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Dexia Group Consolidated Results 2015

2015, a year of great achievement, resulting in a reduction of the Group's systemic risk

- *Redemption of the remaining guaranteed debt subscribed by Belfius and guaranteed bank bonds used within the framework of the special own-use mechanism approved by the ECB*
- *Simplification of the Group structure and launch of significant projects to optimise the operating model*
- *Further reduction of asset portfolios*

Net income Group share 2015 at EUR +163 million; impact of impairment on Heta Asset Resolution AG (EUR -197 million) and of new levies and contributions (EUR -127 million)

- *Net recurring income of EUR -328 million*
- *Positive contribution of accounting volatility elements at EUR +516 million*
- *Non-recurring income of EUR -24 million*

Dexia's Common Equity Tier 1 ratio at 15.9%[1]

- *Impact of the 40% deduction of the non-sovereign AFS reserve from regulatory capital, in line with the schedule of the CRD IV Directive*
- *Risk-weighted assets declined over the year to EUR 51.4 billion, mainly due to the reduction of asset portfolios*

Karel De Boeck, CEO of Dexia SA, stated that, "*After significant efforts made to reach its target scope, the split of certain activities and then the reconstruction of operating platforms, in 2015, Dexia actively continued to implement its orderly resolution plan. The simplification of its structure remains a priority and major projects were commenced to reshape its operating model.*
Elements of the Bank's recurring income show a positive trend but they do not explain the Group's net profit for 2015. The results in fact largely benefit from the impact of accounting volatility elements."

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated that, "*The year 2015 was marked by a further reduction of Dexia's systemic risk. In particular, the Group exited the special and exceptional funding mechanisms introduced in 2012, a key stage on the road to its resolution. 2015 also saw the recognition by the European supervisor of Dexia's specific and unique situation. This is a major milestone on the path of Dexia's orderly resolution, which remains the preferred route from a financial stability perspective. In fact the resolution model does not guarantee the Dexia Group the same capacity to adapt to all the new regulatory constraints as that of active banking groups, which by their nature are more flexible.*"

[1] *Including the net profit for the year.*

Introduction

Economic recovery in the euro zone continued in 2015, driven in particular by the accommodating monetary policy of the European Central Bank. The year was marked by the continued decline in interest rates, the tightening of credit spreads resulting from the quantitative easing implemented by the European Central Bank, and the weakening of the euro against major world currencies.

The euro zone's financial stability remains fragile however, and the financial markets showed increased volatility in connection to the Greek crisis in the first half-year, the slowdown of the Chinese and emerging markets economies, and the uncertainties surrounding the US Federal Reserve hike eventually announced in mid-December.

This volatility was reflected in the Group's results, in particular in the high variation of accounting volatility elements. It is also a central theme explaining the variation of the size of the Dexia Group balance sheet during 2015.

During its 18 February 2016 meeting, the Board of Directors signed off on the 2015 consolidated financial statements of Dexia SA.

Notes regarding the Dexia Group's annual consolidated financial statements 2015

The consolidated financial statements of Dexia SA as at 31 December 2015 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan to the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the entire plan.

  In particular, the updates made in 2015 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and the implementation of the IFRS 9 accounting standard from 2018, based on assumptions known to date.

  An updated business plan on the basis of data available as at 30 June 2015 and validated by the Board of Directors of Dexia on 19 November 2015 leads to adjustments of the plan originally validated, but these do not raise any issues regarding the trajectory of the Group's resolution over the long term.

- The business plan assumes the preservation of the banking licences of various entities as well as the rating of Dexia Crédit Local.

- It relies on a robust funding capacity, which is dependent on investor appetite for the debt guaranteed by Belgium, France and Luxembourg and the Group's ability to raise secured funding.

  In this respect, the Group's funding structure benefited in 2015from an increase in market funding volume at a lower cost than anticipated in the business plan and for longer maturities. The Group also exited the special and exceptional funding mechanisms introduced in 2012 and reduced its reliance on central bank funding. Finally, it focused on providing liquidity reserves with the aim of proctecting itself against short-term liquidity risk primarily related to an increase in the amount of cash collateral[2] posted to its derivatives counterparties.

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

However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia since its entry in resolution do not allow it to ensure compliance with certain regulatory ratios. The business plan is also sensitive to the evolution of the macroeconomic environment. Thus, a 10 basis point decrease in interest rates over the entire yield curve would result in an immediate increase of approximately EUR 1 billion in the liquidity requirement, related to the increase in cash collateral. Similarly, more conservative assumptions as to an improvement of ratings and/or a tightening of credit spreads would negatively impact the income statement as well as the available liquidity reserves and would increase the level of regulatory capital required.
- Finally, if market demand for government-guaranteed debt would decline, Dexia may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan. The coming years will remain a risk in the context of greater exchange rate volatility and very low interest rates.

