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## Dexia Group Consolidated Results H1 2014

### Net income Group share H1 2014 at EUR -329 million; recurring net income up EUR 127 million compared to H2 2013

- *Recurring net income at EUR -178 million, benefiting from the reduction of the funding cost and the low cost of risk*
- *Negative impact of accounting volatility elements of EUR -210 million over the half-year, principally associated with the valuation of collateralised derivatives*
- *Positive non-recurring income of EUR 60 million, generated by gains on entity disposals*

### Continuing improvement of the Group liquidity structure

- *Sustained issue activity offsetting the repayment of the last outstanding on the 2008 guarantee ; favourable mix in terms of cost and maturity*
- *Formation of a temporary liquidity surplus of EUR 9.3 billion at the end of June 2014, in anticipation of significant redemptions at the end of 2014 and in 2015*

### “Total Capital” and “Common Equity Tier 1” solvency ratios at 17.3% and 16.6% as at 30 June 2014

- *In Q1 2014, impact of the implementation of CRD IV*
- *In Q2 2014, a low capital consumption, more than offset by the reduction in weighted risks, resulting in a strengthening of solvency*

Karel de Boeck, CEO of Dexia SA, stated that, “In the beginning of 2014, Dexia reached its target scope as set out in the orderly resolution plan. The recurring income of the Group is improving steadily. The recurring net banking income is positive during the first half year of 2014, the portfolio income covering the funding cost. During the half-year, Dexia profited from favourable market conditions in order to constitute a liquidity reserve in anticipation of some important redemption dates at the end of 2014 and the beginning of 2015. The liquidity situation of the Group improved significantly in terms of volumes, cost and maturity, which allows Dexia to be ahead of the projections made under the orderly resolution plan.

After the first-time application of the Basel III rules at the end of March 2014, Group solvency ratios remain high as at 30 June 2014. The Total Capital ratio of Dexia SA amounts to 17.3%, a slight improvement compared to 31 March 2014 as a result of a reduction in weighted risks.

The staff members of Dexia remain fully committed to managing the orderly resolution of the Group over the term of the plan in a complex regulatory environment, subject to evolution.”

## Introduction

The first half-year of 2014 was marked by a global improvement of the macroeconomic environment. In the euro zone, the fears weighing on the economies of the peripheral European countries now seem to have disappeared, although the economic health of banks and local authorities in those countries still remains fragile. In the United States, the economic recovery is likely to be accompanied by a tightening of the monetary policy by the Federal Reserve, although the calendar and the impact of this on the financial sector are still difficult to predict.

Against this background, the Group reached its target scope as set out in the orderly resolution plan and continued to adapt its operational model within the framework of a “Company Project” launched in 2013.

The first-time application of the new prudential standards contained in the Capital Requirements Directive IV, transposing the Basel III regulatory framework in Europe, resulted in a downward adjustment of Group solvency ratios from January 2014. Beyond this prudential impact, solvency evolved favourably over the half-year.

Under sound market conditions, the Group formed a temporary liquidity reserve, anticipating significant redemptions at the end of 2014 and in 2015. The momentum of funding cost reduction continued with the repayment of the last outstanding issues under the 2008 guarantee. The Group funding cost over the half-year is lower than the income on asset portfolios.

In accordance with the legislation in force, for the period closing on 30 June 2014, Dexia is publishing a press release in relation to the condensed consolidated financial statements; this press release presents the more significant transactions and events of the first half-year of 2014, and their impact on the Group's financial situation. The H1 2014 financial report of Dexia SA will be published in full on 14 August 2014.

## Points in relation to the presentation of the Dexia Group condensed consolidated financial statements as at 30 June 2014

The Dexia SA condensed consolidated financial statements as at 30 June 2014 were established in accordance with the accounting rules applicable to a going concern, which assume a certain number of hypotheses explained within the framework of previous accounting closures. These hypotheses of continuity rely on a business plan which served as the basis for the establishment of a resolution plan for the Dexia Group, and which was validated by the European Commission on 28 December 2012.

The business plan contains a funding guarantee granted by the Belgian, French and Luxembourg States in an amount of EUR 85 billion in principal, without collateral requirement. This guarantee came into force on 24 January 2013.

It relies moreover on the hypothesis of a restoration of confidence on the capital markets enabling Dexia to increase the proportion of its funding raised on the markets and to reduce its central bank funding. From this perspective, the Group's funding structure evolved favourably in 2013 and in 2014.

The business plan was revised on the basis of elements known or foreseeable in December 2013, within the framework of a biennial review. The business plan thus revised and ratified by the Group's Board of Directors on 24 March 2014 does not lead to any significant deviation over the term of the plan compared to the plan initially validated. There will be a new update of the plan in the second half-year of 2014.

Some uncertainties remain however associated with its realisation. The plan is sensitive in particular to the evolution of the interest rates and the credit environment, the unfavourable development of which would adversely affect Dexia's performance. It is also sensitive to regulatory developments, in particular the implementation of the IFRS 9 accounting standard and, as is the case for all the banks subject to the full assessment of the European Central Bank within the framework of the single supervisory mechanism in Europe, it could be impacted by the final results of the review in progress. To date, the Group is not aware of

more precise elements and the adjustments made do not prejudice the final results of the ongoing review of Dexia Group.

Finally, the Group remains exposed to a liquidity risk and the realisation of the orderly resolution plan assumes that Dexia will retain a robust funding capacity based in particular on investors' appetite for guaranteed debt.

## 1. Significant events and transactions

- *Reaching the Group's target scope as set out in the orderly resolution plan*
- *Favourable evolution of the French legal framework for structured loans*
- *Reduction of the exposures to Detroit and Puerto Rico; strengthening of collective provisions on renewable energies in Spain*

### ***A – Reaching of the target scope as set out in the Group's orderly resolution plan***

The Dexia Group orderly resolution plan, validated by the European Commission on 28 December 2012, provides for the disposal of the main operational entities considered perennial and the management of the Group's residual assets in run-off. During the first half-year of 2014, Dexia finalised all the disposals provided in the orderly resolution plan<sup>1</sup> and reached the target scope as set out in that plan. In fact, Dexia sold all of its shares in Dexia Asset Management (DAM) to New York Life Investments on 3 February 2014 for a fixed price of EUR 380 million, realising a capital gain of EUR 69 million. That sale was followed on 19 February 2014 by the sale of Dexia's holding in Popular Banca Privada to Banco Popular Espanol, with a capital gain of EUR 21 million.

