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Dexia Group consolidated results 2014

Net income Group share 2014 at EUR -606 million; net recurring income at EUR -248 million, up EUR 421 million on 2013

- *Increase in the net recurring income due to lower funding costs and the lower annual cost of risk (3.6 basis points relative to Group total exposure)*
- *EUR -425 million impact of accounting volatility elements, principally associated with the valuation of derivatives*
- *Non-recurring income of EUR 67 million including capital gains on the disposals of Dexia Asset Management and Popular Banca Privada*

Active liquidity management enabling the Group to manage significant maturities and higher funding needs

- *Higher funding needs: net cash collateral at EUR 31 billion at the end of 2014 as a result of falling interest rates*
- *Increasing share of guaranteed and secured market funding*
- *Guaranteed debt subscribed by Belfius fully repaid at the beginning of 2015 (EUR 12.8 billion)*

Group balance sheet increased EUR 24 billion, at EUR 247 billion at the end of 2014

- *Impact of lower interest and exchange rates offsetting natural asset amortisation*

Robust solvency despite the first-time application of Basel III

- *Common Equity Tier 1 ratio of 16.4% at the end of 2014, against 21.2% at the end of 2013; excluding impact of new regulatory framework, solvency increased over the year*

Karel De Boeck, CEO of Dexia SA, stated: "*The results published by the Group for 2014 confirm the continuous improvement of its recurring performance, related in particular to the reduction in funding costs, whilst the low cost of risk confirms the good credit quality of the asset portfolio.*
The year was marked by significant regulatory developments to which our teams gave their fullest attention. The results of the comprehensive assessment made by the European Central Bank validated the Group's orderly resolution plan. In 2015 we will continue our efforts to simplify and to optimise the Group's organisation and I thank the teams for the determination and commitment they have demonstrated."

Robert de Metz, Chairman of the Board of Directors of Dexia SA, said: "*In 2014, Dexia continued to move forward on its resolution plan, despite a challenging macroeconomic environment. In particular, the Group faced an increase it its funding requirements resulting from lower interest rates and significant debt maturities. The year 2015 continue efforts, to reduce the risk borne by the State guarantors and shareholders. I am confident in the renewed commitment of our teams to accomplish this mission.*"

Introduction

While the depreciation of the euro and lower energy prices were positive developments, eurozone growth remained largely contained in 2014. In order to curb deflationary pressure, the European Central Bank pursued an accommodating monetary policy, as evidenced by historically low interest rates and quantitative easing measures that have been reinforced in 2015.

2014 was also marked by profound changes in the prudential and regulatory framework applied to credit institutions, highlighted by the implementation of the new Basel III capital rules in January 2015 and the establishment of the Single Supervisory Mechanism in November 2014.

With this backdrop, the Dexia Group completed its entity disposal programme in the first half of 2014 as prescribed by the European Commission[1]. Dexia Crediop has been managed in run-off since July 2015. Having reached its target resolution scope, Dexia is now focused on managing its assets in run-off, under a simplified governance structure and organisation.

During its 18 February 2015 meeting, the Board of Directors signed off on the 2014 consolidated financial statements of Dexia SA.

Notes regarding the 2014 consolidated financial statements for the Dexia Group

The consolidated financial statements of Dexia SA as at 31 December 2014 were prepared in accordance with the accounting rules applicable to a going concern. The assumptions detailed below pertaining to the Dexia Group 2014 financial statements were the basis of the business plan underlying the Dexia Group resolution plan. Already explained in previous accounting disclosures. Those assumptions are described below.

- The business plan is based on market environment observed at the end of September 2012. The underlying macroeconomic assumptions are revised semi-annually.

  In particular, the review of the plan in 2014 incorporates lower interest rates and takes account of an updated funding plan based on current market conditions. The 2014 plan revision incorporates regulatory developments to date, such as the definitive text of CRD IV, the implementation of the IFRS 13 accounting standard, and the impact of using an OIS curve for OTC derivatives valuation. The revised plan also takes into account the Group's decision to increase the use of market data for the valuation of illiquid securities classified as assets available for sale and for the calculation of the Credit Valuation Adjustment (CVA). Finally it also reflects, the Group's active balance sheet management, particularly the successful execution of the funding programme in 2014, resulting in a positive evolution of the net interest margin.

  Using data as at 30 June 2014, the revised business plan was approved by the Dexia SA Board of Directors on 9 October 2014. While it contains adjustments to the plan originally validated, the resolution trajectory in the revised plan remains unchanged over the long term.

- The plan assumes maintaining various local banking licences. Dexia Crédit Local SA ratings are also assumed to remain at current levels.

- It relies, moreover, on a robust funding program based on Dexia's ability to issue debt guaranteed by the Belgium, France and Luxembourg and to raise secured funding.

  In this context, the Group's ability to tap markets at a lower cost and for longer maturities than forecast in the original plan, had a positive effect on the funding mix in 2014. The continued increase in secured funding and the success of short- and long-term guaranteed debt programmes enabled

[1] Cf. Press Release dated 8 August 2014, available at www.dexia.com

the Group to reduce reliance on central bank funding and establish temporary liquidity reserves in anticipation of significant maturities at the end of 2014 and the beginning of 2015.

