

## Deterioration of the environment in the second half of 2011 leads the Group to announce radical restructuring measures

### 2011 results highlight significant one-off items translating into a net loss of EUR 11.6 billion

#### Highlights

Highly contrasted 2011 marked in its second half by a sharp worsening of the economic environment

- Implementation of the restructuring plan on schedule until May 2011
- Significant pressure on liquidity induced by the deterioration of the economic climate and the successive rating reviews of the Group's operational entities
- In October, adoption of structural measures radically altering the Group structure; new guarantee scheme on the Group funding

2011 results marked by significant one-off items: net loss of EUR 11.6 billion

- Loss related to the disposal of Dexia Bank Belgium: EUR -4.0 billion
- 75% discount on Greek sovereign and assimilated exposure: EUR -3.4 billion
- Cost of deleverage including Financial Products: EUR -2.6 billion
- Loss related to the disposal of Dexia Municipal Agency: EUR -984 million

Disposal process accounting for EUR 154 billion balance-sheet decrease, at EUR 413 billion

Tier 1 and Core Tier 1 at 7.6% and 6.4% as a result of reported loss and disposals

- Excluding the weighted risks of the disposals to come, pro forma Tier 1 and Core Tier 1 ratios should be 8.6% and 7.3% respectively

Given the loss recorded in 2011:

- Proposal to the Shareholders' Meeting not to pay any dividend in cash or in kind for 2011
- No coupon payment on hybrid debt, unless legally mandatory; no exercise of calls on subordinated debt

## Note related to the presentation of Dexia's 2011 consolidated financial statements

Dexia's 2011 consolidated financial statements have been prepared on a "going concern" basis and rely on a certain number of assumptions, including:

- The approval by the European Commission of a new restructuring plan including notably a guarantee from the Belgian, French and Luxembourg States;
- The granting by the Belgian, French and Luxembourg states of a guarantee for an amount of EUR 90 billion. The principle of such guarantee was announced in October 2011 and reflected in the authorising legislation of the French, Belgian and Luxembourg States. Moreover, according to the conditions of article 15 (f) of the guarantee agreement concluded on 16 December 2011 between the Belgian, French and Luxembourg States, Dexia SA, Dexia Credit Local and the States undertook to negotiate in good faith the renewal of the guarantee agreement, which could include an increase in the total guaranteed amount up to EUR 90 billion;
- A financial remuneration of the States, either enabling the Group to generate a positive result or one allocated to strengthen the Group's equity; the remuneration under the guarantee will be one of the significant elements likely to influence the Group's profitability; and
- The support from the States, with regard to the Group's liquidity situation under the guarantees granted, for the proper implementation of the in-depth restructuring measures announced in October 2011.

In the absence of additional corrective measures, the non-realisation of one or several of the above mentioned assumptions could impair the "going concern" status of Dexia SA and challenge the Group's liquidity and solvency situation. These assumptions rely on certain external factors beyond the control of Dexia. Their realisation remains therefore uncertain and will depend, amongst others, on the decision of the European Commission.

The auditors have not yet completed their audit review and have indicated to the Board of Directors their intention to deliver an unqualified opinion on the consolidated financial statements, with explanatory paragraph referring to the uncertainties regarding the going concern that will be reported in the financial statements and the annual report.

## Update on progress made with the transformation plan

### Transformation Plan 2008-2011

Until 2008, Dexia followed an expansion strategy articulated on the one hand around the rapid geographic development of its Public and Wholesale Banking business outside its core markets and on the other hand around the constitution of an investment bond portfolio. At the end of 2008, total Group non-strategic assets amounted to EUR 203 billion<sup>1</sup>. It is to be noted that these assets haven for the most part been micro-hedged against interest-rate variations by the contracting of interest rate swaps, explaining the magnitude of the Group's off-balance commitments. During the same period, the Group's exposure to the US market increased considerably through its credit enhancement subsidiary Financial Security Assurance<sup>2</sup>, the investment strategy of which directly exposed the Dexia Group to the risks of the US subprime market. Dexia had also developed its activity as lender of last resort to US municipalities with the marketing of liquidity lines known as Stand-by Bond Purchase Agreements (SBPA), which in October 2008 represented an off-balance sheet liquidity risk of USD 50.4 billion for the Group.

Enjoying sound ratings, Dexia funded a large proportion of this expansion strategy via "wholesale" funding sources, mostly short term, and via the recurrent and significant use of central bank funding. Indeed, in October 2008, 43% of the Group's balance sheet was funded over the short term.

The 2008 financial crisis highlighted the imbalances of this strategy and harmed the Group very severely. Arriving in October 2008, the new Group management was set two main objectives by the State shareholders: to reduce the risk which had led the Group to such a critical situation and to consolidate its historic business lines, in particular retail banking in Belgium and in Luxembourg and local public sector finance in Belgium and in France. These two objectives were at the heart of the transformation plan implemented between October 2008 and October 2011, a plan validated by the European Commission in its decision of 26 February 2010.

<sup>1</sup> Bond portfolio in run-off (EUR 158 billion); Financial Products portfolio (EUR 13 billion); ALM bond portfolio (EUR 32 billion).

<sup>2</sup> As at 31 December 2008, FSA held an enhanced portfolio of USD 425 billion including USD 118 billion in ABS.

## **Reduction of the risk profile**

First of all, management set to removing the more critical risks, through the disposal of activities in the United States and in Eastern Europe. A systematic reduction of the Group's risk profile was then applied as part of the transformation plan, following three lines: balance sheet deleverage, reduction of the short-term funding requirement and the resizing of trading activities.

### ***Balance sheet deleverage***

Between 2008 and mid-2011, the Group's balance sheet fell 20% from EUR 651 billion to EUR 518 billion under the combined effect of selling entities and non-strategic financial assets and by adopting a more selective lending policy to the local public sector.

#### Entity disposals

The sale of the insurance activities of Financial Security Assurance and KommunalKredit Austria took place from the end of 2008.

In 2009 and 2010, Dexia also sold its holdings in Crédit du Nord, Dexia Epargne Pension, AdInfo and SPE as well as the shares in Assured Guaranty, which the Group held following the sale of Financial Security Assurance.

Disposals continued in the first half of 2011, in line with the undertakings made to the European Commission, with the finalisation of the sales of Dexia banka Slovensko at the end of March 2011 and DenizEmeklilik, the life insurance and pension subsidiary of DenizBank in Turkey, in October 2011.

