Press release

DEXIA

Brussels, Paris, 14 November 2014 – 07:00 AM

Interim Statement – Q3 2014

Net income Q3 2014 of EUR -166 million; continuing improvement of recurrent net income

- Recurrent net income at EUR -42 million, driven by the reduction of the Group's funding cost over the quarter
- Impact of EUR -129 million from accounting volatility elements*, associated with the Group's sensitivity to the relative evolution of the reference curves used for the valuation of derivatives
- EUR 4 million associated with non-recurrent elements

Total Capital ratio at 17.3%: heavily weighted asset disposals offsetting the loss for the quarter

Result of the comprehensive assessment by the European Central Bank confirming the path defined for the Group's orderly resolution

- Good quality of the asset portfolio and an adequate provisioning level
- No remedial measure required by the regulator

** Accounting volatility elements are latent gains or losses booked to income. They do not correspond to cash gains or losses but are taken back prorata temporis over the lifespan of the assets or liabilities. As such they generate volatility on each accounting date.*

Karel De Boeck, CEO of Dexia SA, stated that, "*The quarter saw a further improvement of the Group's recurring net income, driven by a reduction of its funding cost. The conclusions of the comprehensive assessment by the European Central Bank and the confirmation that the guaranteed debt issued by Dexia is eligible as a level 1 asset for calculation of the LCR are two extremely positive elements for the continuation of our funding plan. We therefore keep joining forces to guarantee success.*"

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated that, "D*uring the first nine months of the year, the Dexia Group teams spent a great deal of time and energy to deliver quality data within the context of the comprehensive assessment by the European Central Bank. The results of that assessment confirmed the good quality of the Group's asset portfolios and validated the path defined for Dexia's orderly resolution. Together, we will continue to make great efforts to manage this process, while preserving the Group's capital base.*"

The third quarter saw a slowdown of the European economy, particularly in Germany. The fraught geopolitical landscape associated with the crisis in Ukraine weighted on exports to Eastern Europe. At the same time, the United States' exit from the crisis was confirmed, suggesting a divergence of economic cycles from one side of the Atlantic to the other. Despite Europe's economic difficulties, the financial markets remained well oriented, and such optimism favoured the normalisation of sovereign debt issues in the euro zone as well as the rapid contraction of funding costs for peripheral states.

Over the quarter, the focus of news from European banks was on the comprehensive assessment performed by the European Central Bank, the results of which were published on 26 October 2014. For Dexia, the quarter saw a continuing improvement of its recurring net income. The conclusions of the comprehensive assessment by the European Central Bank confirmed the path of the Group's orderly resolution. For the

period closing on 30 September 2014, Dexia is publishing an interim statement based on unaudited figures as at 30 September 2014.

1. Significant events and transactions in the third quarter 2014

a – The comprehensive assessment performed by the European Central Bank

On 26 October 2014, the European Central Bank published the conclusions of its comprehensive assessment of banks under its supervision as from 4 November 2014.

Dexia is the only bank in resolution subject to this exercise and the Group performed the entire assessment, namely an asset quality review (AQR) and a stress test performed after join-up of the AQR results, relying both on a baseline and an adverse scenario. The conclusions of this comprehensive assessment[1] revealed the quality of the Dexia Group's assets and the robustness of its risk analysis. They also confirmed the validity of the assumptions retained in the Group's orderly resolution plan validated by the European Commission in December 2012.

As part of the asset quality review, 11 portfolios were analysed, representing more than half the total weighted credit risks as at 31 December 2013. The results of this review indicate that as at 31 December 2013, the reference date for the exercise, the Common Equity Tier 1 (CET 1) capital of Dexia SA adjusted to take account of the findings of the AQR was EUR 8.5 billion, taking the CET 1 ratio to 15.80%. The excess capital was EUR 4.2 billion against a threshold ratio of 8%. The main conclusions of the review are as follows:

- The difference between the amount provisioned by Dexia for credit risk and that resulting from the AQR is limited to EUR 79.05 million, and the Group's collective provisions were deemed sufficient;
- The review shows a difference in the valuation of certain illiquid securities classified as AFS (level 3), corresponding to an impact of EUR -49.54 million on Dexia SA's regulatory capital in 2014. As a reminder, this amount is largely covered by the prudential adjustment posted as at 31 March 2014 at the level of Dexia SA and Dexia Crédit Local[2];
- In its conclusions, the European Central Bank also adjusted the provision for the Credit Valuation Adjustment (CVA) on derivatives, in an amount of EUR 172.64 million.