Some uncertainties remain however over the resolution period, in the implementation of the business plan due to the potential impact of regulatory and accounting developments. Moreover, the Group's balance sheet still exhibits structural imbalances and the limited resources available since the beginning of its resolution to remedy this situation do not allow the Group to ensure compliance with certain regulatory ratios during its resolution process. For instance, the Group orderly resolution crystallised a funding structure heavily dependent on market and central bank funding, since Dexia no longer has retail franchises and is unable to increase its deposit base. This will be reflected in the future level of the Liquidity Coverage Ratio (LCR).

The business plan remains exposed to the evolution of the macroeconomic environment. A 10 basis point decline in interest rates over the entire curve could result in an increase of EUR 1.1 billion in the Group's liquidity requirement over the next two years due to higher cash collateral[2] needs. Similarly, a less optimistic credit environment and/or the widening of credit spreads could also have a negative impact on the income statement and available liquidity reserves and may increase regulatory capital requirements.

Finally, if market demand for government-guaranteed debt decreases, Dexia may need to tap more costly funding sources which could have a negative impact on the profitability assumed in the original business plan. 2015 and 2016 may be challenging in light of a more volatile foreign exchange environment and very low interest rates.

The most recent update of the business plan reflects surplus liquidity over the life of the plan. However, at the end of 2014 and the beginning of 2015, the Group's surplus liquidity was reduced by additional cash collateral posting by Dexia to market counterparties. This growing liquidity requirement was offset by sustained issuance of long-term government-guaranteed debt consisting of EUR 4 billion in benchmark transactions and EUR 2 billion in private placements year to date as at 10 February 2015. The Group also continued to increase secured funding.

1. Significant events and transactions

- *The year 2014 was marked by macroeconomic uncertainties and numerous regulatory and prudential changes*
- *The quality of the Group's asset portfolio and its trajectory towards resolution were confirmed by the comprehensive assessment performed by the European Central Bank*

A – Impact of the interest and foreign exchange rate environment on the Group's liquidity situation and recent developments

Whilst the depreciation of the euro and the decline of oil prices are positive developments for the European economy, GDP growth forecasts for the euro zone continue to be constrained by limited public investment stemming from the deficit reduction policies being pursued by a majority of States. With this backdrop and in order to curb deflationary pressures, the European Central Bank continued with its accommodating monetary policy in 2014, as witnessed by continued decline in interest rates and the announcement on 22 January 2015 of an asset repurchase programme totalling EUR 60 billion per month of public and private debt over a period of at least 19 months.

This context led interest rates in the euro zone to historical lows and resulted in the depreciation of the euro against main currencies as well as highly volatile foreign exchange markets. In particular, the Swiss franc

[2] Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.

appreciated by almost 30% against the euro following the announcement, on 15 January 2015, that the Swiss National Bank would abandon the cap for the Swiss franc which had been held for some three years.

These developments caused the Group's liquidity requirements to increase, mainly due to higher net cash collateral needed to be posted by Dexia to its counterparties. Collateral posting reached a maximum of EUR 36 billion in January 2015, up EUR 15 billion from the end of 2013 and EUR 5 billion from 31 December 2014. However, a sustained funding activity enabled the Dexia Group to manage this increase in its liquidity requirement (cf. the section entitled "Evolution of the Dexia Group liquidity situation").

The effects on the Group's results are therefore mixed. While the fall of the European Central Bank key rate reduces the Group's cost of funding, the increase in cash collateral requirements raises costs for the Group.

Finally, the continued decline in euro zone sovereign funding costs resulted in lower funding costs related to Dexia's bonds guaranteed by the Belgian, French and Luxembourg States and enabled short- and long-term issuance activity to be strong on this market segment.

B – Developments with regard to credit risk and legal risk associated with structured loans

2014 was marked by the very low cost of risk, equal to 3.6 basis points on average over the year, confirming the good credit quality of the asset portfolio. 86% of the Group's exposure is rated "Investment Grade". In a continuing uncertain economic environment, the Group maintained its active credit risk management and focused on certain sectors and counterparties.

The disposal of highly impaired exposures lowered the coverage ratio of impaired assets.

a – Credit risk

During 2014, The Dexia Group focused on the financial difficulties related to the City of Detroit, which filed for protection under Chapter 9 of the Bankruptcy Act on 18 July 2013, and the Commonwealth of Puerto Rico, in severe financial difficulty, were matters to which the Dexia Group paid great attention in 2014.

Dexia's exposure to the City of Detroit at the beginning of 2014 was USD 305 million. This exposure was subject to a restructuring (COPs) but was backed by a guarantee from two monoliners. After increasing the impairment on the outstanding exposure in 1Q 2014[3], Dexia pursued an active balance sheet management policy and sold its direct exposure to the City, recording a gain of USD 32 million after reversal of impairments. Total impairments for this exposure amounted to USD 154 million at the end of 2013. Dexia's remaining exposure to public sector entities associated with the City of Detroit is USD 26 million on the city waste water service, 100% guaranteed by quality monoliners, and USD 137 million on the School district, benefiting from the Michigan State constitutional protection on its debt service and 90% guaranteed by quality monoliners.

Dexia also reduced its exposure to the Commonwealth of Puerto Rico during 2014. The gross book value of Dexia's commitments on Puerto Rico amounted to USD 411 million at the end of December 2014. Total impairments amounted to USD 46 million. Moreover, this exposure is 95% guaranteed by quality monoliners.

the volatile economic environment subjected Dexia to increase its collective impairments on certain sectors which are considered to be sensitive by the Group. The level of impairments on the renewable energy and banking sector were increased, in order to cover the risks associated with potentially unfavourable regulatory developments.

