Press release

DEXIA

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Dexia Group Consolidated Results 2016

Active policy implemented by the Group to strengthen its structure and to guard against any external shocks

- *Implementation of capital relief measures aimed at improving solvency in the face of increasing regulatory requirements and macro-economic volatility*
- *Prudent liquidity management aimed at anticipating possible tensions on the financial markets in 2017*
- *Launch of a study on adapting the operating model within the context of downsizing the company*

Net income of EUR +353 million, driven by exceptional elements

- *This result in particular includes the impact of the reversal of the provision on Heta Asset Resolution AG (EUR +136 million) and the result associated with the situation of negative interest rates (EUR +144 million)*
- *Positive contribution from accounting volatility elements (EUR +90 million), and from non recurring elements (EUR +122 millions)*
- *Significant impact of banking taxes and contributions to the resolution funds, representing approximately 30% of Dexia's operating charges*

Balance sheet total at EUR 212.8 billion as at 31 December 2016, down EUR -17.5 billion over the year, resulting from the reduction of the asset portfolios

Positive result for the financial year and the favourable impact of capital relief measures, taking the CET1 ratio to 16.2% as at 31 December 2016

Wouter Devriendt, CEO of Dexia SA, stated that, *"The positive results for 2016 have improved the Group's solvency, an important element within the context of the year 2017. However, this result cannot be extrapolated for the future, since these are the figures of a bank in resolution, which remains particularly sensitive to the volatility of the macroeconomic situation. In 2017, we should remain attentive to the evolution of the cost base and continue with our measures to improve solvency. At the same time, we should get on with enhancing the management of our operational risk, stemming from a complex and occasionally outdated infrastructure. The Group's resolution, in difficult circumstances, is only possible with the full commitment of our 1,083 staff members, and I thank them for that."*

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated that, "*Driven by a renewed and enlarged governance, the Group adopted an active policy enabling it to adapt its structure to the challenge represented by the management of an entity in resolution in a volatile environment and ever changing regulatory framework. It is important to follow a prudent and proactive management and to continue the transformation already undertaken, which is vital to Dexia's successful resolution.*"

Introduction

The year 2016 saw an improvement of economic conditions in the United States and in Europe as well as severe volatility in the financial markets, largely associated with major political events such as the vote in favour of the United Kingdom leaving the European Union, the presidential election in the United States and the rejection of the constitutional reform supported by Prime Minister Renzi in Italy.

Such economic environment led the Federal Reserve to start raising interest rates in the United States in the 4th quarter, whilst the European Central Bank extended its accommodating monetary policy.

This volatility is reflected in the 2016 Dexia Group results, generating significant fluctuations in both "accounting volatility elements" and the size of the balance sheet from one quarter to the next.

The Board of Directors of Dexia SA met on 22 February 2017 and drew up the Dexia SA income statement and balance sheet for the 2016 financial year.

Notes regarding the Dexia Group's annual consolidated financial statements 2016

The consolidated financial statements of Dexia SA as at 31 December 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for 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 overall plan.

  In particular, the updates made on the basis of market data observable at the end of September 2012 and validated by the Board of Directors of Dexia on 16 November 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 implementation of the IFRS 9 accounting standard from 2018, based on the assumptions known to date.

  The business plan revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, but at this stage do not raise questions as to the nature and the fundamentals of the resolution.

- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

- It moreover assumes that Dexia will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

  From this perspective, since validation of the orderly resolution plan in December 2012, the Group's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled the Group to reduce its reliance on central bank funding and to exit the exceptional funding mechanisms put in place in 2012. With its prudent liquidity management, Dexia has also established liquidity reserves with the aim of protecting itself against the increase in the amount of cash collateral[1] paid to its derivatives counterparties. These reserves amounted to EUR 18.2 billion as at 31 December 2016.

[1] Deposits or securities posted by Dexia to its counterparties as guarantee for interest rate or currency swaps.

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

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia since its entry in resolution do not allow it to ensure compliance with certain regulatory ratios over time.

  The Group is also sensitive to the evolution of its macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Group's liquidity and its solvency position, by increasing the amount of cash collateral paid by Dexia to its derivatives counterparties (the sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates) or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation 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 may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

1. Significant events and transactions

- *Evolution of governance and expansion of the Management Board to six members in order to strengthen the Group's steering and the management of its operational continuity*
- *Implementation of capital relief measures*
- *Launch of a study on the adaptability of the Group's operating model*

A – Progress of the orderly resolution plan

The year 2016 was marked by historically low interest rates and volatility on the financial markets, associated with political uncertainty. In this context, the Group strengthened its governance and continued to implement the orderly resolution plan, focussed on three main objectives:

- Maintenance of the Group's funding capacity
- Preservation of core capital and observance of solvency ratios
- Maintenance of operational continuity

1. Evolution of the Group's governance

Dexia Group governance underwent profound modification in 2016, with several appointments within the Management Boards of Dexia and Dexia Crédit Local.

