Press release

DEXIA

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Dexia Group Consolidated Results H1 2016

Net income Group share EUR -200 million in H1 2016

- *Recurring result of EUR -131 million, incorporating EUR -86 million in contributions and levies for the most part booked in Q1, in application of the IFRIC 21 accounting standard*
- *Impact of EUR -191 million of accounting volatility elements, against an unfavourable market background*
- *Positive contribution of non-recurring elements, associated with active balance sheet management*

Favourable evolution of the Group's risk profile

- *Signature of a memorandum of understanding with the Republic of Austria in the Heta Asset Resolution case, application of which is expected during H2 2016*
- *Sharp reduction of the risk associated with the sensitive structured loans granted to local authorities and the hospital sector in France*
- *Low cost of risk of 1.7 basis points over a sliding 12 month period*

Balance sheet total of EUR 236 billion: decrease of asset portfolios by EUR 8 billion more than offset by the impact of decrease of interest rates

Common Equity Tier 1 ratio of Dexia SA at 15.0%

- *Risk-weighted assets down EUR -2 billion*
- *60% deduction of the non-sovereign AFS reserve since 1 January 2016*

Wouter Devriendt, CEO of Dexia SA, stated, "*The Group's half-yearly results once again reflect the severe volatility of the environment in which the Group's resolution is taking place. In the first half-year, this volatility materialised with a negative contribution of accounting volatility elements to the financial results and an increase in the size of the Group's balance sheet. Furthermore, significant advances were made in reducing the risk profile, illustrated by the sharp reduction of the risk associated with structured loans in France.*"

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated, "*I praise the dynamism of our teams who, from the start of the half-year, understood the potential consequences for the financial markets of the referendum concerning the exit of the United Kingdom from the European Union, and broadly anticipated the annual funding plan and took concrete and structural measures to limit the sensitivity of the income statement particularly to variations of the pound sterling. In coming months, the Group will continue on its path to an orderly resolution, under the leadership of a renewed executive team.*"

Introduction

In H1 2016, the continuing economic recovery in the euro zone was pushed into the background by the result in favour of the United Kingdom leaving the European Union in the referendum held on 23 June. The announcement of that vote opened a period of uncertainty for the British economy and, to a lesser extent, that of the European Union, and generated severe volatility on the financial markets, marked by a weakening of the pound sterling, a flight to quality and distrust of assets subject to contagion.

This situation pushed central banks to continue with their accommodating monetary policies.

These various elements are reflected in the Dexia Group results, in particular in the level of "accounting volatility elements". They also affected the Group's funding requirement and its balance sheet total.

In accordance with current legislation, for the period closing on 30 June 2016, Dexia is publishing a press release in relation to the summary consolidated financial statements. This press release presents the significant transactions and events in the first half-year 2016, as well as their impact on the Group's financial situation. The Dexia SA financial report for H1 2016 will be published in its entirely on 19 August 2016.

Notes regarding the Dexia Group's condensed consolidated financial statements as at 30 June 2016

The condensed consolidated financial statements of Dexia SA as at 30 June 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions in the business plan underlying 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 on the basis of data available as at 31 December 2015 and validated by the Management Board of Dexia SA on 14 June 2016 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.

  The revised business led to adjustments being made in relation to the original plan, but they do not raise any issues regarding the trajectory of the Group's resolution over the long term.

- The business plan assumes maintenance 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, since the approval of the Orderly Resolution Plan in December 2012, the Group's funding structure has benefited from an increase in market, secured or guaranteed funding, at a lower cost than anticipated in the business plan, for larger volumes and longer maturities. This enabled the Group to reduce its recourse to central bank funding and to exit the exceptional funding mechanisms put in place in 2012. By way of prudent liquidity management, Dexia also established liquidity reserves with the aim in particular to deal with an increase in the amount of cash collateral[1] posted to its derivatives counterparties. Furthermore, the Group also armed itself against part of the potential effects of the result of the referendum on the United Kingdom remaining in the European Union, by covering its pound sterling requirements over several months.

[1] *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 into resolution do not allow it to ensure compliance with certain regulatory ratios over the whole resolution period, given the evolution of the regulatory framework and of the macroeconomic environment since 2012.

  The business plan is indeed also sensitive to the evolution of the macroeconomic environment. In this regard, the uncertainty generated by the result of the referendum on the United Kingdom remaining in the European Union has resulted in extremely severe volatility of market parameters, including exchange rates, interest rates and credit spreads, to which the Group is particularly sensitive. As at 30 June 2016, the extent of the movements observed remains within the proportions already seen in the past. An unfavourable evolution of these parameters over time could however weigh on the Group's liquidity and its solvency through an increase in the amount of cash collateral posted by Dexia to its derivatives counterparties (as the sensitivity of the liquidity requirement to this parameter is in the order of EUR 1.2 billion for a 10 basis point variation of long-term rates) or an impact on the valuation of assets, financial liabilities and OTC derivatives, the variations of which are booked to the income statement, or are liable to result in a variation of the AFS reserve and the level of the Group's regulatory capital.
- Finally, if market demand for government-guaranteed debt were to decline, Dexia would need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

  The latest update to the business plan shows a surplus liquidity position over the entire projection horizon. The determination of this surplus liquidity relies on a projection of the amount of cash collateral and it is therefore sensitive to variations of the latter. In 2016, sustained activity in long-term guaranteed issues and secured funding, under volatile market conditions, enabled the Group's liquidity reserves to be kept at a level of EUR 14 billion as at 30 June 2016, despite an increase in the net cash collateral posted of EUR 5 billion since 31 December 2015, to EUR 37 billion.