[3] Cf. press release dated 14 May 2014, available on the website *www.dexia.com*.

Dexia increased its collective impairment on the renewable energy sector up to EUR 68 million at the end of December 2014, following a new regulation by the Spanish government which retroactively reduces the purchase tariffs guaranteed for electricity produced from renewable energy[4]. This collective impairment has not been extended to Italy, as the retroactive review of green electricity purchase tariffs in that country is considered unlikely.

The Group also made a collective impairment of EUR 32 million on the banking sector as a result of developments in the regulatory framework, including the entry into force of the Bank Recovery and Resolution Directive (BRRD).

At the beginning of 2015, concerns on Greek sovereign debt revived after the change of political cycle. Dexia no longer has any direct exposure to Greek sovereigns. Exposure to other Greek counterparties amounted to EUR 156 million at the end of December 2014 (Cf. appendix 4).

b – Legal risk associated with structured loans in France

In order to limit litigation risk, in 2014 the Dexia Group continued to desensitise outstanding amount of structured loans granted by Dexia Crédit Local in France, in line with the commitments made by the States to the European Commission. At the end of 2014, the sensitive structured loan exposure was reduced by 16% compared to the end of 2013, to EUR 1.2 billion.

The legal framework for structured loans evolved considerably in 2014, following measures implemented by the French government. Such framework is aimed at securing the legal environment for the lending banks while providing assistance mechanisms to help local authorities facing financial difficulties, through the implementation of two support funds.

C – Evolution of the regulatory environment

a – First-time application of the Basel III solvency rules

The Basel III solvency rules came into force on 1 January 2014. They significantly amend the modes of calculating the solvency ratios compared to the Basel II rules. The impact of this first-time application is detailed in the section "Solvency".

b – Comprehensive assessment performed by the European Central Bank and establishment of the Single Supervisory Mechanism

On 26 October 2014, the European Central Bank published the conclusions of its comprehensive assessment of banks under its supervision as from 4 November 2014.

This assessment comprised an asset quality review (AQR) and a stress test performed after join-up of the AQR results, applying both a baseline and an adverse scenario.

As a significant bank[5] , the Dexia Group has been subject to the direct supervision of the European Central Bank since 4 November 2014 in the context of the Single Supervisory Mechanism (SSM).

[4] Cf. press release dated 8 August 2014, available on the website *www.dexia.com*.
[5] Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.

b.1 –Dexia Group’s asset quality acknowledged

The asset quality review demonstrates the quality of the Dexia Group’s assets and the robustness of its risk analysis. The European Central Bank pointed out three topics relating to the valuation of certain illiquid securities, the provision for the Credit Valuation Adjustment (CVA) and the amount recorded as impairment for some assets.

After integration of these elements, the Common Equity Tier 1 (CET 1) capital of Dexia SA was EUR 8.5 billion, bringing the CET 1 ratio to 15.80%. The excess capital was EUR 4.2 billion against a threshold ratio of 8%.

b.2 – Assumptions of the Group’s orderly resolution plan confirmed

The stress test aimed at assessing the banks’ resilience against a deteriorating financial and economic environment.

The baseline scenario of the stress test confirmed the assumptions of the Group’s orderly resolution plan. Under this scenario, the Group’s CET 1 ratio projected to 2016 was 10.77%, representing an amount of excess capital of EUR 1.4 billion against a minimum required threshold of 8%.

Under the adverse scenario, the Group CET 1 capital projected in 2016 was EUR 3.1 billion, bringing the CET 1 ratio to 4.95%, representing a capital shortfall of EUR 339 million. The assumptions stipulated by the European Central Bank under the adverse scenario are particularly unfavourable to the Group. The strict treatment applied to sovereign exposures and not taking account of the current regulatory provisions authorising the Group not to deduct the AFS reserve on sovereign securities weighted heavily on Group capital[6].

In its communication of 26 October 2014, the European Central Bank indicated that, taking into account its orderly resolution plan benefiting from a State guarantee, there will be no requirement for the Group to increase its capital following the comprehensive assessment.

The current regulatory measures authorising Dexia not to deduct the AFS reserve on sovereign securities from its regulatory capital have been confirmed. This decision is in line with the Group’s orderly resolution plan, aimed at managing and funding its asset portfolios to maturity, and thus avoiding the cost of any liquidation.

No other remedial action was required by supervisory authorities.

b.3 – Initiatives undertaken by Dexia following the outcome of the asset quality review

Following the asset quality review, three main topics were highlighted by the European Central Bank.

- The European Central Bank pointed out a difference of EUR 79.05 million between the amount recorded by Dexia as impairment for credit risk and the amount resulting from the AQR.

  As part of customary credit risk monitoring, positions identified by the European Central Bank were subject to additional impairments when deemed necessary. The residual divergence from the impairment level set by the European Central Bank is not significant.

- The assessment results in a discrepancy 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.

[6] Cf. press release dated 26 October 2014 available on the website *www.dexia.com.*

After performing an analysis of the European Central Bank's recommendations, Dexia decided to discontinue the use of its internal model based on credit spread parameters and to switch to a fully market-based approach for bond fair valuation purposes. The use of observable market data led to a reduction of the accounting value of securities, reflected in the Group's financial statements by a deterioration of the AFS reserve.

