Press release

DEXIA

Regulated information – Brussels, Paris, 18 May 2016 – 07:30 AM

Interim Statement – Q1 2016

Net income Group share of EUR -55 million in Q1 2016

- *Recurring net income of EUR -90 million marked by the weight of contributions and levies (EUR -72 million), applying the IFRIC 21 accounting standard*
- *Negative contribution from accounting volatility elements (EUR -14 million)*
- *EUR 48 million associated with non-recurring elements*

Total balance sheet at EUR 237.5 billion, up EUR 7.3 billion over the quarter

- *EUR 3.8 billion reduction of asset portfolios*
- *Increase of the level of cash collateral posted by EUR 2.9 billion and fair value elements by EUR 6.3 billion, under the effect of evolving interest rates*

Common Equity Tier 1 ratio of Dexia SA at 14.6%

- *Impact of the additional 20% deduction of the non-sovereign AFS reserve from regulatory capital, in line with the schedule provided by CRD IV*
- *Relative stability of risk-weighted assets at EUR 51.5 billion as at 31 March 2016*

Karel De Boeck, CEO of Dexia SA, declared: "*Dexia posted a net income Group share of EUR -55 million in 1Q 2016, marked by the weight of contributions and levies, which represents more than half of the costs booked over the quarter. Cost of risk was limited at 2.1 basis points for the quarter and 3.2 basis points over 12 sliding months."*

Robert de Metz, chairman of the Board of Directors of Dexia SA, declared: "*The increase in the Group's balance sheet total observed this quarter, illustrates Dexia's sensitivity to the evolution of its financial environment. Nevertheless, the Group continues its efforts to reduce its asset portfolios, down EUR 3.8 billion over the quarter.*"

The economic situation remained mixed in the first quarter 2016. European growth was still relatively lifeless whilst the US economy showed signs of slowdown. The emerging economies suffered from the weakness of oil and commodity prices. This situation encouraged European and American central banks to continue with their accommodating monetary policies, resulting in a further rate fall. At the same time, this uncertain economic context generated a trend of widening credit spreads.

For the period closing on 31 March 2016, Dexia is publishing an interim statement based on non-audited figures as at 31 March 2016.

1. Non-audited financial situation of Dexia SA in Q1 2016

Over the first quarter 2016, the Dexia Group posted a negative net income Group share of EUR -55 million, of which EUR -90 million attributable to the net recurring elements[1] for the period, EUR -14 million to accounting volatility elements[2] and EUR +47 million to non-recurring elements[3].

- The net income from recurring elements over the quarter was EUR -90 million. Recurring net banking for the first quarter 2016 was EUR +60 million. It includes portfolio income of EUR +154 million, down by EUR -12 million on the previous quarter. This development is explained by the amortisation of the asset portfolio, as well as the booking of interest payments on assets considered doubtful in Q4 2015. At the same time, the funding cost was up on previous quarters at EUR -145 million, with widening credit spreads leading to liquidity becoming more expensive. Costs were EUR -148 million. Applying the IFRIC 21 accounting standard, in Q1 the Group booked EUR -72 million in contributions and levies, including a EUR -50 million contribution to the Single Resolution Fund and EUR -11 million by way of the levy for systemic risk. Restated for contributions and levies, operating expenditure was under control, in line with previous quarters.

  The cost of risk over the quarter was low, at EUR -8 million. The impairment related to the exposure to Heta Asset Resolution remained unchanged and, as at 31March 2016, amounted to EUR 176 million, corresponding to 44% of the notional exposure[4]. In addition, as a reminder, Dexia booked a loss of EUR -21 million during the financial year 2015 for the unwinding of the interest rate derivatives associated to the assets.

- The contribution of accounting volatility elements to the quarterly result was EUR -14 million, and is explained by the evolution of market parameters over the period.

- Finally, the contribution of non-recurring elements in the quarterly result was EUR +48 million. This positive result includes in particular the gains associated with litigation (EUR +20 million), gains on asset and liability disposals (EUR +3 million), and the positive impact of clearance of payable accruals (EUR +11 million).