1. Significant events and transactions

- *A prudent management policy enabled the impacts of a volatile environment over the half year to be anticipated and limited*
- *Signature of a memorandum of understanding with the Republic of Austria on the Heta Asset Resolution case*
- *Sharp reduction of the risk associated with sensitive structured loans granted to local authorities and the hospital sector in France*

Consequences of the referendum result in favour of the United Kingdom leaving the European Union

The referendum held on 23 June 2016 on whether the United Kingdom should remain in the European Union saw a majority vote in favour of an exit. This result is the source of uncertainty for the United Kingdom and, to a lesser extent, for the European Union, at both a political and an economic level, and aroused an immediate reaction on the financial markets with severe volatility.

Although the implications of the vote will materialise on a long period and will take time to be fully appreciated, two trends seem to be emerging. On the one hand, insofar as the exit of the United Kingdom from the European Union is perceived as harmful to its economic situation, a readjustment vis-à-vis the British economy was observed in the days following the vote, particularly on the exchange markets. On the other hand, the climate of uncertainty gave rise to a distrust of assets considered to be potentially at risk. It is probable that the negotiations on the exit of the United Kingdom from the European Union, which could last for several years, will be accompanied by continuing severe volatility on the financial markets.

To recall, as at 30 June 2016, Dexia's exposure to counterparties in the United Kingdom was EUR 27 billion[2]. These assets, which the Group is carefully monitoring, are of very good credit quality, and 99% rated in the Investment Grade category. This portfolio includes EUR 13 billion on the local public sector and EUR 9 billion on corporate counterparties, notably utilities, *a priori* less sensitive to the consequences of the United Kingdom leaving the European Union, and project finance, principally associated with the public sector. Sovereign exposure is negligible.

These volatile market conditions have consequences at several levels for the Dexia Group:

- Firstly they have an impact on its funding requirement and its funding conditions. Although these fears appear today to be lifted, they are likely to disturb access to the refinancing market in pounds sterling. Adopting a cautious approach, Dexia armed itself against this scenario and took measures enabling it to cover its requirement in that currency over several months. Furthermore, the amount of cash collateral paid by the Group to its derivatives counterparties is sensitive to the fall of interest rates, particularly in euros. The fall of long rates observed in the weeks following the referendum is reflected as a consequence by an increase in the amount of cash collateral posted by Dexia.
- Variations of market parameters, in particular exchange and interest rates, impact the valuation of assets and liabilities and the valuation of OTC derivatives. Observed value adjustments are booked in the income statement. More severe volatility on the financial markets is therefore reflected through the Group's income statement. From the start of the half-year, however, the Group took structural measures to limit its sensitivity to exchange variations on sterling and volatility on the income statement arising therefrom.
- Finally, the Group's AFS reserve is sensitive to the evolution of credit spreads on assets in the AFS

[2] *Cf appendix 4 of this press release for more information*

portfolio. As a consequence, a deterioration of market conditions affects the amount of the Group's regulatory capital.

Despite severe volatility after the announcement of the referendum result, the extent of the variations of market parameters observed as at 30 June 2016 remains within the proportions already observed in the past. These movements nonetheless weigh on the funding requirement and on the level of the Group's regulatory capital (cf. sections on results, liquidity and solvency).

Update on the Group's credit environment

As at 30 June 2016, the Dexia Group credit portfolio remains of good quality overall, with 89% of exposures rated Investment Grade. The cost of risk is limited, at 1.7 basis points over a sliding 12 month period.

The half-year was marked by the favourable evolution of cases concerning Heta Asset Resolution AG in Austria and structured loans in France (cf. below).

On the other hand, Dexia continued to monitor its exposures very carefully, with particular attention paid to certain sectors and counterparties, particularly the Italian banking sector and the Commonwealth of Puerto Rico.

The vulnerability of some actors of Italian banking sector, confirmed by the outcome of the stress test performed by the EBA, which was published on 29 July 2016, remains a matter for attention. The Group's exposure to Italian banks amounts to EUR 271 million[3]. It is predominantly on banks of good credit quality. The exposure to banks rated Non-Investment Grade is EUR 10 million, mostly collateralised. Aside this exposure on the banking sector, the Group remains largely exposed to the Italian sovereign[4] and thus sensitive to any contagion scenario.