The change in parameters used for the valuation of illiquid securities enabled the Group to reverse, in agreement with the supervisory authorities, the prudential adjustment that was made to Dexia SA and Dexia Crédit Local's regulatory capital on 31 March 2014[7].

In accordance with the Group's management intentions and the IAS39 accounting standard provisions, Dexia decided to reclassify the most illiquid bonds from the AFS category to the Loans and Receivables (L&R) as from 1 October 2014. EUR 2.6 billion of securities were reclassified.

- An adjustment in the provision for the Credit Valuation Adjustment (CVA) on derivatives.

  Just as for the valuation of illiquid securities, an analysis was performed for the calculation of the CVA, leading to the use of observable market data. The methodology for calculating the Group CVA is now fully in line with the European Central Bank recommendation.

D – Continuation of the orderly resolution plan

The Dexia resolution plan, approved by the European Commission on 28 December 2012, provides for the disposal of the main commercial entities considered to be viable. While It does not require the disposal of Dexia Crediop, the plan nonetheless authorises its sale.

With the sale of its shares in Dexia Asset Management on 3 February 2014 and the disposal of its holding in Popular Banca Privada on 19 February 2014, Dexia completed the disposals provided for in the orderly resolution plan[8] and thus achieved the target scope prescribed by the plan.

Negotiations entered into with prospective buyers of Dexia Crediop did not produce a firm offer within the deadline set by the European Commission, despite a six-month extension. As a result, the European Commission confirmed to the Dexia Group on 15 July 2014 the run-off status of Dexia Crediop.

In January 2013, Dexia completed the SFIL disposal. However, the disposal required the separation of formerly combined entities, including the separation of teams and the duplication of certain applications and functions. Particular attention was paid to critical processes and IT applications. The separation was done gradually after the disposal of SFIL in order to ensure the operational continuity of the two entities, and, completed in 2014, is now in effect.

At the same time, the Group continued to implement its Company Project, initiated in May 2013 and aimed at adapting the business model to the Group's status as a group in resolution. In 2014, the Group addressed its business model and IT systems. As a result, the Funding & Markets, Finance, and Risk business units were streamlined in terms of team organisation and operational processes. With regard to IT, Dexia developed a specific software application for Repos in order to better support secured funding initiatives and also created a single group-wide lending platform intended to optimise the monitoring of lending activities.

[7] Cf press release dated 26 March 2014, 14 May 2014, 8 Augustus 2014, 26 October 2014 and 14 November 2014, available on the website *www.dexia.com.*

[8] With the exception of Dexia Israel, the sale of which requires the prior settlement of the litigation in which the entity is involved.

2. Annual Results 2014

A – *Presentation of Dexia SA's 2014 annual consolidated financial statements*

a – Going concern

The consolidated financial statements of Dexia SA as at 31 December 2014 were established in accordance with the accounting rules applicable to a going concern (cf. section "Notes regarding the 2014 consolidated financial statements for the Dexia Group").

b – Financial statement presentation

In order to make the results easier to understand, Dexia has used the following segmentation:

- Recurring elements related to the carry of the portfolio, funding costs, operating expenses and cost of risk[9];
- Accounting volatility elements related to fair value adjustments of assets and liabilities including the impact of the IFRS 13 accounting standard (CVA, DVA) and the valuation of OTC derivatives, own credit risk (OCR), and the volatility of the WISE[10] portfolio. These elements do not correspond to cash gains or losses. They are written back prorata temporis over the amortisation term of the assets or liabilities but generate volatility on each accounting closure date;
- Non-recurring elements: one-off items such as gains and losses on asset disposals, litigation and restructuring costs

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 were demonstrated by the application of IFRS 5 accounting standard to "non-current assets and groups held for sale".

IFRS 5 accounting standard still applies to the presentation of the financial statements as at 31 December 2014. The last two entities classified under IFRS 5, Dexia Asset Management and Popular Banca Privada were sold at the beginning of 2014. The revenues generated by those entities and gains realised from their sales are presented in a single line, "Net result from discontinued operations".

B – Dexia Group's consolidated results 2014

- *Net income Group share of EUR -606 million impacted by accounting volatility elements of EUR -425 million*
- *Favourable momentum of net recurring result over the year, essentially associated with a reduction of funding cost of 14% between 1Q and 4Q 2014*

[9] As the cost of risk is a structural element of the Group's operating performance, gains and losses on the disposal of impaired assets and reversals of associated impairments are classified as recurring elements. Gains and losses on the disposal of assets not impaired are classified as non-recurring elements.
[10] Synthetic securitisation on an enhanced bond portfolio.

a – Income statement for the period (non-audited figures)

Consolidated income statement - ANC format					
EUR million	**Q1 2014**	**Q2 2014**	**Q3 2014**	**Q4 2014**	**2014**
Net banking income	**-142**	**-13**	**-64**	**-29**	**-247**
Operating expenses	-101	-104	-102	-75	-381
Gross operating income	**-243**	**-116**	**-166**	**-104**	**-629**
Cost of risk and net gains or losses on other assets	-23	-18	-7	-15	-63
Pre-tax income	**-265**	**-135**	**-172**	**-119**	**-691**
Income tax	5	-14	5	-4	-8
Net result from continuing operations	**-260**	**-148**	**-168**	**-123**	**-699**
Net result from discontinued operations	**80**	**8**	**0**	**0**	**87**
Net income	**-181**	**-141**	**-168**	**-123**	**-613**
Minority interests	3	4	-2	-12	-7
Net income Group share	**-184**	**-145**	**-166**	**-111**	**-606**

In 2014, the Dexia Group posted a net income Group share of EUR -606 million, of which EUR -699 million from continuing operations and EUR 88 million from discontinued operations. EUR -7 million are attributable to minority interests.