The most recent update of the business plan shows a surplus liquidity position throughout the life of the plan. The Group's liquidity surplus was impacted in 2015 by the volatile cash collateral needs and high levels of amortisations and funding redemptions. Sustained issuance of long-term guaranteed debt and secured funding nonetheless partially offset them, and the Group's liquidity reserves were at EUR 6.3 billion at the end of 2015.

1. Significant events and transactions

- *Exit from the special and exceptional funding mechanisms introduced in 2012*
- *Continued simplification of the Group structure and launch of projects to optimise the operating model*
- *Recognition by the European supervisor of Dexia's unique situation as a bank in run-off*

A year of great achievement

A – Continuing reduction of systemic risk

a – Major milestone passed in terms of liquidity management

2015 was a landmark year from a liquidity management viewpoint. Despite adverse circumstances generating high volatility in its funding requirement, Dexia managed to exit the exceptional funding mechanisms made available when it entered its resolution plan and reduced significantly its use of central bank funding.

In 2015 Dexia repaid the remaining guaranteed debt held by Belfius, for an amount of EUR 10 billion and the EUR 19 billion guaranteed bank bonds used within the framework of the special own-use mechanism[3] granted by the European Central Bank (ECB).

[3] *"Own-use": use by the Dexia Group, as collateral with the Eurosystem, of securities issued by Dexia Crédit Local and guaranteed by the States.*

Furthermore, in the first quarter of 2015, Dexia redeemed the remainder of VLTRO[4] subscribed with the ECB and only partially replaced by the LTRO[5] and MRO[6].

The redemption of aforementioned funding was an important milestone in the Group's resolution process which was made possible by sustained activity in the issuance of guaranteed funding, placed to a diversified investor base, and the continued development of secured funding throughout the year 2015.

More detailed information on Dexia Group funding in 2015 is provided in the section entitled "Evolution of the Group's liquidity situation".

b – Reduction of asset portfolios

In 2015, Dexia continued in its policy of opportunist asset disposals, aiming to reduce the credit risk of its asset portfolios, whilst easing the pressures on the Group's funding requirement. This policy was aided by the improvement of market conditions, supported in part by the asset purchase policies of the European monetary authorities. These policies, and similar initiatives in other European States, created significant disposal opportunities for Dexia, particularly with respect to covered bonds and its sovereign and sub-sovereign (European regional) risk.

As at 31 December 2015, and at a constant exchange rate, the Group's asset portfolio totalled EUR 132 billion and was down EUR 14.3 billion over the year, including EUR -9.7 billion of natural portfolio amortisation and EUR -4.8 billion of asset disposals and early redemptions.

c – Simplification of the Group structure

Progress in implementation of the Group's orderly resolution plan was also made in 2015 by restructuring or closing entities.

Following Dexia Crediop being placed in run-off in July 2014, a study was launched, aimed at simplifying the organisation of the Italian bank and at reducing its costs. This resulted in an agreement with social partners, on 18 March 2015 and a reduction of the workforce by 53 to 124 members of staff. As at 31 December 2015, all the planned departures are effective.

Dexia Credito Local Mexico, the Dexia Group subsidiary previously active in local authority financing in Mexico, had its residual assets transferred to a new Mexican trust beneficially owned by Dexia and the New York branch of Dexia Crédit Local.

Dexia Kommunalkredit Bulgaria EOOD, the subsidiaries SISL in Luxembourg and Dexia CAD Funding LLC in the United States were liquidated.

Dexia SA's permanent establishment in Luxembourg was also closed. Dexia SA, the Group's holding company, now only has a permanent establishment based in Paris.

Both Dexia Nederland and Dexia Luxembourg, previously Dexia LdG Banque and the covered bond issuer for the Dexia Group in Luxembourg, abandoned their banking licences. Dexia Luxembourg is expected to be liquidated in 2016.

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[4] *VLTRO or Very Long Term Refinancing Operations are exceptional refinancing operations at 3 years launched in December 2011 and February 2012 respectively by the European Central Bank to support liquidity on the interbank market and to facilitate the financing of the real economy.*
[5] *LTRO or Long Term Refinancing Operations are long-term refinancing operations. They constitute a standard refinancing tool used by banks with the Eurosystem.*
[6] *MRO or Main Refinancing Operations are short-term refinancing operations; They constitute a standard refinancing tool used by banks with the Eurosystem.*

B – Recognition of Dexia's specific and unique situation

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

Considering Dexia's specific and unique situation as a bank in orderly resolution, the public nature of its shareholder structure and the liquidity guarantee put in place by the Belgian, French and Luxembourg governments, and in order to maintain financial stability, an objective of the orderly resolution plan, the ECB decided to apply a tailored, pragmatic and proportionate prudential supervisory approach to Dexia. Notably, the resulting proportionate use of supervisory powers assumes that Dexia's situation does not deteriorate significantly.