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

[2] 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, 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.

[4] EUR 395 million

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

A – Balance sheet and solvency

a – Quarterly balance sheet evolution

Balance sheet evolution over the first quarter 2016 again followed an upward trend, principally as a result of the fall of long-term rates. Indeed, as at 31 March 2016, the Group's total balance sheet was EUR 237.5 billion, up EUR 7.3 billion on 31 December 2015.

At a constant exchange rate, the rise in balance sheet assets over Q1 2016 was mainly associated with:

- an increase in the fair value of assets and derivatives of EUR 6.3 billion and EUR 2.9 billion of cash collateral posted by the Group,
- an increase of EUR 3.8 billion of the liquidity reserve placed with central banks,
- these two factors having more than offset the EUR 3.8 billion reduction of the asset portfolio, of which EUR 3.0 billion in natural amortisation and EUR 0.8 billion in disposals and early redemptions.

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

- a EUR 2.2 billion increase of the stock of market and central bank funding;
- an increase in the fair value of liabilities and derivatives representing EUR 7.3 billion.

Exchange rate variations also resulted in a balance sheet decline of EUR 1.1 billion.

b – Solvency ratios

As at 31 March 2016, Dexia's Common Equity Tier 1 was EUR 7,520 million, against EUR 8,180 million as at 31 December 2015. This evolution is explained by the loss booked over the period and the deduction from regulatory capital of an additional 20% of the non-sovereign AFS reserve in accordance with the schedule defined by CRD IV. At the end of March 2015, the total amount deducted, corresponding to 60% of the non-sovereign AFS reserve, was EUR -1,746 million.

Gains and losses recognised directly in equity were EUR -6.0 billion, against EUR -5.4 billion at the end of December 2015. This development is principally explained by the widening of credit spreads, particularly sensitive on Italian, Portuguese and Polish sovereigns.

As at 31 March 2016, risk-weighted assets were at EUR 51.5 billion, including EUR 48.4 billion for credit risk, EUR 2.1 billion for market risk and EUR 1 billion for operational risk. As for credit risk, the fall resulting from the reduction of the asset portfolio and a positive exchange effect was more than offset by an increase in the fair value of exposures.

These elements lead to a Common Equity Tier 1 ratio of 14.6% and 11.4% for Dexia SA and Dexia Crédit Local respectively at the end of March 2016.

As mentioned in the press release related to Dexia's 3Q 2015 results, Dexia and Dexia Crédit Local apply, with the consent of their supervisors, the exemption allowing the AFS reserve on sovereign securities not to be deducted from regulatory capital[5].

[5] Article 467 § 3 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

In accordance with the regulation of the European Central Bank of 14 March 2016[6], the national discretion will come to an end on 1 October 2016. As from that date, Dexia and Dexia Crédit Local will have to take the AFS reserve on sovereign securities progressively into account in the calculation of their regulatory capital, in accordance with the timetable for implementation of CRD IV. As at 31 March 2016, the amount of the AFS reserve on sovereign securities was EUR -1.8 billion. Calculated without applying the national discretion, the Common Equity Tier 1 ratio should amount 12.5% for Dexia and 9.3% for Dexia Crédit Local.

B – Liquidity

In the first quarter 2016, the fall of long-term interest rates led to a strong increase in the amount of cash collateral paid by the Group to its derivatives counterparties. The net amount paid as guarantee was EUR 34.8 billion as at 31 March 2016, against EUR 32.1 billion at the end of 2015.

Funding activity was dynamic over the quarter, marked by the continuation of various guaranteed issue programmes.