#### Reduction of the portfolio of non-strategic assets

From the end of 2008, Dexia placed its bond portfolio in run-off (EUR 158 billion at year-end 2008) and proceeded to reduce it via a voluntary disposal programme. The Financial Products portfolio (EUR 13 billion at year-end 2008), which was not included within the scope of the sale of Financial Security Assurance, was also placed in run-off as well as certain non-strategic loans to the local public sector (EUR 38 billion at year-end 2008) and off-balance-sheet liquidity lines in the United States (SBPA).

Between year-end 2008 and June 2011, non-strategic financial assets were thus reduced by 47%, or EUR 121 billion (including off-balance-sheet liquidity lines). Over the same period, EUR 70.3 billion of assets were sold, at an average loss rate of 1% of the nominal value, and the Group proactively reduced the stock of US liquidity lines to USD 4.4 billion as at 2 February 2012.

Within the context of accelerating the disposal of the Group's non-strategic assets, as announced in May 2011, Dexia sold the guaranteed assets of the Financial Products portfolio (EUR 6.4 billion). Essentially these were sold to final investors in order to guarantee the best possible execution (see section Legacy Portfolio Management Division).

### ***Reduction of the short-term funding requirement***

At the same time as the implementation of a State funding guarantee mechanism established on 9 October 2008, recourse to short-term funding was rapidly reduced using three levers:

- The drastic reduction of lending to local authorities, which had been aligned to the Group's ability to issue covered bonds;
- The accelerated sale of non-strategic assets, mostly funded over the short term;
- The strengthening of the Group's commercial franchises in order to increase stable funding sources such as client deposits.

Between the end of October 2008 and the end of June 2011, short-term funding was reduced from EUR 260 billion to EUR 96 billion, or 63% of the liquidity gap. The imbalance of the Group's financial structure was also reduced, 19% of the balance sheet total then being funded over the short term, against 43% at the end of October 2008.

### ***Resizing trading activities***

From year-end 2008, proprietary trading activities were stopped and the VaR limits for other trading activities were halved. On the other hand, trading activities which had been spread within the Group were centralised on two market platforms in Brussels (trading, central treasury) and Dublin (management of run-off portfolios).

### **Consolidation and redeployment of commercial franchises**

As part of the transformation plan, the Group refocused its activities on its core business lines, Public and Wholesale Banking and Retail and Commercial Banking, and on its principal markets, in France, Belgium, Luxembourg, Turkey, Italy and Spain.

This refocusing was accompanied by a plan to develop and consolidate the main commercial franchises (cf. Dexia Investor Day, October 2011).

Within retail banking in Belgium, a EUR 350 million investment plan accompanied the implementation of a new distribution model, which enabled branches to be renovated, internet services to be developed and the level of staff qualification to be improved. At the end of June 2011, this new distribution model was deployed in 370 branches. Between the end of December 2008 and the end of June 2011, with the improvement of client relationship, deposits rose by 19%, or EUR 12 billion.

Retail banking activity in Turkey, a reservoir of Group growth, was developed significantly with an ambitious investment plan. Between year-end 2008 and the end of 2011, 188 new domestic branches were opened, testifying to a higher growth rate than the sector average. More than 1.9 million of clients were acquired and deposits increased by about TRY 15 billion.

The Public and Wholesale Banking business line was refocused on its historic markets (principally in Belgium and France), where margins increased significantly and the range of added value products was enlarged. Against a background of scarcity of short-term liquidity, production was more selective and down approximately 80% between 2008 and 2009.

### **Cost reduction**

A programme to reduce the cost base by 15%, or EUR 600 million, was initiated in 2008, based on productivity gains, the simplification of operational functions and the industrialisation of certain processes. This programme, which involved no forced redundancies, enabled the competitiveness of commercial activities to be restored, whilst releasing the financial room for manoeuvre vital to implementation of the transformation plan.

### ***Worsening of the economic context, pressure on liquidity and the adoption of new structural measures in October 2011***

The aggravation of the sovereign debt crisis from the beginning of the summer 2011 marked a turning point for the Dexia Group. In fact, despite the progress made with regard to its transformation plan, Dexia was subject to increasing tensions on its liquidity. Confronted with the need for immediate and resolute action, the Group undertook a new series of structural measures.

### **Increasing tensions on the Group's liquidity**

The improvement of the Dexia Group's financial structure and the reduction of its liquidity needs were the priority goals set in the transformation plan launched in 2008. From mid-2011 onwards the deepening of the sovereign crisis in the Euro zone and the increased distrust towards financial institutions severely impacted the Group's liquidity situation through several successive shocks:

- In the first place, the ratings of the main Group operating companies being put under negative watch in March (Moody's) and May 2011 (S&P) led to a decrease of more than EUR 22 billion in Group unsecured funding between the end of April and the end of June 2011. USD financing was impacted first but Dexia managed the resulting tensions by way of the swift execution of currency swaps;
- The confirmation of the short-term rating by S&P in early July 2011 failed to reopen access to unsecured funding given the concomitant worsening of the European sovereign debt crisis. The indecisiveness surrounding the Greece assistance programme and resulting tensions on the debt of other European

sovereigns have led to the significant rise in risk aversion, especially from the US investors. Confidence in the signature of Dexia, formerly the number one lender to the public sector, was deeply affected given the sovereign exposure of the Group which led to the further loss of EUR 6 billion in unsecured funding between the end of June and the end of September 2011;

- This rise in short-term liquidity requirement was made worse by the significant fall in interest rates that simultaneously pushed up the need to post collateral by more than EUR 15 billion to the benefit of Group derivative counterparties between June and December, in a context of increased scarcity of liquidity;
- Finally, on 3 October 2011, the announcement by Moody's that it was putting both the long and short-term ratings on negative watch accelerated the loss of the Group's interbank unsecured funding (a further loss of EUR 9 billion) and eroded the trust of retail customers in Belgium and Luxembourg, leading to a flight of deposits to the tune of EUR 7 billion between the end of September and the end of October 2011.

All these items resulted in severe tensions on the Group's liquidity situation which, from October 2011, lost its access to unsecured funding (cf. paragraph on Balance sheet and liquidity).

### **Adoption of new structural measures**

In order to protect its commercial franchises and to avoid an ongoing deterioration of its liquidity situation, the Group very rapidly announced a series of measures seriously impacting its structure. These are detailed below.

