Press release

DEXIA

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Dexia Group Consolidated Results H1 2015

Net income Group share for H1 2015 positive at EUR 4 million

- *Recurring net income of EUR -292 million, impacted by the EUR -197 million provision on Heta Asset Resolution AG and the weight of contributions and taxes (EUR -44 million)*
- *Positive contribution of accounting volatility elements of EUR 317 million over the half-year, principally associated with the valuation of collateralised derivatives, despite the impact of the first application of the Funding Valuation Adjustment (EUR -140 million)*
- *Non-recurring income of EUR -22 million, including the voluntary multiannual contribution to the support funds for local authorities and the hospital sector in France (EUR -28 million)*

EUR 6 billion reduction of the balance sheet total at EUR 241 billion as at 30 June 2015; important movements over the half-year, due to the volatile financial environment

- *EUR 6.4 billion asset portfolio reduction over the half-year at a constant exchange rate, of which EUR 2.4 billion in asset disposals*
- *Strong quarterly variation of cash collateral paid to derivative counterparties; outstanding fairly stable between the end of December 2014 and the end of June 2015*

Favourable evolution of the Group's liquidity structure, marked by a reduced recourse to central bank funding

- *Sustained guaranteed issue activity, short and long term, combined with continuing development of the use of secured funding*
- *Liquidity reserve of EUR 13.2 billion at the end of June 2015*

Dexia's Common Equity Tier 1 ratio at 15.0%

- *Impact of the 20% additional deduction of the non-sovereign AFS reserve from regulatory capital, in line with the schedule provided by the CRD IV Directive*
- *Account taken of an Additional Valuation Adjustment of EUR -165 million in the calculation of the regulatory capital*
- *Risk-weighted assets relatively stable, at EUR 54.2 billion as at 30 June 2015*

Karel De Boeck, CEO of Dexia, stated that, "*The results and financial indicators for the half-year reflect the severe volatility of the environment in which the Group's resolution is taking place. Over the half-year, this volatility materialised with a positive contribution from accounting volatility elements to the financial results. It is also visible through the evolution of the balance sheet between the end of 2014 and the end of March 2015, and then between the end of March and the end of June 2015.*"

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated that, "*I salute the Group's prudent liquidity management, which enabled it to repay important funding lines and to cope with a sharp increase in the liquidity requirement in Q1 2015, induced by the evolution of the financial environment. This policy will continue to be followed in the future, with maintenance of the liquidity reserve, in order to anticipate possible tensions on the financial markets.*"

Introduction

The economic recovery of the euro zone was confirmed during Q1 2015, aided in particular by the weakening of the euro and the accommodating monetary policy of the European Central Bank. As from Q2, the acceleration of the recovery resulted in a strengthening of the euro as well as a slight increase of interest rates. Despite this positive trend, the zone's financial stability is still weakened by the uncertainty associated with the Greek crisis.

During Q1, the volatility of the macroeconomic environment was a central theme explaining the severe variation of funding requirements and the size of Dexia's balance sheet. It was also reflected in the Group's half-yearly results, particularly via the considerable variation from one quarter to the next in accounting volatility elements.

In line with applicable legislation, for the period closing on 30 June 2015, Dexia is publishing a press release in relation to the condensed consolidated financial statements. This press release presents the significant events and transactions of H1 2015, as well as their impact on the Group's financial situation. The 2015 Half-Yearly Report for 2015 will be published in its entirety on 14 August 2015.

Information related to the presentation of the Dexia Group condensed consolidated financial statements as at 30 June 2015

The condensed consolidated financial statements of Dexia as at 30 June 2015 were prepared in accordance with the accounting rules applicable to a going concern. The assumptions detailed hereafter were the basis of the business plan underlying the Dexia Group resolution plan and were already explained in previous accounting closures.

- The business plan is based on the market environment observed at the end of September 2012. The underlying macroeconomic assumptions are revised semi-annually.

  In particular, the end of 2014 review of the plan takes account of the evolution of the interest and foreign exchange rate parameters based on market conditions observed as at 31 December 2014 and reflects the Group's active balance sheet management, particularly the successful execution of the funding programme, resulting in a positive evolution of the net interest margin. The plan revision also incorporates regulatory developments to date, such as the definitive text of CRD IV, the implementation of the IFRS 13 accounting standard, and the impact of using an OIS curve for OTC derivatives valuation. Finally, the revised plan takes into account the Group's decision to increase the use of market data for the valuation of illiquid securities classified as assets available for sale and for the calculation of the Credit Valuation Adjustment (CVA).