On the hypotheses of the baseline scenario in the stress test, the Group's CET 1 ratio projected to 2016 under European Central Bank methodology was 10.77%, an amount of excess capital of EUR 1.4 billion against a minimum required threshold of 8%.

In the adverse scenario, the Group's CET 1 ratio projected to 2016 reached 4.95%, with CET 1 capital at EUR 3.1 billion. The assumptions retained by the European Central Bank in this scenario are particularly unfavourable to the Group; in particular, the strict treatment applied to sovereign exposures severely impacts Dexia and not taking account of the current regulatory provisions authorising the Group not to deduct the AFS reserve on sovereign securities weighted heavily on Group capital[3]. In relation to the hurdle rate of 5.5%, the Group presented a capital shortfall of EUR 339 million.

In its communication of 26 October 2014, the European Central Bank indicated that, taking into account its orderly resolution plan benefiting from a State guarantee, there will be no need for the Group to increase its capital following the comprehensive assessment. The current regulatory measures granted by supervisory authorities authorising Dexia not to deduct the AFS reserve on sovereign securities from its regulatory capital

[1] Cf. press release dated 26 October 2014 available at www.dexia.com
[2] Cf. press release dated 14 May 2014, available at www.dexia.com.
[3] Cf. press release dated 26 October 2014 available at www.dexia.com

have been confirmed, enabling the Group to remedy the capital shortfall under the adverse scenario of the stress test. This decision is in line with the path of the Group's orderly resolution, aiming at managing and funding its asset portfolios to maturity, and thus avoiding the cost of any liquidation.

Furthermore, the Dexia Group made asset disposals during the first three quarters of 2014, enabling it to reduce the level of its weighted risks and to strengthen its capital base. Dexia estimates that the impact of those disposals will enable it to cover more than half of the hypothetical capital shortfall identified by the European Central Bank.

No other remedial action has been required by supervisory authorities.

b – Increasing the use of observable market data for the valuation of certain assets

On the basis of the preliminary conclusions of the asset quality review performed by the European Central Bank, the supervisory authorities asked Dexia to make an analysis of the market parameters used to value illiquid securities classified as assets available for sale (AFS). On their request, a prudential adjustment was posted as at 31 March 2014 on the regulatory capital of Dexia SA and Dexia Crédit Local, awaiting the conclusions of the analysis made by the Group.

After making this analysis, on 30 September 2014 Dexia changed the parameters used in the valuation of the securities concerned. This results in a maximisation of the use of observable market data to value such securities.

This decision leads to a reduction of the value of securities, reflected in the Group's financial statements by a deterioration of the AFS reserve. Furthermore, in future the valuation of securities could present increased volatility, associated with the change of market parameters used for their valuation. The evolution of the value of these securities will be a point for attention in establishing the statutory financial statements of Dexia Crédit Local, considering the rules in force in France. This impact is included in the EUR -450 million quarterly evolution of the AFS reserve.

At the same time, the prudential adjustment made on 31 March 2014 has been reversed. The combined effects of this reversal and the adjustment of market parameters are neutral on the Group's solvency at the end of September 2014.

Over coming quarters, the Group will continue to work on what has to be done in the light of the conclusions of the comprehensive assessment by the European Central Bank, particularly on the CVA, in cooperation with its statutory auditors.

c – Eligibility of the State-guaranteed debt issued by Dexia Crédit Local as a level 1 asset in determining the LCR

On 10 October 2014 the European Commission published a Delegated Act supplementing the Regulation with regard to the liquidity coverage requirement for credit institutions, as part of the implementation of the Basel 3 framework. This publication specifies the nature of assets which may be retained as high quality liquid assets (HQLA), and their classification as level 1 and level 2 assets when determining the Liquidity Coverage Ratio (LCR). This ratio is planned to come progressively into force in 2015.

Article 35 of the Delegated Act states that, "*Assets issued by credit institutions which benefit from a guarantee from the central government of a Member State shall qualify as level 1 assets only where the guarantee:*

(a) was granted or committed to for a maximum amount prior to 30 June 2014;

(b) is a direct, explicit, irrevocable and unconditional guarantee and covers the failure to pay principal and interest when due.

The guaranteed debt issued by the Dexia Group meets those conditions and is therefore eligible as a level 1 high quality liquid asset (HQLA) in calculating the LCR.