Furthermore, the outcome of the stress test shows a vulnerability of the Irish banking sector. Dexia's exposure to Irish banks amounts to EUR 34 million, of which EUR 2.6 million on banks part of the sample.

The situation of the Commonwealth of Puerto Rico, which is experiencing major financial difficulties, limiting its ability to meet its commitments, has also been a matter to which the Dexia Group has paid great attention. Several plans to restructure the Commonwealth's debt have been put to creditors, providing relief in the order of 15% to 50%, and are currently under discussion. On 1 July 2016, the Commonwealth had not been able to fulfil close to one half of its debt service obligations, an amount of EUR 911 million on a maturity of EUR 2 billion still unpaid. The Group's exposure to public enterprises associated with the Commonwealth of Puerto Rico amounts to EUR 424[5] million as at 30 June 2016, of which 96% is covered by good quality monolines. The residual amount, guaranteed by monolines of lower quality, was impaired. Moreover, the group booked a provision to cover the risk of acceleration of payments on some enhanced outstandings, which would result in losses on associated derivatives.

The total amount of provisions on the satellites of Porto Rico is of EUR 41 million (USD 45.5 million).

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[3] *The exposure on the Italian banking sector of EUR 744 million in appendix 4 includes the exposure on clearing houses, for an amount of EUR 358 million, as well as EUR 115 million on special purpose vehicles.*
[4] *Cf appendix 4 of this press release.*
[5] *EAD amount corresponding to USD 430 million of gross accounting value of as previously disclosed.*

A – Heta Asset Resolution AG: conclusion of a memorandum of agreement with the Republic of Austria in May 2016

A memorandum of understanding was signed on 18 May 2016 between the Republic of Austria and the creditors of Heta Asset Resolution AG (Heta), the debt of which was partially cancelled within the framework of a bail-in imposed by the Austrian regulator on 10 April 2016. Dexia Kommunalbank Deutschland AG, the German subsidiary of Dexia with a nominal exposure to Heta of EUR 395 million, is a party to the agreement.

The memorandum of understanding provides the principle of an exchange of securities issued by Heta and held by the creditors against zero-coupon bonds with a maturity of approximately 13.5 years, issued by the Land of Carinthia via a specific entity, and which will benefit from the explicit guarantee of the Republic of Austria.

Finalisation of the offer and the effective implementation of the memorandum of agreement are expected in the second half-year 2016. That implementation is subject to various conditions being met and must also be the object of technical discussions and negotiations between the parties.

Under the terms of the memorandum of agreement, Dexia could post a positive impact in its books in the order of EUR 130 to 140 million.

B – Sharp reduction of the risk associated with sensitive structured loans granted to local authorities and the hospital sector in France

The phase of subscription to aid granted by the support fund for local authorities and the hospital sector which had taken out sensitive structured loans ended in July 2016. All the borrowers which held loans “excluded from the Gissler Charter” on the balance sheet of Dexia Crédit Local have accepted the aid proposed and have signed a settlement agreement with the Group, sent to the State and closing any litigation which has arisen or is liable to arise. These agreements cover all the loans to public clients the payments of which had been degraded.

At the same time, a large number of loans not covered by the support fund have been desensitised.

As a consequence, the outstanding on sensitive structured loans on the Dexia balance sheet amounts to EUR 783 million as at 30 June 2016, down 20% on the end of 2015 and 60% on May 2012.

The number of cases in which Dexia Crédit Local is involved has also fallen sharply, from 147 at the end of 2015 to 70 as at 30 June 2016.

Other significant elements

A – Reverse stock split

As announced on 28 January 2016, on 4 March 2016 Dexia SA implemented a reverse stock split, at a ratio of one new share for one thousand existing shares, in accordance with the resolution passed by the extraordinary shareholders’ meeting held on 20 May 2015.

In order to compensate the holders of fractions of new shares, these were consolidated to create new shares, which were disposed of on the market. Moreover, shareholders were invited to sell or acquire Dexia shares so as to be in possession, at the time of registration preceding the consolidation, of a number of shares corresponding to a multiple of one thousand. The average net sale price per share was EUR 21.01. The holders of fractions therefore received cash compensation of EUR 0.021 for each (former) share.

There are henceforth 30,896,352 shares issued by Dexia SA (of which 1,948,984 shares in Class A and 28,947,368 shares in Class B).

B – Capital increase of Dexia Crédit Local

On 28 June 2016, Dexia Crédit Local implemented a capital increase of EUR 250 million (including premiums) by the issue of new shares. This was totally subscribed by Dexia SA, the holding company of Dexia Crédit Local.

This capital increase improves Dexia Crédit Local's solvency ratio by approximately 50 basis points. It has no impact at a Dexia Group level on a consolidated basis.

C – Disposal of the Dexia Tower in La Défense

At the beginning of 2016 the Dexia Group decided to sell the CBX Tower in La Défense in a "sale and lease back" transaction, as the reduction of the Group's activity had led to its only being partially occupied.