At the end of 2014 net banking income reached EUR -247 million including EUR -425 million mainly related to the valuation of derivatives on the basis of an OIS curve, the calculation of the CVA (Credit Valuation Adjustment), of the DVA (Debit Valuation Adjustment) and own credit risk. Net banking income improved during 2014, from EUR -142 million in Q1 2014 to EUR -29 million in Q4 2014, mostly due to the reduction of the funding cost by 14% over the year. In addition, the repayment in Q2 2014 of the remaining debt issued under the higher cost 2008 guarantee also helped reduce the funding costs.

Operating expenses were EUR -381 million.

As a result, gross operating income totalled EUR -629 million at year end.

The cost of risk and net gains or losses on other assets stood at EUR -63 million, including EUR -62 million for the cost of risk. Relative to Group total exposure, the cost of risk was 3.6 basis points, reflecting the good quality of the asset portfolio. Due to continued uncertain economic environment, the Group increased its collective impairments on certain sectors, including renewable energy and the banking sector. These new impairments were offset by reversals of impairments on assets sold such as the City of Detroit.

Considering these elements, pre-tax income totalled EUR -691 million.

Over the year, income tax amounted to EUR -8 million.

The net result on continuing operations stood therefore at EUR -699 million.

The net result from discontinued operations was EUR 87 million and included the capital gains on the sales of Dexia Asset Management and Popular Banca Privada.

Minority interests amounted to EUR -7 million, leading to a net income Group share of EUR -606 million for the year 2014.

b – Analytical presentation of the result for the period (non-audited figures)

The net income Group share of EUR -606 million consists of the following elements defined in the section "Modes of presentation of the results" above:

- EUR -248 million attributable to recurring elements;
- EUR -425 million associated with accounting volatility elements;
- EUR 67 million generated by non-recurring elements.

Analytical presentation of the 2014 Dexia Group annual results

EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**218**	**-425**	**-40**	**-247**
Operating expenses	-399		17	-381
Gross operating income	**-181**	**-425**	**-23**	**-629**
Cost of risk and net gains or losses on other assets[1]	-65		3	-63
Pre-tax income	**-246**	**-425**	**-20**	**-691**
Income tax	-8		0	-8
Net result from continuing operations	**-254**	**-425**	**-20**	**-699**
Net result from discontinued operations	**-1**		**88**	**87**
Net income	**-255**	**-425**	**67**	**-613**
Minority interests	-7			-7
Net income Group share	**-248**	**-425**	**67**	**-606**

[1] *including gains and losses from entity disposals*

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

b.1 – Recurring elements

Recurring elements					
EUR million	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Net banking income	**36**	**46**	**60**	**76**	**218**
o/w income from commercial portfolios	176	178	177	175	705
o/w funding cost	-184	-168	-160	-159	-671
o/w other income	44	36	43	60	183
Operating expenses	-101	-99	-101	-98	-399
Gross operating income	**-65**	**-54**	**-41**	**-21**	**-181**
Cost of risk and net gains or losses on other assets	-25	-18	-7	-15	-65
Pre-tax income	**-90**	**-72**	**-48**	**-36**	**-246**
Income tax	5	-14	5	-4	-8
Net result from continuing operations	**-85**	**-86**	**-43**	**-40**	**-254**
Net result from discontinued operations	**0**	**0**	**0**	**0**	**-1**
Net income	**-85**	**-86**	**-43**	**-40**	**-255**
Minority interests	3	4	-2	-12	-7
Net income Group share	**-88**	**-90**	**-42**	**-28**	**-248**

The net income Group share generated by recurring elements was EUR -248 million at year-end 2014, a better outcome than originally forecast in the orderly resolution plan. The positive momentum observed in 2013 carried into 2014 with the net income Group share improving to EUR -28 million in 4Q 2014 from EUR -88 million in 1Q 2014.

Net banking income was positive in each quarter of the year and improved over the year, from EUR 36 million in 1Q to EUR 76 million in 4Q 2014. This positive trend is explained by the lower funding costs, while income from asset portfolios remained stable. The evolution of other income booked is mainly due to exchange rate movements and reversals of impairments is booked as net banking income.

Over the year, the Group successfully stabilised its operating expenses, despite consultancy fees associated with the comprehensive assessment made by the European Central Bank in 2014.

Considering these elements, gross operating income continually improved during 2014.