For instance, this approach authorises the proportionate use of supervisory powers in view of the constraints of compliance with the liquidity ratios set forth by the CRR[7], including in particular enhanced reporting on the liquidity position. Despite the significant progress made by the Group in terms of reducing its liquidity risk, the financial characteristics of Dexia since its entry into resolution do not allow it to ensure compliance with certain regulatory ratios over the term of the orderly resolution plan approved by the European Commission. These specific circumstances resulting from the orderly resolution plan are reflected in the level of the Liquidity Coverage Ratio (LCR)[8] for which there has been a minimum requirement of 60% since 1 October 2015, raised to 70% since 1 January 2016. As at 31 December 2015, the Dexia Group LCR was 54%.

C – Towards a simplification and greater integration of the operating model

In line with the objectives of the business plan launched in 2013, Dexia continued its efforts in 2015 to adapt its operating model in two strategic directions: the Group's operational simplification and centralisation. Various projects follow this objective.

a – Outsourcing the operational processing chain for market activities

In order to manage its residual assets in run-off, the Dexia Group must maintain its operational continuity. For certain activities, this requires significant investments which must be considered with the Group's financial capabilities and expected profitability over the term of the resolution.

The Group began studying the opportunity to outsource all or some of the Middle and Back Office functions linked to market operations and their technical infrastructures. In addition to maintaining a high level of service, outsourcing these activities would enable Dexia to adjust its costs, particularly by avoiding significant investments in IT systems and any threshold effects associated with the gradual reduction of the Group's balance sheet.

After thoroughly studying the proposals of various service providers, in September 2015, Dexia decided to further analyse Société Générale's proposals and entered an exclusive phase of due diligence. To date, the due diligence process is progressing at a sustained pace. Implementation of this project is subject to the approval of the regulators and Dexia Group staff representative bodies. Dexia is paying particular attention to the future of its staff members affected by this work and in extending the information already provided to staff representative bodies the Group has undertaken an information/consultation process with those bodies, maintaining constructive dialogue.

[7] *Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.*
[8] *LCR measures the coverage of liquidity requirements at 30 days in a stressed environment, by a volume of liquid assets. It replaces Belgian and French regulatory liquidity ratios.*

b – Centralisation of operations

In 2015 Dexia finalised the integration of Dexia Management Services (DMS), a subsidiary of Dexia Crédit Local in the United Kingdom. Dexia abandoned DMS licence with the Financial Conduct Authority and integrated all of the support functions as well as a large number of the Front Office functions to the Paris office of Dexia Crédit Local. Four staff members are still based in the United Kingdom to serve customers.

An in-depth study was also performed, to establish the best possible options for the conduct of Dexia operations in Spain and Portugal. Although already limited in those two countries, at present Dexia operates two legal entities there: Dexia Sabadell S.A., subsidiary of Dexia Crédit Local based in Madrid and its branch in Lisbon named Dexia Sabadell S.A., Portugal branch.

On 31 December 2015, Dexia Sabadell S.A. had a balance sheet totalling EUR 10 billion[9] including a loan portfolio of EUR 8.1 billion mostly made of public sector and project finance.

The scenario studied and submitted for approval to the competent bodies within Dexia Sabadell and Dexia Crédit Local, subject to the approval of the regulators and consultation with staff representative bodies, is that of a cross-border merger between Dexia Crédit Local and Dexia Sabadell and a transfer of the asset management of the two Spanish and Portuguese entities to the Dexia Crédit Local management systems in Paris. It would result in the creation of two Dexia Crédit Local branches, one in Spain and the other in Portugal, and it would enable the Group to have a simpler and more homogenous organisation relying on the systems and teams of the Paris head office. The completion of this merger would enable Dexia to continue the streamlining and centralisation of its operating model and thus to reduce its costs and its operating risks.

The merger will be effective in 2016, with retroactive accounting effect as at 1 January 2016.

Other significant elements

A – Weight of new contributions and levies paid to public authorities

Dexia's results for 2015 were impacted by EUR -127 million of various levies and contributions.

The Group recorded its first such annual contribution of EUR -50 million to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism. The Group also recognized EUR -14 million due for the annual levy for systemic risk. These charges, due each year, are of a recurring nature.

Furthermore, the Group provisioned the full amount of its voluntary multi-year contribution to the local authority and hospital sector support funds introduced in France, for EUR -28 million.

In addition, Dexia booked, via its subsidiary Dexia Crediop, an exceptional contribution of EUR -31 million for Italian banks.

All of these levies and contributions were booked pursuant to the principles of the IFRIC 21 "Levies" accounting standard[10], applied by Dexia since 1 January 2015.

B – Developments with credit risk and the risk associated with structured loans

a – Credit risk

At the end of 2015, the Dexia Group credit portfolio remained of good quality overall with 88% of exposures rated "investment grade". Reported in relation to Group exposure, the cost of risk is up however, at 10.5 basis

[9] *Statutory data.*
[10] *IFRIC: International Financial Reporting Interpretations Committee.*

points on average over the year, against 3.6 basis points on average in 2014. This increase in the cost of risk reflects the concentration risk of the Dexia asset portfolio which materialised in the first quarter of 2015 with Heta Asset Resolution AG (see below).