Indeed Dexia Crédit Local successfully issued various long-term public transactions in euros, US dollars and sterling, enabling it to raise EUR 5.5 billion, and executed EUR 1.7 billion in additional private placements over the quarter. The average term of this funding is 4.3 years. Short-term guaranteed funding activity was also sustained, both in euros and in US dollars. The Group's short-term funding has a relatively long average term, of 7.3 months. As a consequence, guaranteed outstanding was up, at EUR 67.7 billion as at 31 March 2016, against EUR 60.9 billion at the end of December 2015.

At the same time, the outstanding on secured market funding was EUR 66.4 billion as at 31 March 2016.

Dexia reduced its use of European Central Bank funding by EUR 3.8 billion over the quarter, taking total outstanding to EUR 12.1 billion as at 31 March 2016, including EUR 9.2 billion in LTRO and EUR 2.9 billion in MRO.

As at 31 March 2016, the Dexia Group had a liquidity reserve of EUR 14.5 billion, including EUR 6.6 billion in assets eligible for European Central Bank refinancing.

[6] Regulation (EU) 2016/445 of the European Central Bank of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4).

Appendices

Appendix 1 – Simplified balance sheet (non-audited figures)

Balance sheet key figures			
EUR m	**31/12/2015**	**31/03/2016**	**Change**
Total assets	**230,281**	**237,543**	**3%**
of which			
Cash and central banks	4,835	8,470	75%
Financial assets at fair value through profit or loss	20,176	21,420	6%
Hedging derivatives	6,672	7,397	11%
Financial assets available for sale	22,257	21,576	-3%
Customer loans and advances	127,876	127,404	0%
Accruals and other assets	38,346	40,800	6%
Total liabilities	**225,733**	**233,659**	**4%**
of which			
Central banks	15,932	12,085	-24%
Financial liabilities at fair value through profit or loss	22,779	22,898	1%
Hedging derivatives	29,978	35,827	20%
Interbank borrowings and deposits	48,780	48,549	0%
Debt securities	91,532	97,888	7%
Total equity	**4,548**	**3,884**	**-15%**
of which			
Equity, Group share	4,118	3,471	-16%

Appendix 2 – Capital adequacy (non-audited figures)

EUR m	**31/12/2015**	**31/03/2016**
Common Equity Tier 1	8,180	7,520
Risk-weighted assets	51,414	51,478
Common Equity Tier 1 ratio	15.9%	14.6%

Appendix 3 – Credit risk exposure (EAD) as at 31 March 2016 (non-audited figures)

Dexia Group exposure by geographic region		
EUR m	31/12/2015	31/03/2016
United States	28,753	33,132
Italy	27,244	27,807
United Kingdom	25,821	26,115
France	26,617	24,171
Germany	22,308	22,905
Spain	16,933	16,765
Japan	7,560	8,110
Portugal	4,193	4,189
Central and Eastern Europe	2,895	2,654
Canada	2,717	2,843
Belgium	2,204	2,198
Austria	1,575	1,583
Scandinavian countries	1,471	1,517
Hungary	946	705
Southeast Asia	845	859
South and Central America	552	519
Netherlands	499	622
Switzerland	520	545
Turkey	496	466
Ireland	160	158
Greece	153	147
Luxembourg	125	187
Others	7,203	6,824
Total	**181,792**	**185,023**

Dexia Group exposure by category of counterparty		
EUR m	31/12/2015	31/03/2016
Local public sector	94,426	94,853
Central governments	29,511	32,926
Financial institutions	24,781	25,265
Project finance	14,734	14,527
ABS/MBS	8,039	7,480
Corporate	8,463	8,088
Monolines	1,837	1,881
Individuals, SME and self-employed	2	2
Total	**181,792**	**185,023**

Group exposure by rating (internal rating system)		
	31/12/2015	31/03/2016
AAA	16.5%	17.6%
AA	22.0%	20.4%
A	21.7%	22.5%
BBB	27.8%	27.6%
Non Investment Grade	10.7%	10.4%
D	1.1%	1.1%
Not Rated	0.2%	0.4%
Total	**100%**	**100%**