#### ***State guarantee on funding issued by Dexia SA and its subsidiary Dexia Credit Local***

In a context of increasing funding pressure, and to support the Dexia Group in the implementation of the next steps of its restructuring plan, the States of Belgium, France and Luxembourg have undertaken, subject to approval by the European Commission, to guarantee up to EUR 90 billion in new funding issued by Dexia SA and its subsidiary Dexia Credit Local on a several but not joint basis and in the following proportions: 60.5% by Belgium, 36.5% by France and 3% by Luxembourg.

In a first stage a temporary agreement was signed by the States, Dexia SA and Dexia Credit Local, which limits the amount of guaranteed debt Dexia SA and Dexia Credit Local may issue in the period up to 31 May 2012 to a maximum of EUR 45 billion.

On 21 December 2011 a temporary agreement was reached with the European Commission on this guarantee mechanism, allowing Dexia Credit Local to execute its first short-term debt issues by way of a dedicated Certificate of Deposits programme (cf. paragraph on Balance sheet and liquidity).

In accordance with applicable state aid rules, the Belgian, French and Luxembourg States undertook to submit a new restructuring plan to the approval of the European Commission before 21 March 2012. The preparation of this plan is progressing, in cooperation with Dexia. The contemplated divestment of Dexia Municipal Agency, Dexia Banque Internationale à Luxembourg and the other disposals described in the paragraph "Other disposals" will be submitted to the European Commission in the framework of this new restructuring plan.

#### ***Sale of Dexia Bank Belgium to the Belgian State***

Considering the risks raised by the situation of the Dexia Group regarding the commercial franchise of Dexia Bank Belgium and the systemic nature of that establishment for the Belgian financial system, the Belgian State offered to purchase the Dexia holding in Dexia Bank Belgium on 9 October 2011.

The Board of Directors of Dexia SA approved that offer and the sale of 100% of the shares in Dexia Bank Belgium to the Société Fédérale de Participations et d'Investissement, acting on behalf of the Belgian State, was finalised on 20 October 2011 for an amount of EUR 4 billion. The proceeds of the sale were principally allocated by Dexia SA to the early repayment of loans granted by Dexia Bank Belgium to Dexia SA and to Dexia Credit Local.

The sale agreement related to all the assets and liabilities and all subsidiaries and holdings of Dexia Bank Belgium, except its 49% holding in Dexia Asset Management, which was transferred to Dexia SA on 20 October 2011. Commercial and operational relations between Dexia Bank Belgium and Dexia Asset Management nonetheless continued.

The intra-Group funding granted by Dexia Bank Belgium to other Group entities was maintained and is being reduced gradually in line with the principles established in the sale agreement. Funding constitutes one of the key elements supervised by a transition committee in order to ensure a smooth unwinding of the tight operational links existing between Dexia Bank Belgium and the rest of the Group.

### **Agreement in principle between Dexia, Caisse des Dépôts, La Banque Postale and the French State**

In line with the negotiation protocol finalised on 20 October 2011, Dexia, the Caisse des Dépôts, La Banque Postale and the French State concluded an agreement in principle on 10 February 2012 aimed at securing the financing of the local public sector in France.

Defined jointly, the scheme revolves around two lines:

- The setting up of a joint venture, held 65% and 35% respectively by La Banque Postale and the Caisse des Dépôts, which will market new finance in favour of French local authorities.
- The creation of a new credit establishment held by the French State (31.7%), Caisse des Dépôts (31.7%), Dexia Credit Local (31.7%) and La Banque Postale (4.9%). This new credit establishment will be the parent company of Dexia Municipal Agency, a *société de crédit foncier* and as of today subsidiary of Dexia Credit Local, dedicated to local public sector finance, which it will hold 100% and for which it will provide the management. It will also manage the industrial platform used by Dexia Municipal Agency and certain activities of the joint venture and the Dexia Group. Eligible loans granted by the joint venture will be refinanced by Dexia Municipal Agency.

Transferring to the new credit establishment the means and staff necessary for the management of Dexia Municipal Agency, the scheme envisaged will enable the unity of the Dexia Credit Local historical industrial tool to be preserved and thus competences and know-how to be transmitted.

Dexia Credit Local will retain an activity with the local public sector, notably through its subsidiaries dedicated to financial services. Dexia will also manage the residual portfolios (legacy) as well as the international commercial subsidiaries.

It is planned that Dexia will provide Dexia Municipal Agency, on the one hand, with guarantees relating to a EUR 10 billion portfolio of structured loans concluded with French local authorities and, on the other hand, an indemnity against losses in excess of 10 basis points on all outstanding loans, which represents 10 times more than the losses faced by Dexia Municipal Agency on an historical basis. Furthermore, subject to prior approval of the European Commission, Dexia will benefit from a counter-guarantee from the French State on that same portfolio of structured loans of up to 70% of the losses exceeding EUR 500 million.

The sale price for 100% of Dexia Municipal Agency is EUR 380 million, resulting in a loss of around EUR 1 billion for the Dexia Group. A clause is also provided for price revision, after three years either up or down, and tied to a limit. No prior sale of assets on the Dexia Municipal Agency balance sheet is required prior to the sale of the entity.

The agreement in principle concluded on 10 February 2012 provides that La Banque Postale will benefit from purchase options relating to the entirety of the Dexia Credit Local holding in the new credit establishment, which may be exercised along with the development of the joint venture business.

This project will permit the continued reduction of the size of the Dexia Group's balance sheet and its liquidity requirement and preserve its industrial tool. In fact, the sale of Dexia Municipal Agency should be reflected by a EUR 65 billion reduction in the size of the Dexia Group's balance sheet and by a fall in its short-term funding requirement, with Caisse des Dépôts providing EUR 12.5 billion in liquidity in order to cover the liquidity needs of Dexia Municipal Agency.

This project will be submitted for the approval of the European Commission and of the relevant regulatory authorities. It will also be presented to the staff representatives concerned for their opinion.

### **Sale of Dexia Banque Internationale à Luxembourg**

In October, Dexia SA started negotiations with a view to disposing of Dexia Banque Internationale à Luxembourg. A binding memorandum of understanding was concluded at the end of December 2011 under the terms of which the Dexia Group will sell to Precision Capital and to the Grand Duchy of Luxembourg its 99.906% holding in Dexia Banque Internationale à Luxembourg.