Following a tender process, the divestment process was concluded on 21 July 2016 with the finalisation and signature of a deed of sale of the CBX Tower to its initial promoter, the company Tishman Speyer. Dexia Crédit Local undertook to continue to occupy part of the Tower for a period of at least 9 years.

In application of the IFRS 5 accounting standard, the building was transferred at its accounting value to "Non-current assets held for sale" in the books on 30 June 2016.

The gain on this disposal, in a pre-tax amount in the order of EUR 50 million, will be booked as at 30 September 2016.

D – Evolution of the Group's governance

The Group's governance has evolved over H1 2016.

On 18 May 2016, at the expiry of the mandate of Karel De Boeck, Wouter Devriendt was appointed by the Dexia SA shareholders' meeting as a director. On that same day, the Board of Directors decided to appoint him as Chief Executive Officer and chairman of the Management Board of Dexia SA. The extraordinary shareholders' meeting decided to increase the composition of the Board of Directors from nine to thirteen members, to enable the Group to comply with the new regulations regarding governance.

On 1 July 2016, Véronique Hugues replaced Pierre Vergnes, having resigned, as executive director and Chief Finance Officer of Dexia SA.

The Management Board of Dexia SA is now composed of Wouter Devriendt, Véronique Hugues, Claude Piret, Johan Bohets and Benoît Debroise.

As the governance of Dexia SA and Dexia Crédit Local is integrated, these changes also apply to Dexia Crédit Local. The effective executives of Dexia Crédit Local are henceforth Wouter Devriendt, Chief Executive Officer, Véronique Hugues and Claude Piret, Executive Vice-Presidents.

2. Results H1 2016

A – Presentation of Dexia SA's condensed consolidated financial statements as at 30 June 2016

a – Going concern

The condensed consolidated financial statements of the Dexia Group as at 30 June 2016 were established in accordance with the accounting rules applicable to a going concern (cf. section "Notes regarding the Dexia Group's condensed consolidated financial statements as at 30 June 2016").

B – Dexia Group consolidated results for H1 2016

- *Net income Group share of EUR -200 million, of which EUR -191 million attributable to accounting volatility elements, against an unfavourable market background*
- *Net recurring result of EUR -131 million, incorporating EUR -86 million of contributions and levies for the most part booked in Q1, in application of the IFRIC 21 accounting standard*
- *Positive contribution of EUR 122 million from non-recurring elements, supported by gains realised by active balance sheet management and reversals of provisions for litigation*

a – Income statement for the period (non-audited figures)

Consolidated income statement - ANC format			
EUR million	**Q1 2016**	**Q2 2016**	**H1 2016**
Net banking income	**78**	**-68**	**10**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-134	-67	-201
Gross operating income	**-56**	**-135**	**-192**
Cost of risk	-8	2	-6
Net gains or losses on other assets	5	1	6
Pre-tax income	**-60**	**-132**	**-192**
Income tax	-3	-18	-21
Result from discontinued operations	-3	3	0
Net income	**-66**	**-147**	**-213**
Minority interests	-11	-2	-13
Net income Group share	**-55**	**-145**	**-200**

During the first half-year 2016, the Dexia Group booked net income Group share of EUR -200 million.

Over the period, net banking income was EUR 10 million. It includes the changes in fair values of derivatives, the CVA, the DVA, the FVA and the own credit risk.

Costs were EUR -201 million. Of that amount, EUR -86 million were due to various contributions and levies.

Considering these elements, gross operating income for the half-year amounted to EUR -192 million.

The cost of risk is limited to EUR -6 million over the first half-year. There was no major movement with regard to provisioning in the first half-year. Net gains and losses on other assets, in an amount of EUR 6 million over the half-year, corresponded to disposals of real estate asset held by the Group in the United States and Italy.

Pre-tax income was EUR -192 million.

Over the half-year, the income tax charge was EUR -21 million.

The result from discontinued operations includes amounts paid or received by the Group within the framework of contractual commitments set on the entity disposals made during recent years. Over the half-year, the total of these amounts was zero.

The income attributable to minority interests was EUR -13 million, leading to a net income Group share of EUR -200 million over the half-year.

b – Analytical presentation of the results for the period (non-audited figures)

The net income Group share of EUR -200 million is composed of the following elements:

- EUR -131 million attributable to recurring elements[6];
- EUR -191 million associated with accounting volatility elements[7];
- EUR 122 million generated by non-recurring elements[8].

