Press release

DEXIA

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Interim Statement – Q3 2015

Net income Group share positive at EUR 127 million in the third quarter 2015

- Recurring net income of EUR -39 million; continuing improvement of recurring net banking income and low cost of risk over the quarter
- Positive contribution of accounting volatility elements of EUR 154 million
- EUR 12 million associated with non-recurring elements

EUR 2.5 billion reduction of the balance sheet total over the quarter, to EUR 238 billion as at 30 September 2015, essentially related to the reduction of the asset portfolio

Dexia SA Common Equity Tier 1 ratio stable over the quarter at 15.1%

Karel De Boeck, CEO of Dexia SA, stated that, “The financial results achieved by the Dexia Group in the third quarter 2015 confirm the gradual improvement of the Group’s operating result. In particular, the funding cost was down, under volatile market conditions, whilst the cost of risk was very low this quarter. Those results are also marked by the severe volatility of market parameters, generating a positive contribution from accounting volatility elements.

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated that, “The Group is committed to its resolution path, fulfilling the undertakings made to the European Commission, whilst continuing to adapt its structure to its mandate for management in run-off. Dexia took part in the transparency exercise organised by the European Banking Authority and whose results will be released very soon. However, taking Dexia’s specific status as a bank in orderly resolution into account, Dexia is not on the list of the banks concerned by the 2106 stress test exercise.”

The economy in Europe evolved favourably during the third quarter, the recovery mainly resulting from the European Central Bank's accommodating monetary policy. The quarter was also marked by severe financial market volatility associated with the economic slowdown in China and the emerging countries, as well as uncertainties regarding the timetable for interest rate increases by the United States Federal Reserve.

For the period closing on 30 September 2015, Dexia is publishing an Interim Statement based on unaudited figures as at 30 September 2015.

1. Unaudited financial situation of Dexia SA – Q3 2015

In the third quarter 2015, the Dexia Group achieved net income Group share of EUR 127 million, including EUR -39 million attributable to the recurring[1] net income for the period, EUR 154 million to accounting volatility elements[2] and EUR 12 million to the non-recurring[3] income.

- The "recurring" net income for the quarter was EUR -39 million, against EUR -80 million in the previous quarter. "Recurring" net banking income in the third quarter 2015 was EUR 64 million. At EUR 159 million, portfolio income was down slightly on the second quarter 2015, principally resulting from asset amortisation. At the same time, the momentum of funding cost reduction continued, this cost falling from EUR -144 million in the second quarter to EUR -138 million in the third quarter, resulting from a reduction of the funding requirement and the fall of guaranteed debt outstanding. Operating expenditure was well under control at EUR -81 million, down EUR 7 million on the previous quarter. Finally, the cost of risk was extremely limited over the quarter, at EUR -13 million, down EUR 18 million on the second quarter during which the Group in particular increased its provisioning on some project financing in Spain and on the local public sector in Greece.
- Accounting volatility elements made a positive contribution of EUR 154 million to the result for the third quarter, resulting from the favourable evolution of a series of factors.
- Finally, the share of non-recurring elements in the quarterly result was EUR 12 million. This positive result includes gains on asset and liability disposals (EUR 8 million) as well as a net reversal of provisions for litigation (EUR 7 million).

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

A - Balance sheet and solvency

a – Quarterly balance sheet evolution

As at 30 September 2015, the Group's balance sheet total stood at EUR 238.4 billion, down by EUR 8.7 billion on 31 December 2014 and EUR 2.5 billion on 30 June 2015.

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

[2] 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, FVA) and the valuation of OTC derivatives, own credit risk (OCR), the variation of the WISE portfolio (synthetic securitisation on a portfolio of enhanced bonds),

[3] 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 litigation and restructuring costs.

At a constant exchange rate, the fall of the asset side of the balance sheet during the third quarter 2015 is principally related to:

- The EUR 3.4 billion reduction of the asset portfolio, including EUR 2.8 billion of natural amortisation and EUR 0.6 billion disposals;
- The EUR 5.3 billion reduction of the liquidity reserve placed with the Federal Reserve;
- These developments were partially offset by the increase of the fair value of assets and derivatives of EUR 3.5 billion and EUR 1.6 billion of cash collateral posted by the Group and in particular associated with the fall of long-term interest rates over the period.

On the liabilities side and at a constant exchange rate, the quarterly fall of the balance sheet total is essentially attributable to:

- The EUR 6.9 billion reduction of market funding stock;
- This reduction is partially neutralised by the increase of the fair value of liabilities and derivatives representing EUR 3.3 billion.

The impact of exchange variations on quarterly balance sheet evolution is negligible.

b – Solvency ratios

As at 30 September 2015, Dexia's Common Equity Tier 1 capital was EUR 8,159 million, against EUR 8,108 million as at 30 June 2015.