On 18 May 2016, Wouter Devriendt was appointed by the annual shareholders' meeting of Dexia SA as Chief Executive Officer and Chairman of the Management Board of Dexia SA, replacing Karel De Boeck.

On 1 July 2016, Véronique Hugues replaced Pierre Vergnes, who resigned, as Executive Director and Chief Financial Officer of Dexia SA.

Guy Cools was appointed Head of the "Assets" division, replacing Claude Piret, whose mandate ended on 23 October 2016. Guy Cools then joined the Dexia Management Board on 1 January 2017.

Finally, in November 2016, Aline Bec was appointed Chief Operating Officer. Considering the importance of this function for the Group's operational continuity and transformation, the Board of Directors decided to integrate Aline Bec to the Management Board of Dexia SA on 1 January 2017.

As a result of these developments, as at 1 January 2017, the Management Board of Dexia SA is composed of six members:

- Wouter Devriendt, Chief Executive Officer
- Véronique Hugues, Chief Financial Officer
- Johan Bohets, Chief Risk Officer
- Benoît Debroise, Head of "Funding and Markets"
- Guy Cools, Head of "Assets"
- Aline Bec, Chief Operating Officer

As the governance of Dexia and Dexia Crédit Local is integrated, the members of the Management Board of Dexia are also members of the Management Board of Dexia Crédit Local.

2. Prudent liquidity management combined with an evolution of the funding mix

Despite an uncertain market environment, the Dexia Group optimized favourably its funding structure during 2016.

The Group's funding volume was reduced as a result of the decline in asset portfolios, amounting to EUR 146.5 billion at the end of 2016, against EUR 162.8 billion at the end of 2015, despite an erratic and high level of the net cash collateral posted by the Group to its derivatives counterparties.

The fall in the funding volume allowed the Group to reduce its reliance on funding subscribed with the European Central Bank, currently more costly than market funding. Total outstanding, at EUR 15.9 billion at the end of December 2015, was reduced to EUR 655 million as at 31 December 2016. As a consequence, the Group's funding structure underwent in-depth modification. Most of the Group's funding is now in the form of guaranteed funding and secured market funding, which represent 49% and 41% respectively of Group funding as at 31 December 2016.

More detailed information on Dexia Group funding in 2016 is provided in the section entitled "Evolution of the Dexia Group liquidity situation".

3. Preservation of regulatory capital and maintenance of solvency ratios

The preservation of regulatory capital and the maintenance of solvency ratios are key elements of the resolution of Dexia.

The progressive deduction of the AFS reserve from regulatory capital, in accordance with the calendar defined by the CRD IV Directive, and the increase of requirements applicable to Dexia in 2017 place significant pressure on the solvency ratios of Dexia and Dexia Crédit Local this year.

In 2016, Dexia therefore implemented capital relief measures to in order to increase the capital buffer.

These measures were aligned to the targeted disposal of assets, allowing a reduction of the AFS reserve and a considerable reduction of risk-weighted assets. They also related to the sale of holdings directly deducted from equity.

Considering these elements, Dexia's "Common Equity Tier 1" ratio was 16.2% as at 31 December 2016 and the "Total Capital" ratio was 16.8%.

The “Common Equity Tier 1” ratio and the “Total Capital” ratio of Dexia Crédit Local were 13.1% and 13.4% respectively as at 31 December 2016.

As at 1 January 2017, the “Total Capital” ratio is estimated at 14.5% for Dexia SA and 11.3% for Dexia Crédit Local, therefore above the minimum requirement of 9.875% imposed by the European Central Bank.

In 2017, Dexia will continue to monitor the evolution of its regulatory capital in order to ensure its compliance with the capital requirements set by the European Central Bank. Similarly to 2016, targeted asset sales may be executed in order to improve the Group’s solvency. The solvency in fact remains extremely sensitive to the evolution of external parameters such as credit spreads, interest rates or exchange rates.

More detailed information on the Dexia Group solvency ratios are provided in the section entitled “Solvency”.