The situation of the Commonwealth of Porto Rico, which is facing major financial difficulties, limiting its ability to honour its financial obligations, was also a matter of attention for Dexia. The Group's exposure to government sponsored enterprises of the Commonwealth of Porto Rico amounted to EUR 421 million[11] as at 31 December 2015, of which 95% is covered by good quality monoliners. Impairments amounted to EUR 42 million (USD 45 million).

Certain sectors and counterparties, particularly the renewable energies sector were also closely monitored in a very volatile macro-economic environment.

The Group exposure to the oil sector, under pressure with falling prices, amounted to EUR 292 million. Exposure, if any, is mostly in the project finance sector, the resilience of which when oil prices fall is deemed satisfactory, and to a lesser extent with leading corporates.

b – Focus on Heta Asset Resolution AG

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

Via its subsidiary Dexia Kommunalbank Deutschland AG (DKD), Dexia has an exposure of EUR 417 million[12] to the debt of Heta Asset Resolution concerned by the moratorium, guaranteed by the Land of Carinthia.

Following this decision, DKD decided to book an impairment of EUR 197 million, corresponding to 44% of its notional exposure to Heta Asset Resolution AG and 5% of this amount to cover associated derivatives exposures.

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

On 21 January 2016, the Land of Carinthia presented to the market an offer to repurchase the senior bonds issued by Heta Asset Resolution AG at 75% of par and subordinated bonds at 30% of par. The pool of creditors, including DKD, and other groups of creditors, jointly representing more than one third of the exposures affected by the offer and thus representing a blocking minority, undertook contractually to accept no transaction involving a recovery of debts below par. As a consequence, they rejected the repurchase offer made by the Land of Carinthia.

DKD is studying other legal actions to preserve, defend and strengthen its rights against Heta Asset Resolution AG, the Land of Carinthia, Kärntner Landesholding[13] or any other party involved in this case.

[11] *EAD amount corresponding to USD 430 million of gross accounting value as previously disclosed.*
[12] *EAD amount corresponding to EUR 395 million of nominal exposure as previously disclosed.*
[13] *Kärntner Landesholding is a legal entity sui generis, held by the Land of Carinthia. It is liable as a deficiency guarantor for all present and future liabilities of Heta Asset Resolution AG.*

c – Reduction of the outstanding on sensitive structured loans

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

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

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

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

2. Annual Results 2015

A – *Presentation of Dexia SA's 2015 annual consolidated financial statements*

a – Going concern

The consolidated financial statements of Dexia SA as at 31 December 2015 were established in accordance with the accounting rules applicable to a going concern (cf. section "Point in relation to the presentation of the 2015 consolidated financial statements for the Dexia Group").

b – Notes on accounting and regulatory developments

In accordance with the impairments of the IFRS 13 accounting standard and in line with market practice, the Dexia Group developed a methodology for the calculation, from June 2015, of a *Funding Valuation Adjustment (FVA)* aimed measuring the funding costs associated with non-collateralised derivatives. The impact of the FVA on the 2015 consolidated financial statements amounted to EUR -106 million.

In addition, in calculating its regulatory capital, Dexia booked an *Additional Valuation Adjustment (AVA)* which results from a cautious valuation as defined by the European Banking Authority (EBA). The AVA resulted in an impact of EUR -136 million on the Group's Common Equity Tier 1 capital as at 31 December 2015.

B – Dexia Group's consolidated results 2015

- *Net income Group share of EUR +163 million in 2015, including EUR +516 million for accounting volatility elements*
- *Impact of cost of risk (EUR -174 million) and the weight of levies and contributions (EUR -127 million)*
- *Continued reduction of funding costs and control of operating expenditure*

a – Income statement for the period (unaudited figures)

Consolidated income statement - ANC format					
EUR million	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**	**2015**
Net banking income	**166**	**271**	**233**	**164**	**834**
Operating expenses	-154	-89	-84	-143	-470
Gross operating income	**12**	**182**	**149**	**21**	**364**
Cost of risk and net gains or losses on other assets	-130	-31	-13	14	-159
Pre-tax income	**-118**	**151**	**136**	**35**	**205**
Income tax	-8	-11	-8	8	-19
Net result from discontinued operations	0	0	0	-17	-17
Net income	**-126**	**141**	**129**	**26**	**169**
Minority interests	-1	12	1	-6	6
Net income Group share	**-125**	**129**	**127**	**32**	**163**

In 2015 the Dexia posted a net income Group share of EUR 163 million.

Over the year, net banking income reached EUR 834 million, mainly including EUR 516 million related to the impact of the valuation of derivatives on the basis of an OIS curve, the calculation of the CVA, the DVA and the FVA, as well as own credit risk.