The cost of risk and net gains or losses on other assets reached EUR -65 million, including EUR -64 million for the cost of risk. Reversals of impairments on assets sold were offset by new impairments booked over the year. In particular, the Group increased its collective impairments on certain sectors, particularly renewable energy and the banking sector. Relative to Group total exposure, the cost of risk was 3.6 basis points, reflecting the good quality of the asset portfolio.

b.2 – Accounting volatility elements

Accounting volatility elements					
EUR million	**Q1 2014**	**Q2 2014**	**Q3 2014**	**Q4 2014**	**2014**
Impact in net income Group share (elements booked in net banking income)	**-148**	**-62**	**-129**	**-86**	**-425**

The impact of accounting volatility elements was EUR -425 million. This is due to a large extent to the valuation of derivatives, as the interest rate curves moved against the Group in 2014.

b.3 – Non-recurring elements

Non-recurring elements					
EUR million	**Q1 2014**	**Q2 2014**	**Q3 2014**	**Q4 2014**	**2014**
Net banking income	**-30**	**4**	**5**	**-19**	**-40**
Operating expenses	0	-4	-1	22	17
Gross operating income	**-30**	**0**	**4**	**3**	**-23**
Cost of risk and net gains or losses on other assets	3	0	0	0	3
pre-tax income	**-27**	**0**	**4**	**3**	**-20**
Income tax	0	0	0	0	0
Net result from continuing operations	**-27**	**0**	**4**	**3**	**-20**
Net result from discontinued operations	**80**	**8**	**0**	**0**	**88**
Net income	**53**	**7**	**4**	**3**	**67**
Minority interests	0	0	0	0	0
Net income Group share	**53**	**7**	**4**	**3**	**67**

Non-recurring elements booked over the year 2014 consisted of:

- Capital gains recorded from the sales of Dexia Asset Management and Popular Banca Privada (EUR +88 million over the year);
- Gains derived from active balance sheet management (EUR +50 million over the year), mostly recorded in 2Q (EUR +24 million) and 4Q (EUR +28 million);
- New provisions for litigation (EUR -117 million), mainly related to sensitive loans in France.

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

A – Balance sheet and solvency

- *Balance sheet increased EUR 24 billion over the year due to historically low interest rates*
- *Impact of the first-time application of the Basel III solvency rules*
- *Robust solvency level: Total Capital ratio at 17.2% and Common Equity Tier 1 ratio at 16.4% at the end of 2014*

a – Annual balance sheet evolution

At year-end 2014, the Group's consolidated balance sheet totalled to EUR 247.1 billion, up EUR 24.2 billion from year-end 2013 and EUR 9 billion compared to 30 June 2014, at current exchange rates.

The increase of the balance sheet over the year 2014 came in two phases. In the first half-year, balance sheet growth was explained primarily by the creation of a temporary liquidity reserve, anticipating significant debt repayments at the end of 2014 and the beginning of 2015. Over the second half of the year, the balance sheet increase was essentially due to the impact of exchange rate variations and low interest rates, which resulted in higher cash collateral to be posted to Group counterparties, particularly in the third quarter.

Over the year, at constant exchange rates, the main variations were as follows:

- on the asset side, a EUR 20.3 billion increase in fair value elements plus EUR 9.8 billion of net cash collateral posted to counterparties compared with year-end 2013, partly offset by the EUR 9.9 billion reduction of the asset portfolio.
- on the liability side, a EUR 20 billion increase of fair value elements.

The balance sheet increase associated with exchange rate variations was EUR 3 billion.

b – Solvency

b.1 – Regulatory changes

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. With the adoption of Basel III on 1 January 2014, Dexia Group's regulatory capital decreased by EUR -1.1 billion, mainly due to following factors:

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

At the same time, this change in the regulatory framework resulted in an increase in total weighted risks, particularly due to an adjustment in the provisions for the Credit Valuation Adjustment (CVA) and the Asset Value Correlation (AVC), and a change in methodology of the calculation of the Exposure at Default (EaD).

The CRD IV Directive authorises national discretions for the deductibility of the AFS (Available for Sale). In this context The National Bank of Belgium (NBB) and the French "Autorité de Contrôle Prudentiel et de Résolution" (ACPR) decided that the AFS reserve on sovereign securities did not have to be taken into account for the calculation of the Dexia Group's solvency ratios and that the AFS reserve relating to non-sovereign exposures had to be deducted from the regulatory capital up to an amount of 20% per annum. The regulatory authorities thus confirmed that the rules applicable 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 be identical.

b.2 – Solvency ratios at the end of 2014

At the end of 2014, the Total Capital of the Dexia Group reached EUR 9,157 million, against EUR 10,617 million as at 31 December 2013. The reduction of EUR -1,460 million is primarily explained by the impact of the first-time application of Basel III (EUR -1.1 billion) and the losses recognised over the year (EUR -606 million), with these elements partly offset by the improvement of the AFS reserve deductible from regulatory capital. The Common Equity Tier 1 followed a similar trend, reaching EUR 8,754 million as at 31 December 2014, against EUR 10,054 million as at 31 December 2013.

Gains and losses recognised directly in equity stood at EUR -6.6 billion as at 31 December 2014, down EUR -169 million compared to the end of 2013. The favourable impact associated with the credit spread tightening was offset exchange rate fluctuations. The AFS reserve associated with non-sovereign securities was EUR -3.2 billion, of which 20% was deductible from regulatory capital (or EUR -642 million).

As at 31 December 2014, weighted risks were EUR 53.4 billion, including EUR 49.4 billion for credit risk, EUR 2.9 billion for market risk and EUR 1 billion for operating risk. Weighted risks are up EUR 6 billion from 31 December 2013, as a result of the first application of Basel III rules. Excluding this impact, weighted risks improved over the year, due to natural amortisation and the sale of assets, partly offset by fair value and exchange rates movements.