4. Maintenance of operational continuity and simplification of the Group’s structure

In order to successfully manage the run-off of its residual assets, the Dexia Group must maintain its operational continuity. This involves a simplification and a greater integration of its activities. Recourse to outsourcing may also be envisaged to ensure the durability of certain operational activities, while providing cost flexibility.

a- Centralisation of the activities of Dexia in Spain and Portugal

The Dexia Group has been reflecting for many years on various ways to simplify its operating model, to increase its resilience, to limit and to make its operating expenditure more flexible. This led to a project to centralise the activities until then carried out by Dexia Sabadell S.A., a subsidiary of Dexia Crédit Local based in Madrid, and its branch in Lisbon.

This centralisation of activities became effective on 1 November 2016 with the cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell. At the same time, two new branches of Dexia Crédit Local, named *DCL Sucursal en España* and *DCL Sucursal em Portugal* commenced operation.

On that same date, management of the assets and derivatives of the Spanish and Portuguese entities was migrated to the management systems of Dexia Crédit Local in Paris.

This merger had retroactive accounting effect as at 1 January 2016.

b- Reflections on outsourcing certain Dexia production activities

Dexia also widened its reflections, originally engaged in 2015, on the opportunity to outsource some market activities to other production functions of the bank, particularly the activities of reporting, transactions processing and IT systems’ maintenance and development. This initiative, which only concerns activities in France and Belgium, would enable Dexia to respond more effectively to the issues of its orderly resolution: a managed wind-down of its asset portfolio, an efficient monitoring of its operational expenditures and an appropriate risk management.

c- Delisting of the Dexia SA shares from the Paris and Luxembourg Stock Exchanges

With the aim to simplify the Group’s operational functioning and in order to reduce operational costs, Dexia delisted its shares from the Paris and Luxembourg stock exchanges, as from 12 December 2016. Dexia SA shares remain listed on Euronext Brussels, the reference market.

d- Further simplification of the Group's structure

In line with its willingness to simplify the Group's structure, Dexia undertook the liquidation of Dexia Luxembourg (formerly Dexia LdG Banque) and Dexia Real Estate Capital Markets (DRECM). The termination of Dexia Luxembourg occurred on 29 December 2016, with no significant financial impact on a consolidated basis. The liquidation of DRECM was declared by the State of Delaware on 23 December 2016. It generated a non-significant charge, associated with the booking of cumulative translation adjustments in the Group's financial statements.

B – Other significant elements

1. Evolution of credit risk and the risk associated with structured loans

As at 31 December 2016, the Dexia Group credit portfolio remains of good quality overall with ~90% of exposures rated "investment grade".

The year 2016 was marked by the favourable evolution of cases in relation to Heta Asset Resolution AG in Austria and the structured loans in France.

a- Heta Asset Resolution AG: sale of the securities received within the framework of the agreement concluded with the Republic of Austria

Dexia sold the securities it received within the framework of the agreement concluded with the Republic of Austria. The Group no longer has any exposure to Heta Asset Resolution AG.

As a reminder, in 2015, the Austrian financial markets supervisory authority adopted a provisional moratorium on a substantial portion of the debt (capital and interests) of Heta Asset Resolution AG. Furthermore, the debt had been partially cancelled within the framework of a bail-in imposed by the Austrian regulator on 10 April 2016. Dexia had booked an impairment 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 prolonged discussions between the Republic of Austria and the pool of creditors of Heta Asset Resolution AG, around Dexia Kommunalbank Deutschland, the parties agreed heads of agreement on 18 May 2016. These relied 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 through a specific entity 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 the creditors had accepted the proposed agreement, enabling it to be implemented. The exchange of securities took place during the month of October. Dexia then sold the securities received in the market.

The positive net impact, associated with the reversal of the impairments is EUR 136 million in cost of risk, to which is added EUR 3 million in net banking income.

b- 33% reduction of the outstanding sensitive structured loans

In 2016, Dexia continued its active policy to assist French local authorities, in order to reduce its outstanding of sensitive structured loans. This policy, combined with the implementation of support funds to the local authorities and hospitals, resulted in a reduction of 33% of Dexia's outstanding sensitive structured loans compared to the end of 2015 and 67% compared with May 2012, to reach EUR 651 million at 31 December 2016.

In line with the policy implemented since 2013, the Group focussed on offering its customers opportunities to convert to a fixed rate.