  The revised business plan was approved by the Dexia Board of Directors on 20 April 2015. While it contains adjustments to the plan originally validated, the resolution trajectory in the revised plan remains unchanged over the long term.

- The plan assumes maintaining various local banking licences. Dexia Crédit Local ratings are also assumed to remain at current levels.

- It relies, moreover, on a robust funding programme based on Dexia's ability to issue debt guaranteed by Belgium, France and Luxembourg and to raise secured funding.

  In this context, the Group's ability to tap markets at a lower cost and for longer maturities than forecasted in the original plan, had a positive effect on the funding mix in H1 2015. These positive developments enabled the Group to reduce reliance on central bank funding and to repay significant maturities at the end of 2014 and the beginning of 2015.

Some uncertainties remain however over the resolution period, in the implementation of the business plan due to the potential impact of new regulatory and accounting developments. Moreover, the Group's balance sheet still exhibits structural imbalances and the limited resources available since the beginning of its resolution to remedy this situation may not allow compliance with certain regulatory ratios during the resolution process. For instance, the Group's orderly resolution crystallised a funding structure heavily dependent on market and central bank funding, since Dexia no longer has retail franchises and is unable to increase its deposit base. This will be reflected in the future level of the Liquidity Coverage Ratio (LCR).

The business plan remains exposed to the evolution of the macroeconomic environment. A 10 basis point decline in interest rates over the entire curve could result in an increase of EUR 1.1 billion in the Group's liquidity requirement over the next two years due to higher cash collateral[1] needs. Similarly, a less optimistic rating environment and/or the widening of credit spreads could also have a negative impact on the income statement and available liquidity reserves and may increase regulatory capital requirements.

Finally, if market demand for government-guaranteed debt decreases, Dexia may need to tap more costly funding sources which could have a negative impact on the profitability assumed in the original business plan. In particular, 2015 and 2016 may be challenging in light of a more volatile foreign exchange environment and very low interest rates.

The most recent update of the business plan reflects surplus liquidity over the life of the plan. However, at the end of 2014 and the beginning of 2015, the Group's liquidity requirement increased dramatically, mainly due to the high levels of cash collateral posting to market counterparties. This growing liquidity requirement was offset by sustained issuance of long-term government-guaranteed debt and secured funding in H1 2015 and the increase of interest rates in Q2 2015 resulted in a lower funding requirement over the period.

The next review of the plan, based on market conditions observed as at 30 June 2015, will incorporate the impact of prudential and accounting developments implemented by Dexia at that date.

More detailed information on liquidity is provided in section "Evolution of the Dexia Group liquidity situation"

[1] Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.

1. Significant events and transactions

- *Account taken of new accounting and prudential requirements impacting the Group's result and solvency;*
- *Impairment of the Group's exposure to Heta Asset Resolution AG and commencement of legal proceedings;*
- *Continuing implementation of the Group's orderly resolution: launch of a restructuring plan at Dexia Crediop and analysis of the opportunities for outsourcing certain activities of the Dexia Group*

A – Accounting and regulatory developments

a – Weight of new contributions and taxes paid to a public authority

At the end of June 2015, Dexia's results were impacted by EUR -72 million of various taxes and contributions.

In particular, the Group booked in 1Q 2015 its first annual contribution, estimated at 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[2] accounting standard, applied by Dexia since 1 January 2015. Those amounts being not significant, Dexia decided not to restate the financial statements as at 30 June 2014.

b – Introduction of a Funding Valuation Adjustment in the financial statements

In line with the IFRS 13 accounting standard and market practice, the Dexia Group developed a methodology to calculate a Funding Valuation Adjustment (FVA) as from June 2015 intended to take account of the funding costs associated with its uncollateralised derivative positions. As these uncollateralised derivatives are not subject to margin calls, the holder of this type of instrument benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives. The FVA takes account of the implicit funding rates for this theoretical collateral and integrates the funding cost in the valuation of these derivatives.

The FVA is one of several valuation adjustments implemented within the framework of the IFRS 13 accounting standard and the evolution of market practice, such as the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) as well as valuation of collateralised derivatives on the basis of an OIS curve. As explained in previous press releases, the negative impact of these adjustments does not correspond to cash flows and are taken over the lifespan of the assets or liabilities. Nonetheless, they generate volatility on each accounting date.

The first-time application of the FVA resulted in a negative impact of EUR -140 million in the Group's results for the first half-year 2015.

