Press release DEXIA

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Interim Statement – Q3 2016

Net income Group share at EUR 309 million in Q3 2016

- *Recurring net result of EUR 99 million, integrating the impact of the implementation of the agreement with the Austrian State in relation to the debt of Heta Asset Resolution AG*
- *Extremely positive contribution of accounting volatility elements of EUR 176 million, against a favourable market background, following a negative episode in Q2 marked by the vote in favour of the United Kingdom's exit from the European Union*
- *EUR 34 million associated with non-recurring elements, integrating the gain realised on the sale of the CBX Tower in La Défense*

Limited fall of the balance sheet total, to EUR 233.5 billion as at 30 September 2016, mainly due to the amortisation of asset portfolios

Evolution of the funding mix, marked by an increase in outstanding of guaranteed debt, reaching EUR 70.1 billion at the end of September

- *Reduction of central bank funding to EUR 5 billion, its lowest historic level, partially offset by secured funding*
- *Increased recourse to guaranteed debt, against the background of an increased level of cash collateral paid by the Group*

Dexia SA "Common Equity Tier 1" at 17.2% as at 30 September 2016

- *Positive impact of the net result for the quarter and of the improvement of the AFS reserve*
- *EUR -3.6 billion fall of risk-weighted assets to EUR 46,4 billion, particularly as a result of the reduction of asset portfolios*

Evolution of the Group's governance, marked by a strengthening of the Management Board

- *Proposal for appointment of Aline Bec to the Management Board of Dexia and of Dexia Crédit Local, as Chief Operating Officer*
- *Proposal for appointment of Guy Cools to the Management Board of Dexia and of Dexia Crédit Local, as Head of Assets*

Wouter Devriendt, CEO of Dexia SA, stated, "*The Dexia Group posts net income of EUR 309 million in the third quarter 2016. It includes exceptional elements such as the impact of implementation of the agreement concluded with the Austrian State in the case of Heta Asset Resolution, as well as a positive contribution from accounting volatility elements, after the severely negative impact of Brexit in the second quarter. This result strengthens the Group's capital whilst solvency will remain a subject for attention in 2017, against the background of increased prudential requirements.*

The Group's governance has evolved, with the appointment of Aline Bec and Guy Cools to the Management Board. I wanted to enlarge the Management Board to integrate in the governance body the central function of the orderly resolution which is the direction of operational continuity."

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated, "*The Group continues to adapt its operating model. The centralisation of activities carried on in Spain and Portugal, realised through the merger of Dexia Sabadell and Dexia Crédit Local, marks a significant milestone. This transfer of activities to the Group's Paris platform allows a simplification and a centralisation of Dexia's operation whilst reducing its costs.*"

For the period closing on 30 September 2016, Dexia is publishing an interim statement based on non-audited figures as at 30 September 2016.

The quarter saw a continuation of accommodating monetary policies in Europe and in the United States, against a background marked by a still fragile economic situation and in anticipation of the presidential elections in the United States and the Italian referendum on the constitutional reform proposed by the government. Despite uncertainties on the terms of the United Kingdom's exit from the European Union and a decline of the pound sterling, the financial markets experienced a period of calm, after the disturbances observed on the day following the referendum.

The Group's annual results for the year 2016 will be published on 23 February 2017. As from 2017, Dexia will no longer publish quarterly results, as it is eager to achieve operational simplification, linked to implementation of the Group's resolution plan. The financial timetable has been altered and the 2017 half-yearly results will be published on 31 August 2017.

1. Significant events and transactions in Q3 2016

a – Credit environment and legal risk

i – Heta Asset Resolution AG: ratification by creditors and implementation of the agreement concluded with the Republic of Austria

In 2015, the Austrian financial markets supervisory authority adopted a temporary moratorium on a substantial proportion of the debt (capital and interest) of Heta Asset Resolution AG. Furthermore, the debt was partially cancelled within the framework of a bail-in imposed by the Austrian regulator on 10 April 2016. Dexia had made a provision of EUR 197 million, corresponding to 44% of its exposure of EUR 395 million to Heta Asset Resolution AG and 5% of that amount to cover its exposure to associated derivatives.