The announcement of the eligibility of the State-guaranteed debt issued by Dexia is a favourable element for the Group likely to increase the appetite for guaranteed debt of financial institutions required to comply with the LCR.

2. Unaudited financial statements of Dexia SA in the third quarter 2014

Over the third quarter of 2014, the Dexia Group posted a net loss of EUR -166 million, including EUR -42 million attributable to recurring net income[4] for the period, EUR -129 million to accounting volatility elements[5] and EUR 4 million to non-recurring net income[6].

Recurring net income for the quarter was EUR -42 million, against EUR -90 million the previous quarter. Over the third quarter of 2014, recurring net banking income was positive at EUR 60 million. Income from commercial portfolios was stable compared with the previous quarter, at EUR 177 million. At the same time, the funding cost was down EUR 9 million compared to the second quarter of 2014, at EUR 160 million. At EUR -101 million, operating expenses were stable compared to the previous quarter. The cost of risk for the quarter was extremely limited, at EUR -7 million.

At EUR -129 million, accounting volatility elements weighted heavily on the result of the third quarter. Principally they explain the negative evolution, compared with the end of June 2014, of the valuation of collateralised derivatives on the basis of the OIS curve and in particular derivatives denominated in GBP. The Group has a significant sensitivity to the relative evolution of the reference curves used for the valuation of these derivatives in application of the IFRS 13 accounting standard. Accounting volatility elements are latent gains or losses booked to income, they do not correspond to cash gains or losses but are taken back prorata temporis over the lifespan of the assets or liabilities. As such they generate volatility on each accounting date.

Finally, the non-recurring portion of the quarterly net income is EUR 4 million.

[4] Recurring elements: elements associated with asset carry, such as portfolio income, funding costs, operating expenses, cost of risk and taxes.

[5] Accounting volatility elements: elements associated with fair value adjustments on assets and liabilities in particular the impacts of the IFRS 13 accounting standard (CVA, DVA and the valuation of OTC derivatives), own credit risk (OCR), the WISE portfolio variation (synthetic securitisation on a portfolio of enhanced bonds).

[6] Non-recurring elements: elements of an exceptional nature, not likely to recur on a regular basis in particular gains or losses on asset disposals, costs and gains associated with litigations and restructuring costs.

3. Evolution of the Group's balance sheet, solvency and liquidity position

A – Balance sheet and solvency

a – Quarterly balance sheet evolution

During the third quarter, balance sheet evolution followed the upward trend observed in 2014, principally due to the fall of long-term interest rates and exchange rates. Indeed, as at 30 September 2014, the Group's balance sheet total was EUR 244.6 billion, up EUR 21.7 billion on 31 December 2013 and EUR 6.6 billion on 30 June 2014, at current exchange rate.

On the asset side, the balance sheet increase posted in the third quarter is principally explained by:

- an increase in the fair value of assets and derivatives of EUR 3.5 billion and EUR 2.6 billion in cash collateral posted by the Group associated in particular with the fall of long-term interest rates;
- an increase of EUR 1.9 billion associated with the exchange effect on the US dollar;
- these two factors more than offsetting the reduction of asset portfolios by EUR 2.1 billion.

On the liability side, the quarterly evolution of the balance sheet total is principally associated with:

- the increase in the fair value of liabilities and derivatives representing EUR 4.1 billion;
- an increase of EUR 1.9 billion due to the exchange effect on the US dollar.

The stock of market funding and Group deposits remained almost stable, at EUR 177 billion a current exchange rate.

b – Solvency ratios

As at 30 September 2014, the Group's Total Capital was EUR 9,283 million, down slightly by EUR 108 million on 30 June 2014, due to the loss recorded over the third quarter. Common Equity Tier 1 capital followed the same trend and amounted to EUR 8,892 million, against EUR 9,013 million as at 30 June 2014.

Gains and losses recognised directly in equity (Other Comprehensive Income) were EUR -6.5 billion, against EUR -6 billion at the end of June 2014. This negative evolution is principally explained by:

- a deterioration of the AFS reserve associated with the change of parameters used in valuing certain illiquid securities, leading to a reduction in the value of those securities (cf. section "Significant events and transactions in the third quarter 2014");
- an unfavourable evolution of exchange rates.

These two elements are partially offset by a tightening of credit spreads over the quarter, particularly on Spanish covered bonds.