[2] IFRIC: International Financial Reporting Interpretations Committee

c – Implementation of the prudent valuation and account taken of an *Additional Valuation Adjustment* in the calculation of regulatory capital

On 23 January 2015, the European Banking Authority (EBA) published its final regulatory technical standards on the prudent valuation calculation. The concept of prudent valuation relates to fair value positions, defined by the IFRS 13 accounting standard as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date". For the calculation of this exit price IFRS 13 takes into account best estimates, while the regulatory perspective is to look at the downside scenario in order to ensure that banks carry enough capital to offset the risk of the fair value positions. In this respect, the Additional Valuation Adjustment (AVA) represents the difference between the fair value valuation and the prudent valuation.

Following the Capital Requirements Regulation, Dexia takes into account in its regulatory capital the Additional Valuation Adjustment that stems from a prudent valuation as defined by the EBA. As at 30 June 2015, the first application resulted in an Additional Valuation Adjustment of EUR -165 million, deducted from the Group's Common Equity Tier 1 capital.

B – Evolution of the credit environment

a – Point on 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[3]. Taking this decision into account, Dexia decided to provision 44% of its exposure to Heta Asset Resolution AG, the notional amount of which stands at EUR 395 million and 5% of that amount to cover its exposure to the associated derivatives, 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.

Furthermore, on 15 July 2015, Dexia, together with a pool of 10 other creditors, filed a lawsuit against Heta Asset Resolution AG, at the Regional Court of Frankfurt/Main, claiming immediate repayment of receivables in an aggregate amount of approximately EUR 1 billion.

Dexia, together with other members of the pool, also started legal proceedings in Austria by filing opposition against the moratorium on debt repayments by Heta Asset Resolution AG.

b – Greek crisis

Subsequent to the 'No' vote from the Greek voters on 5 July 2015 on the referendum on whether to accept or reject the final proposal from the creditor institutions, a new bailout program to reform the Greek economy has been negotiated and approved on 13 July 2015 by the Greek government. Although this bailout program includes tough austerity measures and structural reforms which will hamper short-term economic growth in Greece, the financial markets reacted cautiously positive on this long-awaited agreement. As mentioned in previous press releases, Dexia has no direct exposures to the Greek sovereign.

As at 30 June 2015, the Group has exposures on Greek counterparties, consisting mainly of two projects, which already have been provisioned, and two public sector entities. Following the significant financial and macroeconomic uncertainties with respect to Greece, Dexia decided to provision its public sector exposure, in accordance with its degree of financial dependence to the Central government.

[3] Cf. Press Release of 6 March 2015, available at www.dexia.com

The situation in Greece is being closely monitored and depending on future developments further adjustments in terms of credit risk provisioning cannot be excluded.

c – Point on the situation of the Commonwealth of Puerto Rico

On 6 February 2015, the US District Court rejected the Puerto Rico Public Corporation Debt Enforcement and Recovery Act signed in 2014, with the object of restructuring the debt of certain Puerto Rico public corporations.

Despite discussions commenced at the beginning of July 2015 between the Governor of Puerto Rico and its creditors to restructure its debt, a public corporation linked to the Commonwealth failed to make a debt payment at the beginning of August 2015.

The Group has exposure to certain public corporations linked to the Commonwealth of Puerto Rico, with a gross book value of USD 430 million as at 30 June 2015, against USD 411 million at the end of 2014. The increase of the outstanding amount is not linked to a new purchase of securities during the half-year. It results from two elements:

- An adjustment in the calculation of the exposure amount following the booking of a provision[4];
- The specific nature of an accreting bond, the nominal of which increases until 2047 to reach USD 200 million on that maturity. As at 30 June 2015, this exposure amounted to USD 47 million.

95% of the Group's exposure to Puerto Rico is covered by good quality credit enhancers (monoliners).

The provisions constituted by Dexia on Puerto Rico and its public corporations amounted to USD 45 million. They cover outstanding amounts not enhanced by good quality monoliners and the possibility of an acceleration of payments if the guarantee is called, with costs incurred for unwinding hedge instruments.

C – Continuation of the Group's orderly resolution plan

a – Dexia Crediop

In accordance with the undertakings made by the States to the European Commission, on 15 July 2014 Dexia announced that Dexia Crediop would be placed in run-off. Following that decision, the management of Dexia Crediop began a period of reflection on simplifying the organisation of the bank and reducing its costs. This ended in an agreement with the social partners on 18 March 2015 relating to 53 redundancies and a reduction of the workforce to 124. The major part of the planned departures is effective on the date of publication of this press release; the last departures will take place in the second half of 2015.