Precision Capital, a Qatari investment group, will acquire 90% of the holding, and the remaining 10% will be acquired by the Grand Duchy of Luxembourg. The transaction price values 100% of the shares in Dexia Banque Internationale à Luxembourg held by Dexia SA at EUR 730 million.

The holdings of Dexia Banque Internationale à Luxembourg in Dexia Asset Management Luxembourg and RBC Dexia Investor Services Limited will not be within the scope of this transaction. The Dexia Banque Internationale à Luxembourg portfolio of Legacy securities as well as its holdings in Dexia LDG Banque and Parfipar will be transferred to Dexia prior to the closing of the transaction.

The transaction will remain subject inter alia to all required regulatory approvals, including approval by the European Commission.

### ***Other disposals***

On 19 October 2011, the Board of Directors of Dexia SA empowered the Chief Executive Officer, under an open and competitive procedure, to launch the sale process of Dexia Asset Management and the Group's 99.84% holding in DenizBank.

The Board also empowered the Chief Executive Officer to determine the conditions under which Dexia's 50% holding in RBC Dexia Investor Services, held as a joint venture with Royal Bank of Canada, could be disposed of and to start the disposal process.

All these disposals will be subject to prior approval from the banking supervisory authorities and the European Commission.

## **Results 2011**

At its meeting on 22 February 2011, the Board of Directors approved the 2011 results of the Dexia Group.

### ***Presentation of the 2011 consolidated financial statements of the Dexia Group***

Dexia's 2011 consolidated financial statements have been prepared on a "going concern" basis and rely on a certain number of assumptions that are described in the section "Note related to the presentation of Dexia's 2011 consolidated financial statements".

In presenting Dexia's 2011 consolidated financial statements, the structural measures undertaken by the Group in October 2011 were reflected by the application, for entities likely to be sold in 2012, of the **IFRS 5 norm** relating to "**non-current assets and disposal groups held for sale**". Applying that norm, the results achieved by Dexia Banque Internationale à Luxembourg, Dexia Municipal Agency, Dexia Asset Management and RBC Dexia Investor Services and possibly the result associated with the disposal of those entities, were recorded as "net income from discontinued operations". Similarly, the assets and liabilities of those entities are presented in a separate balance-sheet item. The comparative period is restated in the statement of income but not in the balance sheet.

Dexia Bank Belgium was deconsolidated on 1 October 2011. Its result for the first nine months of 2011 and the capital loss on the sale made by Dexia are recorded as "net income from discontinued operations".

The outcome of the DenizBank sale process remains too uncertain to justify application of the IFRS 5 norm.

## 2011 results of the Dexia Group

<b>Consolidated statement of income*</b>			
	<b>2010*</b> as published	<b>2010**</b> restated ***	<b>2011**</b>
In millions of EUR			
<b>Income</b>	<b>5,310</b>	<b>1,562</b>	<b>-4,383</b>
Expenses	-3,703	-1,136	-1,114
<b>Gross operating income</b>	<b>1,607</b>	<b>426</b>	<b>-5,497</b>
Cost of risk	-641	-611	-551
Other impairments and provisions for legal litigation	-42	-38	-196
<b>Net result before tax from continuing operations</b>	<b>924</b>	<b>-223</b>	<b>-6,244</b>
Tax expense	-127	56	-161
<b>Net result from continuing operations</b>	<b>-</b>	<b>-167</b>	<b>-6,405</b>
<b>Net result from discontinued operations</b>	<b>-</b>	<b>964</b>	<b>-5,236</b>
<b>Net result</b>	<b>797</b>	<b>797</b>	<b>-11,641</b>
Non-controlling interests	74	74	-2
<b>Net result Group share</b>	<b>723</b>	<b>723</b>	<b>-11,639</b>
<b>Net result Group share from continuing operations</b>	<b>-</b>	<b>-231</b>	<b>-6,398</b>
Earnings per share (in EUR)****	0.39	0.37 ****	-5.97
Earnings per share from continuing operations (in EUR)	-	0.12	-3.28

\* Audited figures

\*\* Unaudited figures

\*\*\* In accordance with IFRS 5, the comparative information of the discontinued operations is disclosed separately.

\*\*\*\* 2010 figures were restated to consider the issuance of new ordinary shares, free of charges (bonus shares) distributed to shareholders.

In 2011, the Dexia Group had a **net income Group share** of EUR -11,639 million, of which EUR -6,398 million attributable to Group continuing operations.

At EUR -4,383 million, 2011 **income from continuing operations** was heavily impacted by EUR 3,054 million in impairments on Greek sovereign bonds and assimilated exposure and on related hedging derivatives. EUR 310 million in impairments were also recorded in cost of risk, taking the total impairment to EUR 3,364 million (excluding Dexia Bank Belgium).

In the absence of agreement on the terms of the private sector contribution to the Greek rescue plan, Dexia in fact decided, in its 4Q 2011 results, to book an additional impairment on its Greek sovereign bonds and assimilated exposure, taking the total impairment to EUR 2,355 million, or a discount of 75% on the Group's EUR 2.9 billion nominal exposure as at 31 December 2011. EUR 1,009 million in impairments on hedging derivatives<sup>3</sup> are added to this amount.

To recall, EUR 1,250 million in impairments on Greek sovereign bonds were also booked at the level of Dexia Bank Belgium in the first nine months of 2011. These impairments are integrated in the capital loss on the sale of Dexia Bank Belgium, recorded as "net result from discontinued operations". Total impairments on Dexia's exposure to Greece thus amounted to EUR 4,614 million in 2011.

The asset disposal programme also impacted income in 2011. Indeed, the Group recorded a EUR 438 million loss on the sale of EUR 11.5 billion in non-strategic bonds and loans (excluding Dexia Bank Belgium). Following the decision announced in May 2011 to accelerate the disposal of non-strategic assets, Dexia also sold the guaranteed assets in the Financial Products portfolio with a loss of EUR 1,928 million.