The Dexia Group orderly resolution plan does not require the disposal of Dexia Crediop, but nonetheless authorises the sale of that entity. From the point of view of that sale and to protect the entity's commercial franchise, the European Commission granted Dexia Crediop a production envelope of EUR 200 million, enabling it to grant funding to its existing clients, for a period of one year to run from the date of validation of the resolution plan by the Commission. As negotiations had been undertaken with a potential purchaser, the Group received at the beginning of 2014 authorisation from the European Commission to extend the production window by an additional six months, until 28 June 2014. In the absence of a firm offer at the end of that period, the European Commission confirmed to the Dexia Group on 15 July 2014 the run-off status of Dexia Crediop. However, this does not prejudice the continuation of the discussions related to the sale of Dexia Crediop.

In parallel to the disposal process, the Group launched in 2013 a "Company Project" aimed at redefining its strategic objectives, its governance and the optimal operational model for the implementation of its resolution plan. This project aims to establish a structure ensuring the Group the robustness and flexibility required to maintain operational continuity, whilst managing the decrease of Dexia's scope. A certain number of key projects have been identified to simplify and to optimise the operational efficiency. The target organisation was the subject of a detailed presentation in the section of the Dexia SA Annual Report 2013 entitled "The Dexia Group Company Project: what will the future profile of Dexia Group look like?"

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<sup>1</sup> With the exception of Dexia Israel, the sale of which requires the prior settlement of litigations in which the entity is involved.

## **B – Evolution of the credit environment**

### **a - Update on the structured loans of Dexia Crédit Local**

#### **Continuation of the policy to desensitise the outstanding on sensitive loans<sup>2</sup> of Dexia Crédit Local**

In order to reduce the litigation risk in relation to structured loans, the Group's orderly resolution plan provides for two production windows granted to Dexia Crédit Local, for a total amount of EUR 600 million. The second window runs from June to November 2014.

During the first half-year of 2014, Dexia continued its desensitisation efforts, without new production flows. The outstanding on sensitive structured loans is down therefore by 7.2% over the half-year to EUR 1,336 million as at 30 June 2014.

#### **Evolution of the French legal framework**

The legal framework for structured loans evolved considerably in the first half-year of 2014. These evolutions on the one hand led to securing the legal environment for lenders and on the other hand enabled assistance mechanisms to be defined for borrowers facing financial difficulties.

As such, the creation of a support fund for local authorities was enacted by two decrees, published on 29 April 2014 and 18 July 2014. This fund will be allocated EUR 100 million per annum over 15 years and its access will be conditional on the borrower waiving any legal action in relation to the loans for which financial support has been requested.

On 23 April 2014, a bill of law was announced in relation to a similar assistance mechanism for the hospital sector.

Finally, on 17 July 2014, the bill of law on "the securitisation of structured loan contracts subscribed by legal entities under public law" was definitively passed by the Senate. Following an appeal, this text was then confirmed by the Constitutional Council on 24 July 2014. The law has been published in the Official Journal on 29 July 2014. This law contributes to securing the legal environment for Dexia Group, by validating the contracts contested for the absence of mention of the Effective Annual Percentage Rate (EAPR) in the faxes precedent to the contract or default in communicating the rate and term. Furthermore, if the borrower can prove that the EAPR is erroneous, the law stipulates that, if the original EAPR is higher than the correctly calculated EARP, the borrower can benefit from the difference between both rates, applied to the capital remaining due at each payment date.

As at 30 June 2014, Dexia Crédit Local had been summonsed by 224 clients, of which 41 have an outstanding on the bank, the residual outstanding being transferred to the Caisse Française de Financement Local (CAFFIL). Nevertheless, Dexia Crédit Local, which was responsible for the commercialisation of the loans of CAFFIL until the moment of its sale by the Group, remains under certain conditions liable for any damages granted to a borrower due to the non-respect of its obligations relating to the origination or the commercialisation by Dexia Crédit Local of the structured loans held by CAFFIL at the moment of the sale. The judgements have been pronounced at first instance and are hence likely to be appealed.

### **b – Situation concerning the city of Detroit and the Commonwealth of Puerto Rico**

The financial situation of the city of Detroit, which was placed under the protection of Chapter 9 of the Bankruptcy Code on 18 July 2013, and the Commonwealth of Puerto Rico, in great financial difficulty, remained objects of attention over the half-year.

After increasing the level of provisions for its exposures to the city of Detroit in the first quarter 2014, the Dexia Group took advantage of favourable market conditions, associated with the improving situations of some reinsurers, to reduce its exposure to the city by USD 75 million during the second quarter. As at 30 June 2014, the gross book value of Dexia's commitments on Detroit affected by the debt restructuring measures amounted to USD 255 million, of which USD 230 million is subject to a risk of value deterioration. The established provision amounts to USD 157 million, including the provisions relating to hedging instruments. The Group also has other public sector receivables associated with the city of Detroit for an

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<sup>2</sup> The most structured loans, under the Gissler nomenclature (categories 3E, 4E and 5E) or according to the Group's internal classification.

amount of USD 136 million, which are not affected by the Detroit debt restructuring under Chapter 9. Furthermore, an outstanding of USD 55 million has been sold in July 2014, bringing the total exposure of the Group to the city of Detroit to USD 175 million.

Over the half-year, Dexia also disposed of some of its exposures to the Commonwealth of Puerto Rico. The gross book value of Dexia's commitments on Puerto Rico amounted to USD 411 million at the end of June 2014, provisioned up to USD 34 million (including provisions relating to hedging instruments). The deterioration of the credit quality of several public agencies of the Commonwealth, associated with the implementation of a legal framework enabling their debt to be restructured, does not have a direct impact on Dexia, as the Group's exposures to these counterparties are guaranteed by good quality reinsurers.

