Press release DEXIA

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Interim Statement – Q1 2015

Net income Q1 2015 at EUR -125 million, characterised by the weight of the cost of risk (EUR -130 million) and of taxes and contributions (EUR -69 million)

- *Recurring Net income at EUR -212 million: positive trend of previous quarters interrupted by the provisioning of the exposure to Heta Asset Resolution AG*
- *Positive impact of accounting volatility elements*, at EUR 127 million; favourable evolution of derivatives valuation on an OIS curve*
- *EUR -41 million associated with various non-recurring elements*

Gradual exit from the exceptional funding mechanism granted by the European Central Bank[1] and significant repayments of guaranteed funding

- *Repayment of a first "own-use" tranche of EUR 13 billion on 27 February 2015 and of the last outstanding of the guaranteed debt subscribed by Belfius, in an amount of EUR 10 billion*
- *Further gradual decrease in recourse to Central Bank funding*
- *Dynamic funding activity, with the issue of several State guaranteed long term public benchmark transactions*

Balance sheet total at EUR 268 billion, up EUR 21 billion over the quarter due to falling interest rates and exchange rate variations

Dexia SA's Common Equity Tier 1 ratio at 14.3%

- *Impact of a further 20% deduction of the non-sovereign AFS reserve from regulatory capital in line with the timetable set by the CRD IV Directive*
- *Increase of risk-weighted assets, due to internal rating migrations and negative exchange rate movements*

** These accounting volatility elements are fair value adjustments. They do not correspond to cash gains or losses but are written back prorata temporis over the amortisation term of the assets or liabilities. As such they generate volatility on each accounting closure date.*

Karel De Boeck, Chief Executive Officer of Dexia SA, stated that, "*Despite an environment of very low interest rates, Dexia has fulfilled the undertakings made by the States as part of the Group's orderly resolution in terms of liquidity management. We successfully began a gradual exit from the exceptional funding mechanism granted by the European Central Bank, whilst redeeming the last outstanding on the guaranteed debt subscribed by Belfius in 2011. This enabled us to reduce the funding cost. The positive impact on results for the 1st quarter 2015 is nonetheless offset by the increased cost of risk and the significant weight of the various taxes and contributions to support funds booked as at 1 January 2015.*"

Robert de Metz, Chairman of the Board of Directors of Dexia SA, said that, "*The increase in the Group's balance sheet total observed this quarter, counter-intuitive for a group in resolution, illustrates Dexia's considerable sensitivity to the evolution of external parameters, identified from our entry into resolution. Despite that impact, the resolution is continuing in line with expectations in an evolving environment.*"

[1] Cf. Decisions of the Council of Governors ECB/2012/12 dated 3 July 2012 and ECB/2013/6 dated 20 March 2013

Q1 2015 was characterised by the ongoing fall of interest rates and the credit spread tightening in Europe along with the weakening of the euro against the main global currencies. These developments resulted in an increase of the Group's balance sheet total and its funding requirement. They also strengthened the market's appetite for the guaranteed debt issued by Dexia Crédit Local. The quarter was also marked by the announcement, by the Austrian authorities, of the entry into resolution of Heta Asset Resolution AG and of a temporary moratorium on the debt of the entity.

1. Significant events and transactions in Q1 2015

a – Provisioning for some of the Group's exposure to Heta Asset Resolution AG

On 1 March 2015, within the framework of the Federal Law on bank stabilisation and resolution, the Austrian Financial Market 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 (capital and interest) of Heta Asset Resolution AG[2]. The Dexia Group challenges this decision and will enforce its rights before the justice.

Taking this decision into account, Dexia decided to provision 44% of its exposure of EUR 395 million to Heta Asset Resolution AG and 5% of that amount to cover its exposure to derivatives associated with that exposure, leading to the establishment of a new specific provision of EUR 197 million. At the same time, the exposure to Heta Asset Resolution AG is excluded from the base for calculating sectorial provisions, resulting in a reversal of EUR 21 million.

b – Weight of new taxes and contributions paid to public authorities and entry into force of the IFRIC 21 accounting standard

At the end of March 2015, Dexia's results were impacted by EUR -69 million of various taxes and contributions. In Q1 2015, the Group booked its first annual contribution, estimated to EUR -21 million, to the Single Resolution Fund, set up by the European Authorities in the framework of the Single Supervisory Mechanism. The Group also booked EUR -14 million in relation with the annual tax for systemic risk. Being due on a yearly basis, those expenses are considered as recurrent.