In June 2011, the Group transferred EUR 17.6 billion nominal in financial assets to "non-current assets and disposal groups held for sale" (IFRS 5) (EUR 14.8 billion excluding Dexia Bank Belgium) resulting in a fair-value adjustment of EUR -1,745 million (EUR -1,487 million excluding Dexia Bank Belgium). The sales of

<sup>3</sup> The transactions concerned are hedging derivatives accounted for as fair-value and cash-flow hedge because of the uncertainties weighing on the expected bond cash flows, leading to inefficiency of the accounting hedge.



operational entities announced in October 2011 will enable Dexia to exceed the targeted balance-sheet deleveraging and consequently to slow the pace of non-strategic asset disposals. The Group therefore decided, in accordance with accounting rules, to reclassify assets not sold in their original accounting category, and this led to a cancellation of the fair-value adjustment recorded in June<sup>4</sup>. Over the entire year, this led to a net value adjustment of EUR -252 million after taking back EUR 30 million in 3Q 2011 and EUR 1,205 million in 4Q 2011.

Within the framework of implementing the temporary State liquidity guarantee, commission fees of EUR 225 million were recorded by the Group at year-end 2011 and paid to the Belgian, French and Luxembourg States, as their respective portions of the guarantee.

Finally, 2011 income benefits from a gain on the EUR 135 million sale of DenizEmeklilik, the insurance subsidiary of DenizBank in Turkey, to MetLife.

The total impact of these significant elements on the Group's pre-tax income was EUR -6.2 billion.

Beyond these significant elements, annual income was also impacted by the lower result from transformation (EUR -162 million for the Group Center and EUR -96 million for the Legacy Division compared to 2010) and by a EUR -136 million exchange effect on DenizBank income.

**Costs** were at EUR 1,114 million, down 2% on the financial year 2010, during which, under its transformation plan, Dexia booked EUR 145 million in restructuring costs. In 2011 the cost base also benefited from an exchange effect of EUR 77 million for DenizBank.

In 2011, **gross operating income** reached EUR -5,497 million.

**Cost of risk** is down 10% on 2010 at EUR 551 million. This is explained in particular by the fall in the cost of risk on the Financial Products portfolio from which riskier assets were sold in 2011 (EUR +466 million compared to year-end 2010) as well as a lower level of provisioning for retail and commercial banking activity in Turkey against a background of a general improvement in the economic environment. As mentioned earlier, an impairment of EUR 310 million on Group exposure to Greece is also recorded in the cost of risk.

**Other impairments and provisions for legal litigation** were up EUR 196 million on year-end 2010. This rise is entirely associated with the impairments on the goodwill of Dexia Credit Local, Dexia Crediop and Dexia Israël.

Consequently, **pre-tax income from continuing operations** was EUR -6,244 million.

**Tax expense** was EUR 161 million, impacted by positive and negative one-off items.

**Net result from continuing operations** amounted to EUR 6,405 million.

**Net result from discontinued operations** was EUR -5,236 million. This loss is essentially explained by a capital loss of EUR 4,048 million associated with the sale of Dexia Bank Belgium as well as a loss of EUR 984 million expected on the sale of Dexia Municipal Agency. To recall, the capital loss recorded on the sale of Dexia Bank Belgium includes the results of the bank for the first nine months of 2011, including the EUR 1.3 billion impairment on exposure to Greece.

After taking account of EUR -2 million in non-controlling interests, **net income Group share** was EUR -11,639 million in 2011.

Considering the major losses in 2011, on 22 February 2012 the Board of Directors decided to propose to the Shareholders' Meeting on 9 May 2012 not to pay any dividend in kind or in cash for 2011.

On the other hand, in 2012, the Group does not plan to pay coupons on its hybrid debt unless legally mandatory. It does not intend to exercise any call on Group subordinated debt.

### **Activity and results of the business lines**

As Dexia Bank Belgium was sold to the Belgian State and deconsolidated in October 2011, the comments below do not relate to the Retail or to the Public and Wholesale Banking activities of that entity, or Insurance, which was also disposed of within the framework of that sale. Despite the Group's intention to dispose of a majority stake of Dexia Municipal Agency in coming months, the section relating to the Public and Wholesale Banking business line includes the production of assets on the balance sheet of that refinancing subsidiary, which represent approximately one half of the Public Finance production in France for the year 2011.

---

<sup>4</sup> With the exception of the residual value of the "frozen AFS reserve" on securities reclassified as loans.

## Public and Wholesale Banking

2011 was a year of two distinct phases. During the first half of the year, activity was sustained in particular by a dynamic range of value added services to the public sector as well as selective loan production at high margins. The shock caused in the summer by the sovereign crisis slowed production and led to a preference for financing backed by specific resources from the perspective of further increased caution in balance-sheet management. Against that background, new long-term loan commitments fell by 29% in 2011, to EUR 4.4 billion, a decline observed in all the Group's areas of activity.

In France, new short and long-term commitments to local authorities totalled EUR 5.3 billion in 2011, including EUR 1.3 billion in the distribution of pre-financed programmes (EIB, CDC ...) and EUR 4.0 billion in production, including EUR 2.7 billion short term.

**Public finance.** 2011 saw a confirmation of the high increase of margins observed in 4Q 2010. Levels of new long-term commitments were controlled in all the markets covered by the Group. In France, where finance alternatives did not materialise and where competition contracted sharply, the Group generated EUR 2.7 billion in long-term loans at clearly increasing margin levels and shorter average maturities than in 2010. In 4Q 2011, production was principally backed by specific resources. Internationally, production was reduced by one half.

Furthermore, EUR 8.9 billion worth of debt management were carried out, including EUR 4.6 billion in France and the remainder principally in Spain and the United Kingdom. Still a priority for the Group, the collection of deposits was sustained over the first three quarters of the year, most particularly in Germany. In 4Q 2011, significant outflows were observed, against a background of downgrade of Group ratings.

The production of **corporate loans** developed satisfactorily, principally on the basis of the development of factoring and leasing products, including long-term leasing, through the Group's specialist finance subsidiaries.

Pre-tax income amounted to EUR 68 million in 2011, down EUR 188 million on 2010, notably due to EUR 74 million negative credit-value adjustments (CVA) on swaps with Public and Wholesale Banking clients in Italy.

## Retail and Commercial Banking

Excluding Dexia Bank Belgium, total customer assets in Retail and Commercial Banking amounted to EUR 41 billion as at 31 December 2011, of which EUR 24 billion of deposits and EUR 17 billion of off-balance-sheet assets. Loans were at EUR 22 billion.