Costs were EUR -470 million including EUR -127 million in various levies and contributions. Excluding the impact of these levies and contributions, operating expenditure was tightly controlled.

Gross operating income reached EUR 364 million over the year.

The cost of risk and net gains and losses on other assets were EUR -159 million, including EUR -174 million for the cost of risk. It mainly includes impairments for the Group's exposure to Heta Asset Resolution AG (EUR -197 million), provisioning on project finance in Spain and exposures to the local public sector in Greece, as well as an increase of the impairments on Kommunalkredit Austria AG. These allocations were partially offset by reversals of collective provisions.

Considering these elements, pre-tax income totalled EUR 205 million.

Over the year, income tax amounted to EUR -19 million.

The net result from discontinued operations was EUR -17 million, corresponding to the provisioning of a risk related to potential guarantee calls following the disposal by the Group of international entities.

The net income attributable to minority interests was EUR 6 million leading to a net income Group share for 2015 of EUR 163 million.

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

The net income Group share of EUR 163 million consists of the following elements:

- EUR -328 million attributable to recurring elements[14];
- EUR +516 million associated with accounting volatility elements[15];
- EUR -24 million generated by non-recurring elements[16].

In order to make the results easier to understand and to assess the momentum over the past year, Dexia presents the quarterly evolution of the three analytical segments separately.

Analytical presentation of the 2015 Dexia Group annual results

EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**276**	**516**	**42**	**834**
Operating expenses	-406	0	-64	-470
Gross operating income	**-130**	**516**	**-22**	**364**
Cost of risk and net gains or losses on other assets[1]	-174	0	15	-159
Pre-tax income	**-304**	**516**	**-7**	**205**
Income tax	-19	0	0	-19
Net result from discontinued operations	0	0	-17	-17
Net income	**-322**	**516**	**-24**	**169**
Minority interests	6	0	0	6
Net income Group share	**-328**	**516**	**-24**	**163**

[1] including gains and losses from entity disposals

[14] *Recurring elements: elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.*
[15] *Accounting volatility elements: elements associated with asset and liability fair value adjustments in particular including the impacts 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 of a portfolio of enhanced bonds).*
[16] *Non-recurring elements: elements of an exceptional nature, not liable to be regularly reproduced, in particular including gains and losses on the disposal of holdings and assets, costs and gains associated with litigation, restructuring costs.*

b.1 – Recurring elements

Recurring elements					
EUR million	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**	**2015**
Net banking income	**52**	**61**	**64**	**98**	**276**
o/w income from commercial portfolios	165	165	159	166	656
o/w funding cost	-151	-144	-138	-135	-569
o/w other income	39	40	43	68	189
Operating expenses	-127	-88	-81	-110	-406
Gross operating income	**-74**	**-27**	**-18**	**-11**	**-130**
Cost of risk and net gains or losses on other assets	-130	-31	-13	-1	-174
Pre-tax income	**-204**	**-58**	**-30**	**-12**	**-304**
Income tax	-8	-11	-8	8	-19
Net result from discontinued operations	0	0	0	0	0
Net income	**-212**	**-68**	**-38**	**-4**	**-322**
Minority interests	-1	12	1	-6	6
Net income Group share	**-212**	**-80**	**-39**	**2**	**-328**

The net income Group share generated by recurring elements was EUR -328 million.

Net banking income reached EUR 276 million and, in line with the trend observed in 2014, continued to improve during each quarter. The funding cost was down over the year as a result of the reduction in the Group's funding requirement and its lower average funding cost. The Group successfully replaced the funding issued at resolution inception with less costly market funding. Income from the asset portfolios remained stable during 2015, as did "other income" booked as net banking income.

Operating expenses totalled EUR -406 million and included the Group's contribution to the SRF (EUR -50 million) and the annual levy for systemic risk (EUR -14 million). Excluding these levies and contributions, operating costs were tightly controlled.

The cost of risk and net gains or losses on other assets reached EUR -174 million, including the EUR -197 million impairment on the Group's exposure to Heta Asset Resolution AG. Reported as Group exposure, the cost of risk was 10.5 basis points on average over the year, reflecting the good quality of the asset portfolio.

b.2 – Accounting volatility elements

Accounting volatility elements					
EUR million	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**	**2015**
Impact in net income Group share (elements booked in net banking income)	**127**	**190**	**154**	**44**	**516**

Over 2015, accounting volatility elements had a positive impact of EUR +516 million, mainly driven by the favourable evolution of the valuation of collateralised derivatives on the basis of an OIS curve, the CVA, the DVA and own credit risk. These elements are partially offset by the impact of the FVA (EUR -106 million).