The change in the parameters retained in valuing illiquid securities enabled the prudential adjustment made by the Group on 31 March 2014 to be reversed. The reversal of this adjustment offsets the negative evolution of Other Comprehensive Income observed over the quarter, the combined impact of these two elements on regulatory capital being practically neutral.

As at 30 September 2014, weighted risks amounted to EUR 53.6 billion, including EUR 48.5 billion in credit risk, EUR 2.5 billion in market risk and EUR 2.5 billion in operational risk. The fall of EUR 774 million recorded over the quarter was entirely attributable to credit risk and is explained by the sale of heavily weighted assets and the natural amortisation of the portfolio.

These elements lead to Total Capital and Common Equity Tier 1 solvency ratios of 17.3% and 16.6% respectively for Dexia SA at the end of September 2014, stable compared to the previous quarter.

On that same date, the Total Capital ratio for Dexia Crédit Local was 13.8% and its Common Equity Tier 1 ratio 13.5%.

B – Liquidity

In Q3 2014, funding activity remained dynamic, marked by the increase of secured market funding (EUR +3.2 billion) and the continuation of long-term guaranteed issues.

The Group took advantage of favourable market conditions to launch several guaranteed issues. Dexia Crédit Local issued various benchmark transactions in euros, US dollars and pounds sterling. These benchmark issues were accompanied by sustained activity in private placements, raising an additional EUR 1.3 billion over the quarter, bringing the total long term guaranteed funding raised in 2014 to EUR 9.3 billion, USD 5.1 billion and GBP 1.8 billion. These new issues offset the amortisation of existing funding, leaving the outstanding on guaranteed debt unchanged as at 30 September 2014 at EUR 76 billion.

The Group also continued its efforts to develop secured market funding. Repo activity remained dynamic, with new production of EUR 1.4 billion over the quarter, and an average maturity of 3 years, realised with assets not eligible for central bank refinancing.

As at 30 September 2014, guaranteed and secured funding represented 67% of total Group funding.

Recourse to funding granted by central banks remained stable over the quarter, at EUR 33.5 billion, only in the form of VLTRO.

Furthermore, anticipating significant funding redemptions at the end of 2014 and the beginning of 2015, the Group had temporary surplus liquidity with central banks of EUR 7.7 billion as at 30 September 2014.

Appendices

Appendix 1 – Simplified balance sheet

Balance sheet key figures			
EUR m	**31/12/2013**	**30/06/2014**	**30/09/2014**
Total assets	**222,936**	**237,993**	**244,606**
of which			
Cash and central banks	1,745	9,305	9,301
Financial assets at fair value through profit or loss	18,348	20,593	21,803
Hedging derivatives	5,945	7,030	7,641
Financial assets available for sale	29,224	29,307	28,893
Customer loans and advances	129,039	128,463	130,677
Accruals and other assets	27,270	31,223	34,253
Total liabilities	**218,977**	**233,953**	**241,183**
of which			
Central banks	34,274	34,014	34,025
Financial liabilities at fair value through profit or loss	18,840	21,572	23,428
Hedging derivatives	22,265	26,997	29,454
Interbank borrowings and deposits	31,201	39,247	43,007
Debt securities	96,368	95,272	92,999
Total equity	**3,959**	**4,040**	**3,423**
of which			
Equity, Group share	3,488	3,600	2,984

Appendix 2 – Capital adequacy

	Basel II	**Basel III**	**Basel III**
EUR m	**31/12/2013**	**30/06/2014**	**30/09/2014**
Common Equity Tier 1	10,054	9,013	8,892
Total Capital	10,617	9,391	9,283
Weighted risks	47,335	54,336	53,562
Common Equity Tier 1 ratio	21.2%	16.6%	16.6%
Total Capital ratio	22.4%	17.3%	17.3%

Appendix 3 – Maximum Credit Risk Exposure (MCRE) as at 30 September 2014

MCRE[7] calculated under IFRS 7

Dexia Group exposure by geographic region	
EUR m	Total
Austria	1,539
Belgium	3,482
Central and eastern Europe	3,471
France (Including Dom-Tom)	27,741
Germany	21,930
Greece	154
Hungary	1,105
Ireland	249
Italy	27,803
Japan	5,944
Luxembourg	144
Netherlands	677
Portugal	4,129
Scandinavian countries	832
South and Central America	639
Southeast Asia	945
Spain	19,598
Switzerland	498
Turkey	515
United Kingdom (not Norm.Isd/Man)	17,604
United States and Canada	34,267
Others	7,501
Total	**180,768**

Dexia Group exposure by category of counterparty	
EUR m	
Central governments	34,527
Local public sector	88,489
Corporate	5,347
Monolines	3,266
ABS/MBS	6,685
Project finance	14,683
Individuals, SME and self-employed	1
Financial instituations	27,770
Total	**180,768**

[7] The maximum credit risk exposure (MCRE) represents the accounting net carrying amount of exposures, being the notional amounts after deduction of specific impairments and available for sale reserve amounts, and taking into account accrued interests and impact of fair-value hedge accounting.