In **Turkey**, DenizBank posted a very good commercial performance and continued to expand its customer franchise in 2011. 88 new retail and SME branches were opened during the year to reach a total of 588 domestic branches by the end of December 2011 and 600 in total including the foreign branches. 2,370 ATMs are currently at the disposal of the clientele, of which more than half were set up during the year as part of the collaboration with the Turkish Post (PTT). As at 31 December 2011, DenizBank was serving 5.1 million clients, including the 875,000 new clients acquired in 2011. Deposit gathering was steady in 2011, leading to total outstandings of TRY 26.5 billion (EUR 10.8 billion), up 34% on 2010. This increase was higher than the 13% average sector growth. Loans were up 30% to TRY 30.9 billion (EUR 12.7 billion), mainly driven by business loans. The strong deposit growth resulted in a loan-to-deposit ratio decreasing to 117% in 2011, from 121% at the end of 2010.

This good commercial momentum translated into a pre-tax income of EUR 270 million in 2011, up 6% on 2010 and 24% at constant exchange rate (foreign exchange impact of EUR -37 million). From this perspective, income went up 15% driven mainly by the strong average volume increase, which more than offset the margin drop on loans and the cost of the increased reserve ratio required on deposits by the Turkish Central Bank since December 2010. Costs increased by 25% as a result of business expansion. Impairments decreased by 40% due to the better economic environment.

In **Luxembourg**, customer assets amounted to EUR 28 billion as at 31 December 2011, down 13.8% on December 2010. The aggravation of the sovereign crisis in the summer, as well as the uncertainties surrounding the Dexia Group, resulted in significant outflows in deposits, mainly in October. Outstanding loans increased slightly (+3.1%), at EUR 9.3 billion. Since the announcement of the signing of a memorandum of understanding between Dexia, Precision Capital and the Grand Duchy of Luxembourg for the sale of Dexia Banque Internationale à Luxembourg on 20 December 2011, the flows have stabilised, with slight growth in December.

Pre-tax income stood at EUR 172 million in 2011, down 4% on the previous year.

## Asset Management and Services

With **Assets under management** (AuM) amounting to EUR 78 billion as at the end of December 2011, Dexia Asset Management managed to limit AuM losses to less than 10% (i.e. EUR 8.4 billion) compared to the end of 2010. The negative market effect accounted for EUR 2.4 billion, while net outflows stood at EUR 6.0 billion. These outflows were, in the first place, concentrated on retail bond funds which, in an uncertain environment, are generally most impacted by factors such as competition from deposits and high quality bond issuance.

However, Dexia Asset Management's investment solution approach paid off well, as testified by the overall good resilience of the mandates and advisory business over the year.

At the end of 2011, assets under management remained well diversified between different asset classes: asset allocation strategies (36%), fixed income (28%), equities (19%), money market (11%) and alternative investments (6%). SRI solutions represented 23% of total assets.

Pre-tax income amounted to EUR 54 million in 2011, down 13% on 2010 reflecting lower revenues due to challenging markets while costs remained well under control.

2011 was an asymmetric year for **Investor Services**. After a dynamic start, activity slowed in the second part of the year, due to the underperformance of the equity markets and despite good underlying growth in client outstandings. All in all, assets under administration were roughly stable, at EUR 2,066 billion. The number of shareholder accounts followed a similar trend.

Pre-tax income reached EUR 77 million in 2011, up 27% on 2010.

## Legacy Portfolio Management Division

As at 31 December 2011, the commitments of the Legacy Portfolio Management Division<sup>5</sup> amounted to EUR 95.1 billion (including off-balance-sheet commitments). Balance-sheet commitments amounted to EUR 89.7 billion, down EUR 44.6 billion on year-end 2010, principally as a consequence of asset disposals and the sale of Dexia Bank Belgium. The Legacy funding profile is comparable from one year to the next, with the short-term funding ratio slightly falling from 43.0% to 41.3% between December 2010 and December 2011.

During the first five months of 2011, the Dexia Group continued with its voluntary asset disposal policy, in line with the undertakings made to the European Commission, in order to reduce the Group's short-term funding requirement and to limit its risk profile. Over that period, the loss rate on disposals remained in line with that observed in previous years, at a level close to 1.5%.

On 27 May 2011, the Dexia Group announced an acceleration of the pace of asset disposals with regard to EUR 17.6 billion of non-strategic loans and bonds as well as the guaranteed Financial Products portfolio. This decision is reflected by a reclassification at fair value under IFRS 5 of assets expected to be sold in the 2Q 2011 results. The Group rapidly completed the sale of the guaranteed assets of its Financial Products portfolio (EUR 6.4 billion). This disposal improved considerably the Group's risk profile and had a positive impact on its solvency ratios due to a EUR 11.7 billion reduction of weighted risks.

As from October, in response to the rapid deterioration of the economic environment, Dexia announced a set of structural measures including the sale of certain of its operational entities. The sale of Dexia Bank Belgium, finalised on 20 October 2011, resulted in a significant reduction of the Legacy Division, by EUR 18.7 billion. As a consequence of those decisions, the Group does not plan to continue actively with its asset disposal programme, as planned entity disposals will enable the targeted balance-sheet reduction to be reached. As a consequence and in accordance to the accounting rules, the Group reclassified the Legacy assets not sold to their original accounting category in December 2011.

In 2011 Dexia sold EUR 24.6 billion in assets, including EUR 6.9 billion sold by Dexia Bank Belgium. The sales concern EUR 6.4 billion in Financial Products assets, EUR 16.4 billion in bonds and EUR 1.8 billion in loans. Excluding Financial Products, these bond disposals principally related to banking exposures, ABS/MBS and sovereign or public exposures. The Group endeavoured to reduce its risk profile by selling riskier assets, with the average rating for assets sold at "A". It concentrated its efforts on bonds in non-euro currencies, sales of assets denominated in USD representing 37% of sales volume. In a challenging market, the Group was able to keep its loss rate at limited levels on bond sales, namely 2.1%. Sales of loans

---

<sup>5</sup> The Legacy Division includes the bond portfolio in run-off, the Financial Products portfolio, a portfolio of non-strategic loans to the public sector and off-balance-sheet commitments related to liquidity lines in the United States (Stand-by Bond Purchase Agreements).

remained dynamic throughout the year, in particular loans in Japan and Mexico. The loss rate on loans was 5.2% and reflects an effort to reduce portfolio risk, particularly through the sale of Mexican assets.