After a long period of discussions between the Republic of Austria and the consortium of creditors of Heta Asset Resolution AG, brought together around Dexia Kommunalbank Deutschland, the parties reached an agreement on 18 May 2016. This relies on the principle of an exchange of securities issued by Heta Asset Resolution AG against zero-coupon bonds with a maturity of approximately 13.5 years, issued by the Land of Carinthia via a special purpose vehicle and benefiting from the explicit guarantee of the Republic of Austria.

On 4 October 2016, the Austrian Minister of Finance announced that a majority of creditors had accepted the proposed agreement, allowing its implementation. The exchange of securities took place during October. Dexia then sold the securities it received on the market.

The net positive impact booked in Q3 as a result of the implementation of the agreement, consisting of a write-back of provisions based on the conditions of the exchange of securities, amounted to EUR 136 million in cost of risk. An additional impact of EUR 3 million was booked in net banking income. The gain related to the sale, the amount of which is negligible, will be booked in Q4.

Dexia no longer has any exposure to Heta Asset Resolution AG.

ii – Decision of the Dutch Supreme Court in certain cases involving Dexia Nederland

On 2 September 2016, the Dutch Supreme Court gave its verdict on litigation relating to the role of intermediaries in the sale of share leasing products by the Banque Labouchère, an entity acquired by Dexia in 2000 and later renamed Dexia Nederland. Dexia Nederland is currently a subsidiary of Dexia SA.

This decision in principle could authorise plaintiffs to apply for a higher indemnity than provided by current case law, in the case where they might have acquired these share leasing products via an intermediary or where certain obligations of due care might not have been fulfilled by that intermediary. The financial impact for Dexia will depend on the ability of plaintiffs to prove before the Courts that such obligations had not been fulfilled. Moreover, some complaints formulated on the basis of principles established by the Dutch Supreme Court could, in certain cases, be statute-barred.

Noting this decision, Dexia has adjusted its provisioning for this litigation, to cover any financial consequences.

b – Sale of the CBX Tower in La Défense

At the beginning of 2016 Dexia decided to proceed with the sale of the CBX Tower, its French headquarters located in La Défense, by way of a sale and lease back operation, following the reduction of the Group's activity which led to its occupying only a part of the building.

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

This disposal enabled Dexia to realise a pre-tax gain of EUR 50 million, booked in the accounts as at 30 September 2016.

c – Centralisation of Dexia activities in Spain and Portugal

For several years, the Dexia Group has been considering actions to simplify its operating model, to strengthen its resilience and to limit its operating expenditure. These considerations resulted in a plan to centralise the activities carried on until then by Dexia Sabadell S.A., a subsidiary of Dexia Crédit Local based in Madrid, as well as its branch in Lisbon. This plan relies on a cross-border merger between Dexia Crédit Local and Dexia Sabadell and a transfer of the management of the assets and the derivatives of the two Spanish and Portuguese entities to the management systems of Dexia Crédit Local in Paris.

On 4 October last, the Spanish Ministry of Economy officially authorised the cross-border merger of Dexia Crédit Local with its subsidiary Dexia Sabadell.

This decision allowed the absorption of Dexia Sabadell by Dexia Crédit Local on 1 November 2016. At the same time, two new branches of Dexia Crédit Local, named DCL Sucursal en España and DCL Sucursal em Portugal commenced activity. The migration of the Dexia Sabadell asset management systems to Dexia Crédit Local in Paris took place on the same date.

This merger has a retroactive accounting effect as at 1 January 2016.

d – Evolution of the Group's governance

Aline Bec was appointed as Chief Operating Officer. The Board of Directors furthermore decided to enlarge the Management Board by including the post of Chief Operating Officer, considering its importance for the Group's operational continuity. Consequently, Aline Bec was proposed for appointment as member of the Management Board of Dexia SA and of Dexia Crédit Local.