[4] The provisioning of a an exposure generates a break in booking hedge relationships with the derivatives covering that position. As the hedge relationship is broken, the amount corresponding to the market value of the hedge is reintegrated with the line initially hedged in order to assess the overall position. Furthermore, the derivatives are booked in the trading portfolio.

b – Reflection on the opportunity to outsource certain activities

In order to manage the run-off of its residual assets more effectively, the Dexia Group must maintain its operational continuity. That objective not only assumes possession of the skills required to implement the Group's resolution properly, but also maintenance and updating of the tools needed for that resolution.

Maintaining the Group's operational capacities on certain activities will require significant financial investments, the weight of which must be analysed having regard to the Group' financial capacities and expected profitability up to resolution.

Considering those elements, the Group began a period of reflection on the opportunity to outsource certain activities with one or more service providers. In addition to preserving a high level of service, the use of outsourcing for certain activities would enable Dexia to reduce costs and to avoid the threshold effect associated with the gradual reduction of the Group's balance sheet. If those reflections result in more advanced plans, Dexia will take account of social aspects and ensure that the best conditions are reserved for the members of staff concerned.

2. Results for H1 2015

A - *Presentation of the Dexia condensed consolidated financial statements as at 30 June 2015*

a – Going concern

The condensed consolidated financial statements of Dexia as at 30 June 2015 were established in accordance with the accounting rules applicable to a going concern, (cf. section "Information related to the presentation of the Dexia Group condensed consolidated financial statements as at 30 June 2015").

b – Mode of presenting the results

In order to ensure optimal readability of its results, Dexia has adopted an analytical presentation differentiating three categories of elements:

- Recurring elements: items related to the carriage of the assets such as portfolio revenues, funding costs, operating expenses, cost of risk and taxes;
- Accounting volatility elements: items related to fair value adjustments of assets and liabilities including in particular the impact of the IFRS 13 accounting standard (CVA, DVA, FVA) and the valuation of OTC derivatives, the own credit risk (OCR), the variation of the WISE portfolio (synthetic securitisation on a portfolio of enhanced bonds);
- Non-recurring elements: exceptional items, not expected to reoccur regularly, including in particular gains and losses on asset disposals, costs and gains associated with litigations and restructuring costs.

B – Dexia Group's consolidated results for H1 2015

- *Recurring net income of EUR -292 million, impacted by the provision on Heta Asset Resolution AG and the weight of taxes in Q1 2015*
- *Positive contribution of accounting volatility elements of EUR 317 million, despite the negative impact of the introduction of the Funding Valuation Adjustment*
- *Non-recurring net income of EUR -22 million, integrating the contribution to the support funds for local authorities and the hospital sector in France*

a – Income statement for H1 2015 (unaudited figures)

Consolidated income statement - ANC format				
EUR million	**H2 2014**	**H1 2015**	***Q1 2015***	***Q2 2015***
Net banking income	**-93**	**437**	***166***	***271***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-177	-243	*-154*	*-89*
Gross operating income	**-270**	**194**	***12***	***182***
Cost of risk and net gains or losses on other assets	-22	-161	*-130*	*-31*
Pre-tax income	**-291**	**34**	***-118***	***151***
Income tax	1	-19	*-8*	*-11*
Net income	**-291**	**15**	***-126***	***141***
Minority interests	14	11	*-1*	*12*
Net income Group share	**-277**	**4**	***-125***	***129***

The **net income Group share** in H1 2015 was EUR 4 million, of which EUR -125 million in Q1 2015 and EUR 129 million in Q2 2015.

Over the half-year, **net banking income** amounted to EUR 437 million. In Q2 2015, the Group posted a net banking income of EUR 271 million against EUR 166 million in Q1, principally under the effect of accounting volatility elements.

Costs increased sharply compared to the end of 2014, to reach EUR -243 million. Applying the IFRIC 21 accounting standard, the Group booked certain annual charges in Q1. The Group also recognised new taxes. Excluding the impact of taxes and contributions, in an amount of EUR -72 million over the half-year, operating expenses were well under control.

Gross operating income was EUR 194 million over the half-year.

At the end of June 2015, the **cost of risk** amounted EUR -161 million, principally due to the provisioning of the Group's exposure to Heta Asset Resolution AG in Q1.

The **half-year pre-tax income** reached EUR 34 million.

Over the half-year, the **tax charge** was EUR -19 million. As a result, the **net income** amounted to EUR 15 million.