As at 31 December 2011, the bond portfolio in run-off amounted to EUR 75.2 billion. Sales did not significantly reduce the average quality of the portfolio, which remains 88% investment grade, nor its diversification profile by asset class, sector, country or currency. Over the year, rating migrations are explained by the impact of the sale of Dexia Bank Belgium and asset sales, the Group having sold EUR 4.5 billion in assets with the aim of de-risking. The deterioration of European sovereign ratings particularly in Italy and Greece, and related downgrades, also resulted in significant rating migrations. Despite the reduction of the total amount of the portfolio and the sale of riskier assets, the level of portfolio provisioning rose to EUR 2.6 billion, in view of impairments recorded on Greek sovereign and assimilated exposure.

Following the sale of assets guaranteed by the Belgian and French States, the Financial Products portfolio was reduced to EUR 5.5 billion at year-end 2011. The portfolio now remains 99% investment grade, as lower quality assets have been sold. It is funded around EUR 3.7 billion by guaranteed investment contracts (GIC) collateralised by USD 5.0 billion of US Treasury bonds and similar notes.

Dexia also manages a portfolio of non-strategic loans to the public sector, originated in countries where the Group has ceased commercial activity, particularly Switzerland, Scandinavia, Central and Eastern Europe, Australia and Mexico, for a total of EUR 9.4 billion as at 31 December 2011. This portfolio also contains commitments related to liquidity lines in the United States (Stand-by Bond Purchase Agreements) for a total amount of USD 6.0 billion as at 31 December 2011, of which USD 0.1 billion were drawn on that date. Under its deleverage policy, Dexia disposed of EUR 1.8 billion in loans in 2011 and reduced its off-balance-sheet commitments by EUR 13.8 billion over the year, through the proactive management of SBPA. In particular, in 2011 Dexia sold all of its portfolio of Japanese loans and a significant proportion of its exposures in Mexico.

In 2011, the Legacy Division recorded a pre-tax loss of EUR 6.3 billion against a loss of EUR 429 million in 2010. This is explained to a large extent by one-off items. In 2011, considering the deterioration of the financial situation in Greece, Dexia recorded EUR 3,022 million of impairments on its Greek sovereign and assimilated exposure booked in Legacy, thus taking the level of provisioning for those exposures to 75% of nominal. At the same time, as the Group had accelerated the pace of its asset disposals, the amount of losses on disposals rose. The sale of the guaranteed Financial Products portfolio generated a loss of EUR 1,928 million, whilst sales of Legacy loans and bonds resulted in a loss of EUR 438 million, against EUR 197 million in 2010, and a loss of EUR 252<sup>6</sup> million linked to the reclassification of assets under IFRS 5.

### **Balance sheet and liquidity**

As at 31 December 2011 the Group's consolidated balance sheet stood at EUR 413 billion, with EUR 110 billion of "assets held for sale" (see appendix 1). The balance sheet appears in line with IFRS 5, applied to all entities which are likely to be sold in 2012<sup>7</sup>.

Compared to 31 December 2010, total assets fell by EUR 154 billion, under the effect of a fall in Core assets by EUR 109 billion and EUR 45 billion of Legacy assets. The reduction of Core assets is principally attributable to the disposal of Dexia Bank Belgium and of its insurance subsidiary Dexia Insurance Belgium; the fall of non-strategic assets is linked on the one hand to the deconsolidation of Dexia Bank Belgium, of which Legacy amounted to EUR 18.7 billion, and on the other hand to the disposal of EUR 19.7 billion in bonds and loans in 2011<sup>8</sup>. The deconsolidation of Dexia Bank Belgium translated into the loss of about EUR 84 billion of commercial funding, offset by the exit of EUR 91 billion of commercial assets and ALM bonds.

From mid-2011 onwards, the exceptionally challenging environment severely impacted the Group's liquidity situation (cf. section "Update on progress made with the transformation plan"), leading at the end of December 2011 to a funding of the liquidity gap of EUR 88 billion almost exclusively by way of central bank financing and guaranteed issues.

The share of borrowings at central banks increased by EUR 17 billion<sup>9</sup> between the end of June and the end of December 2011, partly offsetting the losses of Group unsecured funding. At the end of December 2011, the EUR 31 billion in central bank borrowings included the drawing of emergency lines (ELA) activated by the Dexia Group from the beginning of October 2011. At the same date, that is after Dexia Bank Belgium had

<sup>6</sup> Net value adjustment corresponding to the "frozen AFS reserve" of assets reclassified in loans.

<sup>7</sup> The assets concerned have therefore been booked as "non-current assets and disposal groups held for sale" without restatement of the previous periods. Intra-Group transactions between the continuing activities and the disposal groups held for sale have been offset.

<sup>8</sup> Including the guaranteed Financial Products portfolio but excluding Dexia Bank Belgium.

<sup>9</sup> Excluding Group participation to LTRO (longer term refinancing operation) launched on 21 December 2011 with a 3-year maturity.

left the scope of the Dexia Group, the amount of emergency line drawings stood at EUR 18.7 billion. The Group will strive to reduce this amount, which is not far from the peak usage reached in October 2011 prior to the disposal of Dexia Bank Belgium. The scheduling for the reduction in ELA drawings will depend on the issuance capacity of the Group under the State guarantee.

Taking into account the very negative environment and the increasing distrust towards the Dexia Group credit, considerably restricting access to market funding, a new guarantee mechanism was put in place by the States of Belgium, France and Luxembourg, aimed at sustaining the implementation of the structural measures announced by the Group in October (cf. section "Update on progress made with the transformation plan").

On 21 December 2011 a temporary agreement was reached with the European Commission on this guarantee mechanism, allowing Dexia Credit Local to execute its first short-term debt issues. As at the end of December 2011, outstanding amounts issued with the benefit of the temporary guarantee had reached EUR 22 billion. Resources thus raised have, on the one hand, allowed the drawings of emergency lines to be reduced and on the other hand the unsecured lending extended by Dexia Bank Belgium to Dexia Credit Local to be redeemed, in accordance with the commitments made by the Group.

All the items listed above have led to a significant decline in the regulatory liquidity ratios of Dexia SA and its subsidiary Dexia Credit Local while previously a continuous improvement of these same ratios had been observed over the preceding months<sup>10</sup>.

At the end of 2011, Dexia SA and Dexia Credit Local were not able to reach the minimum regulatory thresholds required to respect the liquidity ratios to which these entities are respectively subjected. Future respect of these ratios will depend on the implementation of the Group's financing programme, the execution of which remains subject to many uncertainties.