Other Comprehensive Income (OCI) booked directly to capital was EUR -5.6 billion against EUR -5.9 billion at the end of June 2015. This evolution is principally explained by the tightening of credit spreads on sovereign issuers during the quarter, particularly in Italy, Portugal and Spain.

As at 30 September 2015, risk-weighted assets were EUR 54.1 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 fall caused by the reduction of the asset portfolio is entirely offset by an increase of the fair value of exposures, particularly sovereign.

These elements lead to Common Equity Tier 1 solvency ratios of 15.1% and 11.9% respectively for Dexia SA and Dexia Crédit Local at the end of September 2015, stable compared to the previous quarter.

The Dexia Group currently has a national discretion granted by the National Bank of Belgium and the French Autorité de Contrôle Prudentiel et de Résolution, providing for the AFS reserve on sovereign securities not to be deducted from regulatory capital[4]. 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 30 September 2015, the amount of the AFS reserve on sovereign securities was EUR -1.4 billion. The deduction of this AFS reserve from regulatory capital will be gradually phased in, in accordance with the timetable for implementation of CRD IV.

Furthermore, on 5 November 2015 the European Banking Authority (EBA) released the list of 39 financial institutions which will be subject to the 2016 EU-wide stress tests. Dexia is not one of the banks concerned.

[4] Cf. press release "Interim Statement – Q1 2014" dated 14 May 2014 published at www.dexia.com

B – Liquidity

The Group's funding requirement fell during the third quarter 2015, in view of the reduction of the asset portfolio, a development which was in part offset by the increase in the amount of net cash collateral placed by the Group with its derivatives counterparties.

During the third quarter, Dexia successfully launched a public transaction for EUR 2 billion with a 3-year maturity. This transaction took the total guaranteed long-term funding raised over the first nine months of 2015 to EUR 12.4 billion, including EUR 3.7 billion in private placements. Guaranteed debt outstanding is down over the quarter, to EUR 62.1 billion as at 30 September 2015.

At the same time, the Group continued over the quarter to develop its recourse to secured market funding, outstanding rising by EUR 0.8 billion to EUR 66.9 billion. Such recourse to secured market funding enables the Group's balance sheet to be optimised, notably through the use of assets not eligible for central bank refinancing.

Over the quarter, Dexia made a EUR 2.4 billion reduction of its recourse to funding subscribed with the European Central Bank, taking total outstanding to EUR 23.9 billion as at 30 September 2015, including EUR 21.3 billion in the form of LTRO[5] and EUR 2.7 billion in the form of MRO[6].

At the end of September 2015, the Group has a liquidity reserve of EUR 6.2 billion, of which EUR 1.8 billion in cash placed with central banks and EUR 4.4 billion in the form of assets eligible for central bank refinancing.

[5] LTRO or Long Term Refinancing Operations are a standard Euro-system bank funding tool. They constitute a standard refinancing tool used by banks with the Eurosystem.
[6] MRO or Main Refinancing Operations are short-term operations constituting a standard Euro-system bank funding tool. They constitute a standard refinancing tool used by banks with the Eurosystem.

Appendices

Appendix 1 – Simplified balance sheet (unaudited figures)

Balance sheet key figures			
EUR m	**31/12/2014**	**30/06/2015**	**30/09/2015**
Total assets	**247,120**	**240,944**	**238,440**
of which			
Cash and central banks	3,104	8,278	4,519
Financial assets at fair value through profit or loss	24,215	22,032	23,165
Hedging derivatives	8,374	6,802	6,919
Financial assets available for sale	26,641	23,685	23,625
Customer loans and advances	135,311	132,360	131,150
Accruals and other assets	38,256	36,980	38,795
Total liabilities	**243,992**	**237,086**	**234,077**
of which			
Central banks	33,845	26,312	23,946
Financial liabilities at fair value through profit or loss	25,731	23,872	25,012
Hedging derivatives	33,832	30,250	31,741
Interbank borrowings and deposits	44,604	47,482	48,286
Debt securities	89,518	92,755	87,630
Total equity	**3,128**	**3,858**	**4,363**
of which			
Equity, Group share	2,711	3,421	3,934

Appendix 2 – Capital adequacy (unaudited figures)

EUR m	**31/12/2014**	**31/03/2015**	**30/06/2015**	**30/09/2015**
Common Equity Tier 1	8,754	8,115	8,108	8,159
Risk-weighted assets	53,377	56,927	54,185	54,134
Common Equity Tier 1 ratio	16.4%	14.3%	15.0%	15.1%