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

[6] *Recurring elements: elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.*

[4] *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).*

[5] *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.*

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EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Analytical presentation of the H1 2016 Dexia Group results				
Net banking income	**133**	**-191**	**68**	**10**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-250	0	48	-201
Gross operating income	**-117**	**-191**	**116**	**-192**
Cost of risk	-6	0	0	-6
Net gains or losses on other assets	0	0	6	6
Pre-tax income	**-122**	**-191**	**122**	**-192**
Income tax	-21	0	0	-21
Net result from discontinued operations	0	0	0	0
Net income	**-144**	**-191**	**122**	**-213**
Minority interests	-13	0	0	-13
Net income Group Share	**-131**	**-191**	**122**	**-200**

b.1 – Recurring elements

EUR million	Q1 2016	Q2 2016	H1 2016
Recurring elements			
Net banking income	**60**	**74**	**133**
o/w revenues from commercial portfolios	154	158	312
o/w funding cost	-145	-150	-295
o/w other revenues	50	66	116
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-148	-102	-250
Gross operating income	**-89**	**-28**	**-117**
Cost of risk	-8	2	-6
Net gains or losses on other assets	0	0	0
Pre-tax income	**-97**	**-25**	**-122**
Income tax	-3	-18	-21
Net income	**-100**	**-43**	**-144**
Minority interests	-11	-2	-13
Net income Group share	**-90**	**-41**	**-131**

The net income Group share generated by recurring elements over the first half-year was EUR -131 million.

The net banking income for H1 2016 was EUR 133 million and included:

- The income from asset portfolios, which reached EUR 312 million over the half-year, that amount being in line with previous half-years;
- The funding cost for the first half-year, at EUR -295 million, up on previous periods. This evolution is due to a change in the funding mix, characterized by an increase of State guaranteed funding, under less favourable market conditions. In addition, the non-eligibility of the guaranteed debt issued by Dexia in the European Central Bank's asset purchase programmes tends to increase the cost of such funding;
- Other revenues, which principally include income associated with asset and liability management (ALM) and amounted to EUR 116 million; it was in line with previous half-years.

Over the half-year, costs amounted to EUR -250 million. This amount included EUR -86 million of contributions and levies, including the contribution from Group entities to the Single Resolution Fund (EUR -63 million) and the annual levy for systemic risk (EUR -11 million). The major proportion of these contributions and levies was booked in Q1, applying the IFRIC 21 accounting standard. Excluding these contributions and levies, operating costs are under control and in line with previous quarters.

at the cost of risk amounted to EUR -6 million, or 1.7 basis points on overage over 12 sliding months compared with total exposure. It confirms the good quality of the Group's asset portfolio.

The tax charge for the half-year was EUR -21 million, relating to certain local entities of the Group.

b.2 – Accounting volatility elements

Accounting volatility elements			
EUR million	**Q1 2016**	**Q2 2016**	**H1 2016**
Impact in net income Group share (elements booked in net banking income)	**-14**	**-178**	**-191**

Over the first half-year, the impact of accounting volatility elements was negative, at EUR -191 million. The context of falling interest rates, widening credit spreads and exchange fluctuations over the period were unfavourable for the Group. These movements were amplified by the uncertainty following the vote on 23 June 2016 in favour of the United Kingdom leaving the European Union, generating severe volatility of market parameters and a flight to quality accelerating the fall of rates and leading to a widening of credit spreads for countries in Southern Europe.

Against that background, the evolution of the valuation of derivatives on the basis of an OIS curve is negative, as is the FVA, the CVA and the DVA. Own credit risk is slightly positive in view of the repurchases of liabilities over the period.

The Group made adjustments to its parameters for calculating prices over the half-year, enabling it in particular to take better account of the amortisation profile for underlying derivatives in calculating the CVA and the DVA, and changed the parameters used to calculate the FVA. Of the amount of EUR -191 million booked during the half-year, approximately one quarter is attributable to these evolutions.

b.3 – Non-recurring elements

Non-recurring elements			
EUR million	**Q1 2016**	**Q2 2016**	**H1 2016**
Net banking income	**32**	**36**	**68**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	14	34	48
Gross operating income	**46**	**70**	**116**
Cost of risk	0	0	0
Net gains or losses on other assets	5	1	6
Pre-tax income	**51**	**71**	**122**
Income tax	0	0	0
Result from discontinued operations	**-3**	**3**	0
Net income	**48**	**74**	**122**
Minority interests	0	0	0
Net income Group share	**48**	**74**	**122**

The non-recurring elements booked over the half-year include in particular:

- gains associated with active balance sheet management (EUR 44 million), mainly linked to liability repurchases in Q2;
- payments received within the context of litigation, as well as reversals of provisions for litigation, partially offset by the increase of certain provisions (net impact of EUR 49 million);
- a positive impact resulting from the settlement of charges to be paid (EUR 11 million);
- gains realised on the disposal of Group real estate assets (EUR 6 million).

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

A - Balance sheet and solvency

- *Balance sheet total of EUR 235.9 billion as at 30 June 2016, up EUR 5.6 billion on the end of 2015*
- *Fall of interest rates leading to an increase in the amount of cash collateral paid by the Group and the fair value of assets and derivatives, that more than offset disposals and natural portfolio amortisation*
- *Dexia's Common Equity Tier 1 ratio at 15.0%: 60% deduction of the non-sovereign AFS reserve from regulatory capital and a sharp fall of risk-weighted assets*

a – Half-yearly balance sheet evolution

As at 30 June 2016, the Group's consolidated balance sheet was at EUR 235.9 billion, up by EUR 5.6 billion on 31 December 2015 and down by EUR 1.7 billion on 31 March 2016.