Group exposure by rating (internal rating system)	
AAA	18%
AA	22%
A	27%
BBB	20%
D	0%
Non Investment Grade	12%
Not Rated	1%
Total	**100%**

Appendix 4 – Group sector exposure to certain countries as at 30 September 2014 (MCRE on final counterparties)

Group sector exposure to certain countries							
EUR m	**Total**	*o/w local public sector*	*o/w corporate and project finance*	*o/w financial institutions*	*o/w ABS/MBS*	*o/w sovereign exposures*	*o/w monolines*
Greece	154	73	71	0	10	0	0
Hungary	1,105	32	36	31	0	1,006	0
Ireland	249	0	73	103	74	0	0
Italy	27,803	11,359	1,314	693	172	14,264	0
Portugal	4,129	1,799	212	94	140	1,885	0
Spain	19,598	8,554	2,524	7,280	734	506	0
USA	32,093	10,517	788	4,875	4,443	8,594	2,877

Appendix 5 – Group exposure to government bonds of peripheral countries

Group exposure to government bonds of peripheral European countries				
EUR m	30/06/2014 Nominal	30/09/2014 Nominal	30/09/2014 MCRE (banking portfolio)	Change nominal 30/09/2014 30/06/2014
Italy	9,953	9,897	11,468	-0.6%
Portugal	1,822	1,822	1,885	n.s.
Hungary	893	912	981	2.1%
Spain	438	435	504	-0.8%

Appendix 6 – Asset quality

Asset quality			
EUR m	31/12/2013	30/06/2014	30/09/2014
Impaired loans and advances to customers	1,391	1,110	1,064
Specific impairments on loans and advances to customers	545	449	446
Asset quality ratio(1)	1.2%	1.0%	0.9%
Coverage ratio(2)	39.2%	40.5%	42.0%

(1) The ratio between the impaired loans and advances to customers and the gross outstanding loans and advances to customers.

(2) The ratio between the specific impairments on loans and advances to customers and the impaired loans and advances to customers.

Appendix 7 – State guarantee fees

State guarantee fees			
EUR m	1Q 2014	2Q 2014	3Q 2014
Funding related fees for the 2008 guarantee	-13	-3	0
Funding related fees for the 2011/2013 guarantee	-9	-10	-9
Total fees paid	**-22**	**-13**	**-9**

Appendix 8 – Ratings

Ratings as at 30 September 2014			
	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	A	Negative	F1
Moody's	Baa2	Negative	P-2
Standard & Poor's	BBB	Stable	A-2
Dexia Crédit Local (guaranteed debt)			
Fitch	AA	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (*Pfandbriefe*)			
Standard & Poor's	A+	Stable	-
Dexia LDG Banque (*lettres de gage*)			
Standard & Poor's	BBB	Stable	A-2

Appendix 9 – Litigations

As many financial institutions, Dexia is subject to a number of regulatory investigations and litigations as defendant or as claimant. In this respect, the downsizing of Dexia's balance sheet and other measures implementing the Orderly Resolution Plan give rise to challenges by Dexia's stakeholders and counterparties. The most significant of these litigations and investigations involving Dexia Group entities are described in the Dexia Annual Report 2013 (available at www.dexia.com) and, during the third quarter of 2014, no significant event within the meaning of the applicable legislation has occurred in respect of these litigations and investigations.

The consequences, as assessed by Dexia based on the information available to it as of today, of the most significant litigations and investigations that are liable to have a material impact on the Group's financial situation, its results or its business generally are provided in the Group's condensed consolidated financial statements and have not changed since their publication. Subject to the terms and conditions of the professional liability insurance and Directors' liability insurance policies entered into by Dexia, the adverse financial consequences of all or certain litigations and investigations may be covered, in whole or in part, under one or other of such insurance policies and, upon acceptance of such risks by the relevant insurers, be offset against any payout Dexia would receive pursuant thereto.

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