Additionally, the subscription period for the support funds targeted to local authorities and the hospital sector which subscribed to sensitive structured loans ended in July 2016. All the borrowers which held “Off-Charter” loans on the balance sheet of Dexia Crédit Local accepted the assistance offered and signed a transactional agreement with the Dexia Group, sent to the French State, therefore ending any current or future litigation. These agreements cover all the loans to public customers the repayment conditions of which had deteriorated.

At the same time, a large number of loans not covered by the support funds were subject to desensitisation.

The number of cases in which Dexia Crédit Local is involved has also reduced considerably, from 147 at the end of 2015 to 51 as at 31 December 2016.

2. Annual results 2016

A - *Presentation of Dexia SA's 2016 annual consolidated financial statements*

a - Going concern

The consolidated financial statements of Dexia SA as at 31 December 2016 were established in accordance with the accounting rules applicable to a going concern (cf. section entitled "Point in relation to the presentation of the 2016 consolidated financial statements for the Dexia Group").

B - Dexia Group's consolidated results 2016

- *Net income Group share of EUR +353 million in 2016, including EUR +90 million for accounting volatility elements and EUR +122 million attributable to non-recurring elements*
- *Recurring income at EUR 142 million, driven by the positive impact of cost of risk, translating the reversal of the impairment on Heta Asset Resolution AG of EUR +136 million and a result of EUR +144 million associated with the active management of negative interest rates*
- *Banking taxes and contributions to resolution funds representing circa 30% of Dexia's operating expenses*

a - Income statement for the period[2] (unaudited figures)

Consolidated income statement - ANC format					
EUR million	**Q1 2016**	**Q2 2016**	**Q3 2016**	**Q4 2016**	**2016**
Net banking income	**78**	**-94**	**230**	**291**	**505**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-134	-67	-81	-124	-407
Gross operating income	**-56**	**-162**	**149**	**168**	**99**
Cost of risk	-8	2	122	23	140
Net gains or losses on other assets	5	1	50	-2	54
Pre-tax income	**-60**	**-158**	**322**	**189**	**293**
Income tax	-3	-18	-11	75	43
Result from discontinued operations	-3	3	4	12	17
Net income	**-66**	**-173**	**315**	**276**	**352**
Minority interests	-11	-2	6	6	-1
Net income Group share	**-55**	**-171**	**309**	**271**	**353**

In 2016 Dexia posted a net income Group share of EUR +353 million.

Over the year, net banking income reached EUR +505 million. Of that amount, EUR +90 million is attributable to the impact of the valuation of derivatives on the basis of an OIS curve, the calculation of the CVA, the DVA and the FVA, as well as own credit risk.

[2] *Q2 2016 results were restated consecutively to the recognition of a profit inappropriately booked in P&L. Accordingly, the amount has been reclassified to Equity.*

Costs were EUR -407 million, including EUR -115 million in banking taxes and contributions to resolution funds.

Gross operating income reached EUR +99 million.

The cost of risk and net gains and losses on other assets positively contribute in an amount of EUR +194 million, including EUR +140 million for the cost of risk. In particular, it includes the reversal of the impairment for the Group's exposure to Heta Asset Resolution AG in an amount of EUR +136 million.

Considering these elements, pre-tax income totalled EUR +293 million.

Over the year, the fiscal impact was positive at EUR +43 million.

The net result from discontinued operations or those in the process of being discontinued was EUR +17 million, associated with the reversal of the impairment posted to cover risks related to guarantee calls following the disposal of commercial franchises.

Net income attributable to minority interests was EUR -1 million leading to a net income Group share for 2016 of EUR +353 million.

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

The net income Group share of EUR +353 million consists of the following elements:

- EUR +142 million attributable to recurring elements[3]
- EUR +90 million associated with accounting volatility elements[4]
- EUR +122 million generated by non-recurring elements[5]

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

[3] *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.*

Analytical presentation of the 2016 Dexia Group results				
EUR million	**Recurring elements**	**Accounting volatility elements**	**Non-recurring elements**	**Total**
Net banking income	**386**	**90**	**30**	**505**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-428	0	21	-407
Gross operating income	**-42**	**90**	**51**	**99**
Cost of risk	140	0	0	140
Net gains or losses on other assets	0	0	54	54
Pre-tax income	**98**	**90**	**105**	**293**
Income tax	43	0	0	43
Net result from discontinued operations	0	0	17	17
Net income	**141**	**90**	**122**	**352**
Minority interests	-1	0	0	-1
Net income Group Share	**142**	**90**	**122**	**353**