Appendix 4 – The Group's sector exposure as at 31 March 2016 (EAD – non-audited 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*
USA	33,132	12,662	981	5,051	4,342	8,637	1,458
Italy	27,807	11,256	1,183	655	118	14,596	0
France	24,171	16,722	4,049	3,223	0	178	0
United Kingdom	26,115	12,504	9,133	1,973	2,014	68	423
Germany	22,905	18,966	349	3,359	5	226	0
Spain	16,765	7,758	2,332	5,533	568	574	0
Japan	8,110	5,379	0	1,317	0	1,413	0
Portugal	4,189	1,855	192	16	92	2,035	0
Poland	1,738	4	0	1	0	1,733	0
Hungary	705	25	25	1	0	654	0
Greece	147	57	82	0	8	0	0

Appendix 5 – Asset quality (non-audited figures)

Asset quality		
EUR m	**31/12/2015**	**31/03/2016**
Impaired assets	1,532	1,563
Specific impairments(1)	556	552
Coverage ratio(2)	36.3%	35.3%
Collective provisions	422	424

(1) Impairments on loans and advance to customers and on fixed income instruments classified as available for sale
(2) Ratio between the specific impairments and the impaired assets

Appendix 6 – Ratings

Ratings as at 18 May 2016			
	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 – Litigation

Like many financial institutions, Dexia is subject to a number of regulatory investigations and disputes as plaintiff or as defendant. 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 first quarter of 2016 related to pending litigation or investigations in which a Dexia Group entity is 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 2015 (available at www.dexia.com).

On the basis of the information available to Dexia as at 31 March 2016, events or developments that occurred during the first quarter of 2016 in pending regulatory investigations and disputes mentioned in the Dexia Annual Report 2015, 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.

New Dexia Crediop litigation with the Province of Brescia and with Livorno Reti e Implanti ("LIRI")

On 16 March 2016, the Province of Brescia, one of Dexia Crediop's borrowers, served Dexia Crediop with an application to participate in an alternative dispute resolution ("ADR") process concerning allegedly irregular swap and loan agreements. The parties failed to reach an agreement. On 18 March 2016, the Province of Brescia served Dexia Crediop with a summons to appear before the Civil Court of Rome.

Dexia Crediop for its part filed a claim before the High Court in London seeking a declaration that the swap agreements are valid, legal and binding.

On 4 February 2016 Dexia Crediop received a formal claim from LIRI, one of Dexia Crediop's borrowers, challenging the legal qualification of a loan agreement entered into by LIRI with Dexia Crediop (in pool with another bank).

New Dexia Crediop litigation with the Provincia Italiana della Congregazione dei Figli dell'Immacolata ("PICFIC")

The commisioners of (insolvent) PICFIC have sued Dexia Crediop to claw back an amount further to the assignment by PICFIC to Dexia Crediop of (partially unpaid) receivables owed by several Lazio Region local healthcare authorities during the period of PICFIC's pre-insolvency.

Settlement approved in relation to claims against Dexia Israel ("DIL")

A settlement has been agreed, inter alia, between DIL and the plaintiffs in (i) a class action of 2011 related to the harmonisation of the classes of shares of DIL, and in (ii) a derivative action of 2014 related to an alleged boycott of local authorities by DIL in the production of loans in the provinces of Judea and Samaria. Provided the settlement is approved by the Court, DIL will initiate a process to equalise its categories of shares and pay a dividend to all shareholders, whilst the claimants agreed fully to waive all their claims. The approval process for this settlement is ongoing. No minority shareholder has opted out.

End of litigation against Banco Sabadell in relation to the Dexia Sabadell shares

The request for annulment of the August 2015 ICC Arbitration award, ordering Dexia to acquire from Banco Sabadell the shares of Dexia Sabadell it did not own for a price of EUR 52.3 million, that had been filed by Dexia was dismissed by the High Court of Madrid. Further to this decision, Dexia closed the share purchase transaction with Banco Sabadell and has now become the 100% shareholder of Dexia Sabadell.

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