Aside this, the Group took a EUR -28 million provision covering its total voluntary multiannual contribution to the support funds to local authorities and hospitals in France.

All those levies and contributions were booked in compliance with the IFRIC 21[3] accounting standard, applied by Dexia since 1 January 2015.

c – Evolution of the Dexia Group's funding structure

Over Q1 2015, Dexia completed the repayment plan for several significant funding lines. Against a background marked by an increase in the level of cash collateral paid by the Group to its derivatives counterparties, Dexia had adopted a cautious approach to its liquidity management, in anticipation of those repayments.

- At the beginning of 2015, the Group repaid the last outstanding on the guaranteed debt subscribed by Belfius, in an amount of EUR 10 billion;
- On 27 February 2015, Dexia also repaid EUR 13 billion in guaranteed bonds, pledged to Central Banks within the framework of the own-use mechanism.

[2] Cf. Press Release of 6 March 2015, available at www.dexia.com
[3] IFRIC: International Financial Reporting Interpretations Committee

These repayments mark the gradual exit from the exceptional funding mechanism granted by the European Central Bank, a major step on the path of Dexia's resolution.

2. Unaudited financial statements of Dexia SA for Q1 2015

During Q1 2015, the Dexia Group recorded a net loss of EUR -125 million. EUR -212 million are attributable to recurring elements for the period[4], EUR +127 million to accounting volatility elements[5] and EUR -41 million to non-recurring elements[6].

- The recurring net income over the quarter was EUR -212 million, down EUR -183 million from the previous quarter, due to the significant cost of risk and taxes and contributions booked in Q1 2015.

  Income from commercial portfolios reached 172 million, which was stable compared to the previous quarter. At the same time, the funding cost was EUR -137 million over the quarter, down on Q4 2014 in view of the repayment of the last outstanding on the guaranteed debt subscribed by Belfius. At EUR 17 million, other income was down on the previous quarter, as a consequence of unfavourable exchange effects. Taken those elements into account, the recurring net banking income was EUR 52 million. Operating expenses were EUR -127 million over the quarter. Excluding taxes and contributions booked in Q1 2015, operating charges were in line with previous quarters.

  At EUR -130 million, the cost of risk weighted heavily on the results for the quarter. This amount is mainly explained by the provisioning related to the Heta Asset Resolution AG exposure.

- Accounting volatility elements generated a positive income of EUR 127 million over the quarter. The evolution of the valuation of collateralised derivatives on the basis of an OIS curve was positive, resulting in a gain of EUR 171 million, partially offset by the net impact of the Credit Valuation Adjustment (CVA) and the Debit Valuation Adjustment (DVA) in an amount of EUR -34 million.

- Finally, the non-recurring portion of the quarterly income was EUR -41 million. This is explained in particular by the booking of provisions for litigation, in an amount of EUR -28 million, the voluntary contribution to support fund for local authorities and the hospital sector in France, in an amount of EUR -28 million, and the payment of EUR 11 million in favour of Dexia in the context of a legal action.

[4] Recurring elements: items related to the carriage of the assets such as portfolio revenues, funding costs, operating expenditures, cost of risk and taxes.

[5] Elements of accounting volatility : items related to fair value adjustments of assets and liabilities including in particular the impact of the IFRS 13 accounting standard (CVA, DVA) and the valuation of OTC derivatives, own credit risk (OCR), the variation of the WISE portfolio (synthetic securitisation on a portfolio of enhanced bonds),

[6] Non-recurring elements: exceptional items, not expected to reoccur on a regular basis, including in particular gains and losses on asset disposals, costs and gains associated with litigations and restructuring costs

3. Group's balance sheet, solvency and liquidity situation

A - Balance sheet and solvency

a – Quarterly balance sheet evolution

Balance sheet evolution over Q1 2015 followed the rising trend observed in 2014, principally as a result of falling long-term rates and exchange rate movements. Indeed, as at 31 March 2015, the Group's balance sheet total was EUR 268 billion, up EUR 21 billion on 31 December 2014.