b.1 - Recurring elements

Recurring elements					
EUR million	**Q1 2016**	**Q2 2016**	**Q3 2016**	**Q4 2016**	**2016**
Net banking income	**60**	**74**	**72**	**180**	**386**
o/w revenues from commercial portfolios	154	158	148	142	603
o/w funding cost	-145	-150	-142	-146	-583
o/w other revenues	50	66	66	184	367
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-148	-102	-79	-99	-428
Gross operating income	**-89**	**-28**	**-7**	**82**	**-42**
Cost of risk	-8	2	122	23	140
Net gains or losses on other assets	0	0	0	0	0
Pre-tax income	**-97**	**-25**	**116**	**105**	**98**
Income tax	-3	-18	-11	75	43
Net income	**-100**	**-43**	**105**	**180**	**141**
Minority interests	-11	-2	6	6	-1
Net income Group share	**-90**	**-41**	**99**	**174**	**142**

The net income Group share generated by recurring elements was EUR +142 million for the year 2016.

Net banking income generated in 2016 amounted to EUR +386 million, and consisted of:

- Income from the asset portfolios, which reached EUR +603 million. In 2016, this income followed a downward trend from one quarter to the next. This reduction of earnings is consistent with the reduction of asset portfolios;

- Funding cost, which was EUR -583 million. The cost was stable from one quarter to the next. In 2016, the non-eligibility of the guaranteed debt issued by Dexia for the securities purchase programmes of the European Central Bank increased the cost of such funding. This trend has however been offset by the reduction in funding raised by the Group and by the evolution of the Group's funding mix, along with a reduction of funding with the European Central Bank, currently more expensive for the Group;
- Other income amounted to EUR +367 million. This income corresponds mainly to earnings from asset and liability management (ALM). In addition, the Group pursued an active management of current negative interests' situation, generating an income of EUR +144 million over the year.

Costs reached EUR -428 million. They included EUR -90 million in banking taxes and contributions to the resolution funds, the majority booked in the 1st quarter, in application of the IFRIC 21 accounting standard. Excluding these taxes and contributions, operating costs were under control.

Driven by the reversal of the provision on Heta Asset Resolution AG, which amounted to EUR +136 million, the cost of risk has a positive impact of EUR +140 million.

The fiscal impact was positive, with EUR +43 million over the year. It mainly results from various intragroup asset transfers, linked to the centralisation of Group activities on its management systems in Paris.

b.2 - Accounting volatility elements

Accounting volatility elements had a positive impact of EUR +90 million, mainly driven by the favourable evolution of the valuation of derivatives on the basis of an OIS curve, which more than offset the negative impact of DVA, own credit risk and the FVA. The market conditions were detrimental for the Group over the 1st half-year, following the Brexit vote, before conditions improving in the 2nd half-year.

b.3 - Non-recurring elements

Non-recurring elements booked over the year 2016 stand at EUR +122 million and include in particular:

- Gains derived from active balance sheet management (EUR +55 million over the year)
- An extraordinary contribution to the Italian Resolution Fund of EUR -25 million paid by Dexia Crediop in the 4th quarter
- A gain of EUR +50 million realised on the disposal of the CBX Tower in La Défense

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

A - Balance sheet and solvency

- *Balance sheet reduction of EUR -17.5 billion compared to 2015 year-end; important volatility of the balance sheet total over the year*
- *Dexia Common Equity Tier 1 ratio at 16.2%[6]: 60% deduction of the sovereign and non-sovereign AFS reserve from regulatory capital*

a – Annual balance sheet evolution

As at 31 December 2016, the Group's consolidated balance sheet total was EUR 212.8 billion, down by EUR -17.5 billion on 31 December 2015 and -23.1 billion on 30 June 2016.

At a constant exchange rate, the annual decline in assets on the balance sheet is mainly associated with the reduction of the asset portfolio. At the end of 2016, the asset portfolio amounted to EUR 116.9 billion, down by EUR -15.3 billion since the end of 2015, including EUR -10.2 billion in natural amortisations and EUR -5 billion in disposals and early redemptions. In 2016, priorities with regard to asset disposals focussed on increasing solvency, by targeting heavily weighted assets, and on risk reduction.

On the liabilities side and at a constant exchange rate, the annual decline in the balance sheet is mainly reflected by a EUR -16.1 billion reduction of the market and Central Bank funding stock.

Over the year, the impact of foreign exchange fluctuations on the evolution of the balance sheet amounted to EUR +0.8 billion.

