Press release

DEXIA

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Conclusions of the comprehensive assessment by the European Central Bank: Path of Dexia Group's orderly resolution confirmed

- Dexia performed the entire prudential comprehensive assessment and was the only bank in resolution subject to the exercise
- Conclusions of the asset quality review confirm the quality of the Group's asset portfolio and sound risk assessment
- Confirmation of the path defined in the orderly resolution plan validated by the European Commission in December 2012: Common Equity Tier 1 capital projected to reach EUR 5.4 billion by 2016 under the assumptions of the stress test baseline scenario, resulting in an excess capital of EUR 1.4 billion compared to the minimum threshold required by the European Central Bank
- Group sovereign exposure weighting on the stress test results under the adverse scenario
- Common Equity Tier 1 ratio projected to reach 7.49% by 2016 under the adverse scenario after taking into account the current regulatory measures granted by supervisory authorities on the treatment of the AFS reserve, in line with the European Central Bank decision to recognise the Group's particular status
- No additional remedy action plan or State aid required by supervisory authorities

Karel De Boeck, CEO of the Dexia Group, stated: "*The comprehensive assessment performed by the European Central Bank and the National Bank of Belgium enables the path of the Group's orderly resolution to be validated, as well as the Bank's asset quality. On the strength of these observations, the teams will continue their efforts to manage and to fund these asset portfolios, in order to carry them over the long run, aiming at preserving the Group's capital base.*"

Within the framework of implementing a single supervisory mechanism for the banking sector in Europe, the European Central Bank today released the results of its comprehensive assessment of the banks that will fall under its supervision. Dexia is the only bank in resolution subject to this comprehensive assessment by the European Central Bank.

Like all the banks subject to this exercise, the Group performed the entire assessment, including

- an asset quality review (AQR),
- stress tests performed afer join-up of AQR findings and relying both on a baseline and an adverse scenario.

In meeting the requirements of this assessment, the Bank delivered datasets to the European Central Bank and the National Bank of Belgium under the same format as those submitted by the other banks. The general framework defined by the European Banking Authority (EBA) provides for the stress test to be performed on the basis static balance sheet over 3 years (frozen as at 31 December 2013). However, due to its status as a bank in resolution and in line with the EBA methodology, Dexia worked on the basis of a decreasingly dynamic balance sheet given the lack

of any new commercial activity. According to Karel De Boeck, CEO of the Dexia Group, "*The teams spent a great deal of time and effort gathering data and reviewing methodologies in order to comply with the standard defined by the regulator and to leverage from this exercise*."

In order to compare banks subject to the comprehensive assessment review, the retained calculation for the Common Equity Tier 1 (CET 1) ratio does not take into account the current regulatory measures allowing Dexia not to deduct the Available for Sale (AFS) reserve on sovereign securities[1].

The comprehensive assessment performed by the European Central Bank is a prudential exercise. The stress test results do not have any predictive nature.

Asset quality review (AQR)

The comprehensive assessment results published by the European Central Bank indicate that, as at 31 December 2013, the reference date for this review, the CET 1 capital of Dexia SA, including the findings in the AQR, amounted to EUR 8.5 billion, bringing the CET 1 ratio to 15.80%. This represents an excess capital of EUR 4.2 billion compared to the minimum required threshold of 8%.

Within the context of the asset quality review, 11 asset portfolios were analysed, representing more than half of total weighted credit risks. The findings of this asset quality review demonstrate the quality of the Dexia Group's assets and the strength of its risk assessment:

- The difference between the amount provisioned by Dexia for credit risk and that resulting from the AQR is limited to EUR 79.05 million, and the Group's collective provisions were deemed sufficient;
- The review shows a difference in the valuation of certain illiquid securities classified as AFS (level 3), corresponding to an impact of EUR -49.54 million on Dexia SA's regulatory capital in 2014. As a reminder, this amount is largely covered by the prudential adjustment posted as at 31 March 2014 at the level of Dexia SA and Dexia Crédit Local[2];
- In its conclusions, the European Central Bank also adjusted the provision for the Credit Valuation Adjustment (CVA) of collateralised derivatives, in an amount of EUR 172.64 million.

Dexia will review all possible accounting or prudential consequences stemming from the European Central Bank's asset quality review results.

Stress test and join-up exercise

After the join-up exercise, the baseline scenario of the stress test confirms the assumptions of the Group's orderly resolution plan validated by the European Commission. Under this scenario and using the European Central Bank methodology, the Group's CET 1 ratio is projected to reach

[1] The National Bank of Belgium and the French *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.

[2] See press release of 14 May 2014, available on www.dexia.com.

10.77% by 2016, i.e. an excess capital of EUR 1.4 billion compared to the minimum required threshold of 8%.

The assumptions stipulated by the European Central Bank under the adverse scenario are particularly unfavourable to the Group. Under this scenario, the Group CET 1 capital is EUR 3.1 billion, bringing the CET 1 ratio to 4.95%. Consequently, the Dexia Group could face a capital shortfall of EUR 339 million, compared to the 5.5% hurdle rate.

In particular, the strict treatment applied to sovereign exposures significantly impacts Dexia, as measured by various financial indicators, given the share of sovereign securities in its portfolio:

- The deduction of the AFS reserve linked to sovereign securities is disadvantageous to the Group as it does not reflect the actual benefit of measures granted by supervisory authorities authorising the Group not to deduct the AFS reserve on such securities from its regulatory capital;
- In the context of the adverse scenario, the application of an advanced method to measure credit risk on sovereign securities penalises Dexia considerably more than the standard method, particularly due to its exposure to sovereigns. The advanced method results in an increase of the Group's weighted risks, despite the amortisation of its asset portfolios.

The adverse scenario also leads to a substantial increase in the cost of risk, mainly due to the underlying assumptions for sovereign securities as well as the Group exposure to financial institutions.

Remedy plan: Dexia's specific status acknowledged

In its communication of 26 October 2014, the European Central Bank indicated that, taking into account the orderly resolution plan of the Group that benefits from a State guarantee, there is no need to proceed with a capital raising following the comprehensive assessment results.

The current regulatory measures granted by supervisory authorities that authorise Dexia not to deduct the AFS reserve on sovereign securities from its regulatory capital have been confirmed, enabling the Group to remedy the capital shortfall under the adverse scenario of the stress test. This decision is in line with the path of the Group's orderly resolution, aiming at managing and fund its asset portfolios over the long run, and avoiding the cost of a liquidation. Application of these measures has a benefit of EUR 1.6 billion on the Dexia Group's CET 1 capital in the adverse scenario of the stress test by 2016, resulting in a CET 1 ratio of 7.49%.

Asset disposals during the first three quarters of 2014 also enabled Dexia to reduce the level of its weighted risks and to improve its capital base. Dexia estimates the impact of those disposals on its CET 1 capital to EUR 195 million, representing more than half of the capital shortfall identified by the European Central Bank.

No other remedial action or State aid have been required by supervisory authorities.

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