On the asset side, the increase of the balance sheet recorded since the end of December 2014 is mainly explained by:

- an increase of the fair value of assets and derivatives of EUR 7.9 billion and EUR 5.7 billion of the cash collateral posted by the Group to its derivatives counterparties;
- the increase of the liquidity reserve placed with the Federal Reserve, of EUR 6.8 billion;
- these two factors having more than offset the reduction of asset portfolios by EUR 2.8 billion.

On the liabilities side, the quarterly change in the balance sheet total is principally related to:

- the increase of the fair value of liabilities and derivatives representing EUR 7.5 billion;
- an increase of EUR 9.1 billion in market funding and deposits collected by the Group.

The weakening of the euro against the US dollar also resulted in an increase of the balance sheet by EUR 3.5 billion over the quarter.

b – Solvency ratios

As at 31 March 2015, Common Equity Tier 1 capital was EUR 8,115 million, against EUR 8,754 million as at 31 December 2014. This is principally explained by the loss booked over the period, and by the deduction from regulatory capital of an additional 20% of the AFS reserve related to non-sovereign securities in line with the timetable set by the CRD IV Directive. As at end of March 2015, the deduction, which corresponds to 40% of the AFS reserve related to non-sovereign securities, amounted to EUR -1,251 million.

The gains and losses directly recognised in equity wereEUR -5.9 billion at the end of March 2015, against EUR -6.6 billion at the end of 2014. This is principally explained by the tightening of credit spreads observed over the quarter and natural portfolio amortisation, in part offset by unfavourable exchange effects. Moreover, the provisioning of the exposure to Heta Asset Resolution AG also resulted in a reduction of the AFS reserve.

As at 31 March 2015, risk-weighted assets were at EUR 56.9 billion, of which EUR 53.2 billion for credit risk, EUR 2.7 billion for market risk and EUR 1 billion for operational risk. Over the quarter, weighted risks attributable to credit risk rose by EUR 3.8 billion, mainly due to internal rating migrations and exchange rate movements.

These elements lead to a Common Equity Tier 1 ratio of 14.3% and 11.1% respectively for Dexia SA and Dexia Crédit Local at the end of March 2015.

B – Liquidity

In Q1 2015, the continuing fall of interest rates and the weakening of the euro against the main currencies led to a sharp rise in the amount of cash collateral paid by the Group to its derivatives counterparties. The amount paid as guarantee was EUR 36 billion as at 31 March 2015, against EUR 31 billion at the end of 2014. This evolution results in an increase of the Group's funding requirement.

At the same time, the funding structure evolved significantly during Q1 2015, particularly with the repayment on 27 February of a first tranche of EUR 13 billion issued within the framework of the own-use mechanism. The last tranche of EUR 6 billion will be repaid during the last quarter of 2015 and will mark the exit from the exceptional mechanism granted by the European Central Bank to the Group when it entered into resolution. The Group also repaid the last outstanding on the guaranteed debt subscribed by Belfius, in an amount of EUR 10 billion.

Funding activity was extremely dynamic over the quarter, marked by the increase of secured market funding and the continuation of guaranteed issues.

Under favourable market conditions, Dexia Crédit Local issued various long-term public benchmark transactions in euros, US dollars and pounds Sterling, enabling it to raise almost EUR 6 billion and executed an additional EUR 2.2 billion in private placements over the quarter. The average maturity of these financings is of 6.1 years, corresponding to a significant increase in the average maturity of new long term funding raised. Short-term guaranteed funding activity was also sustained. The outstanding on guaranteed debt was EUR 72 billion as at 31 March 2015.

The development of secured market funding also continued over the quarter, outstanding rising to EUR 4 billion and relying particularly on the use of assets not eligible for central bank refinancing.

As at 31 March 2015, guaranteed and secured funding represented 73% of total Group funding, against 69% at the end of 2014.