### **c- The renewable energy sector in Spain**

In order to promote the development of renewable energies, the Spanish government adopted extremely favourable feed-in tariffs for green electricity. Observing a situation of production over-capacity and taking account of the cost resulting from the green electricity feed-in tariffs for consumers, the Spanish government approved a new regulation reducing the feed-in tariffs for electricity produced from renewable energies. This decision is retroactive and therefore also impacts infrastructures already in operation or under construction, the financial equilibrium of which relies on the former tariffs. Consequently, in order to take into account a weakening of the sector due to this evolution, Dexia passed an additional collective provision of EUR +56 million on the renewable energy sector in Spain, increasing the total provision to EUR 81 million as at 30 June 2014. At that date the gross book value on that sector amounts to EUR 2.25 billion.

### **C – Disposals and early repayments of assets and funding**

Taking advantage of favourable market conditions, Dexia disposed of EUR 484 million in assets over the half-year. These disposals were made within the framework of the policy to reduce the Group's risk profile or reflect a desire to reduce the weighted risks. They resulted in a gain of EUR 25 million over the half-year as well as in a reduction of the cost of risk, following the reversals of provisions on the assets sold.

In the context of an active risk management policy, Group accelerated the repayment of loans and bonds for an amount of EUR 253 million, resulting in a gain of EUR 3.6 million.

Overall, these active portfolio management transactions generated a balance sheet reduction of EUR 737 million over the first half-year of 2014. The disposal of provisioned assets reduced the outstanding of impaired loans and advances to customers from EUR 1,391 million as at 31 December 2013 to EUR 1,110 million as at 30 June 2014.

The Group also made early liability redemptions of EUR 203 million, mainly in relation to GICs in the United States and on issues of Dexia Kommunalbank Deutschland. These transactions led to gain of EUR 17 million being booked over the half-year.

### **D – Update on the full assessment made by the European Central Bank**

With the implementation of a single supervisory mechanism for banking institutions in Europe, the European Central Bank launched a full assessment of the bank balance sheets which will come under its supervision as from November 2014. That assessment is being carried out jointly with the competent national authorities, the National Bank of Belgium in Dexia's case, between November 2013 and November 2014 and comprises two main components:

- An Asset Quality Review, including an analysis of the asset valuations and the level of provisions booked by the bank;
- A stress test to ensure the bank's resilience in the case of a deterioration of its economic and financial environment.

Dexia is one of the banks subject to this assessment and is therefore included in the various parts of the assessment. The final results of the full assessment will be published in November 2014.

On the basis of the preliminary works done in this context, the regulators asked the Group to make a prudential adjustment on the regulatory capital of Dexia SA and Dexia Crédit Local consolidated on 31 March 2014.<sup>3</sup> At 30 June 2014, the impact of this adjustment for these two groups amounts to EUR -83 million. By way of reference, the “Total Capital” of Dexia SA amounts to EUR 9,391 million at that date and that of Dexia Crédit Local to EUR 7,123 million.

To date, the Group is not aware of more precise elements and the adjustments made do not prejudice the final results of the review under way for the Dexia Group.

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<sup>3</sup> Cf press release « Interim Statement – Q1 2014” of 14 May 2014, published on the website [www.dexia.com](http://www.dexia.com)

## 2. Results for the 1<sup>st</sup> half-year 2014

### **A - Presentation of the Dexia SA condensed consolidated financial statements as at 30 June 2014**

#### **a – Going concern**

The condensed consolidated financial statements of Dexia SA as at 30 June 2014 were established in accordance with the accounting rules applicable to a going concern, (cf. section “Points in relation to the presentation of the Dexia Group condensed consolidated financial statements as at 30 June 2014”).

#### **b – Mode of presenting the results**

In order to ensure optimal readability of its results, Dexia has adopted an analytical presentation differentiating three categories of elements:

- Recurring elements: items related to the carriage of the assets such as portfolio revenues, funding costs, operating expenditures or cost of risk. As the cost of risk is a structural element of the Group’s operational performance, losses or gains on the disposal of provisioned assets and associated reversals of provisions are classified as recurring elements;
- Accounting volatility elements: items related to fair value adjustments of assets and liabilities including in particular the impact of the IFRS 13 accounting standard (CVA, DVA) and the valuation of OTC derivatives, the own credit risk (OCR), the variation of the WISE portfolio (synthetic securitisation on a portfolio of enhanced bonds), which do not correspond to a cash gain or cash loss and which are written back prorata temporis over the amortisation term of the assets or liabilities, but which generate volatility on each accounting closure date;
- Non-recurring elements: exceptional items, not expected to reoccur regularly, including in particular gains and losses on asset disposals, costs and gains associated with litigations and restructuring costs. Losses or gains on the disposal of non-provisioned assets are classified as non-recurring elements.

#### **c – Application of the IFRS 5 accounting standard relating to “non-current assets and groups held for sale”**

The structural measures undertaken by the Group in October 2011 have also been reflected by the application of the IFRS 5 accounting standard relating to “non-current assets and groups held for sale”.

The IFRS 5 accounting standard still applies to the presentation of the financial statements as at 30 June 2014. The last two entities classified under IFRS 5, Dexia Asset Management and Popular Banca Privada, were sold during the first half-year of 2014. The results generated by those entities and the disposal gains are recorded in a single line as “result from discontinued operations, net of tax”.

**B – Dexia Group’s consolidated results for the 1<sup>st</sup> half-year of 2014**

- “Recurring” net income for H1 2014 of EUR -178 million, benefiting from the reduction of funding costs and a limited cost of risk
- Negative impact of accounting volatility elements of EUR -210 million, because of an unfavourable evolution of market parameters
- Non-recurring net income of EUR 60 million, resulting from gains on entity disposals

**a – Income statement for the period (non audited)**

Consolidated income statement - ANC format				
EUR million	H2 2013	H1 2014	Q1 2014	Q2 2014
<b>Net banking income</b>	<b>48</b>	<b>-155</b>	<b>-142</b>	<b>-13</b>
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-188	-204	-101	-103
<b>Gross operating income</b>	<b>-140</b>	<b>-359</b>	<b>-243</b>	<b>-116</b>
Cost of risk and net gains or losses on other assets	-39	-41	-23	-18
<b>Pre-tax income</b>	<b>-179</b>	<b>-400</b>	<b>-265</b>	<b>-135</b>
Income tax	-9	-9	5	-14
Result from discontinued operations, net of tax	15	87	80	8
<b>Net income</b>	<b>-171</b>	<b>-322</b>	<b>-181</b>	<b>-141</b>
Minority interests	7	7	3	4
<b>Net income Group Share</b>	<b>-178</b>	<b>-329</b>	<b>-184</b>	<b>-145</b>

Over the 1<sup>st</sup> half-year of 2014, Dexia’s **net income Group share** is EUR -329 million, of which EUR 7 million are attributable to minority interests. Dexia achieved a net income Group share of EUR -184 million over the 1<sup>st</sup> quarter and of EUR -145 million over the 2<sup>nd</sup> quarter of 2014.

