moody’s respectively). The tranches were placed with several investors.

# Appendix 5

## Complement on subsidiaries

Based on local GAAP figures.

### 1. Dexia Kommunalbank Deutschland (DKD)

#### 1. Accounting and regulatory equity figures

(in EUR million)	31/12/2015		
	Financial statements	Regulatory purposes	Variation
Equity, DKD solo	658	589	69
of which share capital and related reserves	433	433	0
of which reserves	349	349	0
of which gains and losses directly recognised in equity	(33)	(33)	0
of which net result of the period	(90)	(159)	69
Other intangible assets	0	0	0
Minority interests	0	0	0
<b>TOTAL EQUITY</b>			
Common Equity Tier 1	658	589	69
Tier 2	109	48	61
<b>TOTAL CAPITAL</b>	<b>767</b>	<b>637</b>	<b>130</b>

#### 2. Capital requirements by type of risk

(in EUR million)			31/12/2015		
Type of risk	Basel III treatment	Exposure class	Risk-weighted assets	Capital requirements	
Credit risk	Advanced	Central governments or central banks	1,699	136	
		Corporates - Specialised lending	9	1	
		Corporates - Other	10	1	
		Institutions	405	32	
		Public sector entities			
		Regional governments or local authorities			
		Other non credit-obligation assets	7	1	
		<b>Total</b>		<b>2,131</b>	<b>170</b>
	Risk exposure amount for contributions to the default fund of a CCP		<b>1</b>	<b>0</b>	
	Standard	Standard	Central governments or central banks	46	4
			Corporate	184	15
			Institutions <sup>(1)</sup>	288	23
			Public sector entities	207	17
			Regional governments or local authorities	13	1
			Exposures in default	220	18
Other items			252	20	
<b>Total</b>		<b>1,210</b>	<b>97</b>		

(1) Credit Risk / Standard / Institutions: of which CVA: EUR 277 million of risk-weighted assets and EUR 22 million of capital requirements.

(in EUR million)			31/12/2015	
Type of risk	Basel III treatment	Exposure class	Risk-weighted assets	Capital requirements
Market risk	Standard	Interest rate risk		
		Foreign exchange risk	38	3
		Position risk on equities		
		Other market risks		
		<b>Total</b>	<b>38</b>	<b>3</b>
Operational risk	Standard		33	3
<b>TOTAL</b>			<b>3,414</b>	<b>273</b>

### 3. Capital adequacy

(in EUR million)	31/12/2014	31/12/2015
Common Equity Tier 1	745	589
Total risk-weighted assets	3,420	3,414
Common Equity Tier 1 ratio	22%	17.2%

### 4. Geographic distribution of credit risk exposure

31/12/2015									
(in EUR million)	Central governments or central banks	Corporate	Exposures in default	Institutions	Multilateral development banks	Other items	Public sector entities	Regional governments or local authorities	Total
Austria	1,084		220	46					1,350
Belgium	213	298		36		4	944		1,495
Finland	25								25
France				1,546	15	53			1,615
Germany	12,954	1,372		1,802		252	560	208	17,148
Hungary	159								159
Italy	3,136			523				65	3,725
Japan	678								678
Luxembourg					85				85
Netherlands				68					68
Poland	193								193
Portugal	262	100					452		815
Spain	19			674					693
Sweden	82								82
Switzerland				92					92
Turkey		3							3
United Kingdom				389	62				451
United States				413	104				517
<b>TOTAL</b>	<b>18,805</b>	<b>1,774</b>	<b>220</b>	<b>5,590</b>	<b>265</b>	<b>310</b>	<b>1,956</b>	<b>273</b>	<b>29,193</b>

## 5. Credit risk exposure by economic sector

		31/12/2015								
(in EUR million)	Economic sector	Central governments or central banks	Corporate	Exposures in default	Institutions	Multilateral development banks	Other items	Public sector entities	Regional governments or local authorities	Total
	Industry									0
	Construction							76		76
	Trade-Tourism									0
Services	Transportation and storage		34					42		75
	Information and communication		16					14	52	82
	Financial and insurance activities	91	116		4,858	265	58	3	156	5,547
	Real estate activities	252	686					726		1,664
	Professional, scientific and technical activities									0
	Administrative and support service activities	815	388					432		1,635
	Public administration and defence-compulsory social security	16,509	387	220	732		8	339	65	18,260
	Human health and social work activities	22	114					276		412
	Arts, entertainment and recreation	6	25					3		34
	Other service activities	68	8					2		78
Other Services	1,042					244	44		1,330	
Others										0
<b>TOTAL</b>		<b>18,805</b>	<b>1,774</b>	<b>220</b>	<b>5,590</b>	<b>265</b>	<b>310</b>	<b>1,957</b>	<b>273</b>	<b>29,193</b>