The balance sheet total evolved differently in Q1 and Q2.

Q1 saw a sharp increase in the balance sheet total, principally from the effect of the fall of interest rates, despite a reduction of portfolios. In Q2, the sharp reduction of portfolios and reduced recourse to liquidity placed with central banks reversed the trend despite the persistence of low rates.

In fact, over the half-year, Dexia continued to follow its policy of opportunist asset disposals, in particular on its sovereign exposures (Japan, Poland, Hungary). As at 30 June 2016, at a constant exchange rate, the Dexia asset portfolio amounted to EUR 123 billion, down EUR 7.8 billion since the end of December 2015, of which EUR 5.8 billion associated with natural portfolio amortisation and EUR 2 billion linked to asset disposals and early redemptions.

During H1 2016, at a constant exchange rate, the increase of balance sheet assets is mainly linked to:

- an increase of the fair value of assets and derivatives of EUR 10.3 billion;
- an increase of EUR 6.3 billion in the amount of cash collateral paid by the Group;
- a EUR -7.8 billion reduction of the asset portfolio;
- a fall of EUR -2.4 billion in recourse to liquidity placed with central banks.

On the liabilities side, at a constant exchange rate, the evolution of the balance sheet is reflected by:

- a EUR 12.1 billion increase of the fair value of liabilities and derivatives;
- a reduction of EUR -5.9 billion in the stock of market and European Central Bank funding.

The impact of exchange rate variations on the evolution of the balance sheet amounted to EUR -0.5 billion over the half-year.

b – Solvency ratios

As at 30 June 2016, Dexia's Common Equity Tier 1 capital was at EUR 7,481 million, against EUR 8,180 million as at 31 December 2015. This evolution is principally explained by the loss booked over the period, as well as the deduction from regulatory capital of an additional 20% of the AFS reserve associated with non-sovereigns, in line with the schedule defined by the CRD IV directive, or EUR -1,710 million at the end of June 2016.

Gains and losses recognised directly in equity stood at EUR -6.3 billion against EUR -5.4 billion at the end of December 2015. This evolution is mainly explained by the widening of credit spreads, particularly sensitive to Italian, Portuguese and Polish sovereigns, in an environment of severe volatility. As at 30 June 2016, risk-weighted assets were at EUR 50 billion, of which EUR 46.8 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the fall induced by the reduction of the asset portfolio, methodological adjustments and rating migrations, particularly on ABS, is partially offset by an increase in the fair value of exposures and an unfavourable exchange effect.

These elements led to a Common Equity Tier 1 ratio of 15.0% and 12.2% respectively for Dexia SA and Dexia Crédit Local at the end of June 2016. It should be noted that the ratio for Dexia Crédit Local is strengthened by the capital increase made by Dexia SA on 28 June 2016 (cf. Section entitled “Significant events and transactions”).

As indicated in previous press releases, with the approval of their respective supervisors Dexia and Dexia Crédit Local apply the exemption allowing them not to take account of the AFS reserve on sovereign securities in calculating solvency ratios[9].

In accordance with the European Central Bank Regulation dated 14 March 2016[10], this national discretion will end on 1 October 2016. As from that date, the AFS reserve on sovereign securities will therefore be deducted from the regulatory capital of Dexia and Dexia Crédit Local, in line with the schedule implemented by CRD IV. At the end of June 2016, the amount of Dexia’s AFS reserve of sovereign securities was EUR -2.1 billion.

B – Evolution of the Dexia Group’s liquidity situation

- *Sustained funding activity over the half-year with more than 90% of the long-term funding programme realised as at 30 June*
- *Prudent liquidity management in anticipation of the vote on the United Kingdom remaining in the European Union: cover for requirements in pounds sterling over several months*

The first half-year 2016 was marked by very severe volatility on the financial markets, particularly in the second quarter by the British vote for the United Kingdom to leave the European Union. Against that background, the net amount of collateral posted by the Group as a guarantee on its derivatives reached EUR 37.4 billion as at 30 June 2016, against EUR 32.1 billion at the end of 2015.

With prudent management, the Group armed itself against the potential effects of the referendum result, by covering its funding requirements in pounds sterling over several months. Furthermore, the Group had realised more than 90% of its annual long-term funding programme before the referendum and maintained a liquidity reserve enabling it to cope with the increase in cash collateral to be paid.

Over the half-year, Dexia Crédit Local successfully launched various long-term public transactions in euros, US dollars and pounds sterling, enabling it to raise EUR 7.5 billion, and executed an additional EUR 3.3 billion in private placements. The average maturity of this funding is 4.3 years. Short-term funding activity in the guaranteed format was also sustained, both in euros and in US dollars. The short-term funding raised by the Group has a relatively long average maturity, of 7.1 months.