Taking these elements into account, the Total Capital ratio of Dexia SA was 17.2% and the Common Equity Tier 1 ratio was 16.4% as at 31 December 2014. The fall of these ratios by -5.2% and -4.8% respectively from 31 December 2013 was associated with the first-time application of the Basel III regulatory framework. from 31 March 2014, these solvency ratios increased by 0.3% and 0.2% respectively, the reduction of weighted risks due to the Group's risk profile reduction policy, having more than offset the decrease in regulatory capital resulting from the loss recognised in 2014.

The Total Capital ratio of Dexia Crédit Local was 13.1% and its Common Equity Tier 1 ratio was 12.8% as at 31 December 2014.

B – Evolution of the Group's liquidity situation

- *Prudent liquidity management enabled the Group to face significant maturities and increasing funding requirements in 2014*
- *Government-guaranteed funding programmes were successful and Repo activity increased*

a – A crucial year for the Group's liquidity management

2014 was a crucial year for Dexia's liquidity management. The Group's liquidity requirements increased in the face of falling interest rates and significant maturities coming due at the end of 2014 and the beginning of 2015. The latter were primarily related to the repayment of government-guaranteed loans provided by Belfius and the end of the eligibility period for own-used government-guaranteed bonds pledged to Eurosystem refinancing operations.

In the first quarter, Dexia established a temporary liquidity reserve held at central banks, reaching a maximum of EUR 12.6 billion at the end of March 2014. This excess liquidity allowed Dexia to repay the portion of outstanding Belfius-owned guaranteed debt due at the end of 2014 (EUR 2.9 billion) as well as the remaining debt under the 2008 guarantee scheme (EUR 9.8 billion). The liquidity reserve also helped Dexia

offset higher Group funding needs during the year (EUR +2.8 billion) related to a EUR 9.8 billion increase in net cash collateral posted to interest rate and currency swap counterparties. By the end of 2014, the liquidity reserve was down to EUR 2 billion.

b –Evolution of the funding profile in 2014

In 2014, the Group funding mix continued to gravitate towards market funding, reaching 69% of total Group funding at the end of December 2014 compared to 65% at the end of December 2013.

Taking advantage of favourable market conditions for government-guaranteed debt, Dexia successfully issued several syndicated benchmarks denominated in euros, US dollars and sterling and for maturities ranging from 3 to 10 years. The benchmark issuances were augmented by robust private placement activity, bringing the total debt issued in 2014 to EUR 10.5 billion, USD 6.8 billion and GBP 1.4 billion. At the same time, the Group's short-term funding activity intensified through the use of guaranteed programmes in euros and US dollars with 487 short-term transactions completed for a total of EUR 62 billion and an average maturity of approximately 9 months. Outstanding guaranteed debt however remained essentially flat year-over-year, at EUR 73 billion at the end of 2014, as the remaining debt issued under the 2008 guarantee scheme matured, offsetting new issues.

The Group also continued to develop secured market funding bringing the outstanding to EUR 10.6 billion at the end of December 2014. Short- and long-term Repo market activity was strong.

Those increases in funding more than offset a decrease in deposits (EUR -1.5 billion) and non-guaranteed unsecured funding (EUR 3.4 billion) during the year, allowing Dexia not to call on the Eurosystem beyond its participation in the VLTRO (EUR 33.5 billion as at 31 December 2014).

At year-end 2014, the Dexia Group had a liquidity buffer of EUR 14.4 billion. including EUR 12.4 billion of assets eligible to European Central Bank refinancing.

c – Recent developments

At the beginning of 2015, in order to ease deflationary pressures, the European Central Bank continued its accommodating monetary policy, supported by an ambitious quantitative easing programme (QE) announced on 22 January 2015. Historically low interest rates, combined with recent foreign exchange movements between the Swiss franc and the euro, have resulted in a further increase in the Group's funding needs due to higher cash collateral requirements.

In response to these recent developments, Dexia has raised EUR 6 billion in long-term government-guaranteed funding as at 10 February 2015 consisting EUR 4 billion in benchmark transactions and EUR 2 billion in private placements. The group successfully launched two syndicated benchmarks, one in euro and one in US dollar and continued to build out its funding curve with a 10-year sterling issue. The Group also carried out several secured funding transactions, in an effort to optimise its collateral.

Dexia will continue its efforts to further grow secured funding in 2015 while continuing to diversify its government-guaranteed debt investor base with ongoing marketing initiatives.

The Dexia SA Annual Report will be published at the latest on 20 April 2015. The Ordinary Shareholders' Meeting will be held on 20 May 2015 and will be followed immediately by an Extraordinary Shareholders' Meeting which will rule in particular on granting authorization to the Board of Directors, for a period of one year, to proceed with a reverse stock split.