## 6. Exposure covered by credit risk mitigants by exposure class

(in EUR million)	31/12/2015	
	Financial and physical collateral	Guarantees and credit derivatives
Corporates	351	1,192
Institutions	2,575	841
Public sector entities		1,071
Retail		1,042
<b>TOTAL</b>	<b>2,926</b>	<b>4,146</b>

## 7. Overview of impairments

(in EUR million)	2015						
	As at 1 Jan.	Additions	Reversals	Utilisation	Other adjustments	As at 31 Dec.	Adjustments directly recognised in profit or loss
General credit risk adjustments	10	10				20	10
Specific credit risk adjustments	29	179			(24)	184	155
<b>TOTAL</b>	<b>39</b>	<b>189</b>				<b>204</b>	<b>165</b>

## 8. Overview of impaired and defaulted financial assets

(in EUR million)	31/12/2014		31/12/2015	
	Carrying amount of individually impaired and defaulted financial assets, before deducting any impairment loss			
Loans		0		194
Debt securities		0		206
<b>TOTAL</b>		<b>0</b>		<b>400</b>

## 9. Remuneration

	31/12/2015			
	Management Board		Commercial Banking	of which: Independent control functions
	Supervisory function	Management function		
Number of members (Headcount)	6.00	2.00		
Total number of staff in FTE (full time equivalents)			72.60	15.77
Total remuneration (in EUR)	56,063	691,251	5,032,097	1,220,389
Of which: variable remuneration (in EUR)	0	60,000	327,750	73,700

	31/12/2015			
	Management Board		Commercial Banking	of which: Independent control functions
	Supervisory function	Management function		
Members (Headcount)	1.00	2.00		
Number of identified staff in full time equivalents <sup>(1)</sup>			14.00	5.00
Total fixed remuneration (in EUR)	28,263	631,251	1,303,847	471,314
Of which: fixed in cash	28,263	631,251	1,303,847	471,314
Total variable remuneration (in EUR)	0	60,000	141,700	37,150
Of which: variable in cash	0	60,000	141,700	37,150
Total amount of variable remuneration which has been deferred (in EUR)	0	0	0	0

(1) staff whose professional activities have a material impact on the institution's risk profile according to Article 92(2) of Directive 2013/36/EU; year-end numbers.

	31/12/2015	
	Commercial Banking	of which: Independent control functions
Number of natural persons within the category identified staff remunerated EUR 1 million or more per financial year	0	0

## 10. Leverage ratio

As at 31 December 2015, the leverage ratio calculated at DKD level reached 2.13% <sup>(1)</sup>.

(1) Ratio calculated according to the CRR/CRD IV rules amended by the Delegated Act of October 2014.

## 2. Dexia Crediop

### 1. Accounting and regulatory equity figures

(in EUR million)	31/12/2015		
	Financial statements	Regulatory purposes	Variation
Equity, Dexia Crediop solo	978	978	0
<i>of which share capital and related reserves</i>	1,107	1,107	0
<i>of which gains and losses directly recognised in equity</i>	(105)	(105)	0
<i>of which net result of the period</i>	(24)	(24)	0
Minority interests	0	0	0
<b>TOTAL EQUITY</b>	<b>978</b>	<b>978</b>	<b>0</b>
Prudential filters	0	20	20
Common Equity Tier 1	978	998	20
Tier 2	0	139	139
<b>TOTAL CAPITAL</b>	<b>978</b>	<b>1,137</b>	<b>159</b>

### 2. Capital requirements by type of risk

(in EUR million)			31/12/2015		
Type of risk	Basel III treatment	Exposure class	Risk-weighted assets	Capital requirements	
Credit risk	Advanced	Corporate	233	18.64	
		Financial institutions	1,028	82.24	
		Project finance	184	14.72	
		Securitisation	43	3	
		Sovereign	2,722	218	
			<b>Total</b>	<b>4,211</b>	<b>337</b>
	Standard	Corporate	371	30	
		Equities	1	0	
		Financial institutions	343	27	
		Public sector entities	122	10	
			<b>Total</b>	<b>836</b>	<b>67</b>
Market risk	Standard	Interest rate risk	260	21	
		<b>Total</b>	<b>260</b>	<b>21</b>	
Operational risk	Basic		54	4	
<b>TOTAL</b>			<b>5,361</b>	<b>429</b>	