The Group repaid the outstanding of EUR 33.5 billion subscribed with the European Central Bank in the form of VLTRO[7], partially replaced by recourse to the MRO[8], in an amount of EUR 28.2 billion.

At the end of March 2015, the Group has a temporary liquidity surplus placed with central banks of EUR 9 billion, as well as EUR 5.2 billion in assets eligible for central bank refinancing.

[7] VLTRO, or Very Long Term Refinancing Operations, are exceptional refinancing operations at 3 years launched in December 2011 and February 2012 by the European Central Bank to support liquidity on the interbank market and to facilitate the financing of the real economy.

[8] MRO, or Main Refinancing Operations, are short-term refinancing operations. They constitute a classic refinancing tool used by the European Central Bank.

Appendices

Appendix 1 – Simplified balance sheet

Balance sheet key figures			
EUR m	**31/12/2014**	**31/03/2015**	**Change**
Total assets	**247,120**	**268,125**	**8%**
of which			
Cash and central banks	3,104	9,870	218%
Financial assets at fair value through profit or loss	24,215	27,370	13%
Hedging derivatives	8,374	8,715	4%
Financial assets available for sale	26,641	26,493	-1%
Customer loans and advances	135,311	140,911	4%
Accruals and other assets	38,256	44,217	16%
Total liabilities	**243,992**	**264,388**	**8%**
of which			
Central banks	33,845	28,163	-17%
Financial liabilities at fair value through profit or loss	25,731	29,641	15%
Hedging derivatives	33,832	38,368	13%
Interbank borrowings and deposits	44,604	48,213	8%
Debt securities	89,518	101,287	13%
Total equity	**3,128**	**3,737**	**19%**
of which			
Equity, Group share	2,711	3,309	22%

Appendix 2 – Capital adequacy

EUR m	**31/12/2014**	**31/03/2015**
Common Equity Tier 1 capital	8,754	8,115
Risk-weighted assets	53,377	56,927
Common Equity Tier 1 ratio	16.4%	14.3%

Appendix 3 – Maximum Credit Risk Exposure (MCRE) as at 31 March 2015

MCRE[9] calculated under IFRS 7

Dexia Group exposure by geographic region	
EUR m	**31/03/2015**
United States and Canada	38,829
Italy	27,509
France (Including Dom-Tom)	25,354
Germany	20,802
United Kingdom (not Norm.Isd/Man)	20,241
Spain	18,080
Japan	6,489
Portugal	4,511
Central and Eastern Europe	3,454
Belgium	1,925
Austria	1,387
Scandinavian countries	1,362
Southeast Asia	1,074
Hungary	1,049
South and Central America	638
Netherlands	578
Switzerland	552
Turkey	528
Ireland	218
Greece	149
Luxembourg	114
Others	7 375
Total	**182,216**

Dexia Group exposure by category of counterparty	
EUR m	**31/03/2015**
Local public sector	87,553
Central governments	35,964
Financial institutions	25,901
Project finance	14,961
ABS/MBS	8,592
Corporate	5,384
Monolines	3,858
Individuals, SME and self-employed	1
Total exposure	**182,216**

[9] 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)	
	31/03/2015
AAA	18%
AA	23%
A	19%
BBB	27%
Non Investment Grade	11%
D	1%
Not Rated	1%
Total	**100%**

Appendix 4 – Asset quality

EUR m	**31/12/2014**	**31/03/2015**
Impaired assets	1,233	1,578
o/w impaired loans and advances to customers	*1,162*	*1,291*
Specific impairments	353	583
o/w specific impairments on impaired loans and advances to customers	*309*	*440*
Coverage ratio (1)	28.6%	36.9%
Coverage ratio on impaired loans and advances to customers	*26.6%*	*34.1%*
Collective impairments	503	427

(1) Ratio between the specific impairments and the impaired assets

Appendix 5 – Ratings

Ratings as at 20 May 2015			
	Long term	**Outlook**	**Short term**
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa2	Under review	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 (*Pfandbrief*)			
Standard & Poor's	A	Stable	-

Appendix 6 – 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 2014 (available at www.dexia.com) and, during the first quarter of 2015, 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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