Guy Cools was appointed as Head of Assets, replacing Claude Piret whose mandate came to an end on 23 October. Guy Cools was proposed for appointment as member of the Management Board of Dexia SA and of Dexia Crédit Local.

These appointments will only become effective after approval by the European Central Bank.

Subject to this approval, the Management Board of Dexia SA will be composed of 6 members:

- Wouter Devriendt, as CEO of Dexia SA;
- Véronique Hugues, as Chief Financial Officer;
- Johan Bohets, as Chief Risk Officer;
- Benoît Debroise, as Head of Funding & Markets;
- Guy Cools, as Head of Assets;
- Aline Bec, as Chief Operating Officer.

On the other hand, the Board of Directors co-opted Alexandra Serizay as a Director of Dexia Crédit Local as from 15 June 2016 and Dexia SA as from 27 October 2016, replacing Françoise Lombard, who had resigned. The Board notes the resignation of Paul Bodart from its position of Director of Dexia SA with effect as from 16 November 2016. Paul Bodart was also chairman of the Audit Committee.

2. Non-audited financial situation of Dexia SA - Q3 2015

The Dexia Group achieved positive net income Group share of EUR 309 million over the third quarter 2016, including EUR 99 million attributable to the recurring[1] net result for the period, EUR 176 million to accounting volatility elements[2] and EUR 34 million to the non-recurring[3] result.

- The "recurring" net result booked for the third quarter was EUR 99 million.

  "Recurring" net banking income in the third quarter 2016 was EUR 72 million. It consisted of:

  - Portfolio income which reached EUR +148 million, down EUR -10 million on the previous quarter ;
  - Funding cost of EUR -142 million, down EUR -8 million on the previous quarter, under the effect of an improvement of funding conditions;
  - Other income, principally combining income associated with asset and liability management (ALM), which was stable from one quarter to the other, at EUR 66 million.

  Costs were EUR -79 million, an improvement of EUR 22 million compared with the previous quarter which had been marked by a higher level of operating charges and by the booking of taxes and contributions.

  The impact of the cost of risk over the quarter was extremely positive at EUR 122 million, implementation of the agreement concluded between the creditors and the Austrian State on the case involving Heta Asset Resolution AG being reflected by a positive impact of EUR 136 million on the cost of risk.

- The contribution of accounting volatility elements to the quarterly result was EUR 176 million, as the evolution of market parameters was favourable over the period, after the tensions observed at the end of June 2016 following the British referendum result in favour of leaving the European Union.

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

[2] 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 litigations and restructuring.

- Non-recurring elements posted a positive result of EUR 34 million over the quarter. In particular this includes the gain on the sale of the CBX Tower in La Défense (EUR 50 million pre-tax), in part offset by accounting provisions for litigation.

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

A – Balance sheet and solvency

a – Quarterly balance sheet evolution

The evolution of the balance sheet over Q3 2016 showed a downward trend, after increasing in the first half-year. Indeed, as at 30 September 2016, the Group's balance sheet total was EUR 233.5 billion, up EUR 3.2 billion on 31 December 2015 and down EUR 2.4 billion on 30 June 2016, principally under the effect of the reduction of asset portfolios. The impact of exchange fluctuations on quarterly balance sheet evolution is negligible.

b – Solvency ratios

As at 30 September 2016, Dexia's "Common Equity Tier 1" capital was EUR 7,957 million, against EUR 7,481 million as at 30 June 2016. This evolution is principally explained by the profit for the quarter and the improvement of the AFS reserve on non-sovereign securities.

Other Comprehensive Income (OCI) booked directly to capital reached EUR -6.0 billion against EUR -6.3 billion as at 30 June 2016, mainly under the effect of a tightening of credit margins on Italian and Spanish sovereigns.

