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Update on the consequences of constitutional reform being rejected in Italy

On 4 December 2016, the constitutional reform promoted by the Italian government was rejected by referendum by a large majority. Prime Minister Matteo Renzi submitted his resignation. This rejection creates a risk of political instability and of weakening of the Italian banking sector. The formation of a stable government will be key to assessing financial market volatility and the impact on credit spreads on the sovereign and on Italian banks.

With a presence in Italy through its subsidiary Dexia Crediop, the Dexia Group had exposure to that country amounting to EUR 27.4 billion as at 30 September 2016, and this represents 16% of total Group exposure¹. Of this amount, EUR 14.4 billion relates to Italian sovereign debt and EUR 11.2 billion to Italian local authorities. On that date, Group exposure to Italian banks was EUR 256 million², the majority on banks with good credit quality. Exposure to banks rated *non-investment grade* was EUR 2 million, essentially in the form of collateralised derivatives.

Considering the nature of its counterparties in Italy, the impact on the credit risk to which the Group is exposed should remain limited. Nonetheless, Dexia presents sensitivity to credit spread fluctuations, which have an influence on asset valuations and *in fine* on the associated AFS reserve. The Group might also be impacted by a scenario of contagion to other European sovereigns.

In a prudent approach, Dexia maintains a liquidity reserve, composed of cash and of assets eligible for refinancing by Central banks, which amounts to EUR 19 billion as of today.

The Group remains attentive to the evolution of the situation and will be closely monitoring that situation and its counterparties in Italy.

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¹ In the framework of the Transparency Exercise for 2016, the European Banking Authority published detailed data on a bank by bank basis, as at 31 December 2015 and 30 June 2016. The data published by the EBA is provided only for comparison purposes. It should not be directly compared to the information directly released by Dexia.

² Dexia has published all of its sovereign exposures and their detail per type of counterparty on certain countries is appended to the Interim Statement for the third quarter 2016, accessible via the following link http://www.dexia.com/EN/journalist/press_releases/Documents/20161117_CP_T32016_EN.pdf
Exposure to the Italian banking sector of EUR 731 million mentioned in that appendix includes exposure to clearing houses in Italy, which amounted to EUR 359 million, as well as exposure of EUR 116 million on special purpose vehicles.