Over the half-year, the **net banking income** is EUR -155 million. Over the 2<sup>nd</sup> quarter 2014, the Group posted a net banking income of EUR -13 million against EUR -142 million in the 1<sup>st</sup> quarter, mainly as a result of accounting volatility elements.

As at 30 June 2014, **costs** amount to EUR -204 million. They rose by +8.5% compared to the 2<sup>nd</sup> half-year of 2013, essentially explained by consultancy costs associated with work done within the context of the Asset Quality Review.

**Gross operating income** is EUR -359 million over the half-year.

At the end of June 2014, the **cost of risk** remains contained at EUR -41 million.

The half-year **pre-tax income** amounts to EUR -400 million.

Over the half-year, the **tax charge** is EUR -9 million, and as a consequence the **net result on continuing activities** is EUR -409 million.



The **result from discontinued operations, net of tax** is EUR 87 million. The Group posted in particular, over the 1<sup>st</sup> quarter, gains of EUR 69 million and EUR 21 million on the sale of Dexia Asset Management and Dexia's holding in Popular Banca Privada.

Considering the result of EUR 7 million attributable to minority interests, the **net income Group share** for the 1<sup>st</sup> half-year of 2014 is EUR - 329 million.

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

Analytical presentation of the H1 2014 Dexia Group results				
EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
<b>Net banking income</b>	82	-210	-27	-155
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-200	0	-4	-204
<b>Gross operating income</b>	<b>-118</b>	<b>-210</b>	<b>-31</b>	<b>-359</b>
Cost of risk and net gains or losses on other assets	-44	0	3	-41
<b>Pre-tax income</b>	<b>-162</b>	<b>-210</b>	<b>-28</b>	<b>-400</b>
Income tax	-8	0	0	-9
Result from discontinued operations, net of tax	-1	0	88	87
<b>Net income</b>	<b>-171</b>	<b>-210</b>	<b>60</b>	<b>-322</b>
Minority interests	7	0	0	7
<b>Net income Group Share</b>	<b>-178</b>	<b>-210</b>	<b>60</b>	<b>-329</b>

The net income Group share of EUR -329 million is composed of the following analytical elements defined in the paragraph "Mode of presenting the results" above:

- EUR -178 million are attributable to recurring elements;
- EUR -210 million are associated with accounting volatility elements;
- EUR 60 million were generated by non-recurring elements.

The quarterly evolution of these three analytical segments is presented separately below.

## b.1 – Recurring elements

Recurring elements					
EUR million	Q3 2013	Q4 2013	Q1 2014	Q2 2014	H1 2014
<b>Net banking income</b>	<b>-12</b>	<b>-5</b>	<b>36</b>	<b>46</b>	<b>82</b>
o/w revenues from commercial portfolios	184	197	176	178	354
o/w funding cost	-243	-222	-184	-168	-352
o/w other revenues	47	19	44	36	80
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-93	-91	-101	-99	-200
<b>Gross operating income</b>	<b>-105</b>	<b>-97</b>	<b>-65</b>	<b>-53</b>	<b>-118</b>
Cost of risk and net gains or losses on other assets	-33	-74	-25	-18	-44
<b>Pre-tax income</b>	<b>-139</b>	<b>-170</b>	<b>-90</b>	<b>-72</b>	<b>-162</b>
Income tax	-15	11	5	-14	-8
Result from discontinued operations, net of tax	-154	5	0	0	-1
<b>Net income</b>	<b>-144</b>	<b>-154</b>	<b>-85</b>	<b>-86</b>	<b>-171</b>
Minority interests	1	6	3	4	7
<b>Net income Group Share</b>	<b>-145</b>	<b>-160</b>	<b>-88</b>	<b>-90</b>	<b>-178</b>

The net income Group share on recurring activities amounts to EUR -178 million over the 1<sup>st</sup> half-year of 2014, of which EUR -88 million in the 1<sup>st</sup> quarter and EUR -90 million in the 2<sup>nd</sup> quarter.

The “recurring” net banking income over the 1<sup>st</sup> half-year of 2014 is positive, at EUR 82 million. Portfolio income is EUR 354 million and covers the Group’s funding cost of EUR -352 million at the end of June 2014. In line with the 2<sup>nd</sup> half-year of 2013, the trend remains positive : net banking income rose from EUR -5 million in the 4<sup>th</sup> quarter of 2013 to EUR 36 million in the 1<sup>st</sup> quarter of 2014 and reached EUR 46 million in the 2<sup>nd</sup> quarter of 2014. This momentum was driven by a funding cost reduction from EUR -184 million in the 1<sup>st</sup> quarter to EUR -168 million in the 2<sup>nd</sup> quarter of 2014. The repayment of the last outstanding issued under the 2008 liquidity guarantee and the favourable evolution of the Group’s funding conditions enabled a reduction of the liquidity cost, whilst continuing to extend the maturity.

Operational expenses associated with recurring activities amount to EUR -200 million over the half-year, and include the booking of consultancy costs associated with realisation of the Asset Quality Review. Costs reached EUR -101 million in the 1<sup>st</sup> quarter and EUR -99 million in the 2<sup>nd</sup> quarter.

The cost of risk of the recurring activities reached EUR -44 million at the end of June 2014, with the increase of the collective provision on renewable energies in Spain in part offset by the recovery of specific provisions on assets sold. The cost of risk was EUR -25 million in the 1<sup>st</sup> quarter of 2014 following the EUR -27 million increase of provisioning for exposures to the city of Detroit. In the 2<sup>nd</sup> quarter of 2014, the cost of risk amounts to EUR -18 million.