b.3 – Non-recurring elements

Non-recurring elements					
EUR million	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**	**2015**
Net banking income	**-14**	**19**	**15**	**21**	**42**
Operating expenses	-27	-1	-2	-34	-64
Gross operating income	**-41**	**19**	**12**	**-12**	**-22**
Cost of risk and net gains or losses on other assets	0	0	0	15	15
pre-tax income	**-41**	**19**	**12**	**3**	**-7**
Income tax	0	0	0	0	0
Net result from discontinued operations	0	0	0	-17	-17
Net income	**-41**	**19**	**12**	**-14**	**-24**
Minority interests	0	0	0	0	0
Net income Group share	**-41**	**19**	**12**	**-14**	**-24**

Non-recurring elements booked over the year 2015 consisted of:

- Gains derived from active balance sheet management (EUR +4 million over the year);
- Allocations to provisions for litigation (EUR -39 million), offset by payments in favour of Dexia on the unwinding of litigation (EUR +40 million);
- An adjustment of EUR +102 million, following the inventory process for the cancellation of bearer shares in 2015, causing an over-valuation to appear in the item “Other debts”;
- Recognition of the exercise price of the put option to purchase Banco de Sabadell’s stake in Dexia Sabadell, following the decision of the Court of Arbitration in Madrid (EUR -52 million);
- The contribution by Dexia Crediop to saving Italian banks (EUR -31 million);
- The voluntary multi-year contribution by the Group to the local authority and hospital sector support funds introduced in France (EUR -28 million);
- Gains on the sale of buildings (EUR +15 million);

- The provision of a risk related to potential guarantee calls following the disposal by the Group of international entities (EUR -17 million).

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

A - Balance sheet and solvency

- *Balance sheet decreased by EUR 16.8 billion compared to 2014 year-end; volatility of the balance sheet total over the year*
- *Dexia Common Equity Tier 1 ratio at 15.9%[17]: 40% deduction of the non-sovereign AFS reserve from the regulatory capital and first application of the AVA*

a – Annual balance sheet evolution

As at 31 December 2015, the Group's consolidated balance sheet totalled EUR 230.3 billion, down EUR 16.8 billion on 31 December 2014 and EUR 10.7 billion on 30 June 2015.

At a constant exchange rate, the balance sheet reduction is mainly associated with:

- The EUR -14.3 billion reduction of the asset portfolio, including EUR -9.7 billion in natural amortisation and EUR -4.8 billion in disposals and early redemptions;
- A decline in the fair value of assets and derivatives of EUR -7.5 billion;
- These developments were partially offset by the EUR +2 billion increase of the liquidity reserve placed with central banks.

On the liabilities side and at a constant exchange rate, the balance sheet reduction is mainly attributable to:

- A EUR -12.2 billion reduction of stock of market and central bank funding;
- The reduction of the fair value of liabilities and derivatives representing EUR -8.5 billion.

The impact of exchange rate variations on the evolution of the balance sheet amounts to EUR +3 billion over the year, principally associated with the weakening of the euro against the dollar.

The balance sheet total evolved in a contrasted manner over the year 2015. In the first quarter, it evolved in line with the rising trend seen in 2014, mainly as a result of exchange rate fluctuations and the decline of long-term interest rates. The trend was then reversed, the balance sheet posting a steady decline associated with the reduction of the asset portfolio, despite the volatility of interest and exchange rates.

b – Solvency

b.1 – Prudential requirements applicable to Dexia with regard to solvency

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

Although Dexia's capital position is beyond minimum regulatory requirements, since its entry into resolution in December 2012 the bank is already subject to restrictions imposed by the European Commission within

[17] *Including the net profit for the year.*

the context of the principle of "burden sharing". In particular, they include a ban on the payment of dividends, certain restrictions in relation to the payment of coupons and the exercise of calls on subordinated debt and hybrid capital issues by Group issuers. Consequently, non-observance of the capital conservation buffer would have no impact on Dexia's conduct in terms of capital distribution.

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

b.2 – Solvency ratios

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

Gains and losses recognised directly in equity stood at EUR -5.4 billion as at 31 December 2015, an improvement of EUR +1.2 billion over the year, due essentially to the tightening of credit spreads on sovereign bonds, particularly in Italy and Portugal, and Spanish covered bonds

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

Taking these elements into account, Dexia's Common Equity Tier 1 ratio was 15.9%[18] as at 31 December 2015, representing a margin of 791 basis points compared to the minimum regulatory requirement required excluding the capital conservation buffer.

The Common Equity Tier 1 ratio of Dexia Crédit Local was 12.6%[18] as at 31 December 2015, representing a margin of 457 basis points to the minimum regulatory requirement required excluding the capital conservation buffer.

B – Evolution of the Group's liquidity situation

- *Prudent liquidity management enabled the Group to deal with significant funding maturities and the volatility of liquidity needs*
- *Increase of guaranteed market funding and "repo" activity*

Despite adverse circumstances resulting in high volatility of the Group's funding requirement, key milestones were reached in terms of liquidity management in 2015. By virtue of anticipation and prudent liquidity management, the Group succeeded in refinancing significant funding maturities and evolved its funding structure favourably, in particular by exiting all the exceptional funding introduced on its entry into resolution.