The execution of the Group's medium and long-term funding programme in 2011 is to be appraised in two halves: during the first part of the year financial markets were in fairly good shape, providing relatively favourable conditions to issuers. However from June onwards the mounting sovereign crisis and tensions on the short-term US dollar market had virtually shut the market for financial institutions.

In this context Dexia experienced a very active first half, nearly closing the year's budgeted funding by the end of June. In the end Dexia raised a total of EUR 18.2 billion of medium and long-term funding in 2011, of which EUR 9.5 billion were in the form of covered bonds with an average duration of 7.2 years and EUR 2.0 billion in the form of senior unsecured funding with an average duration of 3.2 years. Long-term funding was supplemented by a number of bilateral, secured funding transactions that enabled EUR 6.8 billion to be raised, with an average duration of 5.4 years.

## Solvency

Core shareholders' equity amounted to EUR 7.6 billion as at 31 December 2011, after the impact of the net loss of EUR 11.6 billion recorded in 2011 (see appendix 2). The other comprehensive income (OCI) which includes the gains and losses not recognized in the statement of income were EUR -9.6 billion. Globally, OCI recorded an improvement of EUR 0.7 billion compared to 31 December 2010. Over the first half-year 2011, losses and fair value adjustments associated with the acceleration of asset disposals led to an improvement of EUR 2 billion in OCI. The trend then reversed in the second half-year under the effect of the reversal of deferred tax assets and of the spread widening of certain sovereign issuers impacting the AFS reserve and leading to a deterioration of EUR 1.3 billion in OCI.

Between year-end 2011 and mid-February 2012, the AFS reserve improved by EUR 800 million against a market background more favourable to credit and with the effect of a tightening of margins on certain sovereign issuers.

At EUR 83 billion as at 31 December 2011, weighted risks were down EUR 57 billion compared to year-end 2010 in view of the sale of the guaranteed assets from the Financial Products portfolio during the first half-year and the sale of Dexia Bank Belgium (impact of EUR 46 billion without recognition of the risk represented by the Dexia Group's exposure to Dexia Bank Belgium).

---

<sup>10</sup> The ACP ratio to which Dexia Credit Local is subjected is defined as the ratio between liquidities (numerator) and liabilities falling due (denominator) on a prospective one month period; the ratio thus calculated must at all times be greater than 100 (instruction n° 2009-05 of 29 June 2009 relating to the standard liquidity risk approach). The BNB ratio to which Dexia SA is subjected calculates the liquidity position of a credit institution by comparing the required liquidity (numerator) and available liquidity (denominator) on a one week and a one month horizon. It must be less than 100% on each of these two time horizons (circular CBFA\_2009\_18-1 of 8 May 2009).

At 7.6% and 6.4% respectively, the Tier 1 and the Core Tier 1 ratio were impacted by losses booked in 2011. The reduction of core shareholders' equity is reflected by an 861 basis point fall of the Tier 1 ratio whilst the reduction of weighted risks enabled the ratio to be improved by 309 basis points. Excluding the weighted risks of entities which are likely to be sold in 2012, the Group's pro forma Tier 1 and Core Tier 1 ratios should be 8.6% and 7.3% respectively.

It is to be noted that Dexia is no longer subject to the recapitalisation requirements of the European Banking Association (EBA). Dexia in fact left the EBA sample following the in-depth restructuring process decided in October 2011 which is supported by a new scheme of liquidity guarantee granted by the Belgian, French and Luxembourg States.

## Appendix 1

<b>Consolidated balance sheet</b>				
In millions of EUR	<b>31 Dec. 2010*</b>	<b>30 June 2011*</b>	<b>31 Dec. 2011**</b>	<b>Var. 31 Dec. 11 31 Dec. 10</b>
<b>Total assets</b>	<b>566,735</b>	<b>517,747</b>	<b>412,759</b>	<b>-27.2%</b>
<i>of which</i>				
Loans and advances to customers	352,307	316,462	173,550	-50.7%
Financial assets at fair value through profit and losses and financial investments	96,655	80,499	43,381	-55.1%
Derivatives	47,077	37,611	28,298	-39.9%
Non-current assets and disposal groups held for sale	50	16,840	110,359	n.s.
<b>Total liabilities</b>	<b>556,007</b>	<b>508,986</b>	<b>413,079</b>	<b>-25.7%</b>
<i>of which</i>				
Due to banks	98,490	89,490	106,384	+8.0%
Customer borrowings and deposits	127,060	125,279	19,419	-84.7%
Derivatives	72,347	60,134	56,037	-22.5%
Debt securities	210,473	185,638	105,288	-50.0%
Liabilities included in disposal groups held for sale	0	67	116,350	n.s.
<b>Total equity</b>	<b>10,728</b>	<b>8,761</b>	<b>-320</b>	<b>n.s.</b>
<i>of which</i>				
Core shareholders' equity	19,214	15,250	7,589	-60.5%
Total shareholders' equity	8,945	6,945	-2,018	n.s.
<b>Net assets per share ***</b>				
- core shareholders' equity (EUR)	9.86	7.83	3.89	-60.5%
- total shareholders' equity (EUR)	4.59	3.56	-1.04	n.s.

## Appendix 2

<b>Solvency</b>				
In millions of EUR, except where indicated	<b>31 Dec. 2010*</b>	<b>30 June 2011*</b>	<b>31 Dec. 2011**</b>	<b>Var. 31 Dec. 11/ 31 Dec. 10</b>
Tier 1 capital	18,425	14,448	6,305	-65.8 %
Regulatory capital	20,636	16,472	8,589	-58.4%
Weighted risks	140,834	127,002	83,374	-40.8%
Tier 1 ratio	13.1%	11.4%	7.6%	-552 bps
Core Tier 1 ratio	12.1%	10.3%	6.4%	-571 bps
Capital adequacy ratio	14.7%	13.0%	10.3%	-435 bps

\* Audited figures

\*\* Unaudited figures

\*\*\* 2010 figures have been restated to consider the issuance of new ordinary shares free of charge (bonus shares) distributed to the shareholders.

For more information: [www.dexia.com](http://www.dexia.com)

### Press Office

Press Office – Brussels  
+32 2 213 50 81  
Press Office – Paris  
+33 1 58 58 86 75

### Investor Relations

Investor Relations – Brussels  
+32 2 213 57 46/49  
Investor Relations – Paris  
+33 1 58 58 85 97/82 48