[9] Article 467 (3) of Regulation (EU) 575/2013 of the European Parliament and Council dated 26 June 2013 concerning the prudential requirements applicable to credit institutions and investment undertakings and amending Regulation (EU) 648/2012.

[10] Regulation (EU) 2016/445 of the European Central Bank dated 14 March 2016 relating to the exercise of options and discretionary powers provided by Union Law (ECB/2016/4).

As at 30 June 2016, secured market funding amounted to EUR 63.8 billion, down EUR 3.5 billion compared to the end of 2015. The stock of covered bonds (Pfandbriefe issued by Dexia Kommunalbank Deutschland) amortised by EUR 1 billion over the period. The repo activity remained sustained over the half year, particularly on short-term maturities. For long-term maturities, the outstanding was slightly down. This trend is explained by the renewal in July of transactions which matured in June and by the reduction of the stock of assets available for this activity.

Finally, Dexia continued to reduce its use of European Central Bank funding by EUR 8.6 billion over the half-year, taking total outstanding to EUR 7.4 billion as at 30 June 2016, of which EUR 6.1 billion in the form of LTRO and EUR 1.3 billion in the form of MRO.

As a consequence, globally outstanding guaranteed debt was up, at EUR 68.2 billion as at 30 June 2016 against EUR 60.9 billion at the end of December 2015, to compensate for the reduction of Central Bank funding and to fund the increase in cash collateral paid by the Group to its derivative counterparties.

As at 30 June 2016, the Group’s Liquidity Coverage Ratio (LCR) was 68%.

On that same date, the Dexia Group had a liquidity buffer of EUR 14 billion, of which EUR 12.3 billion in the form of assets eligible to European Central Bank refinancing.

Appendices

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

Balance sheet key figures			
EUR m	**31/12/2015**	**31/03/2016**	**30/06/2016**
Total assets	**230,281**	**237,543**	**235,887**
of which			
Cash and central banks	4,835	8,470	3,296
Financial assets at fair value through profit or loss	20,176	21,420	22,203
Hedging derivatives	6,672	7,397	7,710
Financial assets available for sale	22,257	21,576	20,468
Customer loans and advances	127,876	127,404	128,181
Accruals and other assets	38,346	40,800	43,395
Total liabilities	**225,733**	**233,659**	**232,443**
of which			
Central banks	15,932	12,085	7,350
Financial liabilities at fair value through profit or loss	22,779	22,898	23,706
Hedging derivatives	29,978	35,827	39,764
Interbank borrowings and deposits	48,780	48,549	46,284
Debt securities	91,532	97,888	97,574
Total equity	**4,548**	**3,884**	**3,444**
of which			
Equity, Group share	4,118	3,471	3,039

Appendix 2 – Capital adequacy (non-audited figures)

EUR m	**31/12/2015**	**31/03/2016**	**30/06/2016**
Common Equity Tier 1	8,180	7,520	7,481
Risk-weighted assets	51,414	51,934	49,960
Common Equity Tier 1 ratio	15.9%	14.5%	15.0%

Appendix 3 – Credit risk exposure (non-audited figures)

Dexia Group exposure by geographic region			
EUR m	31/12/2015	31/03/2016	30/06/2016
Italy	27,244	27,807	27,396
United Kingdom	25,821	26,115	26,916
United States	28,753	33,132	26,892
France	26,617	24,171	25,081
Germany	22,308	22,905	22,672
Spain	16,933	16,765	15,868
Japan	7,560	8,110	8,787
Portugal	4,193	4,189	4,093
Central and Eastern Europe	2,895	2,654	2,429
Canada	2,717	2,843	2,864
Belgium	2,204	2,198	2,182
Austria	1,575	1,583	1,559
Scandinavian countries	1,471	1,517	1,280
Hungary	946	705	687
Netherlands	499	622	567
Switzerland	520	545	592
Turkey	496	466	443
Ireland	160	158	101
Greece	153	147	146
Luxembourg	125	187	104
Southeast Asia	845	859	907
South and Central America	552	519	509
Others	7,203	6,824	7,159
Total	**181,792**	**185,023**	**179,235**

Dexia Group exposure by category of counterparty			
EUR m	31/12/2015	31/03/2016	30/06/2016
Local public sector	94,426	94,853	96,018
Central governments	29,511	32,926	26,958
Financial institutions	24,781	25,265	24,496
Project finance	14,734	14,527	14,471
Corporate	8,463	8,088	8,179
ABS/MBS	8,039	7,480	7,378
Monolines	1,837	1,881	1,733
Individuals, SME and self-employed	2	2	2
Total	**181,792**	**185,023**	**179,235**