The balance sheet total was extremely contrasted over the year 2016, due to its sensitivity to interest and exchange rates. In the 1st quarter, the balance sheet total increased, reflecting lower interest rates which generated an increase in the amount of cash collateral paid by Dexia to its derivatives counterparties and an increase in the valuation of elements at fair value, as well as the increase of the liquidity reserve placed with central banks. The trend reversed in the 2nd and 3rd quarters, with the reduction of the asset portfolios and outstandings placed with central banks more than offsetting the effect of lower interest rates. This downward trend accelerated in the 4th quarter, in a more favourable context to the Group, with a gradual rise of interest rates.

b - Solvency

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

In December 2016, the European Central Bank (ECB) sent Dexia its conclusions within the framework of the supervisory review and evaluation process (SREP). Inter alia, it sent Dexia the qualitative and quantitative regulatory capital requirements which will be applicable to Dexia SA and its principal entities as from 1 January 2017, in accordance with the Regulation (EU) No 1024/2013 of the Council dated 15 October 2013.

The ECB required the Dexia Group to comply with a Total Capital ratio of 9.875%, including the capital conservation buffer of 1.250%.

These levels are also applicable to Dexia Crédit Local, on a consolidated basis.

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

b.2 - Solvency ratios

As at 31 December 2016, the Dexia Group's "Common Equity Tier 1" capital reached EUR 7,011 million, against EUR 8,180 million as at 31 December 2015. This reduction is principally explained by the 60% deduction of the AFS reserve in 2016 against 40% in 2015, in accordance with the calendar defined by the CRD IV Directive. Furthermore, until 30 September 2016, the Dexia Group benefited from a national discretion authorising it not to deduct from its regulatory capital the AFS reserve associated with sovereign securities. Taking these two measures into account increases the amount deducted from regulatory capital by virtue of the AFS reserve to EUR -2.7 billion as at 31 December 2016 from the amount of EUR -1.2 billion as at 31 December 2015. The effect of these measures is partially offset by the positive net result for the financial year, and by a series of measures including the sale of heavily weighted assets or holdings directly deducted from equity and aimed at increasing the Group's regulatory capital.

Gains and losses directly recognized in equity amounted to EUR -5.7 billion as at 31 December 2016, up by EUR -0.3 billion over the year, mainly due to the widening of credit spreads on sovereign bonds, particularly in Italy, Spain and Portugal. This trend was pronounced over the first half-year, and then reversed in the second half-year.

At the end of 2016, risk-weighted assets amounted to EUR 43.4 billion, including EUR 41.0 billion for credit risk, EUR 1.4 billion for market risk and EUR 1 billion for operational risk. As a reminder, at year-end 2015, risk-weighted assets amounted to EUR 51.4 billion, including EUR 48.2 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the fall was for the most part induced by the reduction of the asset portfolio. The fall of risk-weighted market assets is associated with the decline of general and specific risk and the reduction of the specific foreign exchange risk.

Considering these elements, Dexia's "Common Equity Tier 1" ratio[7] was 16.2% as at 31 December 2016. As from 1 January 2017, Dexia must comply with ECB's solvency requirements, with a "Total Capital" ratio of 9.875%. As at 31 December 2016, Dexia's "Total Capital" ratio was 16.8%. As at 1 January 2017, it is estimated at 14.5%, after the 80% deduction of the AFS reserve associated with sovereign and non-sovereign assets.

The "Common Equity Tier 1" ratio and the "Total Capital" ratio of Dexia Crédit Local were 13.1% and 13.4% respectively as at 31 December 2016. As at 1 January 2017, the "Total Capital" ratio is estimated at 11.3%.

B - Evolution of the Dexia Group's liquidity situation

- *Prudent liquidity management, in a volatile market environment*
- *Significant reduction of the funding requirement over the year*
- *Decreasing reliance on funding from the European Central Bank*

In 2016, the Group has adopted a prudent liquidity management policy in order to anticipate any market disruptions. At the same time, it optimized its funding mix, by reducing its reliance on central bank funding.

The net amount of cash collateral posted by the Group to its derivatives counterparties suffered pronounced volatility over the year, reaching EUR 38.3 billion before gradually returning to the level at the end of 2015. As at 31 December 2016, the net amount of collateral was EUR 32.7 billion, against EUR 32.1 billion at the end of 2015.

[7] *Ratio including the net income for the financial year.*

At the same time, the bank's volume of funding significantly shrank, from EUR 162.8 billion in December 2015 to EUR 146.5 billion at year-end 2016. This evolution is principally explained by the reduction of the size of the asset portfolios.