Considering the result of EUR -11 million attributable to minority interests, **net income Group share** for H1 2015 totalled EUR 4 million.

b – Analytical presentation of the results for H1 2015 (unaudited figures)

Analytical presentation of the H1 2015 Dexia Group results

EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**114**	**317**	**6**	**437**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-214	0	-28	-243
Gross operating income	**-101**	**317**	**-22**	**194**
Cost of risk and net gains or losses on other assets	-161	0	0	-161
Pre-tax income	**-262**	**317**	**-22**	**34**
Income tax	-19	0	0	-19
Net income	**-281**	**317**	**-22**	**15**
Minority interests	11	0	0	11
Net income Group Share	**-292**	**317**	**-22**	**4**

The net income Group share for H1 2015 was EUR 4 million, composed of the following elements defined in the section “Modes of presentation of the results” above:

- EUR -292 million attributable to recurring elements;
- EUR 317 million associated with accounting volatility elements;
- EUR -22 million generated by non-recurring elements.

The quarterly evolution of these three segments is presented separately hereafter.

b.1 – Recurring elements

Within the context of implementing a new asset & liability management tool, the Group refined various analytical reclassifications, included in the net banking income, relating to the income from commercial portfolios, the funding cost and other income. In order to facilitate the reading of quarterly developments, the Group is publishing the analytical data of recurring elements in Q1 2015 integrating these adjustments (pro forma view), as well as those published in the interim statement for Q1 2015.

Recurring elements

EUR million	Q1 2015 as published	Q1 2015 pro forma	Q2 2015	H1 2015
Net banking income	***52***	**52**	**61**	**114**
o/w revenues from commercial portfolios	*172*	165	165	331
o/w funding cost	*-137*	-151	-144	-296
o/w other revenues	*17*	39	40	78
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-127*	-127	-88	-214
Gross operating income	***-74***	**-74**	**-27**	**-101**
Cost of risk and net gains or losses on other assets	*-130*	-130	-31	-161
Pre-tax income	***-204***	**-204**	**-58**	**-262**
Income tax	*-8*	-8	-11	-19
Net income	***-212***	**-212**	**-68**	**-281**
Minority interests	*-1*	-1	12	11
Net income Group share	***-212***	**-212**	**-80**	**-292**

The net income Group share generated by recurrent activities during H1 2015 was EUR -292 million, of which EUR -212 million for Q1 and EUR -80 million for Q2.

Recurring net banking income for H1 2015 was EUR 114 million. At EUR 331 million, income from commercial portfolios covered the Group's funding cost which amounted to EUR -296 million. Income from commercial portfolio was stable over the first two quarters of 2015. The momentum of funding cost reduction continued over the half-year, from EUR -151 million in Q1 to EUR -144 million in Q2. This trend is explained by the reduction of the funding requirement, associated principally with the reduction of the amount of cash collateral paid by the Group in Q2, as well as the repayment during Q1 of the last guaranteed outstanding subscribed by Belfius, which eases the Group's funding cost. Exchange effects and the negative impact of the restructuring of structured loans weighted on other revenues, which came to EUR 78 million over the half-year.

Costs associated with recurring activities were EUR -214 million over the half-year, of which EUR -127 million in Q1 and EUR -88 million in Q2. In particular, 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. Excluding the impact of taxes and contributions, operating expenses were well under control.

The cost of risk was EUR -161 million at the end of June 2015, principally due to the provisioning of the Group's exposure to Heta Asset Resolution AG in an amount of EUR 197 million in Q1. In Q2, the Group booked provisions on project finance in Spain and exposures to the local public sector in Greece, against the background of the Greek sovereign debt crisis. In addition, the Group increased its provision on Kommunalkredit Austria AG, following the announcement by the Supervisory Board of KA AG that they would only repay 25% of the participation notes. These allocations were partially offset by reversals of collective provisions.

b.2 – Accounting volatility elements

Accounting volatility elements			
EUR million	**Q1 2015**	**Q2 2015**	**H1 2015**
Impact in net income Group share (elements booked in net banking income)	**127**	**190**	**317**

In H1 2015, accounting volatility elements had a positive impact of EUR 317 million, essentially due to the positive evolution of the valuation of collateralised derivatives on the basis of an OIS curve and of the CVA and the DVA. These elements were partially offset by the impact of the first-time application of a Funding Valuation Adjustment, of EUR -140 million, and by the evolution of own credit risk.

b.3 – Non-recurring elements

Non-recurring elements			
EUR million	**Q1 2015**	**Q2 2015**	**H1 2015**
Net banking income	**-14**	**19**	**6**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-27	-1	-28
Gross operating income	**-41**	**19**	**-22**
Cost of risk and net gains or losses on other assets	0	0	0
Pre-tax income	**-41**	**19**	**-22**
Income tax	0	0	0
Net income	**-41**	**19**	**-22**
Minority interests	0	0	0
Net income Group share	**-41**	**19**	**-22**

In H1 2015, the Dexia Group booked a net income Group share of EUR -22 million on non-recurring elements.