## b.2 – Accounting volatility elements

Accounting volatility elements					
EUR million	Q3 2013	Q4 2013	Q1 2014	Q2 2014	H1 2014
<b>Impact in net income Group share</b> (elements booked in net banking income)	-14	11	-148	-62	-210

Over the 1<sup>st</sup> half-year of 2014, accounting volatility elements had a negative impact of EUR -210 million. The evolution of market parameters over the half-year, as well as various adjustments made to the Group methodology in order to take a “bid-ask” spread, weigh on the valuation of collateralised derivatives, for which Dexia booked a negative impact of EUR -236 million. The variation of the valuation of the trading portfolio and the WISE synthetic securitisation instrument is EUR -42 million. These elements are nonetheless partially offset by an improvement of the Credit Value Adjustment of EUR 44 million and own credit risk of EUR 13 million over the period.

## b.3 – Non-recurring elements

Non-recurring elements					
EUR million	Q3 2013	Q4 2013	Q1 2014	Q2 2014	H1 2014
<b>Net banking income</b>	15	53	-30	3	-27
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-2	-1	0	-4	-4
<b>Gross operating income</b>	13	52	-30	-1	-31
Cost of risk and net gains or losses on other assets	70	0	3	0	3
<b>Pre-tax income</b>	83	52	-27	-1	-28
Income tax	0	-5	0	0	0
Result from discontinued operations, net of tax	-6	7	80	8	88
<b>Net income</b>	76	54	53	7	60
Minority interests	0	0	0	0	0
<b>Net income Group Share</b>	76	54	53	7	60

During the 1<sup>st</sup> half-year of 2014, the Dexia Group booked a net income Group share of EUR 60 million on non-recurring elements.

The net income posted in 1<sup>st</sup> quarter is EUR 53 million. It is explained by the capital gains of EUR 69 million and EUR 21 million respectively on the sales of Dexia Asset Management and the Group's holding in Popular Banca Privada and by a gain of EUR 5 million on asset sales. At the same time, the Group passed a provision for litigations of EUR -34 million.

Over the 2<sup>nd</sup> quarter, Dexia booked a net income Group share of EUR 7 million on non-recurring elements. The Group posted gains of EUR 29 million mainly associated with asset disposals and early redemptions of long-term funding. Over the quarter, the Group also passed provisions for litigations of EUR -26 million.

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

#### A – Balance sheet and solvency

- Increase of the balance sheet total of EUR 15 billion over the 1<sup>st</sup> half-year, as a result of the fall of the long-term interest rates and the establishment of a liquidity reserve
- First-time application of the CRD IV: Total Capital ratio at 17.3% and Common Equity Tier 1 ratio at 16.6%

##### a – Half-yearly and quarterly balance sheet evolution

As at 30 June 2014, the Group's balance sheet total is EUR 238 billion, up EUR 15 billion compared to 31 December 2013 and EUR 1 billion compared to 31 March 2014. The balance sheet posted a significant increase during the 1<sup>st</sup> half-year of 2014, essentially by virtue of the Group's prudent liquidity management and the fall of long-term interest rates in euro and in sterling, illustrating the sensitivity of the Dexia balance sheet to the evolution of these external factors. The greater proportion of this increase therefore occurred between the end of December 2013 and the end of March 2014.

Over the 1<sup>st</sup> half-year of 2014, the increase of balance sheet assets is mainly linked to:

- an increase in the fair value of assets and derivatives of EUR +8.6 billion as well as an increase of EUR +3.9 billion in the cash collateral posted by the Group due to the fall of the long-term rates;
- an increase of EUR +7.6 billion in cash placed with central banks reflecting the liquidity surplus built up by the Group over the period (cf. Section entitled "Evolution of the Dexia Group liquidity situation);
- these developments have more than offset the EUR -5 billion reduction of the asset portfolio.

On the liabilities side, the half-yearly balance sheet evolution is mainly explained by:

- the new funding obtained by the Group, mainly in the form of guaranteed issues, resulting in a rise of +EUR 5.6 billion in the stock of market funding and EUR +0.6 billion in deposits collected;
- the increase of the fair value of liabilities and derivatives representing EUR +8.7 billion.

Over the 2<sup>nd</sup> quarter of 2014, the net balance sheet evolution was less significant than the evolution noted between December 2013 and March 2014. Assets increased slightly under the effect of the increase of the collateral and the fair value of assets and derivatives of EUR +2.3 billion and EUR +3.7 billion respectively, which more than offset the amortisation of the Group's asset portfolio (EUR -2.1 billion) and the reduction of the deposits placed at the FED (EUR -3.3 billion).

On the liabilities side, the increase of the fair value of liabilities and derivatives (EUR +4.4 billion) more than offset the reduction of capital (EUR -0.5 billion), deposits collected (EUR -0.7 milliard) and the amount of market funding (EUR -1.2 billion) mainly linked to the amortisation of the last funding raised under the 2008 guarantee agreement.

##### b – Solvency ratios

###### - Impact of the first-time application of the Basel III solvency rules

The Basel III solvency rules came into force on 1 January 2014. They amend the modes of calculating the regulatory capital and provide for the booking of additional weighted risks.

On 1 January 2014 the adoption of these new rules generated a reduction of the regulatory capital of EUR -1.1 billion for the Dexia Group, mainly due to following elements:

- 20% deduction from the AFS (Available For Sale) reserve on non-sovereign securities, with an impact of EUR -662 million;
- reduction of the recognition of subordinated loans, with an impact of EUR -321 million;
- deduction of the Debit Value Adjustment (DVA), for EUR -82 million.

At the same time, this change of regulatory framework generated an increase in the total of weighted risks, particularly associated with the taking into account of a modification of the Credit Value Adjustment (CVA) and the Asset Value Correlation (AVC) and a change of mode of calculating the Exposure at Default (EaD).

- **Harmonisation of national discretions applicable to Dexia SA and Dexia Crédit Local**

The CRD IV Directive, which establishes the Basel III regulatory framework, provides for the deductibility of the AFS reserve from the regulatory capital, whilst authorising national discretions. The National Bank of Belgium and the "Autorité de Contrôle Prudentiel et de Résolution" have confirmed that the rules applied to Dexia SA and to Dexia Crédit Local for the calculation of their regulatory solvency ratios during the transitional period from 1 January 2014 to 31 December 2017 would henceforth be identical. The AFS reserve on sovereign securities is not taken into account in the calculation of the solvency ratios and the AFS reserve relating to non-sovereign exposures is deducted from the regulatory capital up to an amount of 20% per annum.