Over the year, the Group adjusted its funding mix by favouring cheaper funding sources. The bank accordingly reduced its recourse to the European Central Bank to EUR 655 million as at 31 December 2016, in the form of LTRO, whilst that outstanding had been EUR 15.9 billion a year earlier.

During the year, Dexia successfully launched various long-term public benchmark transactions, in euro, US dollar and sterling, ranging from 3 to 7 years. These issues totalled EUR 5.5 billion, USD 3 billion and GBP 0.8 billion and, combined with private placement activity, enabled total long-term guaranteed funding to be raised in an amount equivalent to EUR 13.2 billion, thus covering the 2016 requirements in September and enabling the 2017 funding programme to be prefunded. At the same time, the Group was extremely active in its short-term funding through various guaranteed programmes in euro and US dollar. Short term funding activity accounted for 544 transactions totalling EUR 50.5 billion. The average term of the short-term funding exceeded 7 months. As at 31 December 2016, the outstanding guaranteed debt was up, at EUR 71.4 billion, against EUR 61 billion at the end of 2015.

The Group also continued its short and long-term secured market funding efforts, with outstandings slightly lower than the previous year, falling from EUR 67.4 billion at the end of 2015 to EUR 58.4 billion as at 31 December 2016, in line with the reduction of the stock of assets eligible for this type of funding.

Consequently, as at 31 December 2016 the Group's funding now relies on guaranteed funding and secured market funding, at 49% and 41% respectively, whilst central bank funding was significantly reduced (0.4%). However, the Group retains the capacity to access the latter type of funding in the case of necessity.

At the end of 2016, the Dexia Group had a liquidity reserve of EUR 18.2 billion, including EUR 14.9 billion in the form of eligible assets with the European Central Bank. The Group's Liquidity Coverage Ratio (LCR) was 80%.

Appendices

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

Balance sheet key figures			
EUR m	**31/12/2015**	**30/06/2016**	**31/12/2016**
Total assets	**230,281**	**235,887**	**212,771**
of which			
Cash and central banks	4,835	3,296	4,222
Financial assets at fair value through profit or loss	20,176	22,203	17,781
Hedging derivatives	6,672	7,710	6,830
Financial assets available for sale	22,257	20,468	16,568
Customer loans and advances	127,876	128,181	119,206
Accruals and other assets	38,346	43,395	36,884
Total liabilities	**225,733**	**232,443**	**208,197**
of which			
Central banks	15,932	7,350	690
Financial liabilities at fair value through profit or loss	22,779	23,706	18,676
Hedging derivatives	29,978	39,764	33,796
Interbank borrowings and deposits	48,780	46,284	40,238
Debt securities	91,532	97,574	98,524
Total equity	**4,548**	**3,444**	**4,574**
of which			
Equity, Group share	4,118	3,039	4,147

Appendix 2 – Capital adequacy (non-audited figures)

EUR m	**31/12/2015**	**30/06/2016**	**31/12/2016**
Common Equity Tier 1	8,180	7,401	7,011
Risk-weighted assets	51,414	49,960	43,356
Common Equity Tier 1 ratio	15.9%	14.8%	16.2%

Q2 2016 CET1 was restated from 15% to 14.8% as, following a previous inappropriate booking, part of the Cash Flow Hedge reserve had to be reclassified to consolidation reserves. This reclassification had no impact on total equity

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

Dexia Group exposure by geographic region			
EUR m	**31/12/2015**	**30/06/2016**	**31/12/2016**
United States	28,753	26,892	23,897
Italy	27,244	27,396	25,512
France	26,617	25,081	25,484
United Kingdom	25,821	26,916	25,461
Germany	22,308	22,672	20,689
Spain	16,933	15,868	14,154
Japan	7,560	8,787	7,479
Portugal	4,193	4,093	3,905
Central and Eastern Europe	2,895	2,429	1,843
Canada	2,717	2,864	2,655
Belgium	2,204	2,182	2,035
Austria	1,575	1,559	1,118
Scandinavian countries	1,471	1,280	1,229
Hungary	946	687	275
Southeast Asia	845	907	620
South and Central America	552	509	490
Switzerland	520	592	399
Netherlands	499	567	390
Turkey	496	443	367
Ireland	160	101	103
Greece	153	146	128
Luxembourg	125	104	85
Others	7,203	7,159	6,347
Total	**181,792**	**179,235**	**164,665**