[18] *Including the net profit for the year.*

In the first quarter of 2015, Dexia repaid the remaining guaranteed debt held by Belfius, amounting to EUR 10 billion. In total, EUR 12.8 billion was repaid to Belfius between December 2014 and the end of February 2015.

Dexia also repaid EUR 19 billion of guaranteed bank bonds, used within the framework of the exceptional own-use mechanism granted by the European Central Bank. A first tranche of EUR 13 billion was repaid in the first quarter of 2015. The repayment of the second tranche of EUR 6 billion took place in the fourth quarter.

Furthermore, in the first quarter of 2015, Dexia redeemed remainder of EUR 33.5 billion subscribed with the ECB in the form of VLTRO, partially replaced by the LTRO and the MRO.

The redemption of this funding was made possible by sustained activity in the issuance of guaranteed funding and the continuing development of secured funding.

Over the year, Dexia successfully launched various long-term public transactions, in euros, in US dollars and in sterling, with maturities from 3 to 10 years. These issues were accompanied by private placement activity, with the total guaranteed long-term funding raised in 2015 amounting to EUR 9.3 billion, USD 2.7 billion and GBP 1.5 billion.

At the same time, the Group was extremely active in short-term funding, via various guaranteed programmes in euros and in US dollars. 363 short-term transactions were completed for a total of EUR 48.9 billion. The average term of the short-term funding exceeded 7 months.

As at 31 December 2015, the outstanding guaranteed debt was down, at EUR 61 billion, against EUR 73 billion at the end of 2014.

At the same time, the Group continued in its efforts to develop short and long-term secured market funding, the outstanding of which rose by EUR 2.9 billion compared to year-end 2014, to reach EUR 67.4 billion as at 31 December 2015.

Dexia also reduced its funding subscribed with the ECB to EUR 15.9 billion as at 31 December 2015, including EUR 11.9 billion in the form of LTRO and EUR 4 billion in the form of MRO.

As a consequence, as at 31 December 2015, guaranteed funding, secured funding and central bank funding represented 37%, 42% and 10% respectively of Group funding.

As at 31 December 2015, the Dexia Group had a liquidity buffer of EUR 6.3 billion, including EUR 2.1 billion of assets eligible to European Central Bank refinancing.

Appendices

Appendix 1 – Simplified balance sheet (unaudited figures)

Balance sheet key figures		
EUR m	**31/12/2014**	**31/12/2015**
Total assets	**247,120**	**230,281**
of which		
Cash and central banks	3,104	4,835
Financial assets at fair value through profit or loss	24,215	20,176
Hedging derivatives	8,374	6,672
Financial assets available for sale	26,641	22,257
Customer loans and advances	135,311	127,876
Accruals and other assets	38,256	38,346
Total liabilities	**243,992**	**225,733**
of which		
Central banks	33,845	15,932
Financial liabilities at fair value through profit or loss	25,731	22,779
Hedging derivatives	33,832	29,978
Interbank borrowings and deposits	44,604	48,780
Debt securities	89,518	91,532
Total equity	**3,128**	**4,548**
of which		
Equity, Group share	2,711	4,118

Appendix 2 – Capital adequacy (unaudited figures)

EUR m	**31/12/2014**	**31/12/2015**
Common Equity Tier 1	8,754	8,180
Risk-weighted assets	53,377	51,414
Common Equity Tier 1 ratio	16.4%	15.9%

Appendix 3 – Credit Risk Exposure (unaudited figures)

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

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

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

- For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments[19], taking account of accrued interest and the impact of hedge accounting;
- For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to the fair value, gross of impairments;
- For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;
- For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia Group applies the standard method (Article 111 of the Regulation (EU) No 575/2013) to determine credit conversion factors, except for project finance transactions (advanced approach).

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

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

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

[19] *For exposure under the standard method, a specific EAD is calculated (gross of impairments).*

Dexia Group exposure by geographic region			
EUR m	31/12/2014 (MCRE)	31/12/2014 (EAD)	31/12/2015 (EAD)
United States	26,377	29,416	28,753
Italy	27,178	30,663	27,244
France	26,656	29,087	26,617
United Kingdom	17,865	23,206	25,821
Germany	21,397	26,111	22,308
Spain	18,968	20,041	16,933
Japan	5,839	6,962	7,560
Portugal	4,122	4,343	4,193
Central and Eastern Europe	3,539	3,609	2,895
Canada	2,313	2,607	2,717
Belgium	3,134	3,765	2,204
Austria	1,481	1,577	1,575
Scandinavian countries	1,113	1,171	1,471
Hungary	1,102	1,094	946
Southeast Asia	990	1,005	845
South and Central America	584	585	552
Switzerland	553	604	520
Netherlands	621	621	499
Turkey	502	508	496
Ireland	221	297	160
Greece	156	168	153
Luxembourg	158	150	125
Others	7,369	6,573	7,203
Total	**172,238**	**194,160**	**181,792**