In particular, they included the multiannual voluntary contribution to the support fund for local authorities and the hospital sector in France of EUR -28 million and the booking of provisions for litigation in an amount of EUR -27 million, partially offset by gains on disposals and the settlement of litigations.

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

A - Balance sheet and solvency

- *Reduction of the balance sheet total by EUR 6 billion over H1, as a result of the increase of long-term interest rates and the reduction of the asset portfolio*
- *Dexia's Common Equity Tier 1 ratio at 15.0%: deduction of an additional 20% of the non-sovereign AFS reserve from regulatory capital and first-time application of the Additional Valuation Adjustment*

a – Half-yearly evolution of the balance sheet

As at 30 June 2015, the Group's balance sheet total was EUR 241 billion, down EUR 6 billion on 31 December 2014 and EUR 27 billion on 31 March 2015. The half-yearly evolution of the balance sheet was mixed. In Q1, the balance sheet total rose significantly, essentially with the impact of exchange variations and the fall of long-term interest rates. In Q2, the increase of long-term interest rates reversed the trend and resulted in a sharp fall of the balance sheet total, increased by the decrease of the asset portfolio.

Indeed, over H1 2015, at a constant exchange rate, the reduction of assets on the balance sheet is mainly linked to:

- a fall in the fair value of assets and derivatives of EUR -6.5 billion as well as a EUR -1.6 billion reduction of the cash collateral paid by the Group to its derivatives counterparties;
- a EUR -6.4 billion reduction of the asset portfolio;
- these developments were partially offset by the EUR +5 billion increase of the liquidity reserve placed with the Federal Reserve.

On the liabilities side, and at a constant exchange rate, the half-yearly fall of the balance sheet total is mainly attributable to:

- the reduction of the fair value of liabilities and derivatives representing EUR -7.1 billion;
- a EUR -1.3 billion reduction of the stock of market funding.

The impact of exchange variations on the evolution of the balance sheet amounted to EUR +2.3 billion over the half-year.

b – Solvency ratios

As at 30 June 2015, Common Equity Tier 1 capital was EUR 8,108 million, against EUR 8,754 million as at 31 December 2014. This evolution is mainly explained by the deduction from regulatory capital of an additional 20% of the AFS reserve linked to non-sovereign securities in line with the timetable set by the CRD IV Directive. At the end of June 2015, the total amount deducted, corresponding to 40% of the AFS reserve linked to non-sovereign securities was EUR -1,231 million. Furthermore, the first-time application of the Additional Valuation Adjustment (AVA) as at 30 June 2015 is reflected by a EUR -165 million capital reduction (cf. section "Significant events and transactions").

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

As at 30 June 2015, risk-weighted assets amounted to EUR 54.2 billion, of which EUR 50.7 billion for credit risk, EUR 2.5 billion for market risk and EUR 1 billion for operational risk. Regarding credit risk, the sharp increase observed in Q1 and due in particular to the migration of internal ratings is neutralised in Q2, particularly by the impact of the reduction of the asset portfolio and variations of the fair value.

These elements lead to a Common Equity Tier 1 ratio of 15.0% and 11.7% respectively for Dexia SA and Dexia Crédit Local at the end of June 2015.

B - Evolution of the Dexia Group's liquidity situation

- *Significant funding repayments in Q1*
- *Repayment of the VLTRO and decrease of the recourse to central bank funding in Q1*
- *Increase of market funding, with sustained activity on secured funding and the execution of several long-term guaranteed public benchmark transactions*

The funding requirement of the Group was subject to contrasting developments in the first half-year 2015 in a context of highly volatile interest and exchange rates:

- Over the first quarter, the decline of the long-term interest rates as well as the weakening of the euro, in particular against the US dollar and the sterling, caused a rise in the net cash collateral to be posted by the Group up to EUR 36 billion as at 31 March 2015 and resulted in an increase of the funding requirement.
- The subsequent recovery of the Euro, as well as the increase in interest rates over the second quarter reduced the net cash collateral again to reach EUR 30 billion as at 30 June 2015, corresponding to a decrease of the funding requirement over the period.

Although the overall funding need remained quite stable over the half-year, the funding structure of the Group evolved significantly.