Dexia Group exposure by category of counterparty			
EUR m	**31/12/2015**	**30/06/2016**	**31/12/2016**
Local public sector	94,426	96,018	89,298
Central governments	29,511	26,958	25,458
Financial institutions	24,781	24,496	20,123
Project finance	14,734	14,471	13,515
Corporate	8,463	8,179	7,607
ABS/MBS	8,039	7,378	6,600
Monolines	1,837	1,733	2,062
Individuals, SME and self-employed	2	2	2
Total	**181,792**	**179,235**	**164,665**

Group exposure by rating (internal rating system)			
	31/12/2015	**30/06/2016**	**31/12/2016**
AAA	16.5%	16.9%	17.6%
AA	22.0%	20.3%	18.5%
A	21.7%	23.8%	24.2%
BBB	27.8%	28.4%	29.4%
Non Investment Grade	10.7%	9.3%	9.2%
D	1.1%	1.1%	0.9%
Not Rated	0.2%	0.2%	0.3%
Total	**100%**	**100%**	**100%**

Appendix 4 – The Group's sector exposure as at 31 December 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*
Italy	25,512	10,750	843	457	47	13,415	
France	25,484	15,585	3,750	3,488		2,661	
United Kingdom	25,461	11,952	9,620	1,854	1,575	63	397
USA	23,897	12,448	806	3,224	4,277	1,477	1,665
Germany	20,689	17,537	227	2,510		415	
Spain	14,154	6,785	2,003	4,360	441	565	
Japan	7,479	5,484		1,150		845	
Portugal	3,905	1,794	115	16	85	1,894	
Poland	1,161	2		0		1,159	
Turkey	367	4	3	360			
Hungary	275	2		0		273	
Greece	128	50	78				

Appendix 5 – Asset quality (non-audited figures)

Asset quality

EUR m	**31/12/2015**	**30/06/2016**	**31/12/2016**
Impaired assets	1,532	1,544	1,064
Specific impairments(1)	*556*	*539*	*321*
Coverage ratio(2)	*36.3%*	*34.9%*	*30.2%*
Collective provisions	422	422	416

(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 22 February 2017			
	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 defendant or as claimant.

The most significant developments in the 4th 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 is provided for comparison and should be read in conjunction with the corresponding summaries contained or mentioned in the Dexia Annual Report 2015, in the financial interim report 2016, as well as in the Q1 & Q3 interim statements (available at www.dexia.com).

On the basis of the information available to Dexia as at 31 December 2016, events or developments that occurred during the 4th quarter of 2016 and the beginning of 2017 in pending regulatory investigations and disputes which are 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.

The consequences, as assessed by Dexia based on the information available to it as at 31 December 2016, of the most significant disputes and investigations that are liable to have a material impact on the Group's financial situation, its results or its business generally are provided in the Group's condensed consolidated financial statements. Subject to the terms and conditions of the professional liability insurance and Directors' liability insurance policies entered into by Dexia, the adverse financial consequences of all or certain disputes and investigations may be covered, in whole or in part, under one or other of such insurance policies and, upon acceptance of such risks by the relevant insurers, be offset against any payment Dexia would receive pursuant thereto.

Positive decision in a litigation relating to structured loans in France

A positive decision has been issued by the Commercial Court of Nanterre in January 2017 in a matter involving *Société d'aménagement de la ville de Lyon* (SACVL), an entity that is in principle not covered by the validation law. Contrary to what has been decided by the Court of First Instance of Nanterre in September 2016 in a case that also involved an entity that is not covered by the validation law, the

Commercial Court has decided here not to follow the CG 93 jurisprudence relating to the reference to the effective interest rate in the confirmation fax and rejected all the claimant's arguments.

New decisions of the Dutch Supreme Court in certain litigation relating to Dexia Nederland

In the 4th quarter of 2016, the Dutch Supreme Court has issued several decisions in favour of Dexia Nederland, in relation to (i) the elements to be taken into account for the determination of whether a client's financial risk was acceptable or unacceptable and (ii) the allegation that Dexia Nederland would never have bought the leased shares. All allegations were rejected.

Early 2017, the Supreme Court issued another decision on how to impute the impact of transactions ending with a positive result on the outstanding amounts due under the share leasing contracts. An impact assessment of this decision is being conducted, taking into account what has already been paid by Dexia Nederland.

Court decision in Dexia Israel legal proceedings

On 25 January 2017, the Tel Aviv Court issued the second part of its decision approving the terms of the settlement that has been concluded with plaintiffs and the consideration due to the plaintiffs and their counsels. Such decision has allowed Dexia Israel to initiate an equalization process of its categories of shares and pay a dividend to all shareholders.

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