Dexia Group exposure by category of counterparty			
EUR m	31/12/2014 (MCRE)	31/12/2014 (EAD)	31/12/2015 (EAD)
Local public sector	86,526	100,118	94,426
Central governments	28,148	29,858	29,511
Financial institutions	27,340	31,080	24,781
Project finance	14,761	15,756	14,734
ABS/MBS	6,692	6,278	8,039
Corporate	5,538	6,857	8,463
Monoliners	3,232	4,210	1,837
Individuals, SME and self-employed	1	3	2
Total exposure	**172,238**	**194,160**	**181,792**

Group exposure by rating			
	31/12/2014 (MCRE)	31/12/2014 (EAD)	31/12/2015 (EAD)
AAA	15.1%	14.1%	16.5%
AA	22.6%	24.8%	22.0%
A	28.5%	29.1%	21.7%
BBB	20.1%	19.5%	27.8%
Non Investment Grade	12.1%	11.5%	10.7%
D	0.6%	0.7%	1.1%
Not Rated	0.9%	0.3%	0.2%
Total	**100%**	**100%**	**100%**

Appendix 4 – Group sectorial exposure on certain countries as at 31 December 2015 (EAD on final counterparties – 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	28,753	12,964	977	5,260	4,618	3,097	1,837
Italy	27,244	11,112	1,171	604	132	14,226	0
France	26,617	17,154	4,402	3,014	0	2,047	0
United Kingdom	25,821	12,427	9,134	1,952	2,236	73	0
Germany	22,308	18,599	410	3,060	8	232	0
Spain	16,933	7,796	2,372	5,623	588	554	0
Japan	7,560	4,822	0	1,283	0	1,456	0
Portugal	4,193	1,825	193	16	98	2,061	0
Poland	1,869	4	0	4	0	1,861	0
Hungary	946	26	25	1	0	893	0
Greece	153	63	80	0	10	0	0

Appendix 5 – Asset quality (unaudited figures)

Asset quality		
EUR m	**31/12/2014**	**31/12/2015**
Impaired assets	1,233	1,532
o/w impaired loans and advances to customers	*1,162*	*1,320*
Specific provisions	353	556
o/w specific provisions on impaired loans and advances to customers	*309*	*458*
Coverage ratio (1)	28.6%	36.3%
Coverage ratio on loans and advances to customers	*26.6%*	*34.7%*
Collective provisions	503	422

(1) Ratio betw een the specific impairments and the impaired assets

Appendix 6 – Ratings

Ratings as at 19 February 2016			
	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	(P)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 subject to a number of regulatory investigations and disputes 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 developments in the 4th quarter of 2015 related to pending litigation or investigations in which a Dexia Group entity is named as defendant are summarised below.

The following updated data is 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 as at 31 December 2015, events or developments that occurred during the 4th quarter of 2015 in pending regulatory investigations and disputes 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 at 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 at 31 December 2015, of the most significant disputes 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 disputes 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.

New developments in Dutch Labouchere litigation

As indicated in Dexia's last quarterly reporting, in the "spousal consent" cases, the Dutch Supreme Court decided on 9 October 2015 that the filing of a class action suit causes the suspension of the limitation period for individual contract annulment applications connected to that collective action. The Supreme Court also judged that, for purposes of interrupting said limitation period, the lodging of an extra-judicial application for annulment suffices, if lodged in a timely manner; the initiation of legal proceedings is not required in order to obtain suspension of the limitation period.

In addition, the Supreme Court Attorney General issued in February 2016 a non binding opinion on the impact of financial intermediaries' role in the sale of share-leasing products by Labouchere. The Attorney General endorses the Den Bosch Court of Appeal rulings which essentially consider that the bank's potential liability could be higher in situations where clients would a.o. demonstrate the financial intermediary's role in the sale of such share-leasing products. The decision of the Supreme Court is expected in the course of the second quarter of this year.

Legal victory in Dexia financial communication litigation

Dexia won an important legal battle in France where the Court of Appeal of Montpellier confirmed a first instance decision which ruled that the Group did not commit any shortcoming in its financial communication in 2008.

New swap-related litigation concluded with the Province of Milan

On 15 October 2015, the Province of Milan served Dexia Crediop two applications to participate in an alternative dispute resolution ("ADR") processes concerning swap and loan agreements, but the parties failed to reach an agreement.

On 7 December 2015, Dexia Crediop filed a claim against the Province of Milan before the High Court of London, seeking for a declaration that the swap agreements are valid, legal and binding.

New claims in relation to certain divestments made by Dexia

Around the end of 2015 and early 2016, Dexia received several additional indemnification applications from Sberbank, the acquirer of Dexia's former Turkish subsidiary DenizBank, following a series of tax controls relating to the period where Dexia owned DenizBank. Dexia is currently investigating those claims.

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