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

MCRE[7] calculated under IFRS 7

Dexia Group exposure by geographic region	
EUR m	
France	26,069
Italy	26,056
United States	25,855
United Kingdom	19,372
Germany	19,277
Spain	16,593
Japan	6,337
Portugal	4,139
Central and Eastern Europe	3,015
Canada	2,259
Belgium	1,783
Austria	1,386
Scandinavian countries	1,232
Hungary	964
Southeast Asia	812
South and Central America	552
Netherlands	529
Switzerland	496
Turkey	494
Ireland	193
Greece	125
Luxembourg	43
Others	7,362
Total	**164,944**

Dexia Group exposure by category of counterparty	
EUR m	
Local public sector	83,262
Central governments	28,519
Financial institutions	23,628
Project finance	13,828
ABS/MBS	7,915
Corporate	5,860
Monoliners	1,931
Individuals, SME and self-employed	1
Total exposure	**164,944**

[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	17%
AA	20%
A	21%
BBB	30%
Non Investment Grade	10%
D	1%
Not Rated	1%
Total	**100%**

Appendix 4 – Group sectorial exposure on certain countries as at 30 September 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	25,855	11,029	960	4,636	4,566	2,733	1,931
Italy	26,056	10,855	1,222	577	132	13,269	0
France	26,069	16,794	4,181	2,531	0	2,564	0
United Kingdom	19,372	9,511	6,127	1,505	2,156	73	0
Germany	19,277	15,275	454	3,342	9	196	0
Spain	16,593	7,198	2,395	5,925	558	517	0
Japan	6,337	3,741	0	1,231	0	1,365	0
Portugal	4,139	1,705	200	11	131	2,091	0
Poland	1,984	13	0	1	0	1,970	0
Hungary	964	28	35	1	0	900	0
Greece	125	52	67	0	6	0	0

Appendix 5 – Asset quality (unaudited figures)

Asset quality				
EUR m	**31/12/2014**	**31/03/2015**	**30/06/2015**	**30/09/2015**
Impaired assets	1,233	1,578	1,693	1,684
o/w impaired loans and advances to customers	*1,162*	*1,291*	1,433	1,424
Specific provisions	353	583	625	630
o/w specific provisions on impaired loans and advances to customers	*309*	*440*	491	496
Coverage ratio (1)	28.6%	37.0%	36.9%	37.4%
Coverage ratio on loans and advances to customers	*26.6%*	*34.1%*	34.3%	34.8%
Collective provisions	503	427	391	397

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

Appendix 6 – Ratings

Ratings as at 19 November 2015			
	Long term	**Outlook**	**Short term**
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
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 – Litigation

Like many financial institutions, Dexia is involved in a number of regulatory investigations and some litigation as defendant or as plaintiff. 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 third quarter of 2015 concerning the principal investigations and litigation that are relevant and in which Dexia Group entities are named as defendant are summarised 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 September 2015, the events or developments that occurred during the third quarter of 2015 in pending regulatory investigations and litigation 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 on the basis of information available to it as at 30 September 2015, of the most significant litigation and investigations 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 litigation 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 Nederland

In the so-called “duty of care” share-leasing cases, Dexia Nederland (“DNL”) asked the courts in a number of cases, in which it previously paid full compensation to the clients in accordance with the Court Model, but had not yet obtained a formal waiver, to issue a declaratory judgment confirming that DNL had satisfied all its obligations. To date, DNL already obtained a number of such declaratory judgments. However, some local courts refused to grant this final confirmation for the time being, by referring in some instances to the existence of other unsettled pending legal issues.

In the “spousal consent” cases, the Dutch Supreme Court decided on 9 October 2015 that the filing of a class action suit causes the interruption of the limitation period for individual requests for annulment connected to that collective action. The Supreme Court also decided that, for purposes of interrupting said limitation period, the delivering of an extra-judicial request for annulment suffices, if sent in a timely manner; the initiation of legal proceedings is not required.

Dexia Sabadell

On 6 July 2012, Banco de Sabadell ("BS") exercised the put option granted by DCL for the purchase of BS' stake in Dexia Sabadell. The parties disagreed on the exercise price of the put and conducted arbitration proceedings. The arbitration award has been rendered end of August and, despite confirming DCL’s position on the merits, has required DCL to pay an exercise price for the put option. DCL is currently reviewing whether this decision could be challenged.

Litigation in relation to structured loans

The number of cases is down slightly.

Following government announcements on 24 February 2015, the Local Authority Support Fund (i) may now grant aid up to 75% of the cost of exiting a structured loan, and (ii) has seen its size double to EUR 3 billion. It is now operational and has begun to notify borrowers of its decisions to attribute grants.

The amount of the support fund dedicated to public health institutions rose from EUR 100 to 400 million.

All of these measures are likely to favour operations to desensitise structured assets and should enable some of the current litigation to be closed.

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