In 1Q 2015, the Group had to cope with important funding redemptions, in particular the repayment of the last outstanding guaranteed debt subscribed by Belfius as well as the repayment of the first tranche of EUR 13 billion granted by the European Central Bank under the exceptional own-use mechanism[5]. The last tranche of EUR 6 billion will be repaid during the fourth quarter of 2015 and will mark the exit from this exceptional mechanism.

Funding activity was extremely dynamic over the half-year, 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 sterling, with maturities ranging from 5 to 10 years, enabling it to raise almost EUR 10.3 billion over the half-year. In particular, two issues in sterling with maturities of 5 and 10 years and for a total amount of GBP 1.2 billion, allowed the Group to significantly reduce its long-term funding gap in this currency. The Group also executed an additional EUR 3.8 billion in private placements over the half-year. The average maturity of these financings is of 5.6 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 67 billion as at 30 June 2015.

[5] "Own use" securities: Government-guaranteed securities issued by Dexia Crédit Local and used by the Dexia Group as collateral with the Eurosystem.

The development of secured market funding also continued over the half-year, outstanding rising by EUR 1.7 billion and relying particularly on the use of assets not eligible for central bank refinancing.

As at 30 June 2015, guaranteed and secured funding represented 74% of total Group funding, against 69% at the end of 2014.

In the first quarter of 2015, the Group repaid the outstanding of EUR 33.5 billion subscribed with the European Central Bank in the form of VLTRO[6], partially replaced by recourse to the LTRO[7], in an amount of EUR 22 billion and the MRO[8], in an amount of EUR 4 billion.

At the end of June 2015, the Group has a temporary liquidity reserve of EUR 13.2 billion, of which EUR 7.2 billion placed with central banks and EUR 5.2 billion in assets eligible for central bank refinancing. This liquidity buffer illustrates the Group's prudent management of its liquidity risk.

[6] 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.

[7] LTRO or Long-Term Refinancing Operations, are long-term refinancing operations. They constitute a standard refinancing tool used by banks with the Eurosystem.

[8] MRO, or Main Refinancing Operations, are short-term refinancing operations. They constitute a standard refinancing tool used by banks with the Eurosystem.

Appendices

Appendix 1 – Simplified balance sheet

Balance sheet key figures			
EUR m	**31/12/2014**	**31/03/2015**	**30/06/2015**
Total assets	**247,120**	**268,125**	**240,944**
of which			
Cash and central banks	3,104	9,870	8,278
Financial assets at fair value through profit or loss	24,215	27,370	22,032
Hedging derivatives	8,374	8,715	6,802
Financial assets available for sale	26,641	26,493	23,685
Customer loans and advances	135,311	140,911	132,360
Accruals and other assets	38,256	44,217	36,980
Total liabilities	**243,992**	**264,388**	**237,086**
of which			
Central banks	33,845	28,163	26,312
Financial liabilities at fair value through profit or loss	25,731	29,641	23,872
Hedging derivatives	33,832	38,368	30,250
Interbank borrowings and deposits	44,604	48,213	47,482
Debt securities	89,518	101,287	92,755
Total equity	**3,128**	**3,737**	**3,858**
of which			
Equity, Group share	2,711	3,309	3,421

Appendix 2 – Capital adequacy

EUR m	**31/12/2014**	**31/03/2015**	**30/06/2015**
Common Equity Tier 1	8,754	8,115	8,108
Risk-weighted assets	53,377	56,927	54,185
Common Equity Tier 1 ratio	16.4%	14.3%	15.0%

Appendix 3 – Maximum Credit Risk Exposure (MCRE) as at 30 June 2015 (unaudited figures)

MCRE[9] calculated under IFRS 7

Dexia Group exposure by geographic region	
EUR m	
United States	31,675
Italy	25,624
France	24,916
Germany	20,089
United Kingdom	20,440
Spain	16,864
Japan	6,305
Portugal	4,003
Central and Eastern Europe	3,120
Canada	2,349
Belgium	1,863
Austria	1,363
Scandinavian countries	1,160
Hungary	997
Southeast Asia	825
South and Central America	595
Netherlands	564
Switzerland	511
Turkey	506
Ireland	197
Greece	127
Luxembourg	73
Others	7,680
Total	**171,847**

Dexia Group exposure by category of counterparty	
EUR m	
Local public sector	85,055
Central governments	31,956
Financial institutions	24,387
Project finance	14,292
ABS/MBS	8,152
Corporate	6,105
Monoliners	1,900
Individuals, SME and self-employed	1
Total exposure	**171,847**