- **Solvency ratios at the end of June 2014**

As at 30 June 2014, the Group's Total Capital is EUR 9,391 million, against EUR 10,617 million as at 31 December 2013. This reduction of EUR -1,226 million is principally explained by the impact of the first-time application of Basel III (EUR -1.1 billion) and the losses booked over the first half-year of 2014 (EUR -329 million), in part offset by the improvement of the AFS reserve deductible from regulatory capital. The Common Equity Tier 1 is following a similar trend, passing from EUR 10,054 million as at 31 December 2013 to EUR 9,013 million as at 30 June 2014.

Gains and losses recognised directly in equity (Other Comprehensive Income - OCI) amount to EUR -6 billion as at 30 June 2014, up EUR 0.4 billion since the end of 2013, explained by a tightening of credit spreads on sovereigns from Southern Europe and the natural portfolio amortisation, in part offset by the unfavourable evolution of the Swiss franc. The AFS reserve associated with non-sovereign securities is EUR -2.9 billion, of which 20% is deductible from the regulatory capital (or EUR -581 million).

Furthermore, as at 30 June 2014 the prudential adjustment requested by the regulator represents an amount of EUR -83 million (cf. Section entitled "Point on the full assessment made by the European Central Bank").

In addition, the prudential adjustment requested by the regulator represents, at 30 June 2014, an amount of EUR -83 million (cf section "Update on the full assessment made by the European Central Bank").

As at 30 June 2014, weighted risks amount to EUR 54.3 billion, of which EUR 49.3 billion for credit risk, EUR 2.5 billion for market risk and EUR 2.5 billion for operational risk. Weighted risks are up EUR 7 billion since 31 December 2013, in view of the first-time application of the Basel III rules. Over the 2<sup>nd</sup> quarter, the weighted risks decreased with EUR -2 billion, due to rating migrations, the disposal of risky assets and the natural amortisation of the portfolio.

Considering these elements, the Dexia SA Total Capital ratio stands at 17.3% and the Common Equity Tier 1 ratio is 16.6% as at 30 June 2014, down by -5.1% and -4.7% respectively since 31 December 2013, mainly as a consequence of the first application of the Basel III regulatory framework. Since 31 March 2014, these solvency ratios have risen 0.4%, the reduction of weighted risks resulting from the Group's policy for reducing its risk profile having more than offset the fall of regulatory capital caused by the accounting loss for the 2<sup>nd</sup> quarter.

The Total Capital ratio of Dexia Crédit Local is 13.8% and its Common Equity Tier 1 ratio is 13.5% at the end of June 2014.

**B - Evolution of the Dexia Group liquidity situation**

- *Constitution of a liquidity reserve, anticipating significant redemptions during the second half of 2014 and in 2015*
- *Sharp increase in the use of secured market funding*
- *Sustained activity in issues under guaranteed format, enabling the amortisation of the latest outstanding issued under the 2008 guarantee agreement to be offset*

During H1 2014, the Dexia Group took advantage of favourable market conditions to anticipate significant funding redemptions in the second half of 2014 and in the first quarter of 2015, associated in particular with the repayment of guaranteed outstanding amounts subscribed by Belfius (EUR 12.8 billion) as well as the end of the eligibility of own-used government guaranteed bank bonds to Eurosystem refinancing operations (EUR 13.4 billion)<sup>4</sup>.

The amount of secured funding rose from EUR 55.9 billion to EUR 61.4 billion over the half-year, mainly due to an increase of repo-transactions, resulting from the Group's efforts to develop this market segment.

This is in particular reflected by an increase in the number of counterparties for bilateral transactions, both in Europe and in the United States, and greater access to the main market platforms in Europe. The development of this type of funding enables Group assets to be enhanced best in terms of liquidity, including assets not eligible for central bank refinancing.

The outstanding on covered bonds fell slightly over the half-year, with the EUR 500 million 5-year *Pfandbriefe* issue realised by Dexia Kommunalbank Deutschland at 3 June 2014 only partially offsetting the amortisation of the outstanding financing.

Guaranteed debt outstanding remained relatively stable over the half-year at EUR 77 billion. Amortisation of the latest outstanding covered under the 2008 guarantee agreement was offset by flows from new issues.

Over the first half-year, the Group launched several guaranteed issues in euros and US dollars with maturities ranging from 3 to 7 years, in favourable market conditions. These issues were all over-subscribed and present extremely diversified order books. These issues as a whole enabled an amount of EUR 4.1 billion to be raised and extended the maturity of Group funding in different currencies. The half-year was also marked by sustained activity in private placements, raising EUR 4.6 billion. At the same time, the Group was very active on its short-term refinancing, via various guaranteed programmes in euros and US dollars.

The Group maintained a sustained issuance pace in July 2014, with new long-term guaranteed funding raised at EUR 13.2 billion at that date, of which EUR 7.3 billion benchmark transactions and EUR 5.9 billion private placements. These new issues offset the redemption flows, bringing outstanding guaranteed issues to EUR 77.8 billion as at 31 July 2014.

Following on from 2013, Dexia continued to present its guaranteed funding strategy to investors, particularly with road shows in Europe, the United States and Latin America.

As at 30 June 2014, guaranteed and secured funding represented 67% of the total funding of the Group.

The use of central bank funding remained stable over the half-year, at EUR 34 billion, only in the form of VLTRO<sup>5</sup>, which represents 19% of the Group's funding requirement. The Group did not make use of the emergency liquidity allowance (ELA) during the past half-year.

During the half-year, Dexia SA and Dexia Crédit Local abided by the regulatory thresholds defined for calculation of the liquidity ratio to which the two entities are subject.

The liquidity situation of the Group improved during the first half year and this in terms of volume, cost and maturity of the funding raised. Despite an advance on the projections made under the orderly resolution plan,

<sup>4</sup> Decisions taken by the Governing Council ECB/2012/12 of 3 July 2012 and ECB/2013/6 of 20 March 2013.

<sup>5</sup> The VLTRO or Very Long Term Refinancing Operations are exceptional refinancing operations for a period of 3 years launched in December 2011 and February 2012 by the European Central Bank in order to support the interbank market liquidity and to facilitate real economy financing.

the Group's balance sheet structure continues to show structural imbalances and will remain sensitive to the evolution of external factors.