As at 30 September 2016, risk-weighted assets were EUR 46.4 billion, of which EUR 43.6 billion for credit risk, EUR 1.8 billion for market risk and EUR 1 billion for operational risk. Regarding credit risk, the sharp fall of EUR 3.2 billion over the quarter was due to the reduction of the asset portfolio and methodological adaptations, related to the review of internal models' parameters, the impact of which was less severe than initially anticipated.

These elements lead to Common Equity Tier 1 solvency ratios of 17.2% and 14.3% for Dexia SA and Dexia Crédit Local at the end of September 2016.

As indicated in previous releases, with the approval of their respective supervisors Dexia and Dexia Crédit Local apply the exemption enabling them not to take account of the AFS reserve on sovereign securities in the calculation of solvency ratios[4].

In accordance with the European Central Bank Regulation dated 14 March 2016[5], this national discretion ended on 1 October 2016. Since that date, the AFS reserve on sovereign securities is therefore deducted progressively from the regulatory capital of Dexia and of Dexia Crédit Local, in accordance with the timetable for implementation of CRD IV. At the end of September 2016, the amount of the Dexia AFS reserve on sovereign securities was EUR -2 billion; the removal on that date of the national discretion on sovereign securities would have had a negative impact of 2.7% on the Common Equity Tier 1 ratios of Dexia and Dexia Crédit Local. On the basis of the figures as at 30 September 2016, application of the terms entering into force on 1 January 2017 lead to a Common Equity Tier 1 ratio of 12.5% for Dexia and 10.0% for Dexia Crédit Local.

[4] 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 companies and amending Regulation (EU) 648/2012.

[5] 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).

B – Liquidity

In Q3 2016, the fall of long-term interest rates continued, and this led to a further increase in the amount of cash collateral placed by the Group with its derivatives counterparties. The net amount paid as guarantee thus reached EUR 38.3 billion as at 30 September 2016, against EUR 37.4 billion as at 30 June 2016.

Against a market background still marked by very severe volatility, Dexia Crédit Local succeeded in closing its EUR 12 billion annual long-term refinancing programme at the beginning of September and it began to pre-finance its requirements for 2017.

Short-term guaranteed funding activity was sustained and in the end hardly penalised by the effects of the British vote on 23 June 2016.

Outstanding in secured market funding fell by EUR 1.1 billion over the quarter, to EUR 62.7 billion as at 30 September 2016, principally by virtue of the amortisation of the stock of assets eligible for this type of refinancing. Over the quarter, the Group renewed a significant amount of long-term secured funding, under favourable market conditions.

Finally, Dexia continued to reduce its recourse to funding subscribed with the European Central Bank by EUR 2.4 billion over the quarter, taking total outstanding to EUR 5 billion as at 30 September 2016, of which EUR 4 billion in the form of LTRO and EUR 1 billion in the form of MRO.

Overall outstanding in guaranteed debt was up, at EUR 70.1 billion as at 30 September 2016, against EUR 68.2 billion at the end of June 2016, so as to offset the reduction of funding subscribed with the European Central Bank and to fund the increase of cash collateral paid by the Group to its derivatives counterparties.

As at 30 September 2016, the Dexia Group had a liquidity reserve of EUR 16 billion, of which EUR 12.9 billion in the form of assets eligible for European Central Bank refinancing.

Appendices

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

Balance sheet key figures			
EUR m	**31/12/2015**	**30/06/2016**	**30/09/2016**
Total assets	**230,281**	**235,887**	**233,530**
of which			
Cash and central banks	4,835	3,296	3,565
Financial assets at fair value through profit or loss	20,176	22,203	21,456
Hedging derivatives	6,672	7,710	7,659
Financial assets available for sale	22,257	20,468	20,219
Customer loans and advances	127,876	128,181	126,215
Accruals and other assets	38,346	43,395	43,662
Total liabilities	**225,733**	**232,443**	**229,430**
of which			
Central banks	15,932	7,350	5,000
Financial liabilities at fair value through profit or loss	22,779	23,706	22,936
Hedging derivatives	29,978	39,764	39,703
Interbank borrowings and deposits	48,780	46,284	45,700
Debt securities	91,532	97,574	98,722
Total equity	**4,548**	**3,444**	**4,100**
of which			
Equity, Group share	4,118	3,039	3,686