[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)	
AAA	19%
AA	20%
A	21%
BBB	29%
Non Investment Grade	10%
D	1%
Not Rated	1%
Total	**100%**

Appendix 4 – Group sectorial exposure on certain countries as at 30 June 2015 (MCRE) (unaudited figures)

Group sectorial 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*
United States	31,675	11,095	969	4,949	4,645	8,118	1,900
Italy	25,624	10,864	1,139	452	145	13,023	0
France	24,916	17,220	4,263	2,462	0	970	0
United Kingdom	20,440	9,910	6,377	1,833	2,243	76	0
Germany	20,089	15,827	452	3,598	9	203	0
Spain	16,864	7,335	2,415	6,042	573	499	0
Japan	6,305	3,692	0	1,261	0	1,353	0
Portugal	4,003	1,737	200	11	134	1,922	0
Poland	1,997	15	0	1	0	1,982	0
Hungary	997	29	35	1	0	933	0
Greece	127	52	69	0	6	0	0

Appendix 5 – Asset quality

Asset quality			
EUR m	**31/12/2014**	**31/03/2015**	**30/06/2015**
Impaired assets	1,233	1,578	1,693
o/w impaired loans and advances to customers	*1,162*	*1,291*	1,433
Specific provisions	353	583	625
o/w specific provisions on impaired loans and advances to customers	*309*	*440*	491
Coverage ratio (1)	28.6%	37.0%	36.9%
Coverage ratio on loans and advances to customers	*26.6%*	*34.1%*	34.3%
Collective provisions	503	427	391

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

Appendix 6 – Ratings

Ratings as at 5 August 2015			
	Long term	**Outlook**	**Short term**
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
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	-

Appendix 7 – Litigations

Like many financial institutions, Dexia is subject to a number of regulatory investigations and litigations as defendant or as claimant. 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 events and developments in the 2nd quarter of 2015 in the principal investigations and litigations that are relevant and in which Dexia Group entities are named as defendant are summarized below.

The following updated data are provided for comparison and should be read in conjunction with the corresponding summaries contained or mentioned in the Dexia Annual Report 2014 (available at www.dexia.com).

On the basis of the information available to Dexia on 30 June 2015, events or developments that occurred during the 2nd quarter of 2015 in pending regulatory investigations and litigations which are mentioned in the Dexia Annual Report 2014, but for which no update is provided below, are not expected to have a material impact on the Group's financial situation as of that date, or do not allow Dexia to assess whether they may or may not have such a material impact on the Group's financial situation.

The consequences, as assessed by Dexia based on the information available to it as of 30 June 2015, 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. 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 payment Dexia would receive pursuant thereto.

Dexia Crediop

On 25 June 2015, the High Court in London handed down a judgment declaring an interest rate swap entered into in 2006 by Dexia and the Italian local authority of Prato to be null and void. Dexia has appealed the decision - the matter is however still pending in first instance in order to allow the court to decide on other elements which have not yet been addressed.

Dexia Nederland

In the share-leasing contracts cases, the Dutch Supreme Court decided on 1 May 2015 that, if and to the extend DNL should compensate clients for the allegedly committed wrongful acts, the legal interest should be calculated as from the date on which each payment was made by the customer (each term paid during the life of the contract), and not as from the termination date of the contract.

Litigations in relation to structured loans

In a dispute between a municipality on one hand and Caisse Française de Financement Local (CAFFIL) and Dexia on the other hand, with respect to a structured loan reported on the balance sheet of CAFFIL, ruled in June 2015, the Superior Court of Nanterre dismissed the request of the borrower for the nullity of the contract, the interest clause and the early repayment clause and confirmed the validity of the loan agreement until its maturity date.

The Court, however, found Dexia and CAFFIL to be liable in view of Dexia’s failure to respect its duty of information and warning, which would have translated into a loss of opportunity for the borrower not to enter into the structured loan. The Court held that the compensation for this loss of opportunity should be based on a decrease of the interests to be paid by the borrower to the lender and ordered the compensation with the unpaid amounts due by the borrower.

This decision is being analysed in order to decide, together with CAFFIL, which further actions could be taken.

As to the structured loan litigations pending before German courts, Dexia Kommunalbank Deutschland obtained a favourable decision in first instance in one of the few proceedings pending. The city has filed an appeal against this decision and appeal proceedings are pending.

Press contacts
Press Service – Brussels
+32 2 213 57 97
Press Service – Paris
+33 1 58 58 86 75

Investor contacts
Investor Relations – Paris
+33 1 58 58 82 48 / 87 16
Investor Relations – Brussels
+ 32 1 213 57 39