## Appendices

### Appendix 1 – Simplified balance sheet

Balance sheet key figures			
EUR m	31/12/13	30/06/14	Change
<b>Total assets</b>	<b>222,936</b>	<b>237,993</b>	<b>6.8%</b>
<i>of which</i>			
Cash and central banks	1,745	9,305	x5.3
Financial assets at fair value through profit or loss	18,348	20,593	12.2%
Hedging derivatives	5,945	7,030	18.3%
Financial assets available for sale	29,224	29,307	0.3%
Customer loans and advances	129,039	128,463	-0.4%
Accruals and other assets	27,270	31,223	14.5%
<b>Total liabilities</b>	<b>218,977</b>	<b>233,953</b>	<b>6.8%</b>
<i>of which</i>			
Central banks	34,274	34,014	-0.8%
Financial liabilities at fair value through profit or loss	18,840	21,572	14.5%
Hedging derivatives	22,265	26,997	21.3%
Interbank borrowings and deposits	31,201	39,247	25.8%
Debt securities	96,368	95,272	-1.1%
<b>Total equity</b>	<b>3,959</b>	<b>4,040</b>	<b>2.0%</b>
<i>of which</i>			
Equity, Group share	3,488	3,600	3.2%

### Appendix 2 - Capital adequacy

EUR m	Basel II	Basel III
	31/12/2013	30/06/2014
Common Equity Tier 1	10,054	9,013
Total Capital	10,617	9,391
Weighted risks	47,335	54,336
Common Equity Tier 1 ratio	21.2%	16.6%
Total Capital ratio	22.4%	17.3%



**Appendix 3 – Distribution of exposures by geographic region, type of counterparty and rating as at 30 June 2014 (non audited)**MCRE<sup>6</sup> calculated under IFRS 7

<b>Dexia Group exposure by geographic region</b>	
EUR m	Total
Austria	1,596
Belgium	3,492
Central and eastern Europe	3,479
France (Including Dom-Tom)	27,882
Germany	21,615
Greece	157
Hungary	1,107
Ireland	250
Italy	27,728
Japan	6,177
Luxembourg	173
Netherlands	966
Portugal	4,203
Scandinavian countries	860
South and Central America	667
Southeast Asia	945
Spain	19,553
Switzerland	487
Turkey	505
United Kingdom (not Norm.Isd/Man)	17,409
United States and Canada	35,213
Others	7,279
<b>Total</b>	<b>181,742</b>

<b>Dexia Group exposure by category of counterparty</b>	
EUR m	Total
Central governments	36,576
Local public sector	88,608
Corporate	5,582
Monolines	2,791
ABS/MBS	6,609
Project finance	14,584
Individuals, SME and self-employed	1
Financial institutions	26,989
<b>Total exposure</b>	<b>181,742</b>

<sup>6</sup> The maximum credit risk exposure (MCRE) represents the accounting net carrying amount of exposures, being the notional amounts after deduction of specific impairments and available for sale reserve amounts, and taking into account accrued interests and impact of fair-value hedge accounting.

<b>Group exposure by rating (internal rating system)</b>	
	30/06/2014
AAA	18%
AA	21%
A	28%
BBB	18%
D	0%
Non Investment Grade	14%
Not Rated	1%
<b>Total</b>	<b>100%</b>

**Appendix 4 - Group sector exposure to specific countries as at 30 June 2014 (MCRE) (non audited)**

<b>Group sectorial exposure to certain countries</b>							
EUR m	<b>Total</b>	<i>o/w local public sector</i>	<i>o/w corporate and project finance</i>	<i>o/w financial institutions</i>	<i>o/w ABS/MBS</i>	<i>o/w sovereign exposures</i>	<i>o/w monolines</i>
Greece	157	78	69	0	10	0	0
Hungary	1,107	33	36	29	0	1,009	0
Ireland	250	0	74	101	75	0	0
Italy	27,728	11,358	1,340	591	180	14,259	0
Portugal	4,203	1,914	217	151	142	1,779	0
Spain	19,553	8,930	2,525	6,787	793	517	0
USA	33,054	9,855	765	4,870	4,212	10,942	2,411

**Appendix 5 - Group exposure to Government Bonds of peripheral countries (non audited)**

<b>Group exposure to government bonds of peripheral European countries</b>				
EUR m	31/12/2013 Nominal	30/06/2014 Nominal	30/06/2014 MCRE (banking portfolio)	Change nominal 30/06/2014 31/12/2013
Italy	10,027	9,953	11,399	-0.7%
Portugal	1,822	1,822	1,779	n.s.
Hungary	1,076	893	964	-17.0%
Spain	443	438	499	-1.1%

## Appendix 6 – Asset Quality

Asset quality		
EUR m	31/12/2014	30/06/2014
Impaired loans and advances to customers	1,391	1,110
Specific impairments on loans and advances to customers	545	449
Asset quality ratio <sup>(1)</sup>	1.2%	1.0%
Coverage ratio <sup>(2)</sup>	39.2%	40.5%

(1) The ratio between the impaired loans and advances to customers and the gross outstanding loans and advances to customers.

(2) The ratio between the specific impairments on loans and advances to customers and the impaired loans and advances to customers.