### 3. Capital adequacy

(in EUR million)	31/12/2014	31/12/2015
Common Equity Tier 1	1,007	998
Total risk-weighted assets	5,512	5,361
Common Equity Tier 1 ratio	18.3%	18.6%

#### 4. Exposure at default by geographic distribution

(in EUR million)	31/12/2015						31/12/2014	
	Sovereign	Local public sector	Corporate	Project finance	Financial institutions	ABS/MBS	Total	Total
Italy	7,867	10,171	723	329	574	78	19,742	23,512
France	0	35	0	0	448		483	3,754
United Kingdom	0	0	0	0	59		59	233
Germany	0	0	0	0	48		48	49
United States	0	0	0	0	9		9	5
Others	3	6	0	0	66		76	3,998
<b>TOTAL</b>	<b>7,870</b>	<b>10,213</b>	<b>723</b>	<b>329</b>	<b>1,204</b>	<b>78</b>	<b>20,417</b>	
<b>TOTAL 31/12/2014</b>	<b>16,555</b>	<b>12,078</b>	<b>1,045</b>	<b>454</b>	<b>1,328</b>	<b>92</b>		<b>31,552</b>

#### 5. Exposure at default by exposure class and economic sector

(in EUR million)	31/12/2015								31/12/2014		
	Corporate	Financial institutions	Monolines	Project finance	Public sector entities	Retail	Securitisation	Sovereign	Total	Total	
Industry	155	-	-	234	-	-	-	-	389	833	
Construction	-	-	-	29	-	-	-	-	29	60	
Services	Transportation and storage	2	-	2	24	-	-	-	27	98	
	Financial and insurance activities	-	1,199	-	-	-	78	9	1,286	1,350	
	Real estate activities	218	-	-	64	-	-	-	281	499	
	Public administration and defense-compulsory social security	-	-	-	-	9,862	-	-	7,861	17,723	28,277
	Human health and social work activities	-	-	-	-	277	-	-	-	277	304
	Other services	349	5	-	-	50	-	-	-	404	131
<b>TOTAL</b>	<b>723</b>	<b>1,204</b>	<b>-</b>	<b>329</b>	<b>10,213</b>	<b>-</b>	<b>78</b>	<b>7,870</b>	<b>20,417</b>		
<b>TOTAL (31/12/2014)</b>	<b>1,045</b>	<b>1,168</b>	<b>160</b>	<b>454</b>	<b>12,078</b>	<b>-</b>	<b>92</b>	<b>16,555</b>		<b>31,552</b>	

#### 6. Overview of past-due exposure and impairments

(in EUR million)	2015								
	As at 1 Jan.	Additions	Reversals	Utilisation	Other adjustments <sup>(1)</sup>	As at 31 Dec.	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss	
<b>Specific impairment</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interbank loans and advances	0	0	0	0	0	0	0	0	0
Customer loans and advances	1	0	0	0	0	1	0	0	0
Other accounts and receivables	0	0	0	0	0	0	0	0	0
<b>Collective impairment</b>	<b>26</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>0</b>
Customer loans and advances	26	3	0	0	0	29	0	0	0
<b>TOTAL</b>	<b>27</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>

(in EUR million)	31/12/2015			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	Past-due but not impaired financial assets			
	Less than 90 days	91 days to 180 days	Over 180 days	
Loans and advances (at amortised cost) <sup>(1)</sup>	8	0	4	1
Financial assets held to maturity	0	0	0	0
Other financial instruments <sup>(2)</sup>	7	0	17	0
<b>TOTAL</b>	<b>16</b>	<b>0</b>	<b>21</b>	<b>1</b>

(1) Of which EUR 8 million are technical past-dues.

(2) Of which EUR 19 million unpaid nettings on derivatives affected by litigation (operational default).

## 7. Exposure covered by credit risk mitigants by exposure class

(in EUR million)	31/12/2015	
	Financial and physical collateral	Guarantees and credit derivatives
Central governments or central banks	-	15
Corporates	-	137
Institutions	3,564	100
Regional governments or local authorities	-	1,165
<b>TOTAL</b>	<b>3,564</b>	<b>1,417</b>
<b>TOTAL 31/12/2014</b>	<b>4,442</b>	<b>9,006</b>

Excluding the amortisation in charge of the Italian state and other subjects.

## 8. Leverage ratio

As at 31 December 2015, the leverage ratio calculated at Dexia Crediop level reached 3.89% <sup>(1)</sup>.

(1) Ratio calculated according to the CRR/CRD IV rules amended by the Delegated Act of October 2014.