Appendices

Appendix 1 – Simplified balance sheet

Balance sheet key figures			
EUR m	31/12/2013	31/12/2014	Change
Total assets	**222,936**	**247,120**	**11%**
of which			
Cash and central banks	1,745	3,104	78%
Financial assets at fair value through profit or loss	18,348	24,215	32%
Hedging derivatives	5,945	8,374	41%
Financial assets available for sale	29,224	26,641	-9%
Customer loans and advances	129,039	135,311	5%
Accruals and other assets	27,270	38,256	40%
Total liabilities	**218,977**	**243,992**	**11%**
of which			
Central banks	34,274	33,845	-1%
Financial liabilities at fair value through profit or loss	18,840	25,731	37%
Hedging derivatives	22,265	33,832	52%
Interbank borrowings and deposits	31,201	44,604	43%
Debt securities	96,368	89,518	-7%
Total equity	**3,959**	**3,128**	**-21%**
of which			
Equity, Group share	3,488	2,711	-22%

Appendix 2 – Capital adequacy

EUR m	Basel II 31/12/2013	Basel III 30/06/2014	Basel III 31/12/2014
Common Equity Tier 1	10,054	9,013	8,754
Total Capital	10,617	9,391	9,157
Weighted risks	47,335	54,336	53,377
Common Equity Tier 1 ratio	21.2%	16.6%	16.4%
Total Capital ratio	22.4%	17.3%	17.2%

Appendix 3 – Maximum Credit Risk Exposure (MCRE) as at 31 December 2014

MCRE[11] calculated under IFRS 7

Dexia Group exposure by geographic region	
EUR m	
Austria	1,481
Belgium	3,134
Central and eastern Europe	3,539
France (Including Dom-Tom)	26,656
Germany	21,397
Greece	156
Hungary	1,102
Ireland	221
Italy	27,178
Japan	5,839
Luxembourg	158
Netherlands	621
Portugal	4,122
Scandinavian countries	1,113
South and Central America	584
Southeast Asia	990
Spain	18,968
Switzerland	553
Turkey	502
United Kingdom (not Norm.Isd/Man)	17,865
United States and Canada	28,689
Others	7,369
Total	**172,238**

Dexia Group exposure by category of counterparty	
EUR m	
Central governments	28,148
Local public sector	86,526
Corporate	5,538
Monolines	3,232
ABS/MBS	6,692
Project finance	14,761
Individuals, SME and self-employed	1
Financial institutions	27,340
Total exposure	**172,238**

[11] 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.

Group exposure by rating (internal rating system)	
AAA	15%
AA	23%
A	29%
BBB	20%
Non Investment Grade	12%
D	1%
Not Rated	1%
Total	**100%**

Appendix 4 – Group sectorial exposure to certain countries as at 31 December 2014 (MCRE on final counterparties)

Group sectorial exposure to certain countries							
EUR m	**Total**	*o/w local public sector*	*o/w corporate and project finance*	*o/w financial institutions*	*o/w ABS/MBS*	*o/w sovereign exposures*	*o/w monolines*
Greece	156	72	73	0	11	0	0
Hungary	1,102	31	35	31	0	1,006	0
Ireland	221	0	70	80	71	0	0
Italy	27,178	11,125	1,400	582	170	13,901	0
Portugal	4,122	1,788	206	10	138	1,980	0
Spain	18,968	7,929	2,478	7,344	691	527	0
USA	26,377	10,580	787	4,737	4,569	2,880	2,825

Appendix 5 – Group exposure to government bonds of peripheral countries

Group exposure to government bonds of peripheral European countries				
EUR m	**31/12/2013 Nominal**	**31/12/2014 Nominal**	**31/12/2014 MCRE (banking portfolio)**	**Change nominal 31/12/2014 31/12/2013**
Italy	10,027	9,735	11,434	-2.9%
Portugal	1,822	1,822	1,980	0.0%
Hungary	1,076	917	993	-14.8%
Spain	443	429	527	-3.1%

Appendix 6 – Asset quality

Asset quality		
EUR m	**31/12/2013**	**31/12/2014**
Impaired loans and advances to customers	1,391	1,158
Specific impairments on loans and advances to customers	545	306
Asset quality ratio(1)	1.2%	1.0%
Coverage ratio(2)	39.2%	26.4%

(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

State guarantee fees				
EUR m	**1Q 2014**	**2Q 2014**	**3Q 2014**	**4Q 2014**
Funding related fees for the 2008 guarantee	-13	-3	0	0
Funding related fees for the 2011/2013 guarantee	-9	-10	-9	-10
Total fees paid	**-22**	**-13**	**-9**	**-10**

Appendix 8 – Ratings

Ratings as at 18 February 2015			
	Long term	**Outlook**	**Short term**
Dexia Crédit Local			
Fitch	A	Negative	F1
Moody's	Baa2	Negative	P-2
Standard & Poor's	BBB	Stable	A-2
Dexia Crédit Local (guaranteed debt)			
Fitch	AA	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (*Pfandbriefe*)			
Standard & Poor's	A+	Stable	-

Appendix 9 – Litigations

As many financial institutions, Dexia is subject to a number of regulatory investigations and litigations as defendant or as claimant. In this respect, the downsizing of Dexia's balance sheet and other measures implementing the Orderly Resolution Plan give rise to challenges by Dexia's stakeholders and counterparties. The most significant of these litigations and investigations involving Dexia Group entities are described in the Dexia Annual Report 2013 (available at www.dexia.com) and, during the fourth quarter of 2014, no significant event within the meaning of the applicable legislation has occurred in respect of these litigations and investigations.

The consequences, as assessed by Dexia based on the information available to it as of today, 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 and have not changed since their publication. 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.

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