Appendix 2 – Capital adequacy (non-audited figures)

EUR m	**31/12/2015**	**30/06/2016**	**30/09/2016**
Common Equity Tier 1	8,180	7,481	7,957
Risk-weighted assets	51,414	49,960	46,391
Common Equity Tier 1 ratio	15.9%	15.0%	17.2%

Appendix 3 – Credit risk exposure (EAD) as at 30 September 2016 (non-audited figures)

Dexia Group exposure by geographic region			
EUR m	31/12/2015	30/06/2016	30/09/2016
United States	28,753	26,892	27,445
Italy	27,244	27,396	27,319
United Kingdom	25,821	26,916	27,176
France	26,617	25,081	23,534
Germany	22,308	22,672	21,888
Spain	16,933	15,868	15,136
Japan	7,560	8,787	8,423
Portugal	4,193	4,093	4,035
Canada	2,717	2,864	2,795
Central and Eastern Europe	2,895	2,429	2,354
Belgium	2,204	2,182	2,153
Austria	1,575	1,559	1,571
Scandinavian countries	1,471	1,280	1,400
Netherlands	499	567	566
Switzerland	520	592	557
Hungary	946	687	478
Turkey	496	443	440
Greece	153	146	139
Ireland	160	101	136
Luxembourg	125	104	132
Southeast Asia	845	907	338
South and Central America	552	509	504
Others	7,203	7,159	6,730
Total	**181,792**	**179,235**	**175,250**

Dexia Group exposure by category of counterparty			
EUR m	31/12/2015	30/06/2016	30/09/2016
Local public sector	94,426	96,018	94,259
Central governments	29,511	26,958	26,887
Financial institutions	24,781	24,496	22,873
Project finance	14,734	14,471	14,110
Corporate	8,463	8,179	8,120
ABS/MBS	8,039	7,378	6,919
Monolines	1,837	1,733	2,079
Individuals, SME and self-employed	2	2	2
Total	**181,792**	**179,235**	**175,250**

Group exposure by rating (internal rating system)			
	31/12/2015	**30/06/2016**	**30/09/2016**
AAA	16.5%	16.9%	17.1%
AA	22.0%	20.3%	20.5%
A	21.7%	23.8%	21.8%
BBB	27.8%	28.4%	30.1%
Non Investment Grade	10.7%	9.3%	9.2%
D	1.1%	1.1%	1.1%
Not Rated	0.2%	0.2%	0.2%
Total	**100%**	**100%**	**100%**

Appendix 4 – The Group's sector exposure as at 30 September 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	27,445	12,680	984	4,306	4,145	3,839	1,491
Italy	27,319	11,159	882	731	107	14,440	0
United Kingdom	27,176	12,792	9,958	1,969	1,807	62	588
France	23,534	16,210	3,839	3,383	0	102	0
Germany	21,888	18,446	242	2,993	0	208	0
Spain	15,136	7,441	2,101	4,524	454	616	0
Japan	8,423	6,201	0	1,284	0	939	0
Portugal	4,035	1,834	181	17	87	1,915	0
Poland	1,560	2	0	0	0	1,558	0
Hungary	478	23	10	0	0	445	0
Turkey	440	5	3	431	0	0	0
Greece	139	50	80	0	8	0	0
Ireland	136	0	8	71	57	0	0

Appendix 5 – Asset quality (non-audited figures)

Asset quality			
EUR m	**31/12/2015**	**30/06/2016**	**30/09/2016**
Impaired assets	1,532	1,544	1,526
Specific impairments(1)	556	539	413
Coverage ratio(2)	36.3%	34.9%	27.1%
Collective provisions	422	422	428

(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 16 November 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	-

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