Group exposure by rating (internal rating system)			
	31/12/2015	31/03/2016	30/06/2016
AAA	16.5%	17.6%	16.9%
AA	22.0%	20.4%	20.3%
A	21.7%	22.5%	23.8%
BBB	27.8%	27.6%	28.4%
Non Investment Grade	10.7%	10.4%	9.3%
D	1.1%	1.1%	1.1%
Not Rated	0.2%	0.4%	0.2%
Total	**100%**	**100%**	**100%**

Appendix 4 – Group sector exposure on certain countries as at 31 December 2015 (EAD on final counterparties – 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*
Italy	27,396	11,127	958	744	117	14,451	0
United Kingdom	26,916	13,160	9,359	2,002	1,924	65	405
USA	26,892	13,025	1,029	4,587	4,366	2,557	1,328
France	25,081	16,496	4,104	3,438	0	1,043	0
Germany	22,672	18,647	311	3,486	4	224	0
Spain	15,868	7,596	2,232	4,896	551	593	0
Japan	8,787	6,482	0	1,345	0	960	0
Portugal	4,093	1,864	182	18	90	1,939	0
Poland	1,534	3	0	0	0	1,531	0
Hungary	687	24	24	0	0	638	0
Turkey	443	5	3	434	0	0	0
Greece	146	56	82	0	8	0	0
Ireland	101	0	8	34	59	0	0

Appendix 5 – Asset quality (non-audited figures)

Asset quality			
EUR m	**31/12/2015**	**31/03/2016**	**30/06/2016**
Impaired assets	1,532	1,563	1,544
Specific impairments(1)	*556*	*552*	*539*
Coverage ratio(2)	*36.3%*	*35.3%*	*34.9%*
Collective provisions	422	424	422

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

Appendix 6 – Ratings

Ratings as at 9 August 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	-

Standard & Poor's confirmed the rating of Dexia Crédit Local at BBB on 6 July 2016. The agency made the rating structure evolve, with a stronger *Stand Alone Credit Profile*, based on the improvement of the liquidity situation of the Group.

"*In our view, Dexia Crédit Local's liquidity has improved, as its government-guaranteed issuance programs let to a reduction of its dependence on exceptional funding mechanisms and central bank loans. As such, we have positively reassessed DCL's stand-alone credit profile to 'bb' from 'b'"*

Moody's confirmed the rating of Dexia Crédit Local at BBB- on 18 April 2016

"DCL's BCA of b2 reflects Moody's view that the entity, which is managed in run-off mode and has avoided default thanks to the provision of extraordinary support from the governments of Belgium, France and Luxembourg is slowly and progressively improving its risk profile by de-risking its large balance sheet of EUR 230 billion at year-end 2015, while maintaining the operational continuity of the group."

Fitch confirmed the rating of Dexia Crédit Local at BBB+ on 15 March 2016

"DCL's Long Term Issuer Default Rating reflects the French and Belgian states's flexibility to provide financial support, as well as DCL's state ownership and sizeable state guarantees for its funding."

"Regulatory capital is gradually eroded through the yearly negative net results. The 2012 capital injection had been calibrated as such to cover for the combination of reported net losses and anticipated reduction in weighted risks. Capitalisation should therefore remain sufficient if DCL's resolution goes according to plan."

Appendix 7 – Litigation

Like many financial institutions, Dexia is involved as defendant or claimant in certain investigations and disputes.

The most significant developments during the second 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 should be read in conjunction with the corresponding summaries given in the Dexia Annual Report 2015 and in the Dexia Interim Statement Q1 2016 (available at www.dexia.com).

On the basis of the information available to Dexia as at 30 June 2016, events or developments that occurred during the second quarter of 2016 in pending regulatory investigations and disputes which are mentioned in the Dexia Annual Report 2015 or in the Dexia Interim Statement Q1 2016, 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.

Continued decrease of DCL's litigation relating to structured loans subscribed by French municipalities

The combined effects of the Support Fund set up by French authorities to assist municipalities to pay their credit obligations in relation to structured loans and several legal decisions supporting the banks' views have contributed to a continued reduction of the number of litigations in which DCL is involved. As at 30 June 2016, there were legal proceedings with 70 clients, compared to 147 cases as at 31 December 2015 and a peak of 229 on 31 October 2014 (more details are provided in the section "Highlights" of this press release).

Negative outcome of Spousal Consent cases in the Netherlands

A Court of Appeal in the Netherlands rejected Dexia Nederland's further arguments and strictly applied the decision of the Supreme Court in October 2015 on spousal consent matters. Dexia Nederland is assessing the next steps to be taken towards its former relevant client base in view of this new decision.

Positive outcome in Dexia financial communication litigation

The Brussels Court of First Instance ruled, in the last pending civil case relating to Dexia's allegedly incorrect financial communication, that there was no shortcoming in Dexia's financial communication in 2011.

Settlement in certain bid rigging cases

Dexia settled certain outstanding bid rigging matters with claimants, thereby ending litigations naming the company that were still ongoing before US federal courts.

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