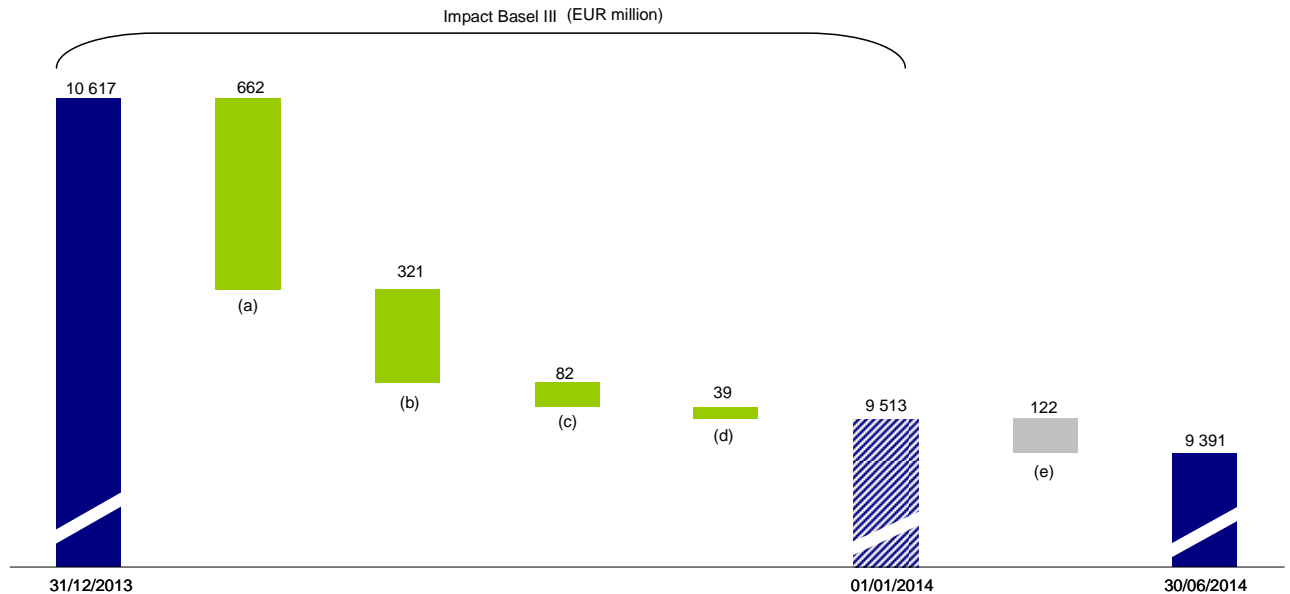
## Appendix 7 - State guarantee fees (non audited)

State guarantee fees		
EUR m	1Q 2014	2Q 2014
Funding related fees for the 2008 guarantee	-13	-3
Funding related fees for the 2011/2013 guarantee	-9	-10
<b>Total fees paid</b>	<b>-22</b>	<b>-13</b>

## Appendix 8 – Ratings

Ratings as at 30 June 2014			
	Long term	Outlook	Short term
<b>Dexia Crédit Local</b>			
Fitch	A	Negative	F1
Moody's	Baa2	Negative	P-2
Standard & Poor's	BBB	Stable	A-2
<b>Dexia Crédit Local (guaranteed debt)</b>			
Fitch	AA	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
<b>Dexia Kommunalbank Deutschland (Pfandbriefe)</b>			
Standard & Poor's	A+	Stable	-
<b>Dexia LDG Banque (lettres de gage)</b>			
Standard & Poor's	BBB	Stable	A-2

**Appendix 9 - Main impacts of the CRD IV / CRR implementation on the regulatory capital of Dexia SA**



- (a) Deduction of 20% of the negative available-for-sale reserve for non-sovereign bonds and loans & receivables;
- (b) Limited recognition of subordinated loans;
- (c) Full deduction of the Debit Value Adjustment (DVA);
- (d) Other: limited recognition of minority interests, deduction of deferred taxes for losses carried forward and overshooting of the threshold for subordinated debt & receivables in financial institutions not representing an important investment;
- (e) Impact of the half-year.

**Appendix 10 – Litigations**

Like many financial institutions, Dexia is subject to a number of regulatory investigations and litigations, including class action lawsuits in the US and Israel. In addition, the downsizing of the Dexia Group’s balance sheet and other measures implementing the Orderly Resolution Plan give rise to challenges by certain stakeholders and counterparties of the Dexia Group.

The most significant events and developments in the 2<sup>nd</sup> quarter of 2014 in the principal regulatory investigations and litigations in which Dexia Group entities are named as a defendant, are summarized below.

The following updated data are provided for comparison and should be read in conjunction with the corresponding summaries contained or mentioned in the “Legal Risks” chapters of the Dexia Annual Report 2013, available at [www.dexia.com](http://www.dexia.com), as well as with the press release of the 1<sup>st</sup> quarter of 2014.

On the basis of the information available to Dexia on 30 June 2014, events or developments in the 2<sup>nd</sup> quarter in pending regulatory investigations and litigations mentioned in the “Legal Risks” chapter of the Dexia Annual Report 2013 but for which no update is provided below, are not expected to have a material impact on the Group’s financial situation of that date does not allow it to assess whether they may or may not have such an impact.

The consequences, as assessed by Dexia based on the information available to it on the aforementioned date, of the most significant litigations 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 litigations 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 payout Dexia would receive pursuant thereto.

### **Dexia Crediop**

On 5 May 2014, the Italian Supreme Court declared the appeal filed by the region of Piedmont against the decision of the Administrative Court of 21 December 2012 inadmissible. This decision confirms the judgment of the Administrative Court which stated that Italian administrative courts are not competent to hear the case between the Region of Piedmont and the bank. It concluded that civil courts – and more particularly the Courts of London under the terms of the contracts – are competent to confirm the validity of the conditions of the contracts concluded between the Region of Piedmont and the bank.

### **Alleged shortcomings in respect of financial disclosures**

In 2009, a shareholder, Mr Casanovas, filed a complaint with the Brussels and Paris public prosecutors alleging shortcomings in Dexia's financial disclosures. The public prosecutor dismissed the charges against Dexia. In addition to other complaints which have already been closed, Mr Casanovas and his wife, Mrs Guil, sued Dexia in the Perpignan Civil Court on essentially the same grounds as the criminal proceedings brought in 2009. On 24 April 2014, the Superior Court in Perpignan dismissed all complaints filed by Mr and Mrs Casanovas and ordered the payment of EUR 5,000 in damages for abuse of process. It also ordered the provisional execution of the judgment. However, Mr and Mrs Casanovas have appealed against the ruling.

### **Litigations in relation to structured loans**

As at 30 June 2014, 224 clients had summonsed Dexia Crédit Local: 183 of these cases relate to CAFFIL loans, 21 relate to DCL loans and 20 cases involved both DCL and CAFFIL loans at the same time.

We refer to the Chapter "1B Evolution of the credit environment" section "a - Update on the structured loans of Dexia Crédit Local – Evolution of the French legal framework" for the most recent legal and regulatory developments.

### **Litigations arising from the disposal of Group operating entities**

In connection with the sale of Banque Internationale à Luxembourg to the Luxembourg state and to Precision Capital, sixteen compensation notices served by the purchasers – and mentioned in the Dexia Annual Report 2013 – have been reduced to nine by the purchases of BIL. However, Dexia continues strongly to contest the validity of each of these claims.

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